Fresnillo plc

Financial results for the year ended 31 December 2019

Fresnillo plc today announced its financial results for the full year ended 31 December 2019. Octavio Alvídrez, CEO said:

"2019 was a more challenging year as expected, but we remain determined and optimistic for the future.

Production did not meet our expectations in 2019. Total silver production fell by 11.6% to 54.6 moz as a result of the expected lower ore grade at Saucito as well as lower than expected ore grades at Fresnillo and San Julián Veins and Disseminated Ore Body (DOB). Gold production of 875.9 koz was down compared to 2018 due to the expected lower production from Noche Buena and a lower ore grade at San Julián Veins.

This challenging operating environment was reflected in our financial performance, with gross profit and EBITDA decreasing by 40.9% and 26.3% respectively. Profit margins decreased accordingly but still remained at healthy levels. We maintained a solid financial position, with US$336.6 million in cash and other liquid funds[1] as of 31 December 2019, notwithstanding paying dividends of US$142.2 million, investing US$559.3 million in capex and spending US$157.9 million on exploration to underpin future growth.

Our focus in 2020 is on maximising the potential of our existing operations. We are committed to working smarter and more efficiently in order to extract maximum value from our asset base. We have implemented a major performance improvement plan across our portfolio that includes intensive infill drilling to improve the certainty of the geological model, dilution control and raising development rates, together with actions to address contractor productivity and equipment availability.

We are investing in infrastructure, plant and machinery including the new Tunnel Boring Machine which is now being ramped up at Fresnillo – one of the first of its kind. We have also begun to define a new programme to control costs and increase productivity.

Though it will take time for these measures to take full effect, we do expect production to stabilise in 2020 and start increasing during 2021.

We continue to invest in our longer term development projects in line with our organic growth strategy. I was pleased to confirm Board approval for the Juanicipio project in early 2019. Juanicipio will be a core element in the Group's future production of silver. Production at Fresnillo will also benefit from the new US$53.8m Pyrites Plant which is on track for completion in 2020.

The safety of our employees and contractors is our key priority so it is with deep sadness that I confirm two fatalities during the year. We remain determined to instil a safety first culture. The "I Care, We Care" has proven to be effective and has contributed to the reduction in our Lost Time Injury Frequency Rate.

We have made excellent progress with our other ESG commitments in the year. Effective and safe management of our tailings facilities has been a major focus after the tragic events in Brazil. Already in line with international standards, we have gone a step further by establishing our own Independent Tailings Review Panel and appointed third party specialists to perform dam safety inspections and review our tailing dam governance system.

As a major participant in the extractive industry, we have a responsibility to integrate renewables and clean technologies into our energy mix. Although the percentage of our energy consumption met by wind power decreased slightly in 2019, due to a significant increase in overall energy use, we remain committed to

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

achieving our goal of using wind power to generate 75% of our electricity consumption by the end of the year. We are rolling out dual fuel engines in haulage trucks, initially at Herradura, which has also had a positive impact on greenhouse gas (GHG) emissions.

Looking ahead, we will continue to manage operational challenges, as we make progress with the performance improvement initiatives. As previously guided, we expect silver production to be in line with 2019, before returning to growth in 2021, driven by operational improvements at the Fresnillo mine, the Pyrites plant, Juanicipio and San Julián. Gold is expected to decline driven by the planned Noche Buena closure and lower production from Herradura. We also anticipate that fixed costs will remain relatively high during 2020, before the cost management initiatives have an impact.

While the broader macro economic environment remains uncertain, we are confident on the outlook for mining in Mexico, where we have welcomed the on-going support of the Mexican Government. We will continue to work hard to ensure that mining is supported by all parts of the federal and state administration.

We will rise to the immediate challenges confronting our business today, and we move forward with certainty and vigour. Our assets are of high quality and our exploration pipeline continues to confirm promising prospects. We have a clear strategy, a talented and committed team, and we look ahead with confidence."

Twelve months to 31 December 2019

$ million unless stated	2019	2018	% change
Silver Production* (kOz)	54,614	61,804	(11.6)
Gold Production* (Oz)	875,913	922,527	(5.1)
Total Revenue	2,119.6	2,103.8	0.8
Adjusted Revenue**	2,270.2	2,243.4	1.2
Gross Profit	461.7	780.7	(40.9)
EBITDA	674.0	915.1	(26.3)
Profit Before Income Tax	178.8	483.9	(63.1)
Profit for the year	205.8	350.0	(41.2)
Basic and Diluted EPS excluding post-tax Silverstream effects (USD)***	0.231	0.461	(49.9)

* 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 2019 and 2018. See note 17 in the consolidated financial statements.

2019 Highlights

Higher gold and silver prices offset by lower volumes and operational setbacks

- Adjusted revenue of US$2,270.2 million, up 1.2% over 2018, due to higher gold and silver prices.
- Profit margins decreased but remained at healthy levels. Gross profit and EBITDA down 40.9% and 26.3%, to US$461.7 million and US$674.0 million respectively.
- Profit from continuing operations of US$171.7 million, down 66.1%.
- Capex of US$559.3 million, down 16.4% primarily due to the commissioning of several projects including the pyrites plant at Saucito and the dynamic leaching plant at Herradura in 2018.

- Strong balance sheet and low leverage ratio; cash and other liquid funds[2] of US$336.6 million, down 40.0% mainly due to the high level of capex and dividends albeit being lower 16.4% and 52.3% respectively vs. 2018.
- Dividends of US$142.2 million paid, down 52.3% mainly due to lower profits for the period, in accordance with our dividend policy.

Delivering on development projects and operational improvements

- Full year silver production of 54.6 moz (including Silverstream) down 11.6% on 2018, driven by the lower ore grades at Saucito, Fresnillo and San Julián, both veins and disseminated ore body.
- Gold production of 875.9 koz down 5.1% vs. 2018 mainly driven by the anticipated lower volume of ore processed at Noche Buena, exacerbated by lower ore grades at San Julián.
- Board approval of Juanicipio early in 2019. Mine development at Juanicipio reached over 25 km, with ore from these activities set to be processed at the Fresnillo beneficiation plant from June 2020.
- Construction of the Juanicipio beneficiation plant has been delayed by six months with commissioning now expected in mid 2021.
- The Fresnillo Full Potential (FFP) project underway to address the structural challenges posed by deeper operations, narrower veins and greater ore variability at the Fresnillo and Saucito mines.
- Construction of the new Pyrites Plant at Fresnillo on track for completion in 2H 2020.
- The second phase of the beneficiation plant optimisation at Fresnillo also continued to progress.
- Successfully commissioned new US$22.7m state-of-the-art tunnel boring machine (TBM) at Fresnillo.
- US$69.3m project to deepen the Jarillas shaft to 1,000 metres at Saucito progresses, with completion due in 2024.
- Silver resources increased 2.4%; gold resources remained stable at 39.0 moz.
- Silver reserves increased 1.7% reflecting the recognition of reserves at Juanicipio for the first time offset by the decrease in reserves at the underground silver mines.
- Gold reserves decreased 16.0% mainly due to the exclusion of reserves at Soledad & Dipolos following the absence of an agreement with the Ejido community, and the exclusion of a number of benches at Herradura resulting from the negative infill drilling results and revised calculations.
- We are committed to improving our safety record as we regret to report that two fatalities occurred during 2019.
- We began work on defining a new programme to control costs and increased productivity in 2H19.

Outlook – stable 2020, return to silver growth in 2021

- In 2020, Fresnillo expects to produce in the range of 51 to 56 moz of silver and 815 to 900 koz of gold.
- The 2019 capex projects will continue in 2020 and will account for the majority of our investment in the year ahead, together with an increase in capex as the construction of Juanicipio progresses.

Analyst Presentation

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

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

The presentation will also be available via a live webcast. A link to the webcast will be made available on Fresnillo's homepage: www.fresnilloplc.com or can be accessed directly here https://kvgo.com/IJLO/Fresnillo_FY19_Preliminary_Results.

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

Conference Call:

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

UK: 0808 109 0700
US: + 1 866 966 5335
Mexico: 00 1 866 966 8830
Int'l: +44 (0) 20 3003 2666
Password: Fresnillo

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

Number: +44 (0) 20 8196 1998
Pin: 8829454#

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

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About Fresnillo plc

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

Fresnillo plc has seven operating mines, all of them in Mexico - Fresnillo, Saucito, Ciénega (including the San Ramón satellite mine 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

Addressing our operational setbacks, reaffirming our commitment

In many respects, this has been a disappointing year. We have failed to achieve our expected production volumes and the improvement in our health and safety record has proved elusive. These matters are discussed below or elsewhere in this report.

Furthermore, it is important to reiterate that our commitment to delivering long-term benefits to all of our stakeholders remains undiminished. Indeed, this commitment was formalised during the year through the definition and approval of our Purpose, in line with the requirements of the new UK Corporate Governance Code, as we promised in last year's annual report.

A challenging year for our operations

Unfortunately, our efforts to address a number of the key issues that have been holding back production did not deliver the anticipated outcomes, particularly in the first half of the year at our Fresnillo, San Julián and Herradura mines.

During the year we experienced unexpectedly low ore grades and production, delays to infrastructure projects, shortfalls in contractor performance, higher costs and ineffective maintenance, among other issues. In the face of these challenges, our response has been to increase the pace and scale of investments in a series of projects and take corrective actions to bring production back to acceptable levels in the short term, and to achieve steady growth in future years.

These projects include: the appointment of new teams at Fresnillo and Saucito; significant investment in development works at Fresnillo, specifically one of the first tunnel boring machines of its kind in the world as well as new equipment and technologies; the deepening of hoisting shafts at Fresnillo and Saucito to access deeper reserves; the expansion of the flotation plant at Fresnillo to treat higher lead and zinc grades, and the tailings treatment/pyrite flotation plant at Fresnillo.

Production saw a gradual improvement in the second half of the year, largely due to these actions. In addition, the commissioning in Q3 2019 of a new leaching pad at Herradura is already leading to faster gold recovery.

I would also like to highlight that during 2019 the Board approved our next new mine, at Juanicipio. Construction has commenced and mine development already stands at over 25 kms of underground workings, and we expect the first production stope to be fully prepared by 3Q 2020. After careful analysis, we have made minor adjustments to the project. For example, construction of the beneficiation plant is now expected in mid 2021 and capex has been increased from US$395 million to US$440 million. However, material from development and initial production stopes will be processed at the Fresnillo beneficiation plant from June 2020. 2019 was the first year in which we have recognised reserves at Juanicipio, confirming our belief that this will be an exceptionally high grade mine with the potential to be the foundation for growth in future years.

Financial performance

The year saw production decrease due to a range of challenges. Fresnillo generated $2,270.2 million in adjusted revenue, up 1.2% due to higher precious metal prices. Net Profit decreased 41.2% year on year mainly due to higher costs, while cash and other liquid funds fell by $224.2 million to $336.6 million primarily due to capex investments in new projects.

Articulating our Purpose

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

Linking and strengthening our Vision and Values, our Purpose articulates our contribution to society at large and how we will continue to prosper over time - in financial terms and through the positive contribution we make to local communities and the lives of people in Mexico and beyond.

Mining can be a major force for good, but only when it is carried out sustainably and for the benefit of all. We aim to satisfy current demand for our precious metals, which are important investment assets as well as being essential to many industrial products such as medical equipment, solar panels and mobile phones, among others.

At the same time, we are continuing to develop increasingly sophisticated and sustainable mining practices that will create greater efficiency and healthier, safer work environments.

This twin-track approach will ensure our ongoing sustainability as a business, underpin our long-term ability to deliver growth and returns, continue to create employment and help us win recognition as a positive influence for all our stakeholders - local communities and shareholders, our workforce, customers and suppliers as well as governments.

How we are realising our Purpose

Our Purpose expresses our commitment to the wellbeing of all stakeholders; I will outline how we delivered benefits for our key stakeholder groups during the year:

<u>Shareholders</u>
Our operational performance inevitably led to adjustments in our production forecasts, a situation that I know has been frustrating for investors and analysts. While I share their concerns, I am confident that the measures now in place are already providing greater certainty and better results, and will continue to do so in the future.

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 2.6 US cents per share, with a final dividend of 11.9 US cents per share, bringing the total for the year to 14.5 US cents per share.

Employees and contractors

Our people are the bedrock of our business. We depend on their skills and hard work for each and every ounce of precious metal we recover from the earth - and we owe them the very highest standards of health and safety. This is an area that still requires more focus, cultural change and investment. We regret that two people lost their lives while working at our facilities during the year. Our thoughts and prayers are with the families and friends who lost loved ones.

Our response has been to step up the implementation of our *I Care, We Care* programme. This has already had an impact at the mines where it is in operation, and it will soon be part of everyday working practices across the Group.

In addition to high standards of health and safety, our people also deserve the best in training and development. During the year, we provided 120 hours of such support to individuals, helping them build their skills, improve their earnings and access all the advantages of long-term careers. In light of the ongoing skills shortages across our industry, we continued to forge strong relationships with leading universities and the top earth science institutions in Mexico. In addition, we have reviewed our recruitment processes to ensure that they maximise the potential of women. Our recruitment of interns and Engineers in Training demonstrate good progress regarding improved diversity, with the percentage of women in these roles increasing from 27.02% in 2018 to 34.84 % in 2019.

Working practices in the Group are characterised by a spirit of partnership and mutual respect, and this was instrumental in the agreement by our unionised employees at the Fresnillo mine to introduce Sunday working. Once fully implemented in 2020, this will give us an additional 52 days of ore extraction. I would like to reaffirm my appreciation for the hard work and expertise, which our teams bring to their work, at every mine and no matter whether they are employees or contractors.

Local communities

As well as providing much needed employment, our mines play important roles in the lives of local people and their families. We rely on local communities for labour and for the general goodwill that helps us maintain our licence to operate - and in return, we invest in a wide range of locally-based programmes. The ultimate aim is to support the creation of sustainable businesses that can prosper without relying exclusively on mining operations.

Consultation is a key element of our community partnerships, never more so than in the early days of a mining project. The Mexican administration has recently emphasised the vital role that consultation with indigenous people has in the permitting process for mines. We fully support this stance and believe that the experiences we have gained in recent years will stand us in good stead for the challenges ahead.

Children are a particular focus for our community activities, and during 2019, 8,700 children benefited from our long-established *Picando Letras* programme, which aims to encourage reading. We also continue to offer Health Weeks to local people, and in 2019 over 10,500 individuals benefited from high quality health advice and practical support that they would otherwise not have been able to access.

<u>Environmental impact</u>
As our Purpose makes clear, we are a business that aims to serve humanity for decades to come. While extractive industries can impact the availability of resources for future generations, we are committed to developing sustainable mining practices which enable us to contribute to the wellbeing of people while having minimum impact on the environment.

Our climate commitment increases energy efficiency and reduces greenhouse gas emissions. Our drive to increase the use of wind power and innovative dual fuel vehicles prepares the company for a transition to a low carbon future, while also cutting costs. These are concrete examples of how we are embedding sustainability in the DNA of our company.

Board activities

This has been a busy year for the Board. In addition to carrying out our regular activities, we have invested considerable time and expertise in understanding and responding to new regulatory requirements. The new UK Corporate Governance Code and the Companies Miscellaneous (Reporting) Regulations both came into effect on 1 January 2019.

I wish to emphasise here the Board's focus on stakeholder engagement, and in particular workforce engagement, in line with the new Code. During the year the Board assigned the responsibility for overseeing our workforce engagement to Arturo Fernández. We also considered our approach and processes towards stakeholder input into decision-making processes, ensuring the Board's continued compliance with Section 172.

As constituents of the FTSE Index, we have always adopted the highest standards of corporate governance and believe that the new and revised regulations will have a significant impact on the drive to restore public trust in business. Executive pay is an important element in trust, and I was pleased that 99% of votes cast at the AGM were in favour of our policy, endorsing our approach to executive remuneration.

Our aim is for our culture to foster the necessary mindset and behaviours to deliver on our commitment to the sustainable mining of silver and gold. This culture must embrace ethics and safety, while also driving innovation and operational excellence to enhance productivity while reducing costs and our environmental footprint. During the year, the Board again provided master classes and online training modules for teams across the business, helping them to understand our Purpose, to engage with our culture and to live our Values of Responsibility, Integrity, Trust and Loyalty. The Board has committed to placing even greater focus on our culture in the year ahead.

Changes to the Board

Following Jaime Serra Puche's resignation at the 2019 AGM, we were pleased to welcome Luis Robles to the Board, as an Independent Non-executive Director. A former Chairman of the largest bank in Mexico, BBVA Bancomer, Luis brings valuable experience and expertise to his role. During his career in the banking and financial sectors, he served on various national and international associations, including as Chairman of the Latin American Banking Federation from 2010 to 2012 as well as various roles in the Mexican Banking Association and as Chairman from 2014 to 2017. Luis is a member of both our Audit and Remuneration Committees.

The Board considers that its composition has the appropriate balance of skills, experience and gender to oversee the performance of the executive team and the development of long-term strategy.

Outlook

During the last six months of the year we saw a gradual upturn in production, as the projects and initiatives I have outlined began to feed through into results. I expect this trend to continue, with the year ahead being characterised by greater stability. However, significant improvements will not be seen until 2021.

Despite the operational setbacks of 2019, I have confidence in the Group's underlying strengths, in our strategy and teams, in our culture and behaviour, and in our ability to make valuable contributions to the wellbeing of all our stakeholders.

I would like to place on record my thanks to Board members for their support, and also to pay tribute to the senior management team, which has worked hard to address the year's challenges.

Alberto Baillères
- Non-executive Chairman

CHIEF'S EXECUTIVE statement

Rising to challenges, moving forward with confidence

2019 was a year when several negative factors combined to drive down the performance of our mines and caused us to revise our guidance to the markets.

We fell short of the high mine planning and operational execution standards that we have come to expect from our teams, which contributed to lower ore grades and tonnages than anticipated. Delays to infrastructure projects, poor contractor performance, higher costs, new regulatory pressures in Mexico and low equipment availability were significant challenges faced during the year. None of these challenges is insurmountable in its own right - but what marks 2019 as an unusual year is that they coincided at several operations, indicating systemic failures that are now being addressed.

Having realised that we were going to miss our target for silver production, we revised our guidance in Q2 2019 and introduced extensive corrective measures. Inevitably, it is taking time for these measures to have the desired effect and our overall operating performance for this year has therefore been adversely impacted. We expect production to stabilise in 2020, with results improving during 2021.

In addition, although gold production was within the guidance provided at the Capital Markets Day in December, we failed to reach the revised target we had communicated in August, of 880-910 koz. This was primarily due to delays in the construction of the 13th leaching pad at Herradura. We had no alternative but to deposit ore at the top of existing pads, and this led to a slower recovery than initially forecast. Furthermore, the project to implement a Carbon-in-Column process at Noche Buena to increase gold recovery was delayed. While this was successfully concluded later in 2019, it contributed to further decrease gold production against expectation.

Production highlights and price review

In short, total silver production fell by 11.6% to 54.6 moz. At the Fresnillo mine, this was primarily due to decreasing vein width, increased dilution and greater ore variability, contractor underperformance and the need for additional infrastructure as we extend the mine to greater depths. Ore grade variability was also a factor in performance at Saucito and San Julián, together with narrower veins at Saucito.

Gold production of 875.9 koz was down more than expected compared to 2018 driven by the anticipated lower volume of ore processed at Noche Buena, further exacerbated by lower ore grades at San Julián.

There was a steady increase in gold and silver prices during the second half of the year, on the back of healthy demand and a slight reduction in supply. In 2019, average realised silver prices rose by 3.9% while those for gold increased by 11.7%. Average prices for zinc and lead decreased, by 9.3% and 10.5% respectively.

A time to pause, reflect and prepare

Despite the disappointments of 2019, it is important to stand back and take stock of how far we have come, and how the work we are doing today will bear fruit in the future. As we made clear in last year's annual report, 2019 was an opportunity to consolidate our growth while advancing our pipeline. Following a decade where we consistently created value through growth and returns, these last 12 months have been a valuable time for us to pause, reflect and prepare ourselves in order to rise to the challenges we are facing.

How are we going to deliver a performance that will regain the confidence of our stakeholders? By remaining true to the strategy that has seen us established as the world's largest silver producer and Mexico's largest gold producer. This strategy has four pillars, and here I will outline our progress against each one.

Maximising the potential of existing operations

This is the key focus for 2020 and is central to our commitment to consolidate our achievements to date. We are committed to working smarter and more efficiently in order to extract maximum value from our asset base.

Our efforts during 2019 and for the coming year focus primarily on the Fresnillo district. The Fresnillo Full Potential (FFP) project is already helping us to address the structural challenges posed by deeper operations, narrower veins and greater ore variability at the Fresnillo and Saucito mines. At the same time, FFP addresses processing issues that include delayed development and preparation of mining areas, infrastructure, efficiency and productivity.

With regard to infrastructure improvements, we commissioned our new US$22.7m state-of-the-art tunnel boring machine (TBM) in December 2019, with ramp up in the first quarter of 2020. Designed specifically for the conditions at the Fresnillo mine and capable of boring at least 300 metres per month, this is one of the first TBMs of its kind. Further investments in infrastructure at Fresnillo include a new pumping station to improve drainage as well as a new elevator that will cut the travel time of our teams by up to an hour.

On the surface, we are making good progress on our US$30m plant optimisation project at the Fresnillo mine, which will help us manage the higher lead and zinc contents in the deeper areas of the mine. As planned, we have commenced the expansion of the flotation plant. On track for completion by mid 2020, this will complement the additional thickening capacity installed in 2017. Once the mine is developed and able to sustain a production rate of 9,000 tonnes per day, we will implement the third element in the plant optimisation project - the installation of additional vibrating screens, which will further increase the capacity of the plant.

At Saucito, we are continuing with our US$69.3m project to deepen the Jarillas shaft to 1,000 metres. Due for completion in 2024, this will enable us to efficiently hoist ore from the deeper levels of the mine where 42% of the reserves are located.

Technology sits at the heart of initiatives to improve our processes. For example, we are currently implementing semi-automatic operations of long hole drills, in order to increase productivity and equipment utilisation. A total of 15 long hole stopes are being prepared at Fresnillo, with ten of these set for completion by the end of Q2 2020. We also introduced a new communications system in 2019, to improve planning and control processes at the mine. This system provides management with real-time data on everything from manpower allocation to equipment availability - boosting productivity by making sure that we have the equipment and resources we need, when and where we need them.

In addition, we have increased our focus on maintenance in order to improve the availability and reliability of critical equipment.

We have also addressed the lack of reliability of our geological models by creating four specialised teams, each headed by senior operations and exploration specialists and supported by the executive team. These teams are tasked with: improving sampling and geological mapping; ensuring greater quality assurance and control, including at our laboratories; enhancing our geological and resource modelling processes; and implementing measures such as full 3D cavity monitoring technology to improve dilution control and improving the conciliation of reserve estimates and actual tonnages and grades.

Cost management is a key factor in maximising the potential of our existing operations. As Fresnillo has matured as a company, we have realised that our cost control processes have not always kept pace. We are therefore introducing new initiatives to ensure that the fundamentals of sound accounting and cost management remain in place and continue to work effectively. Any developments will take time to feed through into the financial numbers, but we have already made a good start and will continue to focus on this important area through 2020.

Delivering growth through development projects

Situated in the Fresnillo district approximately eight kilometres from the main Fresnillo shaft, the Juanicipio project will be a core element in the Group's future production of silver.

The Board approved the development of Juanicipio early in 2019, and construction is now well underway with over 25 km of underground development already completed and processing of development ore currently expected to commence in mid 2020, ahead of schedule. A joint project with MAG Silver in which we hold 56%, the mine is forecast to produce 11.7 moz of silver and 43.5 koz of gold per year on average, with total indicated and inferred resources of 275.0 moz of silver and 1.48 moz of gold. With an initial mine life of 12 years and considerable potential at depth, Juanicipio's reserves were recognised for the first time in 2019.

Production at the Fresnillo mine will benefit from the new Pyrites Plant. On track for completion in 2020, this 14,000 tonnes per day plant will increase the recovery of silver and gold from the current and historical tailings of Fresnillo. Once operating at full capacity, and including total production from the Saucito plant, it is estimated to produce an average of 3.5 moz of silver and 13 koz of gold every year.

Extending the growth pipeline

Our commitment to exploration across the peaks and troughs of economic cycles has remained consistent since our IPO 11 years ago - and while our current priority is to focus on our existing operations, exploration will continue to be the cornerstone of our longer-term strategy.

During 2019, our team of 100 experienced geologists again worked hard to explore new opportunities, both in the areas around our operations and to a lesser degree in new districts. In total, we invested some US$170m in these activities in 2019.

The results include the identification of a large number of targets in the Fresnillo district, as well as at San Julián, aimed at extending the life of our mines. These are areas where we already have a deep understanding of the geology, and are confident in our ability to exploit new opportunities both quickly and cost-effectively. The projects at Orisyvo and in the Ciénega district also continue to offer exciting potential. However, we have decided to slow the pace of these projects to prioritise current operations, while continuing to de-risk them so we can move them forward when the time is right.

During the year we continued to carry out further work in Peru and Chile, where we have a total of four projects showing good potential. In Peru we are concentrating our efforts on permits and drilling parametric holes, while in Chile our focus is on exploration options with well-established local partners.

As the audit of reserves and resources is a lengthy process, this year for operating mines we brought it forward to 31 May, compared to December in previous years. The earlier timing of the audit meant that costs considered in the estimation were taken from 2018, and not from the most recent 2019 cost base.

Silver resources stood at 2.3 boz, a 2.4% increase over 2018 mainly as a result of exploration at San Julián and, to a lesser extent, Guanajuato. Gold resources remained stable at 39.0 moz. Silver reserves rose slightly, by 1.7% to 484 moz as the recognition of reserves at Juanicipio for the first time was offset by decreases in all our underground silver mines. Gold reserves decreased 16.0%, due to the exclusion of reserves at Soledad-Dipolos and a decrease in reserves at Herradura.

All the Group’s reserves are in the probable category because of a lack of detailed mine plans, and geotechnical and financial models. A key focus for 2020 will be tackling these issues and converting resources into reserves.

Advancing and enhancing the sustainability of our operations

We will never compromise the safety of our employees or contractors. Our priority is that everyone goes home to their families at the end of their shift.

Safety is a never-ending challenge for the mining industry, and it is with great sadness that I have to report that despite our best efforts, we had two fatalities during the year. Although this is an improvement on the previous year, it is unacceptable. We are striving to create a working environment that protects all our people from harm, at all times. For example, our *I Care, We Care* programme brings together industry best practices, systems and behaviours, and was one of primary reasons that the year saw a reduction in our Lost Time Injury Frequency Rate. Over the last 12 months, the programme has been rolled-out to all employees and contractors, focusing on engagement and accountability.

While our tailings storage facilities (TSFs) are considerably smaller than those of other mining companies, we nevertheless recognise their potential to cause human and environmental harm, as highlighted by the recent tragedy in Brazil. We have therefore taken significant steps to ensure the ongoing safety of these facilities. We have 11 TSFs, each one constructed in line with local geologic and seismic conditions. Although all dams comply with Mexican safety requirements, which are similar to standards set in the USA, Canada and Chile, we have taken the decision to go beyond such legislation. We have established our own Independent Tailings Review Panel and appointed independent specialists to perform dam safety inspections and also review and update our tailings dam governance system. We expect their findings to be finalised in 2020.

Although the percentage of our energy consumption met by wind power decreased slightly in 2019, due to a significant increase in overall energy use, we remain committed to achieving our long-term goal for wind power to generate 75% of our electricity consumption. We are also installing dual fuel engines in haulage trucks, initially at Herradura. The usage of Liquid Natural Gas has already led to a 5% fall in greenhouse gas emissions. Both these projects are excellent examples of how wise investment can benefit the environment while also cutting costs.

Our social and environmental performance has consistently been recognised by many organisations. In 2019, among other accolades, we were placed first in the prestigious Integridad Corporativa scheme, which ranked 500 large national and international companies operating in Mexico for their corporate integrity.

Looking ahead

The coming year will see us continue to manage challenges, as we make progress with the initiatives I have outlined in this statement.

Production at our underground silver mines in 2020 is expected to remain at a broadly similar level to 2019, as the anticipated positive impact of the operating initiatives at the Fresnillo mine is likely to be partly offset by the lower ore grade we expect at Saucito.

Gold production is expected to decrease slightly mainly as a result of lower production at Herradura.

We also anticipate that fixed costs will remain relatively high during 2020. As a result, our financial performance could temporarily deteriorate next year in the face of these pressures before our cost management initiatives have an impact. An improvement in operational performance is expected to contribute to lowering the cost per tonne of ore milled as we continue to make significant investment in efficiency initiatives, while we remain committed to improved safety.

The broader environment is to a degree characterised by uncertainty. Trade disagreements, particularly between the US and China, together with ongoing political and economic issues elsewhere including Europe, could lead to headwinds for the mining industry. On the other hand, the greater uncertainty and risk of conflicts in several points of the world, as well as the coronavirus, could lead to higher precious metal prices.

Furthermore, there appears to be support for our industry at the higher levels of the new Government in Mexico and we will continue to work hard to ensure that mining is supported by all parts of the federal and state administration.

But while we are striving to rise to the immediate challenges confronting our business today, we are nevertheless moving forward with certainty and vigour. Our assets are of high quality and our pipeline continues to confirm promising prospects. Buoyed by a clear strategy and supported by a talented and committed team, we look ahead with confidence.

Octavio Alvídrez
- Chief Executive Officer

FINANCIAL REVIEW

The consolidated Financial Statements of Fresnillo plc are prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU. This Financial Review is intended to convey the main factors affecting performance and to provide a detailed analysis of the financial results in order to enhance understanding of the Group's Financial Statements. All comparisons refer to 2019 figures compared to 2018, unless otherwise noted. The financial information and year-on-year variations are presented in US dollars, except where indicated.

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

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

COMMENTARY ON FINANCIAL PERFORMANCE

2019 continued to be a challenging year for the Group. This was reflected in the financial performance for the year, with gross profit and EBITDA decreasing from 2018 by 40.9% and 26.3% respectively and profit margins decreasing accordingly. We maintained a solid financial position, with US$336.6 million in cash and other liquid funds [1] as of 31 December 2019 notwithstanding paying dividends of US$142.2 million in accordance with our policy, investing US$559.3 million in capex and spending US$157.9 million on exploration to underpin our future growth.

Adjusted revenue increased slightly year-on-year due to higher gold and silver prices, which were mostly offset by the lower volumes of gold and silver sold. This slight increase was more than offset by the increase in adjusted production costs[3], higher depreciation and the much smaller positive effect from changes in inventory in 2019 compared to that in 2018 resulting from the gold content in the leaching pads at Herradura being re-assessed. As a result, gross profit and EBITDA decreased 40.9% and 26.3% over 2018.

INCOME STATEMENT

	2019 US$ million	2018 US$ million	Amount US$ million	Change %
Adjusted revenue [2]	2,270.2	2,243.4	26.8	1.2
Total revenue	2,119.6	2,103.8	15.9	0.8
Cost of sales	(1,657.9)	(1,323.1)	(334.9)	25.3
Gross profit	461.7	780.7	(319.0)	(40.9)
Exploration expenses	157.9	172.8	(14.9)	(8.6)
Operating profit	171.7	506.7	(335.0)	(66.1)
EBITDA [3]	674.0	915.1	(241.1)	(26.3)
Income tax expense including mining rights	(27.1)	134.0	(161.1)	N/A
Profit for the year	205.8	350.0	(144.2)	(41.2)
Profit for the year, excluding post-tax Silverstream effects	172.0	339.5	(167.5)	(49.3)
Basic and diluted earnings per share (US$/share) [4]	0.277	0.475	(0.198)	(41.7)
Basic and diluted earnings per share, excluding post-tax Silverstream effects (US$/share)	0.231	0.461	(0.230)	(49.9)

1 Cash and other liquid funds are disclosed in note 30(c) to the financial statements.
2 Adjusted revenue is revenue as disclosed in the income statement adjusted to exclude treatment and refining charges and gold, lead and zinc hedging.
3 Earnings before interest, taxes, depreciation and amortisation (EBITDA) is calculated as gross profit plus depreciation less administrative, selling and exploration expenses.

[3] Adjusted production costs is calculated as total production costs less depreciation and profit sharing. 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.

4 The weighted average number of ordinary shares was 736,893,589 for 2019 and 2018. See note 17 in the consolidated financial statements.

The Group's financial results are largely determined by the performance at 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 METAL PRICES

In 2019, the average realised silver price increased by 3.9% from US$15.5 per ounce in 2018 to US$16.1 per ounce in 2019, while the average realised gold price rose 11.7% from US$1,269.1 per ounce in 2018 to US$1,418.0 per ounce. In contrast, the average realised lead and zinc by-product prices decreased 9.3% and 10.5% year-on-year, to US$0.89 and US$1.15 per pound, respectively.
However, the Group was affected by the results of the one-off five-year gold hedging programme entered into in 2014, and a series of financial derivatives entered into in 2019 to hedge a portion of its lead and zinc production, both of which are further described below.

MX$/US$ EXCHANGE RATE

The Mexican peso/US dollar spot exchange rate at 31 December 2019 was $18.85 per US dollar, compared to $19.68 per US dollar at the beginning of the year. The 4.3% spot revaluation had a favourable effect on: i) the net monetary peso asset position, which contributed to the US$4.5 million foreign exchange gain; and ii) taxes and mining rights as the revaluation resulted in a decrease in related deferred tax liabilities.

The average spot Mexican peso/US dollar exchange rate remained broadly unchanged at $19.3 per US dollar (2018: $19.2 per US dollar). As a result, there was an insignificant effect on the Group's costs denominated in Mexican pesos (approximately 45% of total costs) when converted to US dollars.

COST INFLATION

In 2019, cost inflation was 3.8%. The main components of our cost inflation basket are listed below:

LABOUR

Unionised employees received on average a 7.5% increase in wages in Mexican pesos, and administrative employees at the mines received a 5.5% increase; when converted to US dollars, the weighted average labour inflation was 6.5%.

ENERGY

ELECTRICITY

The Group's weighted average cost of electricity increased by 4.1% from 7.1 US cents per kW in 2018 to 7.4 US cents per kW in 2019. 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 increased 6.7% to 87.9 US cents per litre in 2019, compared to 82.42 US cents per litre in 2018.

OPERATING MATERIALS

	Year over year change in unit price %
Sodium cyanide	4.4
Steel balls for milling	1.8
Steel for drilling	1.8
Lubricants	1.4
Tyres	0.8
Explosives	0.1
Other reagents	(9.7)
Weighted average of all operating materials	1.2

Unit prices of the majority of operating materials remained broadly stable in US dollar terms, with the exception being sodium cyanide, which experienced year-on-year inflation of 4.4%. However, this was partly offset by the decrease in the unit price of other reagents, such as zinc sulphate. As a result, the weighted average unit prices of all operating materials increased by 1.2% over the year. 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 2019, increases granted to contractors, whose agreements were due for review during the period, resulted in a weighted average increase of 4.7% in US dollars.

MAINTENANCE

Unit prices of spare parts for maintenance increased slightly, by 1.4% on average in US dollar terms.

OTHER COSTS

Other cost components include freight and insurance costs, which increased by an estimated 10.3% and 2.5% in US dollars, respectively. The remaining cost inflation components experienced average inflation of 1.1% in US dollars over 2018.

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] (US$ MILLIONS)

	2019 US$ million	2018 US$ million	Amount US$ million	Change %
Adjusted revenue [1]	2,270.2	2,243.4	26.8	1.2
Gold, lead and zinc hedging	(6.0)	1.6	(7.6)	N/A
Treatment and refining charges	(144.6)	(141.2)	(3.4)	2.4
Total revenue	2,119.6	2,103.8	15.9	0.8

Adjusted revenue increased by US$26.8 million mainly as a result of the increase in gold and silver prices. Total revenue remained broadly unchanged at US$2,119.6 million.

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 METAL (US$ MILLION)

	2019		2018					
	US$ million	%	US$ million	%	Volume Variance US$ million	Price Variance US$ million	Total net change US$ million	%
Silver	766.9	33.8	815.8	36.4	(81.1)	32.2	(48.9)	(6.0)
Gold	1,202.8	53.0	1,118.1	49.8	(44.1)	128.8	84.7	7.6
Lead	102.1	4.5	105.6	4.7	6.6	(10.2)	3.5	(3.3)
Zinc	198.4	8.7	203.9	9.1	16.9	(22.4)	(5.5)	(2.7)
Total adjusted revenue	2,270.2	100.0	2,243.4	100.0	(101.7)	128.5	26.8	1.2

The increase in gold and silver prices, partially offset by the lower lead and zinc prices, resulted in a positive effect in Adjusted revenue of US$128.5 million. This was mostly offset by the US$101.7 million adverse effect of the lower volumes of silver and gold sold, partially offset by the higher lead and zinc sales volumes. Silver volumes sold were impacted by the lower production at each of the silver underground mines, while the volumes of gold sold were affected by the expected lower production from the Noche Buena mine and the lower grade at San Julián veins.

ADJUSTED REVENUE BY METAL

	2019	2018
Gold	53.0%	49.9%

Silver	33.8%	36.3%
Zinc	8.7%	9.1%
Lead	4.5%	4.7%
Total	100.0%	100.0%

Herradura continued to be the greatest contributor to Adjusted revenue, representing 30.6% due to the slight increase of 1.8% in volume of gold sold at a higher price. Saucito's contribution remained broadly stable at 21.7% in 2019 (2018: 21.9%), while Fresnillo contributed a lesser share of Adjusted revenue but remained the third most important, contributing 15.9%. The contribution to the Group's Adjusted revenue from the San Julián mine decreased from 16.4% in 2018 to 15.0% in 2019, reflecting the lower volumes of gold and silver sold. As expected, Noche Buena's contribution continued to decrease from 9.4% in 2018 to 7.8% in 2019, reflecting the gradual depletion of the mine as it approaches the end of its mine life. Ciénega's contribution to the Group's Adjusted revenue increased slightly, from 8.3% in 2018 to 9.0% in 2019 as a result of the higher gold and silver prices and the increase in lead and zinc volumes sold.

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

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

	2019		2018	
Herradura	693.9	30.6%	608.2	27.1%
Saucito	493.4	21.7%	492.0	21.9%
Fresnillo	361.7	15.9%	378.3	16.9%
Ciénega	204.7	9.0%	187.1	8.3%
San Julián (Disseminated Ore Body) (DOB)	184.5	8.1%	187.4	8.4%
Noche Buena	176.7	7.8%	211.4	9.4%
San Julián (Veins)	155.3	6.9%	179.1	8.0%
Total	2,270.2	100%	2,243.4	100%

VOLUMES OF METAL SOLD

	2019	% participation of each mine	2018	% participation of each mine	% change
Silver (koz)					
Saucito	15,923	33.6	17,968	34.2	(11.4)
Fresnillo	11,778	24.8	13,890	26.4	(15.2)
San Julián (Veins)	4,215	8.9	5,255	10.0	(19.8)
San Julián (DOB)	7,368	15.5	7,806	14.9	(5.6)
Ciénega	5,330	11.2	5,459	10.4	(2.4)
Herradura	1,573	3.3	1,503	2.9	4.7
Noche Buena	23	0.0	7	0.0	228.6
Pyrites plant at Saucito	1,212	2.6	653	1.2	85.6

Total silver (koz)	47,422	100	52,541	100	(9.7)
Gold (koz)					
Herradura	496	58.5	460	52.2	7.8
Noche Buena	105	12.4	167	18.9	(37.1)
San Julián (Veins)	62	7.3	77	8.7	(19.5)
Saucito	72	8.5	74	8.4	(2.7)
Ciénega	62	7.3	63	7.1	(1.6)
Fresnillo	46	5.4	37	4.2	24.3
San Julián (DOB)	1	0.1	1	0.1	0.0
Pyrites plant at Saucito	4	0.5	3	0.3	33.3
Total gold (koz)	848	100	882	100	(3.9)
Lead (t)					
Fresnillo	19,544	39.8	18,097	37.2	8.0
Saucito	19,719	40.2	20,362	41.9	(3.2)
Ciénega	4,385	8.9	4,385	9.0	0.0
San Julián (DOB)	5,405	11.0	5,770	11.9	(6.3)
Total lead (t)	49,053	100	48,614	100	0.9
Zinc (t)					
Fresnillo	26,350	33.5	26,248	36.3	0.4
Saucito	25,622	32.6	22,599	31.3	13.4
San Julián (DOB)	19,034	24.2	18,538	25.6	2.7
Ciénega	7,590	9.7	4,887	6.8	55.3
Total zinc (t)	78,596	100	72,272	100	8.8

HEDGING

In 2019, a loss of US$6.0 million was recognised in the income statement as a result of the hedging of gold, lead and zinc. This compared unfavourably to the US$1.6 million gain registered in 2018. The following paragraphs outline our hedging activities and explain the background to the 2019 loss.

In the second half of 2014, Fresnillo plc initiated a five-year one-off hedging programme to protect the value of the investment made in the acquisition of Newmont's minority stake (44%) in Penmont. The hedging programme was executed for a total volume of 1,559,689 ounces of gold with monthly settlements until December 2019.

The table below illustrates the expiry of the derivatives over the last five years of the hedging programme.

Concept	2019	2018	2017	2016	2015
Weighted floor (US$/oz)	1,100	1,100	1,100	1,100	1,100
Weighted cap (US$/oz)	1,424	1,423	1,424	1,438	1,431
Expired volume (oz)	346,152	366,432	324,780	220,152	266,760
(Loss)/gain recognised in income	(9.85)	–	–	0.05	1.02

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

We hedged a portion of our by-product zinc production in the first half of 2019 with maturities throughout the year, while in the last quarter of 2019 we hedged a portion of our by-product lead production with maturities in 2020. The table below illustrates the expired hedging volume, the results in 2019 and the outstanding balance for 2020.

	As of 31 December 2019	
Concept	Zinc	Lead
Weighted floor (US$/tonne)	2,636	2,094
Weighted cap (US$/tonne)	3,085	2,290
Expired volume (tonne)	18,592	0
Gain (US$ dollars)	3.9	0
Total outstanding volume (tonne)	0	8,760

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 4.0% and 51.7%, respectively, compared to 2018, while silver refining charges declined by 17.0% over the year as a result of the lower mine supply of lead concentrates. The significant rise in the treatment charge per tonne of zinc is explained by the increase in mine supply, which is surpassing the limited worldwide smelting capacity. The increase in treatment charges per tonne of lead and zinc and reduction in silver charges, combined with the higher volumes of zinc concentrates shipped from our mines to Met-Mex, resulted in a 2.4% increase in treatment and refining charges set out in the income statement in absolute terms when compared to 2018.

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

COST OF SALES

Concept	2019 US$ million	2018 US$ million	Amount US$ million	Change %
Adjusted production costs [2]	1,173.0	952.0	221.0	23.2
Depreciation	489.5	411.8	77.8	18.9
Profit sharing	9,1	12.5	(3.4)	(27.4)
Change in work in progress and others	(11.1)	(53.6)	42.5	(79.3)
Others	(2.6)	0.4	(3.0)	N/A
Cost of sales	1,657.9	1,323.1	334.8	25.3

2 Adjusted production costs is calculated as total production costs less depreciation and profit sharing. 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 increased 25.3% to US$1,657.9 million in 2019. The US$334.8 million increase is explained by the following combination of factors:

- An increase in Adjusted production costs (+US$221.1 million). This was primarily due to: i) an increase in development works mainly at Fresnillo, San Julián veins and Saucito (+US$56.9 million); ii) additional maintenance, operating materials and contractors associated with longer haulage distances, narrower veins, better equipment availability and the infill drilling programme mainly at Herradura, Ciénega and San Julián DOB (+US$46.2 million); iii) higher stripping costs expensed at Herradura following the reassessment of the number of mining components from two to one effective from 2H 2018 (+US$46.1 million); iv) cost inflation of 3.8% (+US$35.4 million); v) the additional adjusted production costs associated with the first complete year of operations at the Pyrites Plant at Saucito and the second line of the Dynamic Leaching Plant at Herradura (+US$33.4 million); and vi) other costs (+US$3.1 million).
- Depreciation (+US$77.8 million). This is mainly due to the increased depletion factors, the full year of operation at the Pyrites plant and the second line of the dynamic leaching plant and the amortisation of capitalised mining works.
- The decrease in the change in work in progress of US$42.5 million (of which -US$85.6 million related to the reassessment of gold contents in the leaching pads at Herradura and US$43.1 million were explained by the variation of change in

inventories excluding the latter effect). Change in work in progress was -US$11.1 million in 2019 mainly as a result of the increase in unit cost at Herradura and Noche Buena, together with an increase in the volume of inventories at the dynamic leaching plants. This compared negatively to the -US$53.6 million registered in 2018 mainly as a result of the re-assessment of the gold content in the leaching pads at Herradura (see notes (2c) and (5) in the notes to the financial statements).

These negative effects were partly offset by year-on-year decrease in:
- Profit sharing (-US$3.4 million) and others (-US$3.0 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		2019	2018	Change %
Fresnillo	US$/tonne milled	62.7	49.4	27.0
Saucito	US$/tonne milled	67.8	60.1	12.8
Ciénega	US$/tonne milled	78.3	70.8	10.5
San Julián (Veins)	US$/tonne milled	72.0	57.4	25.5
San Julián (DOB)	US$/tonne milled	39.1	36.2	8.0
Herradura	US$/tonne deposited	18.1	13.2	37.0
Herradura	US$/tonne hauled	3.3	3.1	7.8
Noche Buena	US$/tonne deposited	9.8	6.8	45.2
Noche Buena	US$/tonne hauled	2.5	2.1	18.6

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

Fresnillo: Mainly due to an increase in development works and maintenance activities, together with increased consumption of operating materials. Additionally, cost inflation for this mine was 4% mainly due to contractors and labour.

Saucito: Mainly due to the full year of operations of the new pyrites plant following its commissioning at the end of 1H 2018; cost inflation for this mine was 4.1% primarily due to contractors, operating materials and labour.

Ciénega: Primarily due to increased contractor, operating materials and labour costs.

San Julián (Veins): Mainly due to the increase in development.

San Julián (DOB): Mainly due to the increased consumption of operating materials to improve stability in certain areas.

Herradura: Mainly due to the increase in maintenance and higher consumption of operating materials associated with longer haulage distances and the increased stripping costs expensed following the reassessment of the number of mining components from two to one. Additionally, cost inflation for this mine was 3.2% mainly due to diesel, maintenance and labour

Noche Buena: Primarily as a result of lower economies of scale due to the decrease in volume of ore processed, winding down as it approaches it nears end of mine life.

Cash cost per ounce [3]		2019	2018	Change %
Fresnillo	US$ per silver ounce	2.3	0.5	360.0
Saucito	US$ per silver ounce	2.3	1.0	130.0

Ciénega	US$ per gold ounce	-0.2	25.9	N/A
San Julián (Veins)	US$ per silver ounce	0.8	(3.6)	N/A
San Julián (DOB)	US$ per silver ounce	7.0	5.7	23.6
Herradura	US$ per gold ounce	818.6	504.0	62.4
Noche Buena	US$ per gold ounce	847.8	735.4	15.3

Fresnillo: Principally due to lower silver ore grade, higher cost per tonne and higher treatment charges, partially mitigated by the higher by product credits.

Saucito: Mainly as a result of the higher cost per tonne , the lower silver grade and the higher treatment charges, partially mitigated by the increase in by-product credits per ounce of silver resulting from the higher price of gold and increased volume of zinc sold.

Ciénega: Primarily due to the higher by-product credits per gold ounce due to the increase in silver price and increased base metal contents sold. This was partially offset by the higher cost per tonne; the decrease in silver grade and higher treatment and refining charges.

San Julián (Veins): Mainly due to the lower ore grade and higher cost per tonne, mitigated by higher by-product credits per ounce of silver.

San Julián (DOB): Mainly explained by the lower ore grade achieved and higher treatment and refining charges resulting from the increase in volumes of lead and zinc concentrates send to Met-Mex.

Herradura: A result of the higher cost per tonne and the reassessment of the number of mining components from two to one.

Noche Buena: Due to higher cost per tonne.

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

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

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

ALL-IN SUSTAINING COST

All-in sustaining cost per ounce		2019	2018	Change %
Fresnillo	US$ per silver ounce	13.54	8.92	51.8
Saucito	US$ per silver ounce	10.97	8.64	27.0
Ciénega	US$ per gold ounce	1,212.14	1,413.87	(14.3)
San Julián (Veins)	US$ per silver ounce	14.79	5.05	192.9
San Julián (DOB)	US$ per silver ounce	10.79	10.01	7.8
Herradura	US$ per gold ounce	962.99	806.73	19.4
Noche Buena	US$ per gold ounce	922.86	1,029.68	(10.4)

Fresnillo: The US$4.6 per ounce increase was explained by higher capitalised mine development per ounce, an increase in sustaining capex per ounce and the higher cash cost.

Saucito: Mainly due to higher capitalised mine developments per ounce and increase in cash cost, mitigated by lower sustaining capex per ounce.

Ciénega: Primarily driven by lower sustaining capex per ounce and the factors benefiting cash cost.

San Julián (Veins): Due to higher capitalised mine development per ounce, increased sustaining cost per ounce and the factors affecting cash cost.

San Julián (DOB): Driven by the higher sustaining capex per ounce and the increase in cash cost, mitigated by a decrease in capitalised mine development per ounce.

Herradura: Mainly due to the higher cash costs, mitigated by the decrease in capitalised stripping per ounce and lower sustaining capex per ounce.

Noche Buena: Result of the lower capitalised stripping per ounce, partly offset by the 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, net of hedging gains and losses, decreased by 40.9% to US$461.7 million in 2019.

The US$319.0 million decrease in gross profit was mainly explained by: i) the much smaller positive effect from changes in inventory in 2019 compared to that in 2018 (-US$96.1 million, of which -US$85.6 million was explained by the variation of change in work in progress resulting from the reassessment of gold contents in the leaching pads and -US$10.5 million resulted from the imputed impact on revenues); ii) the lower silver ore grades at the silver underground mines, mitigated by higher grades at Herradura and Noche Buena, (-US$80.1 million); iii) higher depreciation (-US$77.8 million); iv) the decrease in volume of ore processed, mainly at Noche Buena (-US$62.2 million); iv) the increased development works (-US$56.9 million); v) the additional costs incurred due to increased requirements for maintenance, operating materials and contractors, associated with longer haulage distances, narrower veins, better equipment availability and tighter infill drilling (-US$46.1 million); vi) the increased stripping costs expensed following the reassessment of the number of mining components from two to one at Herradura (-US$46.1 million); vii) cost inflation (-US$35.4 million); and viii) others (-US$8.4 million). These adverse factors were partly mitigated by: i) the higher average realised gold and silver prices (+US$128.5 million); ii) the variation of change in inventories excluding the effect of the 2018 reassessment of gold contents in the leaching pads at Herradura (+US$43.1 million); and iii) increased gross profit at pyrites plant and second line of the dynamic leaching plant resulting from its first complete year of operations (+US$18.5 million).

With the exception of Ciénega, gross profit decreased year-on-year at all mines. Herradura and Saucito remained the largest contributors to the Group's consolidated gross profit, with both recording small increases in their percentage share. In contrast, the lower ore grades at San Julián, together with the increased production costs and depreciation, resulted in a gross loss in 2019. Fresnillo and Noche Buena's share of the Group's total gross profit remained steady at 18.8% and 7.4% respectively, while Ciénega's contribution increased slightly to 7.3%.

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

					Change	
	2019 US$ million	%	2018 US$ million	%	Amount US$ million	%
Herradura	183.2	38.9	278.4	36.2	(95.2)	(34.2)
Saucito	131.2	27.9	177.8	23.1	(46.6)	(26.2)
Fresnillo	88.7	18.9	144.9	18.9	(56.2)	(38.8)
Noche Buena	40.2	8.5	67.2	8.7	(27.0)	(40.2)
Ciénega	34.5	7.3	31.9	4.2	2.6	8.2
San Julián	(7.3)	(1.5)	68.4	8.9	(75.7)	(110.7)
Total for operating mines	470.5	100	768.6	100	(298.1)	(38.8)
Metal hedging and other subsidiaries	(8.8)		12.1		(20.9)	N/A
Total Fresnillo plc	461.7		780.7		319.0	(40.9)

ADMINISTRATIVE AND CORPORATE EXPENSES

Administrative and corporate expenses increased 15.7% from US$83.3 million in 2018 to US$96.4 million, mainly due to an increase in advisory services provided by consultants (legal, safety, taxes, geological, amongst others), and increased corporate services provided by Servicios Industriales Peñoles, S.A.B de C.V., in relation to new operations, namely the pyrites plant and the second line of the dynamic leaching plant, and approved development projects.

EXPLORATION EXPENSES

Business unit/project (US$ millions)	Exploration expenses 2019	Exploration expenses 2018	Capitalised expenses 2019	Capitalised expenses 2018
Ciénega	7.3	9.9	–	–
Fresnillo	14.0	15.6	–	–
Herradura	14.4	14.9	–	–
Saucito	14.9	16.3	–	–
Noche Buena	0.4	2.0	–	–
San Ramón	2.0	2.4	–	–
San Julián	17.6	12.2	–	–
Orisyvo	2.0	5.2	–	–
Centauro Deep	0.5	5.4	1.7	1.7
Guanajuato	19.4	16.9	2.8	1.1
Juanicipio	0.0	0.0	5.4	4.8
Others	65.4	72.0	2.3	0.8
Total	157.9	172.8	12.2	8.4

Exploration expenses decreased as planned by 8.6% from US$172.8 million in 2018 to US$157.9 million in 2019, in line with the strategy to focus exploration at specific targets, including our current operating districts and advanced exploration projects. An additional US$12.2 million was capitalised, mainly relating to exploration expenses at the Juanicipio project, Guanajuato and Centauro Deep. As a result, risk capital invested in exploration totalled US$170.1 million in 2019, a 6.1% decrease over 2018. In 2020, total invested in exploration is expected to be approximately US$150 million, of which US$15 million is expected to be capitalised.

EBITDA

	2019 US$ million	2018 US$ million	Amount US$ million	Change%
Gross profit	461.7	780.7	(319.0)	(40.9)
+ Depreciation	489.5	411.8	77.8	18.9
– Administrative expenses	(96.4)	(83.3)	(13.1)	15.7
– Exploration expenses	(157.9)	(172.8)	14.9	(8.6)
– Selling expenses	(22.9)	(21.2)	(1.6)	7.6
EBITDA	674.0	915.1	(241.1)	(26.3)
EBITDA margin	31.8	43.5		

EBITDA is a gauge of the Group’s financial performance and a key indicator to measure debt capacity. It is calculated as gross profit plus depreciation, less administrative, selling and exploration expenses. In 2019, EBITDA decreased 26.3% to US$674.0 million mainly due to the lower gross profit. As a result, EBITDA margin expressed as a percentage of revenue decreased, from 43.5% in 2018 to 31.8% in 2019.

OTHER OPERATING INCOME AND EXPENSE

In 2019, a net loss of US$12.8 million was recognised in the income statement mainly as a result of the disposal of assets, environmental activities and donations. This compared unfavourably to the US$3.3 million net gain recognised in 2018 mainly as a result of the partial reimbursement for an insurance claim at Saucito.

SILVERSTREAM EFFECTS

The Silverstream contract is accounted for as a derivative financial instrument carried at fair value. The total revaluation effect recorded in the 2019 income statement was a gain of US$48.3 million. This includes: i) a positive non-cash revaluation effect of US$6.7 million mainly as a result of the market update of certain variables such as the forward price of silver and the discount rate used; partially offset by the updating of the Sabinas production plan, which included a new estimate of reserves and resources; and ii) a US$41.6 million non-cash gain mainly generated by the unwinding of the discounted values. The total revaluation effect recorded in 2018 was a US$15.0 million gain.

Since the IPO, cumulative cash received has been US$653.6 million. The Group expects that further unrealised gains or losses will be taken to the income statement in accordance with silver price cyclicality or changes in the variables considered in valuing this contract. Further information related to the Silverstream contract is provided in the balance sheet section and in notes 13 and 29 to the consolidated financial statements.

FINANCE COSTS

Net finance costs of US$46.5 million compared unfavourably to the US$26.9 million recorded in 2018. The 2019 net finance costs mainly reflected: i) the interest on the US$800 million principal amount of 5.5% Senior Notes, net of interest received and capitalised; and ii) US$15.7 million in interest and surcharges, which resulted from aligning the tax treatment of mining works across the Group's underground mines to the agreement reached between SAT, Prodecon and Fresnillo plc relating to years 2014 to 2018, which was paid in 2019 (the voluntary tax amendment). Detailed information is provided in note [X] to the financial statements. A portion of the interests from the Senior Notes are capitalised, hence not included in finance costs. The amounts capitalised in 2019 and 2018 were similar so the year on year impact was immaterial.

FOREIGN EXCHANGE

A foreign exchange gain of US$5.1 million was recorded as a result of the realised transactions in the year and the 4.3% revaluation of the Mexican peso against the US dollar over the year on the value of peso-denominated net monetary assets. This compared positively against the US$8.1 million foreign exchange loss recognised in 2018.

The Group enters into certain exchange rate derivative instruments to manage its exposure to foreign exchange risk. The aggregate effect on income in the year was a loss of US$776,661, which compared negatively to the loss of US$321,873 registered in 2018.

TAXATION

A corporate income tax credit of US$8.0 million arose in the current year which compared favourably to the US$120.6 million charge in 2018. The effective tax rate, excluding the special mining rights, was -4.5% (24.9% in 2018). The reason for the negative tax rate was the significant permanent differences between the tax and accounting bases, 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).

A mining rights credit of US$19.1 million arose in 2019 compared to a US$13.3 million charge in 2018. The main reason for the negative mining rights was the effect that the voluntary tax amendment relating to the tax treatment for mining works for the years 2014 to 2018 had on the deferred mining rights.

PROFIT FOR THE YEAR

Profit for the year decreased from US$350.0 million to US$205.8 million in 2019, a 41.2% decline year-on-year as a result of the factors described above.

Excluding the effects of the Silverstream contract, profit for the year decreased from US$339.5 million to US$172.0 million.

CASH FLOW

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

	2019 US$ million	2018 US$ million	Amount US$ million	Change %
Cash generated by operations before changes in working capital	685.5	930.7	(245.2)	(26.3)
(Increase)/decrease in working capital	(56.6)	(127.9)	71.3	(55.7)

Taxes and employee profit sharing paid	(193.0)	(214.4)	21.4	(10.0)
Net cash from operating activities	435.9	588.4	(152.5)	(25.9)
Silverstream contract	24.3	36.3	(12.0)	(33.1)
Purchase of property, plant & equipment	(559.3)	(668.7)	109.4	(16.4)
Dividends paid to shareholders of the Company	(142.2)	(298.1)	155.9	(52.3)
Net interest (paid)	(32.9)	(15.7)	(17.2)	109.6
Net increase in cash during the period after foreign exchange differences	(224.2)	(335.2)	111.0	(33.1)
Cash and other liquid funds at 31 December [1]	336.6	560.8	(224.2)	(40.0)

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

Cash generated by operations before changes in working capital decreased by 26.3% to US$685.5 million, mainly as a result of the lower profits generated in the year. Working capital increased US$56.6 million mainly due to: i) higher trade and other receivables resulting from higher precious metals prices and an increase in VAT receivables (US$39.2 million); ii) increased ore inventories in the leaching pads at Herradura and Noche Buena (US$28.7 million); and iii) an increase in prepayments and other assets (US$3.3 million). This increase in working capital was partly offset by an increase in trade and other payables (US$14.6 million).

Taxes and employee profit sharing paid decreased 10.0% over 2018 to US$193.0 million. This included a US$39.7 million cash payment of income tax and special mining rights related to the amendment in the treatment of mining works across the underground mines. For further details, please see note 10 to the financial statements. The main reason for the 10% decrease was that the Group was able to recover US$45.7 million of income tax receivables.

As a result of the above factors, net cash from operating activities decreased 25.9% from US$588.4 million in 2018 to US$435.9 million in 2019.

Other sources of cash were the proceeds of the Silverstream contract of US$24.3 million and capital contributions from minority shareholders in subsidiaries of US$53.3 million.

Main uses of funds were:

i) purchase property, plant and equipment for a total of US$559.3 million, a 16.4% decrease over 2018. Capital expenditures for 2019 are further described below:

PURCHASE OF PROPERTY, PLANT AND EQUIPMENT

	2019 US$ million	
Fresnillo mine	172.8	Mine development and purchase of in-mine equipment, including a tunnel boring machine, deepening of the San Carlos shaft and the construction of the second phase of the Pyrites plant and the optimisation of the beneficiation plant.
Saucito mine	126.4	Development, replacement of in-mine equipment and deepening of the Jarillas shaft.
Herradura mine	37.5	Sustaining capex, construction of leaching pad and land acquisition.
San Julián veins and DOB	65.3	Mine development, construction of a tailings dam and water reservoir and purchase of in-mine equipment.
Ciénega mine	58.2	Development, replacement of in-mine equipment and construction of a tailings dam.
Noche Buena mine	5.7	Implementation of the Carbon in Column process, construction of leaching pad and anti-collision system

Juanicipio project	86.2	Construction of ramps and exploration expenditure
Other	7.2	
Total purchase of property, plant and equipment	559.3	

ii) Dividends paid to shareholders of the Group in 2019 totalled US$142.2 million, a 52.3% decrease over 2018, in line with our dividend policy which includes a consideration of profits generated in the year. The 2019 payment included the final 2018 dividend of US$123.1 million and the 2019 interim dividend paid in September of US$19.2 million.

iii) Net finance expenses of US$32.9 million, mainly reflecting the interest paid in relation with the issuance of the US$800 million principal amount of 5.500% Senior Notes, and the interest and surcharges which resulted from the voluntary tax amendment.

The sources and uses of funds described above resulted in a decrease in net cash of US$224.2 million (net decrease in cash and other liquid assets), which combined with the US$560.8 million balance at the beginning of the year resulted in cash and other liquid assets of US$336.6 million at the end of 2019.

BALANCE SHEET

Fresnillo plc continued to maintain a solid financial position with cash and other liquid funds[1] of US$336.6 million as of 31 December 2019, albeit decreasing 40.0% versus December 2018, as explained above.

Inventories increased 8.6% to US$363.7 million mainly as a result of the increase in inventories of gold on the leaching pads at Herradura.

Trade and other receivables increased 12.1% to US$517.8 million mainly as a result of an increase in value added tax recoverable [and the higher precious metals prices, which increased the accounts receivables with Met-Mex]. The increase in value added tax recoverable resulted mainly from the additional review procedures set out by the Mexican tax authorities to validate and authorise reimbursement of balances to taxpayers, thus resulting in delays in reimbursements. Management is actively working to ensure that requirements have been met in order to reduce the time to recover VAT receivable balances.

The change in the value of the Silverstream derivative from US$519.1 million at the beginning of the year to US$541.3 million as of 31 December 2019 reflects proceeds of US$26.2 million corresponding to 2019 (US$20.9 million in cash and US$5.3 million in receivables) and the Silverstream revaluation effect in the income statement of US$48.4 million.

The net book value of property, plant and equipment was US$2,813.4 million at year end, representing a 4.0% increase over 2018. The US$108.1 million increase was mainly due to the advancement of development projects; capitalised development works; purchase of additional in-mine equipment; and the construction of leaching pads at Herradura and Noche Buena.

The Group's total equity was US$3,278.7 million as of 31 December 2019, a 4.8% increase over 2018. This was mainly explained by the increase in retained earnings, reflecting the 2018 profit and the net unrealised gains on cash flow hedges.

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

DIVIDENDS

Based on the Group's 2019 performance, the Directors have recommended a final dividend of 11.9 US cents per Ordinary Share, which will be paid on 2 June 2020 to shareholders on the register on 24 April 2020. 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 2.6 US cents per share amounting to US$19.2 million. This final dividend is lower than the previous year due to the lower profit in 2019, 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 2019 and future years will attract the withholding obligation. However, foreign shareholders may be able to recover such tax depending on their tax residence and the existence of double taxation agreements.

MANAGING OUR RISKS AND OPPORTUNITIES

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 in place to identify risks while simultaneously taking into account the views and interests of our stakeholders.

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

Risk management system

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

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

The 2018 UK Corporate Governance Code covers emerging risks for the first time, and this has required 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.

Within the system's identification phase, we capture emerging risks that could arise as a result of new developments that have a chance of impacting Fresnillo, either at a macro or operational level. To strengthen our emerging risks management framework, during the last quarter of 2019 and early 2020 we carried out activities to: (1) define the emerging risk concept for Fresnillo; (2) deploy effective monitoring mechanisms; (3) carry out horizon scanning to consider disruptive scenarios, and; (4) 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.

We define emerging risks as new manifestations of risk that cannot yet be fully assessed, risks that are known to some degree but are not likely to materialise or have an impact for several years, or risks that we are not aware of but that could, due to emerging macro trends in the mid or long term, have significant implications for our ability to achieve our strategic goals.

An example of an emerging risk is a water crisis, which we define as the lack of sufficient available water resources to meet the consumption demanded by a region. Such an outcome could involve water stress, water shortage or loss of a water source. This risk could represent a long-term threat to our business, given society's increasing demand for sustainable working practices.

We have a number of mitigation activities in place regarding water stewardship. Examples include: evaluating water risk using the aqueduct tool from the World Resources Institute (WRI); carrying out an Environmental Impact Assessment (EIA) of irrigation and drainage projects to gain knowledge of water resources and their vulnerability on a local and regional scale; respecting our water quotas, monitoring our discharges and taking action to ensure that they adhere to water quality regulations; cooperating with water authorities and other stakeholders, including communities, to increase water access; implementing closed water circuits to eliminate the need to discharge processed water into water streams; reusing wastewater from municipalities and our own operations and camps, and; accounting for water use, using the Water Accounting Framework proposed by the

Minerals Council of Australia. From 2020 onwards, emerging risk assessment will be embedded as part of the principal and individual risk management process.

2019 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 Group’s principal risks. We conducted the same risk analysis on advanced projects, detailing the specific risks faced by each project according to their unique characteristics and conditions.

During our 2019 risk assessment exercise, 144 people provided input to evaluate 109 risks across all our operations, advanced projects, exploration offices, and support and corporate areas.

The ERM 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.

Following this exercise, there were no changes to the principal risks identified, however the likelihood and potential impact increased in respect of Safety, Union Relations, Exploration and Projects.

1.- Impact of metal prices and global macroeconomic developments

RISK DESCRIPTION

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

- A decrease in precious metal prices, which is the primary driver for the risk. The average realised price for gold increased year-on-year (+11.7% vs 2018) while the average realised price of silver rose by 3.9%.
- Revaluation of the Mexican peso. In 2019, the peso was devalued by 4.26% versus the average spot exchange rate of the US dollar.
- General inflation in Mexico. This was 2.8% in Mexican peso terms during 2019. The specific inflation affecting the Company was 3.8% in US dollar terms.
- A decrease in the price of our by-products. In 2019, the average realised prices for lead and zinc decreased 9.3% and 10.5% respectively, over the previous year.

LINK TO STRATEGY (1-2-3)

- Growth pipeline
- Development projects
- Mines in operation

KEY RISK INDICATORS

- Gross profit sensitivity to the percentage change in precious metal prices and to the Mexican peso/US dollar exchange rate.
- EBITDA sensitivity to the percentage change in metal prices and to Mexican peso/US dollar exchange rate.

RESPONSE / MITIGATION

Our hedging policy remains guided by the principle of providing shareholders with full exposure to gold and silver prices. However, following the acquisition of 44% of Penmont (and associated companies), we initiated a specific hedging programme to protect the value of the investment made in the acquisition, using a collar structure to allow partial continued exposure to gold prices. The volume associated with this phased hedging programme was strictly limited to up to 44% of production associated with the acquired Penmont assets and was not extended to other assets in the Group. The initial total volume hedged was 1,559,689 oz and by the end of 2019, the final portion of the programme had expired (346,152 oz) with a loss of US$9.8 million. Fresnillo plc is now fully exposed to movements in the gold and silver prices.

We are not precluded from entering into derivatives to minimise our exposure to changes in the prices of lead and zinc by-products. In 2019, the Group hedged a portion of its by-product lead and zinc production. The combined profit during 2019 was US$3.9 million.

Furthermore, we have hedging policies in place for foreign exchange risk, including those associated with capex related to projects. In 2019, we entered into a number of foreign exchange forward contracts denominated in euros and Swedish krona.

In terms of inflation, we experienced an increase in two of our main energy inputs over the previous year, with diesel (USC$/lt.) increasing by 6.7% and KWH (USC$) by 4.1%.

RISK APPETITE

High for metal prices,
Medium for all other macroeconomic developments

RISK RATING (relative position)

2019: Very high (1)
2018: Very high (1)
Change in risk level: No change (=)

DESCRIPTION OF RISK LEVEL

We continue to perceive this risk level as very high. According to the majority of gold and silver financial analysts, the volatility of metal prices is expected to increase. Medium term projections indicate stronger and more stable prices due to unpredictable global conditions which include increased geopolitical uncertainty, low and in places negative yielding government bonds, and the perception of a slowing global economy.

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

Regulatory actions may have an adverse impact on the Company. This could include more stringent regulations relating to the environment or explosives, more challenging processes for obtaining permits, more onerous tax compliance obligations for ourselves and our contractors, as well as more frequent reviews by tax authorities.

For example: the State of Zacatecas created environmental taxes which appear to be aimed at the extractive industry. These taxes were imposed on the following activities undertaken within the State of Zacatecas:

- Extractive activities other than those regulated by Mexico's Federal Mining Law
- Deposit of industrial residues
- Emissions into the air
- Discharge of industrial residues into the ground and water

We presented a legal challenge against these taxes, on the grounds that the State of Zacatecas was invading exclusive Federal jurisdiction, given that the mining industry is regulated at a Federal level.

In addition, the right of indigenous communities to be consulted regarding mining concessions could potentially affect the granting of new concessions in Mexico.

LINK TO STRATEGY (1-2-3-4)

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

KEY RISK INDICATORS

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

RESPONSE / MITIGATION

We continue to be alert to the changes that the authorities propose, including any initiatives that are related to mining taxes, so that we are able to respond in a timely and relevant manner.

For example, regarding environmental taxes in Zacatecas, In February 2020 the Supreme Court of Mexico issued a final ruling settling Fresnillo's legal challenge, in which it determined that:

1. Two of the taxes are unconstitutional: (a) tax on extractive activities and (b) tax on deposit of industrial residues.
2. The other two taxes were declared constitutional, since the Supreme Court considered that Federal jurisdiction is not exclusive on these items: (a) emissions into the air and (b) discharge of industrial residues.

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

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

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

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

RISK APPETITE

Low

RISK RATING (relative position)

2019: Very high (2)
2018: Very high (2)
Change in risk level: No changes (=)

DESCRIPTION OF RISK LEVEL

We continue to perceive this risk level as very high. Evidence of this risks' influence on our industry can be seen in the increase in the frequency of the reviews by the tax authorities, the legislation issued relating to the imposition of the environmental taxes contained in the 2017 State Law in Zacatecas and the indigenous consultation to obtain mining concessions.

In addition, Mexico's corruption perception remains high. The country's score in International Transparency 2019 Corruption Perception Index was relatively unchanged, despite the ranking been higher [4]. As a result, delays in obtaining permits for certain operations and/or projects remain a risk.

We remain confident in the long-term prospects of both our Company and the mining sector in Mexico more generally. We will continue working with Government alongside trade bodies and the Mexican Mining Chamber. Our aim is to continue to highlight the significant positive impact the mining industry makes to infrastructure, education and health in remote communities as well across Mexico more generally.

[4] Corruption Perception Index 2019 issued by Transparency International ranks Mexico as 130th of 180 (2018: 138th of 180) countries by perceived levels of public sector corruption. [The score achieved was 29/100 in 2019 vs. 28/100 in 2018.]

3.- Access to land

RISK DESCRIPTION

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

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

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

Operations at Soledad & Dipolos remain suspended, as the issue with the Ejido El Bajio continues to be unresolved.

LINK TO STRATEGY (1-2-3)

- Growth pipeline
- Development projects
- Mines in operation

KEY RISK INDICATORS

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

RESPONSE / MITIGATION

Successful land access plays a key role in the management of our mining rights, focusing on areas of interest or strategic value. At the end of 2019, after adding required areas and divesting areas of less interest, we held 1.7 million hectares of mining concessions, which represents no change year-on-year. Other initiatives include:

- Meticulous analysis of exploration targets and construction project designs to minimise land requirements.
- Judicious use of leasing or occupation agreements with purchase options, in compliance with legal and regulatory requirements.
- Early involvement of our community relations teams during the negotiation and acquisition processes of socially challenging targets.
- Strategic use of our social investment projects to build trust.
- Working closely with our land negotiation teams, which comprise specialists hired directly by Fresnillo and also provided by Peñoles as part of the service agreement.

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

RISK APPETITE

Medium

RISK RATING (relative position)

2019: Very high (3)
2018: Very high (3)
Change in risk level: No changes (=)

DESCRIPTION OF RISK LEVEL

Despite our strategic actions, we continue to perceive this risk level as very high. The mining industry continues to face legal challenges in regard to access to land by individuals and local communities who may seek to disregard previous land agreements. This has been a consistent challenge in recent years.

4.- Security

RISK DESCRIPTION

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

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

LINK TO STRATEGY (1-2-3-4)

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

KEY RISK INDICATORS

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

RESPONSE / MITIGATION

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

- We maintain close relations with authorities at federal, state and local levels, including army encampments located near the majority of our operations. We also communicate with the newly created National Guard.
- We continue to implement increased technological and physical security at our operations, such as the use of a remote monitoring process at Herradura, Noche Buena and San Julián. At the Saucito and Fresnillo mines, in addition to the remote monitoring service we have also constructed new local operation and command centres for each business unit. At the Juanicipio development project, we have the necessary infrastructure in place to provide security services during the mine construction process. Juanicipio also benefits from a local operation and command centre, as well as the remote monitoring service. The implementation at Ciénega mine has taken longer than expected due to changes related to priorities and increased scope. However, we are continuing to implement measures to increase security across all business units during 2020.
- We have maintained our logistics controls in order to reduce the potential for theft of mineral concentrate. These controls include: the use of real-time tracking technology; surveillance cameras; tests to identify alterations in transported material; guard services; control checkpoints in a "safe corridor"; and reduced number of authorised stops in order to optimise delivery times and minimise the exposure of convoys.
- We continue to invest in community programmes, infrastructure improvements, and Government initiatives to support the development of lawful local communities and discourage criminal acts.
- Both internally and among our contractors, we continue to promote the reporting of criminal acts to the authorities.

Management is fully committed to safeguarding our workforce. For example, we have suspended work at the San Nicolás del Oro prospect because of the level of insecurity in the state of Guerrero.

RISK APPETITE

Low

RISK RATING (relative position)

2019: Very high (4)
2018: Very high (4)
Change in risk level: No changes (=)

DESCRIPTION OF RISK LEVEL

We continue to perceive this risk level as very high. We have continued to experience a very high level of security incidents, both in frequency and severity.

Following the change of administration, we have yet to see evidence of the new national security strategy. Although the National Guard began operations during 2019, official security indexes have not yet improved.

We refer to The Global Peace Index[5] ranking, which indicates a higher likelihood of violent demonstrations and political instability. This index uses three broad themes: level of safety and security in society; the extent of ongoing domestic or international conflict; and the degree of militarisation. Mexico ranks 140 of 163 countries worldwide (from best to worst), as a country with a low state of peace, and remained in the same position in the ranking during 2019, despite the peace score lowering by 4.8 per cent against the previous year. In addition, we also use the Mexico Peace Index ranking as a reference. This is a comprehensive index of the following indicators: homicides; violent crimes; weapons crimes; organised crime; and detention without a sentence. The index ranks states from 1 to 5, where 1 represents the most peaceful. Chihuahua (3.6 on the index) and Zacatecas (3.3) tend to rank among the less peaceful states in Mexico, while Sonora (2.2) and Durango (2.1) are located in the medium to low range.

[5] Global Peace Index 2019 and Mexico Peace Index 2019 prepared by the Institute for Economics & Peace.

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

LINK TO STRATEGY (4)

- Sustainable development

KEY RISK INDICATORS

- Accident rate
- Days lost rate
- Accident frequency

RESPONSE / MITIGATION

Regrettably, we suffered two fatal accidents during 2019, both in the first half of the year, meaning that we were very far from achieving our goal of zero fatalities. In addition, we recorded 492 non-incapacitating accidents compared to 454 during 2018.

A key objective is to improve the culture of safety in our mining operations, including by generating greater awareness of the risks that can be present.

Management has continued to take serious actions to address and prevent the root causes of fatal accidents and strengthened our safety initiatives. These include:

- Building safety targets into personal performance metrics to incentivise safe behaviour and effective risk management.
- The continuing roll out of the ¨I care, we care" programme at our mines to improve safety performance and develop competences in our supervisors.
- Providing leadership workshops.
- In February 2020, we will launch our "Ejercicio de 4 Ojos" programme in the Ciénega, Herradura, Saucito, San Julián and Fresnillo mines. This programme aims to develop risk competencies by educating leaders, supervisors and the workforce. It also fosters coaching and features positive incentives as well as a comprehensive review and enhancement process.
- The assignment of Critical Control Risk Protocols to an owner for follow-up in line with their area of influence.
- The appointment of a permanent specialist advisor to the Chief Operating Officer, who is in charge of safety, health and community issues and has the responsibility for addressing our unacceptable safety record.

We continue to deliver training for both employees and contractors. Personnel received an average of 80 hours of training in 2019. 40 of these 80 hours involved HSECR training.

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

RISK APPETITE

Low

RISK RATING (relative position)

2019: Very High (5)
2018: High (6)
Change in risk level:

DESCRIPTION OF RISK LEVEL

We perceive this risk as increasing, in terms of likelihood and impact.

We are seeing an increase in the intensity of extreme weather events, such as rain, mist, wind, earthquakes and high temperatures, at our locations.

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.

6.- Union relations

RISK DESCRIPTION

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

LINK TO STRATEGY (2-3)

- Development projects
- Mines in operation

KEY RISK INDICATORS

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

RESPONSE / MITIGATION

Our strategy is to integrate unionised personnel into each BU team. We achieve this by clearly assigning responsibilities and via programmes aimed at maintaining close relationships with unions at mine sites and at national level.

We maintain close communication with union leaders at various levels of the organisation in order to: raise awareness about the economic situation the industry is facing; share our production results; and to encourage union participation in our initiatives regarding safety and other operational improvements. These initiatives include the safety guardians programme, alliances for obtaining certifications, integration of high productivity teams, and family activities.

During 2019, we ran eight leadership workshops in our business units to improve management skills in the local trade union committees. 183 key union leaders attended these workshops.

We are proactive in our interactions with the trade union, and did not experience labour-related work stoppages in 2019. If required, we engage experienced legal counsel to support us regarding labour issues. We remain alert to any developments in labour issues or with the trade union.

We carried out a review of contractual benefits for union members at our mines smoothly and without setbacks.

Our executive management and the Board recognise the importance of union relations and follow any developments with interest.

RISK APPETITE

Low

RISK RATING (relative position)

2019: Medium high (6)
2018: Medium low (7)
Change in risk level:

DESCRIPTION OF RISK LEVEL

We perceive this risk level as increasing in likelihood and impact.

The New Federal Labour Law came into effect in January 2020, giving more rights to workers to create new trade unions or not to belong to any of them. This could potentially generate an environment of labour instability in Fresnillo, Saucito, Herradura and Noche Buena.

There is currently a proposed law before Congress to improve the regulation of outsourcing in Mexico. The Outsourcing Law and Regulations project encompasses regulatory framework, procurement process, transfers of assets, employment law, data protection and customer remedies. This proposal could impact the costs and work carried out by our contractors.

During the year we continued to build on our good relations with unions at national and local levels. However, trends such as government discussions regarding further changes to labour laws have led to us increasing our perceived level of risk.

7.- Exploration

RISK DESCRIPTION

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

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

We also risk the loss of purchase opportunities due to slow decision making.

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

LINK TO STRATEGY (1)

- Growth pipeline

KEY RISK INDICATORS

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

RESPONSE / MITIGATION

During 2019, we invested a total of US$157.9 million in exploration activities. Our objectives for 2020 include a budgeted risk capital investment in exploration of approximately US$140 million.

The approximate spending split is 60% for operating mines (reserves and resources), 15% mining districts (resources), 12% development projects, 8% main prospects and 5% prospecting.

Our exploration strategy also includes:

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

RISK APPETITE

Medium

RISK RATING (relative position)

2019: High (7)
2018: Medium (8)
Change in risk level:

DESCRIPTION OF RISK LEVEL

We perceive this risk level as increasing in likelihood and impact.

This is mainly due to the following:

- Delays in procedures regarding access to land.
- Restrictions of new mining concessions.
- Geological sampling falling below standard.
- Reserves not being replenished.

Maintaining a reasonable investment in exploration, even when metal prices are low, has been our policy through the years. While continuous investment has always been a hallmark of our exploration strategy, replenishing exploited reserves and increasing our total amount of resources could be a challenge in the future. During 2019 we saw an increase in our total gold and silver resources.

8.- Projects (performance risk)

RISK DESCRIPTION

Pursuing advanced exploration and project development opportunities are essential to meeting our strategic goals. However, they carry certain risks:

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

LINK TO STRATEGY (2)

- Development projects.

KEY RISK INDICATORS

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

RESPONSE / MITIGATION

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

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

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

The project development pipeline in 2019 included:

- • Continuing the construction of the tailings flotation plant (Pyrites project).
- • Continuing the second stage of the Fresnillo flotation plant to cope with higher base metal contents.
- • Approving and commencing construction of the Juanicipio project.
- • Continuing the construction of the third tailings dam at the Ciénega mine.

We are in the process of implementing capital project management, based on good practices and in line with the Project Management Body of Knowledge (PMBOK) standard of the Project Management Institute (PMI). The aim is to safeguard our ability to generate growth through development projects.

RISK APPETITE

Medium

RISK RATING (relative position)

2019: High (8)
2018: Medium (9)
Change in risk level:

DESCRIPTION OF RISK LEVEL

We perceive this risk level as increasing in likelihood and impact.

The increasing number of projects under development increases the risk of non-completion according to budget and timeline.

We identify the following threats in project development:

- Insufficient resources for the implementation of projects.
- Change in operational priorities which may impact projects.
- Inadequate structure in place for the supervision of the projects.
- Lack of efficient and effective contractors.

During 2019, we commissioned the water dam and the expansion of the tailings deposit at San Julián; the 13th leaching pad at Herradura; and the seventh leaching pad and Carbon-in-Column (activated carbon) project in Noche Buena.

At the Juanicipio Project, we face the following threats:

- Inability to contract a suitable engineering firm to design the tailings dam. Engineering firms are declining bids due to considerable potential liabilities.
- Lack of an accurate model of the current tailings chemistry. Any change to the anticipated chemistry levels could result in re-design and construction changes.
- Lack of support from local communities due to low levels of skills leading to fewer opportunities for employment.

9.- Public perception against mining

RISK DESCRIPTION

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

LINK TO STRATEGY (1-2-3-4)

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

KEY RISK INDICATORS

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

RESPONSE / MITIGATION

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

- Increased understanding and accountability:
  - Monitoring public opinion within local and international media.
  - Holding continuous dialogue with our key local stakeholders through formal and informal meetings.
  - Carrying out social baseline, human rights and perception studies to better understand our positive and negative impacts.
  - Operating a grievance mechanism to address stakeholder concerns.
- Purposeful and aspirational engagement with local communities:
  - Maintaining a Social Investment Portfolio to create long term value, aligned with the UN Global Goals for sustainable development. We have identified four pillars where we can make a real difference: Education, Water, Health and Capacity building.
  - Partnering with NGOs in these four pillars of social investment: Education (IBBY, INNOVEC & First Robotics), Water (Captar AC) and Health (National University Foundation).
- 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.

RISK APPETITE

Low

RISK RATING (relative position)

2019: High (9)

2018: High (5)

Change in heat map: No changes (=)

DESCRIPTION OF RISK CHANGE

Over the years we have perceived a persistent pattern of protests and conflicts leading to delays and abandonment of projects in the national and international mining sector. Opposition not only arises from concerns of local communities, but also from national and international activism. Conflicts and activism fuel the public perception against mining. We continue to perceive this complex issue as a high risk.

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

10.- Cyber security

RISK DESCRIPTION

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

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

LINK TO STRATEGY (2-3)

- Development projects
- Mines in operation

KEY RISK INDICATORS

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

RESPONSE / MITIGATION

During 2019 we introduced a set of new initiatives to enhance our Cyber Security Programme, supported by external advisors. The main objective of the programme is to identify and manage the cyber security risks and align them to our mission and business strategy.

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

- The US National Institute of Standards and Technology Cyber Security Framework (NIST CSF) which outlines how companies can assess and improve their ability to prevent, detect and respond to cyber attacks.

- Control Objectives for Information and Related Technologies (COBIT), which was created by ISACA, the international professional association for IT management and governance, to provide an implementable set of IT-related controls, processes and enablers.

Our approach is also based on the MITRE ATT&CK™ which is used as a foundation for the development of specific threat models and methodologies in the private sector, in government, and in the cyber security product and service community.

A governance model, continuous risk assessment, information security policies, awareness and training campaigns will form the basis for our IT/OT operational assurance.

Our plan for 2020 is to focus our efforts on risk mitigation projects designed to protect information and key assets, according to the risk appetite set by management.

As our strategy continues to mature during 2020, we will support it with a series of awareness and training campaigns.

The Audit Committee continues to monitor and oversee this risk.

RISK APPETITE

Low

RISK RATING (relative position)

2019: Medium (10)
2018: Medium (10)
Change in risk level: No changes (=)

DESCRIPTION OF RISK LEVEL

Globally, we continue to see new cyber security attacks aimed at the industrial sector. These include phishing, ransomware and vulnerability exploitation campaigns and represent a continuous threat to our Company.

11.- Environmental incidents

RISK DESCRIPTION

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

LINK TO STRATEGY (4)

- Sustainable development

KEY RISK INDICATORS

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

RESPONSE / MITIGATION

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

Herradura, Saucito, Fresnillo and Noche Buena are certified under ISO 14001. Ciénega and San Julián are working towards achieving certification (ISO 14001 and 45000) during 2020. Juanicipio has been recommended for certification. Additionally, Ciénega, Herradura, Saucito, San Julián, Juanicipio and Fresnillo are certified to clean industry standards. Our leaching operations in Herradura and Noche Buena comply with the Cyanide Code issued by the International Cyanide Management Institute.

Management is very aware of the risks associated with tailings dams. Therefore, prior to the construction of a dam, we undertake a number of studies to confirm the suitability of the area. These studies include geotechnical, geological, geophysical, hydrological and seismic analysis. Before construction begins, the CNA (National Commission for Water) undertakes various studies and then continues to periodically review dams in relation to ongoing environmental impacts.

Early in 2019 we launched a series of initiatives to align our governance practices with current best practice. These initiatives included:

- Updating the inventory of Tailings Storage Facilities (TSFs) and validating the data register.
- Starting a programme of third-party reviews beginning with dam safety inspections for all TSFs.
- Establishing an Independent Tailing Review Panel (ITRP) consisting of recognised international experts.
- Accelerating a programme of independent expert reviews of all sites.
- ITRP reviewing and prioritising recommendations arising from inspections.

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

RISK APPETITE

Low

RISK RATING (relative position)

2019: Medium Low (11)
2018: Medium Low (11)
Change in risk level: No changes (=)

DESCRIPTION OF RISK LEVEL

Our environmental management system, together with our investment in preventative measures and training, are key factors which reduce the risk of major environmental incidents.

Based on the perceived level of risk due to recent severe and catastrophic industry developments, the Board decided to increase the severity of this risk in 2018 and maintained the same level in 2019.

The Board and HSECR continue to keep these issues under close scrutiny. It is important to note that our tailings dams differ from those involved in recent high profile incidents, such as the tragedy in Brazil.

12.- Human Resources

RISK DESCRIPTION

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

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

LINK TO STRATEGY (1-2-3-4)

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

KEY RISK INDICATORS

- 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 BU.

RESPONSE / MITIGATION

Recruitment: we have assessed our hiring requirements for key positions for 2020, and aim to meet them by internal training and promotion, and by recruitment through:

- Our close relationships with universities offering earth sciences programmes. We have dedicated programmes to identify potential candidates based on performance who may be hired as interns and/or employees on graduation. We welcomed 124 professional practitioners, 67 trainees and scholarships and 107 engineers into our coaching programme.
- CETEF (Centre for Technical Studies Fresnillo) which teaches specific mining operational skills. All four graduates hired in 2019 joined as full-time employees.
- CETLAR (the Peñoles Centre for Technical Studies) which trains mechanics and electrical technicians. All 10 graduates were hired as full-time employees in 2019 across Fresnillo's business units.

During 2019 we contracted 105 experienced personnel to fulfil our requirements.

Retention: Our aim is to be the employer of choice, and we recognise that in order to be a profitable and sustainable company, we have to generate value for our employees and their families. We do this by providing a healthy, safe, productive and team-oriented working environment that not only encourages our people to fulfil their potential but also supports process improvements. Our focus is on continuous improvement, driven by training, development and personal growth opportunities; in summary we concentrate on fair hiring, fair remuneration and benefits and gender equality. During 2019, 94 employees were promoted (66% of our structure at a professional level) and 25 transfers took place between business units.

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

Contractors: We have long-term drilling and mining contracts. We invest significantly in training contractors, particularly on safety and environmental requirements. We have supported the enrolment of 70 of our contractor companies into the self-management Programme on Health and Safety at Work (PASST), promoted by the Mexican Secretariat of Labour and Social Welfare (STPS). Of these companies, 60% have been certified, with the remainder in the process of being certified.

RISK APPETITE

Medium

RISK RATING (relative position)

2019: Low (12)
2018: Low (12)
Change in risk level: No changes (=)

DESCRIPTION OF RISK LEVEL

We value and respect all people from diverse backgrounds. We aspire to develop an inclusive culture where our people feel valued and are inspired to contribute to their fullest potential.

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

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

Statement of Directors' responsibilities

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

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

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

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

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

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

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

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

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

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

Signed for and on behalf of the Board

Charles Jacobs
Senior Independent Director
2 March 2020

Consolidated Income Statement
Year ended 31 December

	Notes	Year ended 31 December 2019			Year ended 31 December 2018		
		US$ thousands			US$ thousands		
		Pre-Silverstream revaluation effect	Silverstream revaluation effect	Total	Pre-Silverstream revaluation effect	Silverstream revaluation effect	Total
Continuing operations:							
Revenues	4	2,119,641		2,119,641	2,103,785		2,103,785
Cost of sales	5	(1,657,932)		(1,657,932)	(1,323,057)		(1,323,057)
Gross profit		**461,709**		**461,709**	**780,728**		**780,728**
Administrative expenses		(96,436)		(96,436)	(83,339)		(83,339)
Exploration expenses	6	(157,913)		(157,913)	(172,799)		(172,799)
Selling expenses		(22,851)		(22,851)	(21,237)		(21,237)
Other operating income	8	9,803		9,803	11,703		11,703
Other operating expenses	8	(22,582)		(22,582)	(8,360)		(8,360)
Profit from continuing operations before net finance costs and income tax		**171,730**		**171,730**	**506,696**		**506,696**
Finance income	9	24,176		24,176	20,372		20,372
Finance costs	9	(70,670)		(70,670)	(50,010)		(50,010)
Revaluation effects of Silverstream contract	13		48,376	48,376		14,956	14,956
Foreign exchange gain/(loss)		5,143		5,143	(8,084)		(8,084)
Profit from continuing operations before income tax		**130,379**	**48,376**	**178,755**	**468,974**	**14,956**	**483,930**
Corporate income tax	10	22,519	(14,513)	8,006	(116,162)	(4,487)	(120,649)
Special mining right	10	19,053		19,053	(13,315)		(13,315)
Income tax	10	41,572	(14,513)	27,059	(129,477)	(4,487)	(133,964)
Profit for the year from continuing operations		**171,951**	**33,863**	**205,814**	**339,497**	**10,469**	**349,966**
Attributable to:							
Equity shareholders of the Company		170,134	33,863	203,997	339,377	10,469	349,846
Non-controlling interest		1,817		1,817	120		120
		171,951	**33,863**	**205,814**	**339,497**	**10,469**	**349,966**
Earnings per share: (US$)							
Basic and diluted earnings per Ordinary Share from continuing operations	11	-		0.277	-		0.475
Adjusted earnings per share: (US$)							
Adjusted basic and diluted earnings per Ordinary Share from continuing operations	11	0.231		-	0.461		-

Consolidated Statement of Comprehensive Income
Year ended 31 December

		Year ended 31 December	
	Notes	**2019 US$ thousands**	2018 US$ thousands
Profit for the year		**205,814**	**349,966**
Other comprehensive income/(expense)			
Items that may be reclassified subsequently to profit or loss:			
Gain on cash flow hedges recycled to income statement		5,983	1,582
Loss on cost of hedge recycled to income statement		-	(269)
Changes in the fair value of cost of hedges		(1,280)	14,353
Changes in the fair value of cash flow hedges		1,454	-
Total effect of cash flow hedges		**6,157**	**15,666**
Foreign currency translation		545	(185)
Income tax effect on items that may be reclassified subsequently to profit or loss:	10	(1,847)	(4,699)
Net other comprehensive income that may be reclassified subsequently to profit or loss:		**4,855**	**10,782**
Items that will not be reclassified to profit or loss:			
Losses on cash flow hedges recycled to other assets		-	(233)
Changes in the fair value of cash flow hedges		(236)	(58)
Total effect of cash flow hedges		**(236)**	**(291)**
Changes in the fair value of equity investments at FVOCI		44,805	(46,579)
Remeasurement (losses)/gains on defined benefit plans	21	(2,342)	2,610
Income tax effect on items that will not be reclassified to profit or loss	10	(12,998)	19,999
Net other comprehensive income/(expense) that will not be reclassified to profit or loss		**29,229**	**(24,261)**
Other comprehensive income/(expense), net of tax		**34,084**	**(13,479)**
Total comprehensive income for the year, net of tax		**239,898**	**336,487**
Attributable to:			
Equity shareholders of the Company		238,140	336,377
Non-controlling interests		1,758	110
		239,898	**336,487**

Consolidated Balance Sheet
As at 31 December

	Notes	As at 31 December 2019 US$ thousands	 2018 US$ thousands
ASSETS			
Non-current assets			
Property, plant and equipment	2(b),12	2,813,417	2,693,104
Equity instruments at FVOCI	29	123,024	78,219
Silverstream contract	13	518,696	498,274
Derivative financial instruments	29	-	20
Deferred tax asset	10	110,770	88,883
Inventories	14	91,620	91,620
Other receivables	15	23,014	-
Other assets		3,622	3,199
		3,684,163	**3,453,319**
Current assets			
Inventories	14	272,120	243,404
Trade and other receivables	15	437,642	411,157
Income tax recoverable		57,124	50,871
Prepayments		18,344	15,488
Derivative financial instruments	29	2,623	294
Silverstream contract	13	22,558	20,819
Cash and cash equivalents	16	336,576	560,785
		1,146,987	**1,302,818**
Total assets		**4,831,150**	**4,756,137**
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	139	(229)
Cost of hedging reserve	17	918	(2,374)
Fair value reserve of financial assets at FVOCI	17	54,734	23,370
Foreign currency translation reserve	17	(250)	(795)
Retained earnings	17	2,093,666	2,033,860
		3,144,660	3,049,285
Non-controlling interests		134,059	78,968
Total equity		**3,278,719**	**3,128,253**

Consolidated Balance Sheet
As at 31 December

	Notes	2019 US$ thousands	2018 US$ thousands
		As at 31 December	
Non-current liabilities			
Interest-bearing loans	19	801,239	800,127
Lease liabilities	24	8,009	-
Provision for mine closure cost	20	231,056	189,842
Pensions and other post-employment benefit plans	21	10,704	6,393
Deferred tax liability	10	321,347	470,925
		1,372,355	**1,467,287**
Current liabilities			
Trade and other payables	22	159,768	133,140
Income tax payable		3,991	10,960
Derivative financial instruments	29	1,789	3,807
Lease liabilities	24	4,535	-
Employee profit sharing		9,993	12,690
		180,076	**160,597**
Total liabilities		**1,552,431**	**1,627,884**
Total equity and liabilities		**4,831,150**	**4,756,137**

These financial statements were approved by the Board of Directors on XX March 2020 and signed on its behalf by:

Mr Arturo Fernández
Non-executive Director
2 March 2020

Consolidated Statement of Cash Flows

Year ended 31 December

	Notes	Year ended 31 December 2019 US$ thousands	2018 US$ thousands
Net cash from operating activities	28	**435,909**	**588,359**
Cash flows from investing activities			
Purchase of property, plant and equipment	3	(559,264)	(668,669)
Proceeds from the sale of property, plant and equipment and other assets		1,309	78
Repayments of loans granted to contractors		-	1,327
Silverstream contract	13	24,303	36,303
Proceeds from the sale of debt investments		-	20,087
Interest received		24,176	19,520
Net cash used in investing activities		**(509,476)**	**(591,354)**
Cash flows from financing activities			
Principal elements of lease payments	2(b)	(4,681)	-
Dividends paid to shareholders of the Company[1]	18	(142,179)	(298,068)
Capital contribution		53,256	23,613
Interest paid[2]	19	(57,069)	(35,177)
Net cash used in financing activities		**(150,673)**	**(309,632)**
Net decrease in cash and cash equivalents during the year		(224,240)	(312,627)
Effect of exchange rate on cash and cash equivalents		31	(2,622)
Cash and cash equivalents at 1 January		560,785	876,034
Cash and cash equivalents at 31 December	16	**336,576**	**560,785**

1 Includes the effect of hedging of dividend payments made in currencies other than US dollar.

2 Total interest paid during the year ended 31 December 2019 less amounts capitalised totalling US$6.1 million (31 December 2018: US$11.1 million) which were included within the caption Purchase of property, plant and equipment.

Consolidated Statement of Changes in Equity
Year ended 31 December

	Notes	Attributable to the equity holders of the Company											
		Share capital	Share premium	Capital reserve	Hedging reserve	Cost of hedging reserve	Available-for-sale financial assets reserve	Fair value reserve of financial assets at FVOCI	Foreign currency translation reserve	Retained earnings	Total	Non-controlling interests	Total equity
													US$ thousands
Balance at 1 January 2018		**368,546**	**1,153,817**	**(526,910)**	**-**		**53,799**		**(610)**	**1,962,708**	**3,011,350**	**55,245**	**3,066,595**
Adjustments for initial application of IFRS 9						(13,376)	(53,799)	49,622		17,553	-	-	-
Profit for the year		-	-	-	-	-	-	-	-	349,846	349,846	120	349,966
Other comprehensive income, net of tax		-	-	-	(229)	11,002	-	(26,252)	(185)	2,195	(13,469)	(10)	(13,479)
Total comprehensive income for the year		-	-	-	(229)	11,002	-	(26,252)	(185)	352,041	336,377	110	336,487
Capital contribution		-	-	-	-	-	-	-	-	-	-	23,613	23,613
Dividends declared and paid	18	-	-	-	-	-	-	-	-	(298,442)	(298,442)	-	(298,442)
Balance at 31 December 2018		**368,546**	**1,153,817**	**(526,910)**	**(229)**	**(2,374)**	**-**	**23,370**	**(795)**	**2,033,860**	**3,049,285**	**78,968**	**3,128,253**
Profit for the year		-	-	-	-	-	-	-	-	203,997	203,997	1,817	205,814
Other comprehensive expense, 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 gain (loss) transferred to the carrying value of PPE purchased during the year	29(c))				(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**

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 2019 were authorised for issue by the Board of Directors of Fresnillo plc on 2 March 2020.

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

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

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

2. Significant accounting policies

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

Basis of preparation and statement of compliance

The Group's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union as they apply to the financial statements of the Group for the years ended 31 December 2019 and 2018, 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 2019 and 2018, and the results of operations and cash flows for the years then ended.

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

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

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

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

(b) Changes in accounting policies and disclosures

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those applied in the preparation of the consolidated financial statements for the year ended 31 December 2018, except for the following:

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

IFRS 16, Leases

The Group has adopted IFRS 16, Leases from 1 January 2019 but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard ("modified retrospective approach"). The adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 4.2% for contracts denominated in US dollars and 10.1% for contracts denominated in Mexican pesos. Contracts in other currencies are not material.

The resulting lease liability as of 1 January 2019 was determined as follows:

	US$ thousands
Operating lease commitments disclosed as at 31 December 2018	16,130
Discounted using the lessee's incremental borrowing rate of at the date of initial application	14,181
Less - Short-term leases recognised on a straight-line basis as expense	(146)
Less - Low-value leases recognised on a straight-line basis as expense	(2,552)
Less - Other adjustments	(184)
Lease liability recognised as at 1 January 2019	**11,299**
Less - Current portion	**3,758**
Non-current portion	**7,541**

The associated right-of-use assets were measured at the amount equal to the lease liability, prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediate before the initial application date were nil, therefore there was no adjustment to retained earnings on adoption. The right-of-use assets were evaluated for indicators of impairment in accordance with IAS 36, no indicators were identified.

The recognised right-of-use asset relate to the following types of assets which are included as part of PPE caption:

	US$ thousands
Computer equipment	7,749
Buildings	3,550
	11,299

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;

the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases, and

the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

From 1 January 2019 the Group has amended its accounting policy to recognised and measure lease contracts, see Note 2 (m).

Other Narrow Scope Amendments

The Group also adopted other amendments to IFRSs' as well as the interpretation IFRIC 23 "Uncertainty over Income Tax Treatments (UTP)", which were effective for accounting periods beginning on or after 1 January 2019. The Group has reassessed its accounting policy under the implementation guidance of IFRIC 23 and clarified that detection risk is not considered in respect of recognition or measurement of uncertain tax positions. The impact of adoption did not have a material effect on the Group Consolidated Financial Statements.

Other than the amendment mentioned above, there were no significant new standards that the Group was required to adopt effective from 1 January 2019.

Standards, interpretations and amendments issued but not yet effective

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2019 reporting periods and have not been early adopted by the group. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

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

(c) Significant accounting judgments, estimates and assumptions

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

Judgements

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

Stripping costs, note 2(e):

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

Once the Group has identified production stripping for a surface mining operation, judgment is required in identifying the separate components of the ore bodies for that operation, to which stripping costs should be allocated. Generally, a component will be a subset of the total ore body that is made more accessible as a result of the stripping activity. In identifying components of the ore body, the Group works closely with the mining operations personnel to analyse each of the mine plans since components are usually identified during the mine planning stage. The Group reassesses the components of ore bodies in line with the preparation and update of mine plans which usually depend on newest information of reserves and resources. As a result, effective 1 July 2018 the Group changed the components identified at Centuaro pit and therefore the measurement of the corresponding stripping costs. During the current year, this reassessment did not give rise to any changes in the identification of components.

Contingencies, note 25

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

Estimates and assumptions

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

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

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

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

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

Estimate of recoverable ore on leaching pads

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

The grades of ore placed on pads are regularly compared to the quantities of metal recovered through the leaching process to evaluate the appropriateness of the estimated recovery (metallurgical balancing). The Group monitors the results of the metallurgical balancing process and recovery estimates are refined based on actual results over time and when new information becomes available. Any potential future adjustment would be applicable from the point of re-estimation and would not by itself change the value of inventory and as such no sensitivity included.

Silverstream, note 13:

The valuation of the Silverstream contract as a derivative financial instrument requires estimation by management. The term of the derivative is based on the Sabinas life of mine and the value of this derivative is determined using a number of estimates, including the estimated recoverable ore reserves and mineral resources and future production profile of the Sabinas mine on the same basis a market participant would consider, the estimated recoveries of silver from ore mined, estimates of the future price of silver and the discount rate used to discount future cash flows. For further detail on the inputs that have a significant effect on the fair value of this derivative, see note 30. The impact of changes in silver price assumptions, foreign exchange, inflation 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 does not result in a significant change in the value of the contract.

Estimation of the mine closure costs, notes 2 (j) and 20:

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

Income tax, notes 2 (q) and 10:

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

(d) Foreign currency translation

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

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

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

(e) Property, plant and equipment

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

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

The expected useful lives are as follows:

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

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

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

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

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

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

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

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

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

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

As mine development prior to commercial production is necessary to bring mining assets into the condition necessary for its intended use, revenues from metals recovered from ore mined during such activities are credited to mining properties and development costs. Upon commencement of production, capitalised expenditure is depreciated using the unit-of-production method based on the estimated economically proven and probable reserves to which they relate.

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

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

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

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

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

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

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

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

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

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

(f) Impairment of non-financial assets

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

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

The recoverable amount of an asset
The recoverable amount of an asset is the greater of its value in use and fair value less costs of disposal. In assessing value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. 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 2019 and 2018 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.

(h) Inventories

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

For this purpose, the costs of production include:

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

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

related production overheads (based on normal operating capacity).

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

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

(i) Cash and cash equivalents

For the purposes of the balance sheet, cash and cash equivalents comprise cash at bank, cash on hand and short-term deposits held with banks that are readily convertible into known amounts of cash and which are subject to insignificant risk of changes in value. Short-term deposits earn interest at the respective short-term deposit rates between one day and 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:

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

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

Past service costs are recognised 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 considered deductible for income tax purposes.

(m) Leases

As explained in note 2 (b) above, the Group has changed its accounting policy for leases where the Group is the lessee.

From 1 January 2019

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.

Prior to 1 January 2018

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

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

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

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

(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.

(p) Selling expenses

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

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

(q) Taxation

Current income tax

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

Deferred income tax

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

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

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

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

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

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

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

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

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

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

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

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

Mining Rights

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

Sales tax

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

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

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

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

(r) Derivative financial instruments and hedging

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

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

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

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

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

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

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

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

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

Cash flow hedges

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

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

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

(s) Borrowing costs

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

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

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

(t) Fair value measurement

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

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

In the principal market for the asset or liability, or

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

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

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

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

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

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

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

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

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

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

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

(u) Dividend distribution

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

3. Segment reporting

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

At 31 December 2019, the Group has seven reportable operating segments as follows:

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

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

The Ciénega mine, located in the state of Durango, an underground gold mine; including the San Ramon satellite mine;

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

The Soledad-Dipolos mine, located in the state of Sonora, a surface gold mine;

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 2019 and 2018, substantially all revenue was derived from customers based in Mexico.

Operating segments

The following tables present revenue and profit information regarding the Group's operating segments for the year ended 31 December 2019 and 2018, respectively. Revenues for the year ended 31 December 2019 and 2018 include those derived from contracts with costumers and other revenues, as showed in note 4.

									Year ended 31 December 2019	
US$ thousands	Fresnillo	Herradura	Cienega	Soledad-Dipolos[4]	Saucito	Noche Buena	San Julian	Other[5]	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 During 2019, this segment did not operate due to the Bajio conflict (note 25).

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

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

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

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

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

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

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

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	
	2019 US$ thousands	2018 US$ thousands
Revenues from contracts with customers	2,125,962	2,102,694
Revenues from other sources:		
Provisional pricing adjustment on products sold	(337)	(491)
Hedging (loss)/gain on sales	(5,984)	1,582
	2,119,641	**2,103,785**

(b) Revenues by product sold

	Year ended 31 December	
	2019 US$ thousands	2018 US$ thousands
Lead concentrates (containing silver, gold, lead and by-products)	812,933	804,882
Doré and slag (containing gold, silver and by-products)	853,589	818,067
Zinc concentrates (containing zinc, silver and by-products)	220,023	249,182
Precipitates (containing gold and silver)	227,796	231,654
Activated carbon (containing gold, silver and by-products)	5,300	-
	2,119,641	**2,103,785**

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	
	2019 **US$ thousands**	2018 US$ thousands
Silver	776,784	815,837
Gold	1,183,116	1,118,087
Zinc	202,281	204,499
Lead	102,058	106,536
Value of metal content in products sold	2,264,239	2,244,959
Adjustment for treatment and refining charges	(144,598)	(141,174)
Total revenues[1]	**2,119,641**	**2,103,785**

1 Includes provisional price adjustments which represent changes in the fair value of trade receivables resulting in a loss of US$0.3 million (2018: loss of US$0.5 million) and hedging loss of US$6.0 million (2018: gain of US$1.6 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	
	2019 **US$ per ounce**	2018 US$ per ounce
Gold[2]	1,418.0	1,269.1
Silver[2]	16.1	15.5

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	
	2019 **US$ thousands**	2018 US$ thousands
Depreciation and amortisation (note 12)	489,529	411,764
Personnel expenses (note 7)	110,704	94,653
Maintenance and repairs	189,042	150,021
Operating materials	233,159	191,954
Energy	219,531	176,333
Contractors	363,737	291,970
Freight	10,613	11,633
Insurance	5,819	4,956
Mining concession rights and contributions	12,910	13,271
Other	33,994	29,680
Cost of production	1,669,038	1,376,235
Change in work in progress and finished goods (ore inventories)	(11,106)	(53,178)
	1,657,932	**1,323,057**

6. Exploration expenses

	Year ended 31 December	
	2019 US$ thousands	2018 US$ thousands
Contractors	116,207	127,734
Mining concession rights and contributions	22,243	23,441
Administrative services	6,885	6,734
Personnel expenses (note 7)	3,731	4,137
Assays	1,815	3,615
Rentals	1,135	1,378
Other	5,897	5,760
	157,913	**172,799**

These exploration expenses were mainly incurred in areas of the Fresnillo, Herradura, La Ciénega, Saucito and San Julian mines, Juanicipio development project and Guanajuato, San Javier, Valles, Centauro Deep and Carina projects. In addition, exploration expenses of US$14.9 million (2018: US$6.3 million) were incurred in the year on projects located in Peru and Chile.

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

	Year ended 31 December	
	2019 US$ thousands	2018 US$ thousands
Liabilities related to exploration activities	106	112

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	
	2019 US$ thousands	2018 US$ thousands
Operating cash out flows related to exploration activities	157,919	174,634

7. Personnel expenses

	Year ended 31 December	
	2019 US$ thousands	2018 US$ thousands
Salaries and wages	55,156	46,542
Employees' profit sharing	9,578	13,003
Bonuses	13,892	12,367
Statutory healthcare and housing contributions	20,304	17,976
Other benefits	13,622	10,682
Vacations and vacations bonus	4,262	2,870
Social security	2,490	2,369
Post-employment benefits	5,582	4,026
Legal contributions	2,476	2,190
Training	3,210	3,033
Other	5,729	7,404
	136,301	**122,462**

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

	Year ended 31 December	
	2019 US$ thousands	2018 US$ thousands
Cost of sales (note 5)	110,704	94,653
Administrative expenses	21,866	23,672
Exploration expenses (note 6)	3,731	4,137
	136,301	**122,462**

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

	Year ended 31 December	
	2019 No.	2018 No.
Mining	2,334	2,236
Plant	869	752
Exploration	468	480
Maintenance	1,115	1,035
Administration and other	897	658
Total	**5,683**	**5,161**

8. Other operating income and expenses

	Year ended 31 December	
	2019 US$ thousands	2018 US$ thousands
Other income:		
Insurance recovery[1]	6,494	9,245
Rentals	829	-
Other	2,480	2,458
	9,803	**11,703**

	Year ended 31 December	
	2019 US$ thousands	2018 US$ thousands
Other expenses:		
Loss on sale of property, plant and equipment	4,866	999
Loss on theft of inventory	4,935	-
Maintenance[2]	1,423	1,278
Donations	1,137	1,313
Environmental activities	2,641	1,216
Real property transfer tax	1,156	-
Consumption tax expensed	853	655
Other	5,571	2,899
	22,582	**8,360**

1 Corresponds to the insurance claim relating to the theft of doré at Minera Penmont less its corresponding production cost (2018: Insurance claim corresponding the flood at the Saucito mine) see Note 25 for further detail.

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	
	2019 **US$ thousands**	2018 US$ thousands
Finance income:		
Interest on short-term deposits and investments	11,356	15,584
Interest on tax receivables	12,814	1,670
Other	6	3,118
	24,176	**20,372**

	Year ended 31 December	
	2019 **US$ thousands**	2018 US$ thousands
Finance costs:		
Interest on interest-bearing loans	41,263	36,258
Interest for lease liabilities	642	-
Fair value movement on derivatives	-	274
Unwinding of discount on provisions	11,809	10,044
Other[1]	16,956	3,434
	70,670	**50,010**

1 Includes US$15.7 million of interest and surcharges incurred as a result of the amendment to tax positions described in note 10.

10. Income tax expense
a) Major components of income tax expense:

	Year ended 31 December	
	2019 US$ thousands	2018 US$ thousands
Consolidated income statement:		
Corporate income tax		
Current:		
Income tax charge	112,002	156,715
Amounts under provided in previous years	36,509	11,774
	148,511	168,489
Deferred:		
Origination and reversal of temporary differences	(171,030)	(52,327)
Revaluation effects of Silverstream contract	14,513	4,487
	(156,517)	(47,840)
Corporate income tax	**(8,006)**	**120,649**
Special mining right		
Current:		
Special mining right charge (note 10 e))	3,880	10,860
Amounts under provided in previous years	6,663	-
	10,543	10,860
Deferred:		
Origination and reversal of temporary differences	(29,596)	2,455
Special mining right	**(19,053)**	**13,315**
Income tax expense reported in the income statement	**(27,059)**	**133,964**

	Year ended 31 December	
	2019 US$ thousands	2018 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	(1,795)	(388)
Changes in fair value of cash flow hedges	(436)	(4,224)
Changes in the fair value of cost of hedges	384	-
Changes in fair value of equity investments at FVOCI	(13,441)	20,327
Remeasurement losses on defined benefit plans	372	(415)
Income tax effect reported in other comprehensive income	**(14,845)**	**15,300**

In 2017 the Mexican tax authorities (“SAT”) opened a routine audit into the 2014 tax returns of two underground mining subsidiaries of Fresnillo plc (“Fresnillo” or the “Company”), relating primarily to the tax treatment of mining works, which is not explicitly dealt with in the Mexican income tax law. Subsequently, in 2018, the Company and SAT agreed on the tax treatment deemed most appropriate to mining works disbursements for the year of the audit resulting in a tax amendment removing the in-year deduction for mining works, which was documented through an agreement executed between SAT, PRODECON (Mexico's tax ombudsman) and the Company on 30 November 2018 (the “Conclusive Agreement”). Following further analysis in 2019, the deductions for those mining works were reinstated as amortisable deductions over 8 years. Fresnillo determined it to be in the Company’s best interests to align its tax treatment across its underground mining operations subsidiaries with the Conclusive Agreements. Accordingly, on 28 June 2019, Fresnillo elected to amend the tax treatment of mining works across all its underground mines in operation, retrospectively, for the years 2014 to 2018.

The amendment resulted in an increase in the current corporate income tax charge of US$38.5 million and current special mining right charge of US$6.8 million; this effect was offset by a decrease in deferred corporate income tax of US$39.5 million and deferred special mining right of US$12.3 million. After considering the effect of recoverable tax-related balances arising during the amendment period, the amount payable upon amendment in respect of corporate income tax and special mining right was US$32.9 million and US$6.8 million, respectively. The amendment also resulted in US$15.7 million of interest and surcharges, presented in finance costs. Of the total amount payable of US$55.3 million, US$22.2 million was offset against corporate income tax and VAT receivables that existed at the date of the amendment and the remaining US$33.1 million was paid in cash.

(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	
	2019 US$ thousands	2018 US$ thousands
Accounting profit before income tax	**178,756**	**483,930**
Tax at the Group’s statutory corporate income tax rate 30.0%	53,627	145,179
Expenses not deductible for tax purposes	2,934	2,454
Inflationary uplift of the tax base of assets and liabilities	(17,229)	(16,599)
Current income tax (over)/underprovided in previous years	(275)	(4,807)
Effect of conclusive agreement	(5,084)	-
Exchange rate effect on tax value of assets and liabilities[1]	(37,101)	(778)
Non-taxable/non-deductible foreign exchange effects	3,982	1,255
Inflationary uplift of tax losses	(1,439)	(2,909)
Inflationary uplift on tax refunds	(3,867)	-
Incentive for Northern Border Zone	(6,417)	-
IEPS tax credit (note 10 (e))	(9,975)	(7,012)
Deferred tax asset not recognised	6,688	6,571
Special mining right taxable/(deductible) for corporate income tax	5,718	(3,992)
Other	432	1,287
Corporate income tax at the effective tax rate of (4.5)% (2018: 24.9%)	**(8,006)**	**120,649**
Special mining right	(19,053)	13,315
Tax at the effective income tax rate of (15.1)% (2018: 27.6%)	**(27,059)**	**133,964**

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 IEPS tax credit. The future effects of inflation and exchange rate will depend on future market conditions. According to the recent tax reform enacted, IEPS tax credit will not be applicable for future years.

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

	Year ended 31 December	
	2019 US$ thousands	2018 US$ thousands
Opening net liability	(382,042)	(442,727)
Income statement credit arising on corporate income tax	156,518	47,840
Income statement credit/(charge) arising on special mining right	29,596	(2,455)
Exchange difference	196	-
Net (charge)/credit related to items directly charged to other comprehensive income	(14,845)	15,300
Closing net liability	**(210,577)**	**(382,042)**

The amounts of deferred income tax assets and liabilities as at 31 December 2019 and 2018, considering the nature of the related temporary differences, are as follows:

	Consolidated balance sheet		Consolidated income statement	
	2019 US$ thousands	2018 US$ thousands	**2019 US$ thousands**	2018 US$ thousands
Related party receivables	(201,481)	(220,131)	(18,650)	(1,320)
Other receivables	(4,375)	1,315	5,690	(3,486)
Inventories	185,012	188,119	3,107	(25,277)
Prepayments	(1,041)	(1,035)	6	137
Derivative financial instruments including Silverstream contract	(158,243)	(150,205)	6,262	(1,942)
Property, plant and equipment arising from corporate income tax	(179,117)	(330,722)	(151,605)	(11,052)
Exploration expenses and operating liabilities	66,275	50,691	(15,584)	(6,570)
Other payables and provisions	69,317	57,303	(12,014)	(1,924)
Losses carried forward	53,002	67,059	14,057	1,154
Post-employment benefits	1,702	1,016	(315)	34
Deductible profit sharing	2,998	3,807	809	442
Special mining right deductible for corporate income tax	18,077	29,321	11,244	1,340
Equity investments at FVOCI	(9,236)	3,510	(695)	-
Other	(5,369)	(4,396)	1,171	624
Net deferred tax liability related to corporate income tax	(162,479)	(304,348)		
Deferred tax credit related to corporate income tax	-	-	(156,517)	(47,840)
Related party receivables arising from special mining right	(22,518)	(20,161)	2,357	(1,218)
Inventories arising from special mining right	17,083	13,746	(3,337)	(2,639)
Property plant and equipment arising from special mining right	(42,663)	(71,279)	(28,616)	6,312
Net deferred tax liability	**(210,577)**	**(382,042)**		
Deferred tax credit			**(186,113)**	**(45,385)**
Reflected in the statement of financial position as follows:				
Deferred tax assets	110,770	88,883		
Deferred tax liabilities-continuing operations	(321,347)	(470,925)		
Net deferred tax liability	**(210,577)**	**(382,042)**		

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$ 176.7 million (2018: US$223.5 million). If not utilised, US$21.2 million (2018: US$37.6 million) will expire within five years and US$155.5 million (2018: US$185.9 million) will expire between six and ten years.

The Group has further tax losses and other similar attributes carried forward of US$59.7 million (2018: US$42.2 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$1,619 million (2018: US$1,430 million).

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

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

During 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 is 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 (2018: US$14.9 million , which was offset by an adjustment in respect of prior years of US$7.8 million). As the IEPS deduction is itself taxable, the benefit is 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).

On December 31, 2018, the Decree of tax incentives for the northern border region of Mexico was published in the Official Gazette, which provides 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. These tax incentives are applicable since January 1st, 2019 and will remain in force until December 31,2020. Some of the Group companies which produce income from business activities carried out within Caborca, Sonora, which is considered for purposes of the Decree as northern border region, applied for this Decree tax incentives before the Mexican tax authorities, and were granted authorization for income tax and value added tax purposes.

The special mining right "SMR " states that the owners of mining titles and concessions are subject to pay an annual mining right of 7.5% of the profit derived from the extractive activities and is considered as income tax under IFRS. 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 2019, the Group credited US$14.7 million (2018: US$17.3 million) of mining concession rights against the SMR. Total mining concessions rights paid during the year were US$21.1 million (2018: US$22.2 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$18.6 million (2018: US$28.1 million).

11. Earnings per share

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

The Company has no dilutive potential Ordinary Shares.

As of 31 December 2019 and 2018, earnings per share have been calculated as follows:

	Year ended 31 December	
	2019 US$ thousands	2018 US$ thousands
Earnings:		
Profit from continuing operations attributable to equity holders of the Company	203,997	349,846
Adjusted profit from continuing operations attributable to equity holders of the Company	170,134	339,377

Adjusted profit is profit as disclosed in the Consolidated Income Statement adjusted to exclude revaluation effects of the Silverstream contract of US$48.4 million gain (US$33.9 million net of tax) (2018: US$14.9 million gain (US$10.4 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.

	2019 thousands	2018 thousands
Number of shares:		
Weighted average number of Ordinary Shares in issue	736,894	736,894

	2019 US$	2018 US$
Earnings per share:		
Basic and diluted earnings per share	0.277	0.475
Adjusted basic and diluted earnings per Ordinary Share from continuing operations	0.231	0.461

12. Property, plant and equipment

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

						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 (Note 2(b))	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**

1 Depreciation for the year includes US$490.7 million (2018: US$411.8 million) recognised as an expense in the income statement and US$0.3 million (2018: US$8.3 million), capitalised as part of construction in progress.

2 From the additions in "other assets" category US$29.4 million (2018: US$(4.5) 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

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

		Year ended 31 December
	2019 US$ thousands	2018 US$ thousands
Saucito	75,346	88,916
Herradura	53,388	70,536
Noche Buena	10,682	20,834
Ciénega	57,214	47,838
Fresnillo	141,166	48,671
San Julián	41,158	64,236
Juanicipio	231,105	151,092
Other[1]	19,717	6,045
	629,776	**498,168**

1 Manly corresponds to Minera Bermejal, S.A. de C.V. (2018: Minera Bermejal, S.A. de C.V.).

During the year ended 31 December 2019, the Group capitalised US$6.1 million of borrowing costs within construction in progress (2018: US$11.1). Borrowing costs were capitalised at the rate of 5.78% (2018: 5.78%).

Sensitivity analysis

As at 31 December 2019 and 2018, 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$1,370/ounce and US$18.7/ounce (2018: US$1,310/ounce and US$19.25/ounce) for gold and silver, respectively. Management considers that the models supporting the carrying amounts are most sensitive to commodity price assumptions and have therefore performed a sensitivity analysis for those CGUs, where a reasonable possible change in prices could lead to impairment. Management has considered a low sensitivity by decreasing gold and silver prices by 5% (2018: gold and silver 5%) and a high sensitivity by decreasing gold and silver prices by 10% and 15% respectively (2018: gold and silver 10% and 15% respectively). As at 31 December 2019 the analysis resulted in an impairment on Herradura of US$356.4 million (2018: 302.7 million) under high sensitivity; US$127.4 million (2018: US$72.3 million) under low sensitivity and San Julian US$121.6 million (2018: US$159.3 million) under high sensitivity; US$109.7 million (2018: US$45.4 million) under low sensitivity.

Management also has performed a sensitivity analysis for those subsidiaries where cumulative impairment may be affected by a reasonably possible change in production plans. In the current year, management has considered a decrease in ore grade of 5%. The sensitivity resulted in an additional impairment on Minera San Julian, S.A. de C.V. of US$45.1 million (2018: nil).

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 2019 was $5.31 per ounce (2018: $5.26 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 2019 the weighted average rate applied for the purposes of the valuation model was 6.57% (2018: 7.33%).

The Silverstream contract represents a derivative financial instrument which has been recorded at FVPL and classified within non-current and current assets as appropriate. The term of the derivative is based on Sabinas life of mine which is currently 35 years. Changes in the contract’s fair value, other than those represented by the realisation of the asset through the receipt of either cash or refined silver, are charged or credited to the income statement. In the year ended 31 December 2019 total proceeds received in cash were US$24.3 million (2018: US$36.3 million) of which, US$3.4 million was in respect of proceeds receivable as at 31 December 2018 (2017: US$4.9 million). Cash received in respect of the year of US$20.9 million (2018: US$31.4 million) corresponds to 2.3 million ounces of payable silver (2018: 3.4 million ounces). As at 31 December 2019, a further US$5.2 million (2018: US$3.4 million) of cash receivable corresponding to 414,963 ounces of silver is due (2018: 335,914 ounces).

The US$48.4 million unrealised gain recorded in the income statement (31 December 2018: US$15.0 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:

	2019 US$ thousands	2018 US$ thousands
Balance at 1 January	519,093	538,887
Cash received in respect of the year	(20,932)	(31,379)
Cash receivable	(5,283)	(3,371)
Remeasurement gains recognised in profit and loss	48,376	14,956
Balance at 31 December	**541,254**	**519,093**
Less – Current portion	**22,558**	**20,819**
Non-current portion	**518,696**	**498,274**

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	
	2019 US$ thousands	2018 US$ thousands
Finished goods[1]	12,154	15,052
Work in progress[2]	252,639	235,094
Ore stockpile[3]	-	3,799
Operating materials and spare parts	103,740	87,180
	368,533	341,125
Allowance for obsolete and slow-moving inventories	(4,793)	(6,101)
Balance as 31 December at lower of cost and net realisable value	**363,740**	**335,024**
Less - Current portion	**272,120**	**243,404**
Non-current portion[4]	**91,620**	**91,620**

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

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

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

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

Concentrates are a product containing sulphides with variable content of precious and base metals and are sold to smelters and/or refineries. Doré is an alloy containing a variable mixture of gold and silver that is delivered in bar form to refineries, 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$1,657.3 million (2018: US$1,323.1 million) before changes to the net realisable value of inventory. During 2019 and 2018, 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$1.3 million (2018: US$0.8 million).

15. Trade and other receivables

	Year ended 31 December	
	2019 US$ thousands	2018 US$ thousands
Trade and other receivables from related parties (note 26)	206,982	213,292
Value Added Tax receivable	205,232	182,290
Other receivables from related parties (note 26)	7,988	3,371
Other receivables from contractors	2,418	2,755
Other receivables	15,791	10,306
	438,411	412,014
Provision for impairment of ‘other receivables’	(769)	(857)
Trade and other receivables classified as current assets	**437,642**	**411,157**
Other receivables classified as non-current assets:		
Value Added Tax receivable	23,014	-
	23,014	**-**
	460,656	**411,157**

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$219.6 million (2018: US$223.1 million), and in Mexican pesos US$241.0 million (2018: US$187.2 million).

As of 31 December for each year presented, with the exception of ‘other receivables’ in the table above, all trade and other receivables were neither past due nor credit-impaired. The amount past due and considered as credit-impaired as of 31 December 2019 is US$0.8 million (2018: US$0.9 million). In determining the recoverability of receivables, the Group performs a risk analysis considering the type and age of the outstanding receivable and the credit worthiness of the counterparty, see note 30(b).

16. Cash and cash equivalents

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

	As at 31 December	
	2019 US$ thousands	2018 US$ thousands
Cash at bank and on hand	3,347	2,125
Short-term deposits	333,229	558,660
Cash and cash equivalents	**336,576**	**560,785**

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			
	2019		2018	
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 2018	736,893,589	$368,545,586	50,000	£50,000
At 31 December 2018	736,893,589	$368, 545,586	50,000	£50,000
At 31 December 2019	736,893,589	$368, 545,586	50,000	£50,000

As at 31 December 2019 and 2018, 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 2019 and 2018 are as follows:

	US cents per Ordinary Share	Amount US$ thousands
Year ended 31 December 2019		
Final dividend for 2018 declared and paid during the year[1]	16.70	123,061
Interim dividend for 2019 declared and paid during the year[2]	2.60	19,160
	19.30	**142,221**
Year ended 31 December 2018		
Final dividend for 2017 declared and paid during the year[3]	29.8	219,594
Interim dividend for 2018 declared and paid during the year[4]	10.7	78,848
	40.5	**298,442**

1 This dividend was approved by the Board of Directors on 21 May 2019 and paid on 24 May 2019.

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

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

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

The directors have proposed a final dividend of US$11.9 cents per share, which is subject to approval at the annual general meeting and is not recognised as a liability as at 31 December 2019.

Following the year end, the Directors became aware that certain dividends paid between 2011 and 2019 had been made otherwise than in accordance with the Companies Act 2006, section 838, because interim accounts had not been filed at Companies House prior to payment. It is important to note that the Company has had sufficient distributable profits at the time each relevant dividend was paid and therefore did not pay out by way of dividends more income than it had, and no payments were made out of capital. Relevant dividends were the Interim Dividends in 2011, 2012, 2013 2018 and 2019, the 2013 Extraordinary Dividend and the 2018 Final Dividend. A resolution will be proposed at the annual general meeting to be held on 29 May 2020 to authorise the appropriation of distributable profits to the payment of the relevant dividends and to remove any right that the Company may have had to claim from shareholders or Directors or former Directors for repayment of these amounts by entering into deeds of release in relation to any such claims. This will, if passed, constitute a related party transaction under IAS 24. The overall effect of the resolution is to return the parties so far as possible to the position they would have been in had the relevant dividends been made in full compliance with the Act.

19. Interest-bearing loans

Senior Notes

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

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

	As at 31 December	
	2019 US$ thousands	2018 US$ thousands
Opening balance	800,127	799,046
Accrued interest	46,267	46,267
Interest paid[1]	(46,267)	(46,267)
Amortisation of discount and transaction costs	1,112	1,081
Closing balance	801,239	800,127

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

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

Change of control:

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

Pledge on assets:

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

20. Provision for mine closure cost

The provision represents the discounted values of the estimated cost to decommission and rehabilitate the mines at the estimated date of depletion of mine deposits. Uncertainties in estimating these costs include potential changes in regulatory requirements, decommissioning, dismantling 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 2019, the discount rates used in the calculation of the parts of the provision that relate to Mexican pesos range from 6.83% to 7.47% (2018: range of 7.12% to 8.55%). The range for the current year parts that relate to US dollars range from 1.43% to 1.82% (2018: range of 2.05% to 2.70%).

Mexican regulations regarding the decommissioning and rehabilitation of mines are limited and less developed in comparison to regulations in many other jurisdictions. It is the Group’s intention to rehabilitate the mines beyond the requirements of Mexican law, and estimated costs reflect this level of expense. The Group intends to fully rehabilitate the affected areas at the end of the life of the mines.

The provision is expected to become payable at the end of the production life of each mine, based on the reserves and resources, which ranges from 2 to 29 years from 31 December 2019 (3 to 25 years from 31 December 2018). As at 31 December 2019 the weighted average term of the provision is 13 years (2018:12 years)

	As at 31 December	
	2019 US$ thousands	2018 US$ thousands
Opening balance	**189,842**	**184,775**
(Decrease)/increase to existing provision	(4,215)	9,758
Effect of changes in discount rate	27,961	(14,279)
Unwinding of discount rate	11,848	10,065
Payments	(24)	(545)
Foreign exchange	5,644	68
Closing balance	**231,056**	**189,842**

21. Pensions and other post-employment benefit plans

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

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

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

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

Death and disability benefits are covered through insurance policies.

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

		Pension cost charge to income statement					Remeasurement gains/(losses) in OCI								
	Balance at 1 January 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)

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

Of the total defined benefit obligation, US$9.2 million (2018: US$7.4 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	
	2019 %	2018 %
Discount rate	7.24	8.42
Future salary increases (NCPI)	5.00	5.15

The life expectancy of current and future pensioners, men and women aged 65 and older will live on average for a further 23.2 and 26.7 years respectively (2018: 23.1 years for men and 26.6 for women). The weighted average duration of the defined benefit obligation is 11.3 years (2018: 10.8 years).

The fair values of the plan assets were as follows:

	As at 31 December	
	2019 US$ thousands	2018 US$ thousands
Government debt	61	351
State owned companies	4,907	5,132
Mutual funds (fixed rates)	15,622	13,845
	20,590	**19,328**

As at 31 December 2019 and 2018, 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 2019 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)	(1,619)	1,780	189	(184)	509

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	
	2019 US$ thousands	2018 US$ thousands
Trade payables	107,222	91,734
Other payables to related parties (note 26)	17,899	12,321
Accrued expenses	18,410	13,163
Other taxes and contributions	16,237	15,922
	159,768	**133,140**

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

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

23. Commitments

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

	As at 31 December	
	2019 **US$ thousands**	2018 US$ thousands
Saucito	36,743	52,288
Herradura	9,864	17,701
Noche Buena	252	3,346
Ciénega	6,743	13,779
Fresnillo	58,109	90,181
San Julián	5,516	8,781
Minera Juanicipio	84,609	142,111
	201,836	**328,187**

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 2019 **US$ thousands**	1 January 2019 US$ thousands
IT equipment	9,514	7,749
Buildings	3,030	3,550
Total lease liability	**12,544**	**11,299**
Less - Current portion	**4,535**	**3,758**
Non-current portion	**8,009**	**7,541**

The maturity analysis of the liability is as follow:

	As at	
	31 December 2019 **US$ thousands**	1 January 2019 US$ thousands
Within one year	4,535	3,758
After one year but not more than five years	7,125	6,450
More than five years	884	1,091
	12,544	**11,299**

The total cash outflow for leases for the year ended 31 December 2019 amount 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 2019		
	Building	Computer equipment	Total
			US$ thousands
Cost			
At 1 January 2019	3,550	7,749	11,299
Additions	69	5,516	5,585
Disposals	(39)	(18)	(57)
At 31 December 2019	3,580	13,247	16,827
Accumulated depreciation			
At 1 January 2019			
Depreciation for the year	(697)	(3,969)	(4,666)
Disposals	11	1	12
At 31 December 2019	(686)	(3,968)	(4,654)
Net Book amount at 31 December 2019	**2,894**	**9,279**	**12,173**

Amounts recognized in profit and loss for the year, additional to depreciation of right-of-use assets, included US$642.3 relating to interest expense, US$1,177.99 relating to short-term leases and US$2,590.91 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.
- With regards to tax audits, the status of material on-going inspections is as follows:
  - With respect to Minera Penmont's 2012 and 2013 tax inspections, on 11 July 2018 the Company filed before tax authorities a substance administrative appeal against the tax assessment, and on 3 September 2018, it filed additional documentation before tax authorities and is waiting for its response.
  - In connection with Minera Fresnillo and Minera Mexicana La Ciénega (The Companies) income tax audits for the year 2014, a Conclusive Agreement was executed on February 19th, 2019 between the SAT, the Companies and the Mexican Taxpayers Ombudsman (PRODECON per its Spanish acronym). According to article 69-H of the Mexican Tax Code, settlements reached and executed by taxpayers and the authority may not be challenged in any way. Such settlements shall only be effective between the parties; and they shall not constitute a precedent in any case.
- On March 22nd and June 21st, 2019, SAT initiated income tax audits for the year 2013 at Minera Saucito and Minera Fresnillo, respectively. The company has fully responded to the SAT´s request of information and documentation. In February 2020, the SAT communicated its initial findings to the Company. These are being analysed and the company has commenced the process of preparing its response.
  - On February 5th, 2020 SAT initiated a Profit Sharing audit and an Income Tax audit for the year 2014 at Minera Mexicana La Ciénega and Metalúrgica Reyna, respectively. On February 13th, 2020 SAT initiated Income Tax audits for the year 2014 at Desarrollos Mineros Fresne and Minera Saucito. The company is in the process of preparing its response to the SAT´s request of information and documentation.
- 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 regard to the ejido El Bajio matter previously reported by the Company:
    - In 2009 five members of the El Bajio agrarian community in the state of Sonora, who claimed rights over certain surface land in the proximity of the operations of Minera Penmont ("Penmont"), submitted a legal claim before the Unitarian Agrarian Court (Tribunal Unitario Agrario) of Hermosillo, Sonora, to have Penmont vacate an area of this surface land. The land in dispute encompassed a portion of surface area where part of the operations of the Soledad-Dipolos mine are located. The litigation resulted in a definitive court order, with which Penmont complied by vacating 1,824 hectares of land, resulting in the suspension of operations at Soledad-Dipolos.
    - The Agrarian Court noted in that same year that certain remediation activities were necessary to comply with the relevant regulatory requirements. Remediation activities in this respect are pending as the agrarian members have not yet permitted Penmont physical access to the lands. A Federal court has issued a final ruling denying the claimant's allegations that the land should be remediated to the same state it held prior to Penmont's occupation. Penmont has already presented a conceptual mine closure and remediation plan before the Agrarian Court in respect of the approximately 300 hectares where Penmont conducted mining activities.
    - In addition, and as also previously reported by the Company, claimants in the El Bajio matter presented other claims against occupation agreements they entered into with Penmont, covering land parcels separate from the land described above. Penmont has no significant mining operations or specific geological interest in the affected parcels and these lands are therefore not considered strategic for Penmont. As previously reported, the Agrarian Court issued rulings declaring such occupation agreements over those land parcels to be null and void and that Penmont must remediate such lands to the state that they were in before Penmont's occupation as well as returning any minerals extracted from this area. Given that Penmont has not conducted significant mining operations nor has specific geological interest in these land parcels, any contingency relating to such land parcels is not considered material by the Company. The case relating to the claims over these land parcels remains subject to finalisation.
- Various claims and counterclaims have been made between the relevant parties in the El Bajio matter. There remains uncertainty as to the finalisation and ultimate outcome of these legal proceedings.
- As previously reported, the State of Zacatecas issued a law in 2017 to impose environmental taxes on activities such as (i) extraction of materials other than those regulated by the Federal Mining Law; (ii) emissions into the air; (iii) discharges of industrial residues into the ground and water, and (iv) deposit of industrial residues.

  The Company challenged the legality of such taxes and in 2017 obtained an injunction from a Federal court. The State of Zacatecas appealed this ruling. The Supreme Court of Mexico has issued a final ruling settling the Company's legal challenge, in which the Court determined that:

  1. Two of the taxes are unconstitutional: (a) tax on extractive activities and (b) tax on the deposit of industrial residues.

  2. The other two taxes were declared constitutional: (a) emissions into the air and (b) discharge of industrial residues into the ground and water.

  It is estimated that the annual cost for the Company of complying with the two taxes is not material at this time.
- 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 was taken to mutually agreed arbitration, the insurance claim was declared valid; however, there is disagreement about the appropriate amount to be paid. In October 2018 the Group received US$13.6 million in respect of the insurance claim, however this does not constitute a final settlement and management continues to pursue a higher insurance payment. Due to the fact that negotiations are on-going and there is uncertainty regarding the timing and amount involved in reaching a final settlement with the insurer, it is currently not practicable to determine the total amount expected to be recovered.
- It is probable that interest income will be earned on the Group's outstanding income and value added tax receivable balances; however, there is no certainty that this interest will be realised until the underlying balance is recovered. Due to that uncertainty, it is also not practicable to estimate the amount of interest income earned to date.

26. Related party balances and transactions

The Group had the following related party transactions during the years ended 31 December 2019 and 2018 and balances as at 31 December 2019 and 2018.

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	
	2019 US$ thousands	2018 US$ thousands	**2019 US$ thousands**	2018 US$ thousands
Trade:				
Metalúrgica Met-Mex Peñoles, S.A. de C.V.	206,982	213,202	409	408
Other:				
Industrias Peñoles, S.A.B. de C.V.	5,283	3,371	-	-
Metalúrgica Met-Mex Peñoles, S.A. de C.V.	2,662	-		
Servicios Administrativos Peñoles, S.A. de C.V.	-	-	3,535	3,249
Servicios Especializados Peñoles, S.A. de C.V.	-	-	4,095	1,556
Fuentes de Energía Peñoles, S.A. de C.V.	-	-	1,735	1,138
Termoeléctrica Peñoles, S. de R.L. de C.V.	-	-	1,168	988
Eólica de Coahuila S.A. de C.V.	-	-	4,772	3,459
Other	43	90	2,185	1,523
Sub–total	214,970	216,663	17,899	12,321
Less–current portion	214,970	216,663	17,899	12,321
Non-current portion	-	-	-	-

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

Other balances with related parties:

	Year ended 31 December	
	2019 US$ thousands	2018 US$ thousands
Silverstream contract:		
Industrias Peñoles, S.A.B. de C.V.	541,254	519,093

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	
	2019 US$ thousands	2018 US$ thousands
Income:		
Sales:[1]		
Metalúrgica Met-Mex Peñoles, S.A. de C.V.	2,125,733	2,119,758
Insurance recovery		
Grupo Nacional Provincial, S.A. B. de C.V.	6,503	13,652
Other income	7,008	4,419
Total income	**2,139,244**	**2,137,829**

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$144.6 million (2018: US$141.2 million) and include sales credited to development projects of US$0.1 million (2018: US$17.6 million).

	Year ended 31 December	
	2019 US$ thousands	2018 US$ thousands
Expenses:		
Administrative services[2]*:*		
Servicios Administrativos Peñoles, S.A. de C.V.[3]	33,107	28,625
Servicios Especializados Peñoles, S.A. de C.V.	19,744	15,830
	52,851	44,455
Energy:		
Termoeléctrica Peñoles, S. de R.L. de C.V.	15,305	17,383
Fuerza Eólica del Istmo S.A. de C.V.	-	2,187
Fuentes de Energía Peñoles, S.A. de C.V.	4,971	3,872
Eólica de Coahuila S.A. de C.V.	41,572	34,147
	61,848	57,589
Operating materials and spare parts:		
Wideco Inc	7,699	5,783
Metalúrgica Met-Mex Peñoles, S.A. de C.V.	9,502	8,329
	17,201	14,112
Equipment repair and administrative services:		
Serviminas, S.A. de C.V.	10,012	9,733
Insurance premiums:		
Grupo Nacional Provincial, S.A. B. de C.V.	9,067	8,603
Other expenses:	4,014	2,561
Total expenses	**154,993**	**137,053**

2 Includes US$8.1 million (2018: US$1.7 million) corresponding to expenses reimbursed.

3 Includes US$3.2 million (2018: US$4.2 million) relating to engineering costs that were capitalised.

(c) Compensation of key management personnel of the Group

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

	Year ended 31 December	
	2019 US$ thousands	2018 US$ thousands
Salaries and bonuses	3,568	3,260
Post-employment benefits	242	245
Other benefits	296	249
Total compensation paid in respect of key management personnel	**4,106**	**3,754**

	Year ended 31 December	
	2019 US$ thousands	2018 US$ thousands
Accumulated accrued defined pension entitlement	4,753	4,001

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 2019 and 2018 are as follows:

	Year ended 31 December	
Class of services	**2019 US$ thousands**	2018 US$ thousands
Fees payable to the Group's auditor for the audit of the Group's annual accounts	1,443	1,306
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	157	176
Audit-related assurance services	437	347
Tax compliance services	10	4
Total	**2,047**	**1,833**

28. Notes to the consolidated statement of cash flows

	Notes	2019 US$ thousands	2018 US$ thousands
Reconciliation of profit for the year to net cash generated from operating activities			
Profit for the year		**205,814**	**349,966**
Adjustments to reconcile profit for the period to net cash inflows from operating activities:			
Depreciation and amortisation	12	490,678	411,764
Employee profit sharing	7	9,578	13,003
Deferred income tax credit	10	(186,113)	(45,385)
Current income tax expense	10	159,054	179,349
Loss on the sale of property, plant and equipment and other assets	8	4,866	999
Net finance costs		46,286	27,433
Foreign exchange loss		1,894	8,382
Difference between pension contributions paid and amounts recognised in the income statement		1,129	62
Non cash movement on derivatives		687	34
Changes in fair value of Silverstream	13	(48,376)	(14,956)
Working capital adjustments			
(Increase) in trade and other receivables		(39,257)	(60,384)
(Increase) in prepayments and other assets		(3,283)	(11,753)
Increase in inventories		(28,717)	(63,918)
Increase in trade and other payables		14,635	8,174
Cash generated from operations		**628,875**	**802,770**
Income tax paid[1]		(180,059)	(200,088)
Employee profit sharing paid		(12,907)	(14,323)
Net cash from operating activities		**435,909**	**588,359**

1 Income tax paid includes US$162.2 million corresponding to corporate income tax (31 December 2018: US$180.4 million) and US$17.9 corresponding to special mining right (31 December 2018: US$19.7 million), for further information refer to note 10.

29. Financial instruments
(a) Fair value category

	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)	117,358	-	-
Derivative financial instruments	-	1,789	-

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

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

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
	2019 US$ thousands	2018 US$ thousands	**2019 US$ thousands**	2018 US$ thousands
Financial assets:				
Trade and other receivables	4,353	1,986	4,353	1,986
Financial liabilities:				
Interest-bearing loans[1] (note 19)	801,239	800,127	870,208	817,936
Trade and other payables	1,789	97,169	1,789	97,169

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 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**

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

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:

	2019 **US$ thousands**	2018 US$ thousands
Balance at 1 January:	213,202	225,741
Sales	4,949,494	5,659,205
Cash collection	(4,955,376)	(5,671,253)
Changes in fair value	15,996	(4,016)
Realised embedded derivatives during the year	(16,334)	3,525
Balance at 31 December	**206,982**	**213,202**

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).

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, euro and Swedish krona which are exposed to foreign currency risk. Transactions in currencies other than the US dollar include the purchase of services, fixed assets, spare parts and the payment of dividends. As a result, the Group has financial assets and liabilities denominated in currencies other than functional currency, and holds cash and cash equivalents in Mexican Peso.

In order to manage the Group's exposure to foreign currency risk on expenditure denominated in currencies other than the US dollar, the Group has entered into certain forward and option derivative contracts with maturity dates from 2018 (see note 29 for additional detail).

The following table demonstrates the sensitivity of financial assets and financial liabilities (excluding Silverstream) to a reasonably possible change in the US dollar exchange rate compared to the Mexican peso, reflecting the impact on the Group's profit before tax and equity, with all other variables held constant. It is assumed that the same percentage change in exchange rates is applied to all applicable periods for the purposes of calculating the sensitivity with relation to derivative financial instruments.

Year ended 31 December	Strengthening/ (weakening) of US dollar	Effect on profit before tax: increase/ (decrease) US$ thousands	Effect on equity: increase/ (decrease) US$ thousands
2019	5%	694	2,295
	(5%)	(767)	(1,939)
2018	10%	(380)	-
	(10%)	464	-

The following table demonstrates the sensitivity of financial assets and financial liabilities to a reasonably possible change in the US dollar exchange rate compared to the Swedish krona on the Group's profit before tax and equity, with all other variables held constant. It is assumed that the same percentage change in exchange rates is applied to all applicable periods.

Year ended 31 December	Strengthening/ (weakening) of US dollar	Effect on profit before tax: increase/ (decrease) US$ thousands
2019	10%	-
	(10%)	-
2018	10%	19
	(10%)	20

The following table demonstrates the sensitivity of financial assets and financial liabilities (excluding Silverstream) to a reasonably possible change in the US dollar exchange rate compared to the euro on the Group's profit before tax and equity, with all other variables held constant. It is assumed that the same percentage change in exchange rates is applied to all applicable periods.

Year ended 31 December	Strengthening/ (weakening) of US dollar	Effect on profit before tax: increase/ (decrease) US$ thousands
2019	5%	-
	(5%)	(1)
2018	10%	53
	(10%)	52

Foreign currency risk – Silverstream

Future foreign exchange rates are one of the inputs to the Silverstream valuation model. The following table demonstrates the sensitivity of the Silverstream contract valuation to a reasonably possible change in the Mexican peso as compared to the US dollar, with all other inputs to the Silverstream valuation model held constant. It is assumed that the same percentage change in exchange rates is applied to all applicable periods in the valuation model.

Year ended 31 December	Strengthening/ (weakening) of US dollar	Effect on profit before tax: increase/ (decrease) US$ thousands
2019	5%	(40)
	(5%)	44
2018	10%	(46)
	(10%)	56

Commodity risk

The Group has exposure to changes in metals prices (specifically silver, gold, lead and zinc) which have a significant effect on the Group's results. These prices are subject to global economic conditions and industry-related cycles.

The Group uses derivative instruments to hedge against an element of gold, zinc and lead price.

The table below reflects the aggregate sensitivity of financial assets and liabilities (excluding Silverstream) to a reasonably possible change in commodities prices, reflecting the impact on the Group's profit before tax with all other variables held constant.

The sensitivity shown in the table below relates to changes in fair value of commodity derivatives financial instruments contracts and embedded derivatives in sales.

	Increase/(decrease) in commodity prices				Effect on profit before tax: increase/ (decrease)	Effect on equity: increase/ (decrease)
Year ended 31 December	Gold	Silver	Zinc	Lead	US$ thousands	US$ thousands
2019	15%	20%	15%	15%	28,367	(1,939)
	(10%)	(15%)	(15%)	(15%)	(21,218)	2,295
2018	10%	15%	25%	20%	22,330	(14,910)
	(10%)	(15%)	(20%)	(15%)	(21,204)	8,703

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
2019	20%	146,873
	(15%)	(110,155)
2018	15%	106,879
	(15%)	(106,879)

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
2019	50	1,683
	(50)	(1,683)
2018	75	4,206
	(75)	(4,206)

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
2019	50	(32,969)
	(50)	36,322
2018	75	(47,151)
	(75)	54,775

Inflation rate risk

Inflation rate risk-Silverstream

Future inflation rates are one of the inputs to the Silverstream valuation model. The following table demonstrates the sensitivity of the Silverstream contract to a reasonably possible change in the inflation rate, with all other inputs to the Silverstream valuation model held constant. It is assumed that the same change in inflation is applied to all applicable periods in the valuation model. There is no impact on the Group's equity, other than the equivalent change in retained earnings.

Year ended 31 December	Basis point (increase/ (decrease) in inflation rate	Effect on profit before tax: increase/ (decrease) US$ thousands
2019	100	96
	(100)	(87)
2018	100	56
	(100)	(51)

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
2019	70%	-	86,116
	(25%)	-	(30,756)
2018	40%	-	31,288
	(40%)	-	(31,288)

(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 2019 and 2018. 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 2019, being US$541.2 million (2018: US$519.1 million).

(c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

The Group monitors its risk of a shortage of funds using projected cash flows from operations and by monitoring the maturity of both its financial assets and liabilities.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments.

					US$ thousands
	Within 1 year	2–3 years	3-5 years	> 5 years	Total
As at 31 December 2019					
Interest-bearing loans (note 19)	46,267	92,534	846,267	-	985,068
Trade and other payables	125,121	-	-	-	125,121
Derivative financial instruments – liabilities	1,789	-	-	-	1,789

					US$ thousands
	Within 1 year	2-3 years	3-5 years	> 5 years	Total
As at 31 December 2018					
Interest-bearing loans (note 19)	46,267	92,534	92,534	800,000	1,031,335
Trade and other payables	97,169	-	-	-	97,169
Derivative financial instruments – liabilities	3,807	-	-	-	3,807

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 2019					
Inflows	22,186	-	-	-	22,186
Outflows	(20,898)	-	-	-	(20,898)
Net	**1,287**	**-**	**-**	**-**	**1,287**

					US$ thousands
	Within 1 year	2-3 years	3-5 years	> 5 years	Total
As at 31 December 2018					
Inflows	12,608	4,310	-	-	16,918
Outflows	(12,688)	(4,290)	-	-	(16,977)
Net	**(80)**	**20**	**-**	**-**	**(60)**

The above liquidity tables include expected inflows and outflows from currency option contracts which the Group expects to be exercised during 2020 as at 31 December 2019 and during 2019 as at 31 December 2018, 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 2019 and 2018 consisted of only cash and cash equivalents.