

INDEPENDENT REVIEW REPORT TO FRESNILLO PLC

Introduction

We have been engaged by the Company to review the interim condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2020 which comprises the interim consolidated income statement, the interim consolidated statement of comprehensive income, the interim consolidated balance sheet, the interim consolidated cash flow statement, the interim consolidated statement of changes in equity and the related Notes 1 to 18. We have read the other information contained in the half yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim condensed consolidated set of financial statements.

This report is made solely to the Company in accordance with guidance contained in International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our work, for this report, or for the conclusions we have formed.

Directors' Responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in Note 2a, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The interim condensed consolidated set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

Our Responsibility

Our responsibility is to express to the Company a conclusion on the interim condensed consolidated set of financial statements in the half-yearly financial report based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim condensed consolidated set of financial statements in the half-yearly financial report for the six months ended 30 June 2020 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Ernst & Young LLP
London

28 July 2020

Interim Consolidated Income Statement

Notes		For the six months ended 30 June					
		2020 (Unaudited)			2019 (Unaudited)		
		(in thousands of US dollars)					
		Pre-Silverstream revaluation effect	Silverstream revaluation effect	Total	Pre-Silverstream revaluation effect	Silverstream revaluation effect	Total
Continuing operations:							
Revenues	4	1,054,183		1,054,183	1,001,965		1,001,965
Cost of sales	5	(732,999)		(732,999)	(796,453)		(796,453)
Gross profit		321,184		321,184	205,512		205,512
Administrative expenses		(41,751)		(41,751)	(43,506)		(43,506)
Exploration expenses		(50,737)		(50,737)	(84,045)		(84,045)
Selling expenses		(10,486)		(10,486)	(10,561)		(10,561)
Other operating income		5,719		5,719	904		904
Other operating expenses		(7,052)		(7,052)	(3,005)		(3,005)
Profit from continuing operations before net finance costs and income tax		216,867		216,867	65,299		65,299
Finance income	6	9,494		9,494	15,630		15,630
Finance costs	6	(25,652)		(25,652)	(43,442)		(43,442)
Revaluation effects of Silverstream contract	10		(31,824)	(31,824)		11,431	11,431
Foreign exchange (loss)/gain		(41,014)		(41,014)	5,136		5,136
Profit from continuing operations before income tax		159,695	(31,824)	127,881	42,623	11,431	54,054
Corporate income tax	7	(71,502)	9,547	(61,955)	7,439	(3,429)	4,010
Special mining right	7	(9,425)		(9,425)	12,850		12,850
Income tax (expense)/credit	7	(80,927)	9,547	(71,380)	20,289	(3,429)	16,860
Profit for the period from continuing operations		78,778	(22,277)	56,501	62,912	8,002	70,914
Attributable to:							
Equity shareholders of the Company		86,802	(22,277)	64,525	62,163	8,002	70,165
Non-controlling interests		(8,024)		(8,024)	749		749
		78,778	(22,277)	56,501	62,912	8,002	70,914
Earnings per share: (US\$)							
Basic and diluted earnings per ordinary share from continuing operations	8	-		0.088	-		0.095
Adjusted earnings per share: (US\$)							
Adjusted basic and diluted earnings per ordinary share from continuing operations	8	0.118		-	0.084		-

	For the six months ended 30 June 2020 (Unaudited) (in thousands of US dollars)	2019 (Unaudited) (in thousands of US dollars)
Profit for the period	56,501	70,914
Other comprehensive income		
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Changes in the fair value of cash flow hedges	1,396	836
Gain on cost of hedging recycled to income statement	(1,556)	(79)
Changes in the fair value of cost of hedging	2,064	(618)
<i>Total effect of cash flow hedges</i>	1,904	139
<i>Foreign currency translation</i>	(1,526)	368
<i>Income tax effect on items that may be reclassified subsequently to profit or loss</i>	(571)	(41)
Net other comprehensive (loss)/income that may be reclassified subsequently to profit or loss	(193)	466
<i>Items that will not be reclassified to profit or loss:</i>		
Loss on cash flow hedges recycled to other assets	-	(347)
Changes in the fair value of cash flow hedges	172	(18)
<i>Total effect of cash flow hedges</i>	172	(365)
Changes in the fair value of equity investments at FVOCI	20,100	30,801
<i>Income tax effect on items that will not be reclassified to profit or loss</i>	(6,082)	(9,131)
Net other comprehensive profit that will not be reclassified to profit or loss	14,190	21,305
Other comprehensive income, net of tax	13,997	21,771
Total comprehensive income, net of tax	70,498	92,685
Attributable to:		
Equity shareholders of the Company	78,534	91,942
Non-controlling interests	(8,036)	743
	70,498	92,685

Interim Consolidated Balance Sheet

	Notes	As of 30 June 2020 (Unaudited) (in thousands of US dollars)	As of 31 December 2019 (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment	9	2,700,901	2,813,417
Equity instruments at FVOCI	18	143,124	123,024
Silverstream contract	10,18	472,657	518,696
Deferred tax asset		101,423	110,770
Inventories	11	91,620	91,620
Other receivables	12	-	23,014
Other assets		2,916	3,622
		<u>3,512,641</u>	<u>3,684,163</u>
Current assets			
Inventories	11	315,274	272,120
Trade and other receivables	12	365,947	437,642
Income tax recoverable		1,605	57,124
Prepayments		17,053	18,344
Derivative financial instruments	18	3,666	2,623
Silverstream contract	10,18	24,874	22,558
Cash and cash equivalents	13	514,659	336,576
		<u>1,243,078</u>	<u>1,146,987</u>
Total assets		<u>4,755,719</u>	<u>4,831,150</u>
EQUITY AND LIABILITIES			
Capital and reserves attributable to shareholders of the Company			
Share capital		368,546	368,546
Share premium		1,153,817	1,153,817
Capital reserve		(526,910)	(526,910)
Hedging reserve		1,105	139
Cost of hedging reserve		1,274	918
Fair value reserve of financial assets at FVOCI		68,804	54,734
Foreign currency translation reserve		(1,776)	(250)
Retained earnings		2,070,501	2,093,666
		<u>3,135,361</u>	<u>3,144,660</u>
Non-controlling interests		<u>126,053</u>	<u>134,059</u>
Total equity		<u>3,261,414</u>	<u>3,278,719</u>
Non-current liabilities			
Interest-bearing loans		801,772	801,239
Lease liabilities		7,683	8,009
Provision for mine closure cost		209,104	231,056
Provision for pensions and other post-employment benefit plans		9,567	10,704
Deferred tax liability		273,331	321,347
		<u>1,301,457</u>	<u>1,372,355</u>

Current liabilities

Trade and other payables		170,017	159,768
Income tax payable		9,177	3,991
Derivative financial instruments	18	8	1,789
Lease liabilities		5,176	4,535
Employee profit sharing		8,470	9,993

192,848	180,076
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Total liabilities

1,494,305	1,552,431
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Total equity and liabilities

4,755,719	4,831,150
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Interim Consolidated Statement of Cash Flows

	Notes	For the six months ended 30 June	
		2020	2019
		(Unaudited)	(Unaudited)
		(in thousands of US dollars)	
Net cash from operating activities	17	422,518	167,696
Cash flows from investing activities			
Purchase of property, plant and equipment		(181,958)	(248,352)
Proceeds from the sale of property, plant and equipment		144	210
Silverstream contract	10	13,135	12,899
Interest received		9,493	15,630
Net cash used in investing activities		(159,186)	(219,613)
Cash flows from financing activities			
Proceeds from notes payable		23,145	-
Principal elements of lease payment		(2,796)	(2,530)
Dividends paid to shareholders of the Company	14	(87,737)	(123,057)
Capital contribution		27	15,301
Interest paid ¹		(19,723)	(36,931)
Net cash used in financing activities		(87,084)	(147,217)
Net increase (decrease) in cash and cash equivalents during the period		176,248	(199,134)
Effect of exchange rate on cash and cash equivalents		1,835	409
Cash and cash equivalents at 1 January	13	336,576	560,785
Cash and cash equivalents at 30 June	13	514,659	362,060

¹ Total interest paid during the six months ended 30 June 2020 less amounts capitalised totalling US\$4.4 million (30 June 2019: US\$2.6 million) which is included within the caption Purchase of property, plant and equipment.

² Corresponds to a short-term interest-bearing note payable received from Minera los Lagartos, S.A. de C.V. which holds a non-controlling interest in Juanicipio project. As of 30 June 2020, the balance amounted US\$23.3 million and is presented within trade and other payables in the balance sheet.

Interim Consolidated Statement of Changes in Equity

	Notes	Share capital	Share premium	Capital reserve	Hedging Reserve	Cost of hedging reserve	Fair value reserve of financial assets at FVOCI	Foreign currency translation reserve	Retained earnings	Total attributable to shareholders of the Company	Non-controlling interests	Total equity
<i>(in thousands of US dollars)</i>												
Balance at 1 January 2019 (Audited)		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 period		-	-	-	-	-	-	-	70,165	70,165	749	70,914
Other comprehensive income, net of tax		-	-	-	336	(488)	21,561	368	-	21,777	(6)	21,771
Total comprehensive income for the period		-	-	-	336	(488)	21,561	368	70,165	91,942	743	92,685
Capital contribution		-	-	-	-	-	-	-	-	-	15,301	15,301
Dividends paid	14	-	-	-	-	-	-	-	(123,061)	(123,061)	-	(123,061)
Balance at 30 June 2019 (Unaudited)		368,546	1,153,817	(526,910)	107	(2,862)	44,931	(427)	1,980,964	3,018,166	95,012	3,113,178
Balance at 1 January 2020 (Audited)		368,546	1,153,817	(526,910)	139	918	54,734	(250)	2,093,666	3,144,660	134,059	3,278,719
Profit for the period		-	-	-	-	-	-	-	64,525	64,525	(8,024)	56,501
Other comprehensive income, net of tax		-	-	-	1,109	356	14,070	(1,526)	-	14,009	(12)	13,997
Total comprehensive income for the period		-	-	-	1,109	356	14,070	(1,526)	64,525	78,534	(8,036)	70,498
Hedging loss transferred to the carrying value of PPE purchased during the period	18(c)	-	-	-	(143)	-	-	-	-	(143)	3	(140)
Capital contribution		-	-	-	-	-	-	-	-	-	27	27
Dividends paid	14	-	-	-	-	-	-	-	(87,690)	(87,690)	-	(87,690)
Balance at 30 June 2020 (Unaudited)		368,546	1,153,817	(526,910)	1,105	1,274	68,804	(1,776)	2,070,501	3,135,361	126,053	3,261,414

Notes to the Interim Condensed Consolidated Financial Statements

1 Corporate Information

Fresnillo plc (“the Company”) is a public limited company registered in England and Wales with the registered number 6344120.

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 16.

The interim condensed consolidated financial statements of the Group for the six months ended 30 June 2020 (“interim consolidated financial statements”) were authorised for issue by the Board of Directors of Fresnillo plc on XX July 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’s operating mines and its principal activities is disclosed in Note 3.

2 Significant accounting policies

(a) Basis of preparation and statement of compliance

The interim consolidated financial statements of the Group for the six months ended 30 June 2020 have been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the European Union (EU). They do not include all the information required for full annual financial statements for the Group, and therefore, should be read in conjunction with the Group’s annual consolidated financial statements for the year ended 31 December 2019 as published in the Annual Report 2019.

These interim consolidated financial statements do not constitute statutory accounts as defined in section 435 of the Companies Act 2006. A copy of the statutory accounts for the year ended 31 December 2019 has been delivered to the Register of Companies. The auditor’s report in accordance with Chapter 3 of Part 16 of the Companies Act 2006 in relation to those accounts was unqualified, did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying the report and did not contain a statement under section 498(2) or section 498(3) of the UK Companies Act 2006.

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

The interim 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 where otherwise indicated.

The impact of seasonality or cyclicity on operations is not considered significant on the interim consolidated financial statements.

(b) Basis of consolidation

The interim consolidated financial statements set out the Group's financial position as of 30 June 2020 and 31 December 2019, and its operations and cash flows for the six-month periods ended 30 June 2020 and 30 June 2019.

The basis of consolidation adopted in the preparation of the interim consolidated financial statements is consistent with that applied in the preparation of the consolidated financial statements for the year ended 31 December 2019.

(c) Changes in accounting policies and presentation

The accounting policies adopted in the preparation of the interim consolidated financial statements are consistent with those applied in the preparation of the consolidated financial statements for the year ended 31 December 2019.

New standards, amendments and interpretations as adopted by the Group

A number of new or amended standards became applicable for the current reporting period. The Group did not have to change its accounting policies or make retrospective adjustments as a result of adopting these standards.

Impact of standards issued but not yet applied by the Group

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

Significant accounting judgments, estimates and assumptions

Significant accounting judgments, estimates and assumptions are consistent with those disclosed in the consolidated financial statements for the year ended 31 December 2019 except as set out below.

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

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

In 2017, the Group decided that it would construct a new leaching pad in a separate area of the Herradura mine. To reduce the hauling distance from the pit to the new pad, the Group constructed an access route through certain existing leaching pads, removing and redepositing the ore in the process. These works allowed the Group to perform assays and verify certain characteristics of the ore, including the humidity of the ore deposited and the grade of gold in solution. The Group monitors the metallurgical balances foregoing with the analysis performed during 2018 as a result of constructing a new leaching pad in a separate area of the Herradura mine, the Group has continued reviewing the metallurgical balance of the pads to confirm the grade and recovery of the ore in inventories. For operating strategies, Since July 2019, all new ore extracted has been deposited on the new pad area.

Based on the new information the Group updated its estimate of the remaining gold content in leaching increasing this by 119.3 thousand ounces of gold as at 1 January 2020.

This change in estimation was incorporated prospectively in inventory from 1 January 2020. The increase in the number of ounces reduced the weighted average cost of inventory. Had the estimation not changed, production cost during the six-month period ended 30 June 2020 would have been US\$65.1 million higher, with an offsetting impact against the work-in-progress inventory balance as of 30 June 2020.

Additionally, as discussed in next section, the Group has evaluated the impact of the COVID-19 pandemic implications in the evaluation of critical judgements as of 30 June 2020. No situations arise that suggested a change is needed.

(d) Effect of COVID-19

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

During the second quarter of 2020, the Group has taken a number of measures to safeguard the health of its employees and their local communities while continuing to operate safely and responsibly. Total costs of \$1.6 million relating to COVID-19 safety measures were expensed during the six-month period ended 30 June 2020.. The Group acted in compliance with government-ordered restrictions, resulting in operations temporarily suspended in Minera Penmont during the period of mid-April to late-May. All other mines operate at normal production capacity. During the lockdown period Minera Penmont incurred in certain fixed costs that Management decided not to consider as production cost and are presented as unabsorbed production cost in note 5.

During of 2020, attempts at containment of COVID-19 have resulted in decreased economic activity, which has adversely affected the broader global economy. In the current environment, assumptions about future commodity prices, exchange rates, and interest rates are subject to greater variability than normal, which could in the future affect the valuation of the Group's assets and liabilities, both financial and non-financial. As at 30 June 2020, there were no material changes to the valuation of the Group's asset and liabilities due to COVID-19.

(e) Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out above in the Operational Review, with further detail in the Annual Report 2019. The financial position of the Group, its cash flows and liquidity position are described in the Financial Review. In addition, the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; and its exposures to credit risk and liquidity risk were set out in the Annual Report 2019. Details of its financial instruments and hedging activities as at 30 June 2020 are set out in note 18.

In making their assessment of the Group's ability to manage its future cash requirements, the Directors have considered the Company and Group budgets and the cash flow forecasts for the period to 31 December 2021 as at July 2020. In line with previous periods, the directors reviewed a more conservative cash flow scenario with silver and gold prices significantly reduced below current expectations, whilst maintaining current forecasted expenditure, which resulted in our current cash balances reducing over time to a more than adequate margin of liquidity towards the end of 2021. Additionally, in the current period the directors reviewed scenarios that incorporated an estimated potential impact of plausible Covid-19 restrictions and regulations on our mining districts. The impact of Covid-19, and actions being taken are set out in the Health and safety, human resources, environment and community relations update.

As mining has been declared an essential activity by the Mexican government, we consider the risk of a government imposed full stoppage across all our operations to be low. Furthermore, we have implemented additional health and safety measures at each of our mines coupled with extensive targeted and random testing. This has allowed us to keep infection rates significantly below the Mexican average. We are therefore confident that we are well prepared to manage any localised outbreaks at our mines and maintain operations at planned levels.

However, taking into account risk implications of COVID-19 set out in the risk section of the interim report, we consider it plausible that temporary restrictions like those we saw in April and May at Penmont can be required in response to a deteriorating health situation at a particular state level.

As the profitability of our operations is most sensitive to restrictions being imposed in the state of Sonora impacting operations at Penmont, we have modelled scenarios assuming restrictions at the Herradura and Noche Buena mines.

The key judgement applied is the likely time period of restrictions on operations and the time it would take for the subsequent recovery once those restrictions are lifted. The base scenario assumes restrictions caused by the stringent working health measures in our open pit mines and the resulting lower volumes processed at the open pit mines during the first half 2020; the severe scenario includes an assumption that again impacts the production for two months of the open pit mines resulting in its full stoppage for that period. In all scenarios we have also assumed that our employees remain on full pay for the duration of the closure and no mitigating actions are required to be implemented to maintain a comfortable liquidity level to continue operating in the period assessed.

After reviewing all of the above considerations, the Directors have a reasonable expectation that management has sufficient flexibility in potential adverse circumstances to maintain adequate resources to continue in operational existence for the foreseeable future. The Directors, therefore, continue to adopt the going concern basis of accounting in preparing these interim financial statements.”

3 Segment reporting

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

At 30 June 2020 the Group has seven reportable operating segments represented by seven producing mines 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 Cienega 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 the 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.

In the six months ended 30 June 2020 and 2019, all revenue was derived from customers based in Mexico.

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 interim consolidated income statements, 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 interim consolidated income statement. Other income and expenses included in the interim 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.

Operating segments

The following tables present revenue and profit information regarding the Group's operating segments for the six months ended 30 June 2020 and 2019, respectively. Revenues for the six months ended 30 June 2020 and 30 June 2019 include those derived from contracts with costumers and other revenues, as showed in note 4.

Six months ended 30 June 2020										
US\$ thousands	Fresnillo	Herradura	Cienega	Soledad-Dipolos ⁴	Saucito	Noche Buena	San Julian	Other ⁵	Adjustments and eliminations	Total
Revenues:										
Third party ¹	156,496	348,711	101,109	-	211,463	80,347	154,588		1,469	1,054,183
Inter-Segment	-	-	-	-	-	-	-	86,395	(86,395)	-
Segment revenues	156,496	348,711	101,109	-	211,463	80,347	154,588	86,395	(84,926)	1,054,183
Segment profit²	75,973	192,671	54,289	-	118,590	24,898	70,045	45,092	(828)	580,730
Depreciation and amortisation										(251,707)
Employee profit sharing										(7,839)
Gross profit as per the income statement										321,184
Capital expenditure³	50,203	14,941	12,273		30,293	1,358	17,531	55,359		181,958

¹Total third party revenues include treatment and refining charges amounting US\$72.4 million. Adjustments and eliminations correspond to hedging gains (note 4).

²Segment profit excluding depreciation and amortisation and employee profit sharing.

³Capital expenditure represents the cash outflow in respect of additions to property, plant and equipment.

⁴During 2020, this segment did not operate due to the Bajio conflict (note 15).

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

<i>US\$ thousands</i>	Fresnillo	Herradura	Cienega	Soledad-Dipolos ⁴	Saucito	Noche Buena	San Julian	Other ⁵	Adjustments and eliminations	Total
Revenues:										
Third party ¹	140,988	316,762	83,987	-	217,484	86,497	156,168	-	79	1,001,965
Inter-Segment	-	-	-	-	-	-	-	47,356	(47,356)	-
Segment revenues	140,988	316,762	83,987	-	217,484	86,497	156,168	47,356	(47,277)	1,001,965
Segment profit²	72,013	95,887	33,005	-	118,300	26,810	66,332	36,937	1,027	450,311
Depreciation and amortisation										(240,480)
Employee profit sharing										(4,319)
Gross profit as per the income statement										205,512
Capital expenditure³	70,424	21,838	31,921	-	60,941	2,978	29,354	30,896	-	248,352

¹Total third party revenues include treatment and refining charges amounting US\$67.0 million. Adjustments and eliminations correspond to hedging gains (note 4).

²Segment profit excluding depreciation and amortisation and employee profit sharing.

³Capital expenditure represents the cash outflow in respect of additions to property, plant and equipment.

⁴During 2019, this segment did not operate due to the Bajío conflict (note 15).

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

4 Revenues

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

(a) Revenues

	<i>Six months ended 30 June</i>	
	2020	2019
	<i>(in thousands of US dollars)</i>	
Revenues from contracts with customers	1,051,796	1,004,571
Revenues from other sources		
Provisional pricing adjustment on products sold	918	(2,685)
Hedging gain on sales	1,469	79
	1,054,183	1,001,965

(b) Revenues by product sold

	<i>Six months ended 30 June</i>	
	2020	2019
	<i>(in thousands of US dollars)</i>	
Lead concentrates (containing silver, gold, lead and by-products)	408,017	366,790
Doré and slag (containing gold, silver and by-products)	367,359	403,259
Zinc concentrates (containing zinc, silver and by-products)	94,414	117,602
Precipitates (containing gold and silver)	122,694	114,314
Activated carbon (containing gold, silver and by-products)	61,699	-
	1,054,183	1,001,965

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

(c) Value of metal content in products sold

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

	<i>Six months ended 30 June</i>	
	<i>2020</i>	<i>2019</i>
	<i>(in thousands of US dollars)</i>	
Silver	382,961	366,099
Gold	611,961	556,766
Zinc	82,869	100,922
Lead	48,844	45,263
Value of metal content in products sold	1,126,635	1,069,050
Adjustment for treatment and refining charges	(72,452)	(67,085)
Total revenues ¹	1,054,183	1,001,965

¹ Includes provisional price adjustments which represent changes in the fair value of trade receivables resulting in a gain of US\$1.0 million (2019: loss of US\$2.7 million) and hedging gain of US\$1.47 million (2019: gain of US\$0.08 million).

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

	<i>Six months ended 30 June</i>	
	<i>2020</i>	<i>2019</i>
	<i>(in US dollars per ounce)</i>	
Gold ²	1,676.80	1,320.74
Silver ²	16.79	15.25

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

5 Cost of sales

	<i>Six months ended 30 June</i>	
	<i>2020</i>	<i>2019</i>
	<i>(in thousands of US dollars)</i>	
Depreciation and amortisation (Note 9)	251,707	240,480
Personnel expenses ¹	55,351	52,394
Maintenance and repairs	83,520	90,329
Operating materials	97,145	118,380
Energy	89,667	108,231
Contractors	169,115	168,274
Mining concession rights and contributions	5,102	6,243
Freight	3,788	5,184
Surveillance	3,206	3,448
Insurance	2,991	2,984
Other	3,645	14,545
Cost of production	765,237	810,492
Unabsorbed production costs ²	6,122	-
Gain on foreign currency hedges	(87)	-
Change in work in progress and finished goods (ore inventories) ³	(38,273)	(14,039)
Cost of sales	732,999	796,453

¹ Personnel expenses include employees' profit sharing of US\$7.8 million for the six months ended 30 June 2020 (six months ended 30 June 2019: US\$4.3 million).

² Corresponds to fixed production cost (labour cost and depreciation) incurred in Minera Penmont during the lockdown period related to COVID-19.

³ Refer to note 2 (c) for more detail related to change in work in progress inventories for the six months ended 30 June 2020 following a change in estimation.

6 Finance income and finance costs

	<i>Six months ended 30 June</i>	
	<i>2020</i>	<i>2019</i>
	<i>(in thousands of US dollars)</i>	
Finance income:		
Interest on short term deposits and investments	2,709	7,171
Interest on tax receivables	6,784	8,455
Other	1	4
	9,494	15,630
Finance costs:		
Interest on interest-bearing loans	19,409	20,482
Interest for lease liabilities	341	322
Unwinding of discount on provisions	5,363	5,924
Other ¹	539	16,714
	25,652	43,442

¹ 2019 includes US\$15.7 million of interest and surcharges as a result of the amendment to tax positions described in note 7.

7 Income tax expense

	<i>Six months ended 30 June</i>	
	<i>2020</i>	<i>2019</i>
	<i>(in thousands of US dollars)</i>	
<i>Current corporate income tax:</i>		
Income tax charge ¹	117,156	49,827
Amounts (over)/under provided in previous periods ³	(8,425)	34,002
	108,731	83,829
<i>Deferred corporate income tax:</i>		
Origination and reversal of temporary differences	(37,229)	(91,268)
Revaluation effects of Silverstream contract	(9,547)	3,429
	(46,776)	(87,839)
Corporate income tax	61,955	(4,010)
<i>Current special mining right:</i>		
Special mining right charge ^{2,3}	7,899	9,360
	7,899	9,360
<i>Deferred special mining right:</i>		
Origination and reversal of temporary differences	1,526	(22,210)
Special mining right	9,425	(12,850)
Income tax expense as reported in the income statement	71,380	(16,860)

¹ Until 2019 the Mexican Internal Revenue Law granted to taxpayers a credit in respect of an excise tax (Special Tax on Production and Services, or IEPS for its acronym in Spanish) paid when purchasing diesel used for general machinery and certain mining vehicles. The credit could be applied against the annual Group's own corporate income tax. The credit is calculated on an entity-by-entity basis. During the six months period ended 30 June 2019 the Group recognized a credit of US\$8.1 million in respect of the period. As the IEPS deduction was itself taxable, the benefit was recognised at 70% of the IEPS calculated during the period.

² The special mining right allows the deduction of payments for mining concession rights up to the amount of the special mining right payable within the same legal entity. In the six months ended 30 June 2020, the Group credited US\$7.9 million (2019: US\$6.2 million) of mining concession rights against the special mining right. Prior to credits permitted under the special mining right regime, the current special mining right charge would have been US\$16.8 million (2019: US\$8.8).

The total mining concession rights paid during the six-month period were US\$11.3 million (2019: US\$10.7 million) and have been recognised in the income statement within cost of sales and exploration expenses. Mining concessions rights paid in excess of the special mining right cannot be credited to special mining rights in future fiscal periods, and therefore, no deferred tax asset has been recognised in relation to the excess.

³ 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. For more information of this amendment refer to note 10 in the 2019 Annual Report.

The amendment resulted in an increase in the current corporate income tax of US\$38.5 million and current special mining right 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, 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.

The effective tax rate for corporate income tax for the six months ended 30 June 2020 is 48.45% (six months ended 30 June 2019: (7.42%)) and 55.82% including the special mining right (six months ended 30 June 2019: (31.19%)). The main factors that increase the effective tax rate for corporate income tax below 30% are the of foreign exchange effect on tax value of assets and liabilities net of the deductible effect of foreign exchange loss of the period.

In addition to the effect of the voluntary tax amendment, the origination and reversal of temporary differences principally reflect reductions in provisional sales and the effect of movements in property, plant and equipment in the period.

8 Earnings per share

Earnings per share ('EPS') is calculated by dividing profit for the period 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.

For the six months ended 30 June 2020 and 30 June 2019, earnings per share have been calculated as follows:

	<i>Six months ended 30 June</i>	
	<i>2020</i>	<i>2019</i>
	<i>(in thousands of US dollars)</i>	
Earnings:		
Profit from continuing operations attributable to equity holders of the Company	64,525	70,165
Adjusted profit from continuing operations attributable to equity holders of the Company	86,802	62,163

Adjusted profit is profit as disclosed in the Interim Consolidated Income Statement adjusted to exclude revaluation effects of the Silverstream contract of US\$31.8 million loss (US\$22.2 million net of tax) (2019: US\$11.4 million gain and US\$8.0 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.

	<i>Six months ended 30 June</i>	
	<i>2020</i>	<i>2019</i>
Number of shares:		
Weighted average number of ordinary shares in issue ('000)	736,894	736,894
Earnings per share:		
Basic and diluted earnings per ordinary share from continuing operations (US\$)	0.088	0.095
Adjusted basic and diluted earnings per ordinary share from continuing operations (US\$)	0.118	0.084

9 Property, plant and equipment

The changes in property, plant and equipment, including right-of-use assets, during the six months ended 30 June 2020 are principally additions of US\$142.6 million (six months ended 30 June 2019: US\$245.3 million) and depreciation and amortisation of US\$252.4 million, of which US\$1.4 million was capitalised as a part of the cost of other fixed assets (six months ended 30 June 2019: US\$241.1 million, of which US\$0.10 million was capitalised). Significant additions include the development of Juanicipio project as well as plant equipment, the construction of the pyrites plant in the Fresnillo district and mine development in underground and open pit mines.

As of 30 June 2020, the Group has contractual commitments related to the construction and acquisition of property, plant and equipment of US\$180.9 million (30 June 2019: US\$250.0 million).

10 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 period ended 30 June was \$5.37 per ounce (30 June 2019: \$5.31 per ounce). Under the contract, the Group has the option to receive a net cash settlement from Peñoles attributable to the silver produced and sold from Sabinas, to take delivery of an equivalent amount of refined silver or to receive settlement in the form of both cash and silver. If, by 31 December 2032, the amount of silver produced by Sabinas is less than 60 million ounces, a further payment is due from Peñoles of US\$1 per ounce of shortfall. At 30 June 2020 the weighted average rate applied for the purposes of the valuation model calculated with reference to annual undiscounted cash flow was 7.08% (30 June 2019: 6.65%).

In the six months ended 30 June 2020, cash received in respect of the period of US\$7.8 million (six months ended 30 June 2019: US\$9.5 million) corresponds to 1.19 million ounces of payable silver (six months ended 30 June 2019: 1.3 million ounces). As at 30 June 2020, a further US\$4.0 million (30 June 2019: US\$3.7 million) of cash corresponding to 324,569 ounces of silver is due (30 June 2019: 374,432 ounces).

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

	2020	2019
	<i>(in thousands of US dollars)</i>	
Balance at 1 January:	541,254	519,093
Cash received in respect of the period	(7,851)	(9,528)
Cash receivable	(4,048)	(3,710)
Remeasurement (loss)/gain recognised in profit or loss	(31,824)	11,431
Balance at 30 June	497,531	517,286
Less - Current portion	24,874	20,303
Non-current portion	472,657	496,983

The US\$31.8 million unrealised loss recorded in the income statement (30 June 2019: US\$11.4 million gain) resulted mainly from the increase in the discount rate as a high uncertainty in the financial markets prevail, the updating of the Sabinas Reserves and Resources, inflation and exchange rate forecasts which were partially compensated by the unwinding of the discount and the increase in the forward silver price curve. See note 18 for further information on the inputs that have a significant effect on the fair value of this derivative.

11 Inventories

	As at 30 June 2020	As at 31 December 2019
	<i>(in thousands of US dollars)</i>	
Finished goods ¹	19,008	13,719
Work in progress ²	285,860	251,074
Operating materials and spare parts	107,181	103,740
Inventories at lower of cost and net realisable value	412,049	368,533
Allowance for obsolete and slow-moving inventories	(5,155)	(4,793)
Balance at lower of cost and net realisable value	406,894	363,740
Less - Current portion	315,274	272,120
Non-current portion ³	91,620	91,620

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

² Work in progress includes metals contained in ores on leaching pads. Refer to note 2 (c) for more detail related to change in work in progress inventories for the six months ended 30 June 2020 following a change in estimation.

³ The non-current inventories are expected to be processed more than 12 months from the reporting date.

12 Trade and other receivables

	<i>As at 30 June 2020</i>	<i>As at 31 December 2019</i>
	<i>(in thousands of US dollars)</i>	
Trade and other receivables from related parties (Note 16) ¹	218,592	206,982
Value added tax receivable	130,996	205,232
Other receivables from related parties (Note 16)	4,135	7,988
Other receivable from contractors	1,706	2,418
Other receivables	11,156	15,791
	<u>366,585</u>	<u>438,411</u>
Provision for credit impairment of other receivables	(638)	(769)
	<u>365,947</u>	<u>437,642</u>
Other receivables classified as non-current assets:		
Value added tax receivable	-	23,014
	<u>-</u>	<u>23,014</u>
	<u>365,947</u>	<u>460,656</u>

¹Trade receivables from related parties are valued at fair value based on forward market prices.

13 Cash and cash equivalents

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

	<i>As at 30 June 2020</i>	<i>As at 31 December 2019</i>
	<i>(in thousands of US dollars)</i>	
Cash at bank and on hand	1,490	3,347
Short-term deposits	513,169	333,229
Cash and cash equivalents	<u>514,659</u>	<u>336,576</u>

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.

14 Dividends paid

Dividends declared by the Company are as follows:

	<i>Per share US Cents</i>	<i>Amounts \$Million</i>
Six months ended 30 June 2020		
Total dividends paid during the period ¹	11.9	87.7
Six months ended 30 June 2019		
Total dividends paid during the period ²	16.7	123.1

¹ Final dividend for 2020 approved at the Annual General Meeting on 26 May 2020 and paid on 2 June 2020.

² Final dividend for 2019 approved at the Annual General Meeting on 21 May 2019 and paid on 24 May 2019.

The 2019 accounts referred to a technical breach of the Companies Act 2006 (the 'Act') which the Directors became aware of during 2019 whereby certain dividends paid between 2011 and 2019 (the 'Historic Dividends') had been made without having filed interim accounts in accordance with the Act. The relevant interim accounts have now been filed with the Registrar of Companies and these show that the Company had sufficient distributable reserves at the point at which each of the Historic Dividends was paid. The 2019 Directors' Report states that it was nevertheless the intention

of the Directors, as a matter of prudence, to put a resolution (the 'Resolution') to the annual general meeting held on 29 May 2020 (the '2020 AGM') to regularise the position. The Resolution, if passed, would have constituted a related party transaction under IAS 24 and the UK Listing Rules and so the Company would have been required to issue a detailed circular to shareholders in compliance with the related party transaction requirements set out in the UK Listing Rules in order to put the Resolution to the 2020 AGM.

Given the unprecedented impact of the COVID-19 pandemic since the approval of the 2019 Annual Report, and in light of the significant additional work required in connection with the preparation of a related party transaction circular in compliance with the requirements of the UK Listing Rules, the Company concluded not to put the Resolution before the 2020 AGM. This decision will have no effect on the monies received pursuant to the Historic Dividends and will not adversely impact shareholders or the Company. Nevertheless, the Directors keep the matter under review.

15 Contingencies

The contingencies in the Group's annual consolidated financial statements for the year ended 31 December 2019 as published in the 2019 Annual Report, are still applicable as of 30 June 2020, with the followings updates:

- With regards to tax audits, we summarise the status of on-going inspections:
 - 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.
 - 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 fully responded to the SAT's request of information and documentation. On March 6th and 10th 2020, the SAT notified to Minera Fresnillo and Minera Saucito, respectively, its Audit Report which contains its tax findings. On April 6th and 8th, 2020, Minera Fresnillo and Minera Saucito respectively, fully responded to the SAT's Audit Report, and are waiting for 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 companies fully responded to the SAT's request of information and documentation and are waiting for its response.

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.

16 Related party balances and transactions

The Group had the following related party transactions during the six months ended 30 June 2020 and 30 June 2019 and balances as at 30 June 2020 and 31 December 2019.

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

(a) Related party accounts receivable and payable

	<i>Accounts receivable</i>		<i>Accounts payable</i>	
	<i>As at 30 June</i>	<i>As at 31</i>	<i>As at 30</i>	<i>As at 31</i>
	<i>2020</i>	<i>December</i>	<i>June 2020</i>	<i>December</i>
		<i>2019</i>		<i>2019</i>
	<i>(in thousands of US dollars)</i>			
<i>Trade:</i>				
Metalúrgica Met-Mex Peñoles, S.A. de C.V.	218,592	206,982	53	409
<i>Other:</i>				
Industrias Peñoles, S.A.B. de C.V.	4,048	5,283	-	-
Metalúrgica Met-Mex Peñoles, S.A. de C.V.		2,662	-	-
Servicios Administrativos Peñoles, S.A. de C.V.	-	-	2,744	3,535
Servicios Especializados Peñoles, S.A. de C.V.	-	-	1,440	4,095
Fuentes de Energía Peñoles, S.A. de C.V.	-	-	2,192	1,735
Termoeléctrica Peñoles, S. de R.L. de C.V.	-	-	1,883	1,168
Eólica de Coahuila S.A. de C.V.	-	-	3,364	4,772
Other	87	43	1,439	2,185
	<u>222,727</u>	<u>214,970</u>	<u>13,115</u>	<u>17,899</u>

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

Other balances due from related parties:

	<i>As at 30 June 2020</i>	<i>As at 31 December 2019</i>
	<i>(in thousands of US dollars)</i>	
<i>Silverstream contract:</i>		
Industrias Peñoles, S.A.B. de C.V.	<u>497,531</u>	<u>541,254</u>

The Silverstream contract can be settled in either silver or cash. Details of the Silverstream contract are provided in note 10.

(b) Principal transactions with affiliates are as follows:

	Six months ended 30 June	
	2020	2019
	(in thousands of US dollars)	
Income:		
<i>Sales¹:</i>		
Metalúrgica Met-Mex Peñoles, S.A. de C.V.	1,052,714	1,001,995
<i>Other income</i>	1,428	3,222
Total income	1,054,142	1,005,217

¹ Figures are net of treatment and refining charges of US\$72.4 million (June 2019: US\$67.1 million). During 2020 there are no sales credited to development projects (June 2019: 0.1)

	Six months ended 30 June	
	2020	2019
	(in thousands of US dollars)	
Expenses:		
<i>Administrative Services:</i>		
Servicios Administrativos Peñoles, S.A. de C.V. ²	16,347	17,540
Servicios Especializados Peñoles, S.A. de C.V. ²	8,225	8,977
	24,572	26,517
<i>Energy:</i>		
Fuentes de Energía Peñoles, S.A. de C.V.	1,752	2,314
Termoeléctrica Peñoles, S. de R.L. de C.V.	8,588	7,478
Eólica de Coahuila, S.A. de C.V.	18,233	24,475
	28,573	34,267
<i>Operating materials and spare parts:</i>		
Wideco Inc	2,378	3,286
Metalúrgica Met-Mex Peñoles, S.A. de C.V.	3,126	4,524
	5,504	7,810
<i>Equipment repairs and administrative services:</i>		
Serviminas, S.A. de C.V.	1,949	4,857
<i>Insurance premiums:</i>		
Grupo Nacional Provincial, S.A.B. de C.V.	2,923	1,719
<i>Other expenses</i>	943	1,142
Total expenses	64,464	76,312

² Based on the Service Agreement with Servicios Administrativos Peñoles, S.A. de C.V., ("SAPSA") and Servicios Especializados Peñoles, S.A. de C.V. ("SEPSA"), both wholly owned Peñoles' subsidiaries, the companies provided administrative services during the six months ended 30 June 2020 for a total amount of US\$24.6 million (US\$26.5 million for the six months ended 30 June 2019). Of the total amount of these services, US\$23.4 million (US\$24.3 million for the six months ended 30 June 2019) were recognised in administrative expenses and US\$1.2 million (US\$2.2 million for six months ended 30 June 2019) 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 who receive remuneration.

	<i>Six months ended 30 June</i>	
	<i>2020</i>	<i>2019</i>
	<i>(in thousands of US dollars)</i>	
Salaries and bonuses	1,627	2,197
Post-employment pension	129	141
Other benefits	127	143
Total compensation paid to key management personnel	<u>1,883</u>	<u>2,481</u>

17 Notes to the consolidated statement cash flows

	<i>Notes</i>	<i>Six months ended 30 June</i>	
		<i>2020</i>	<i>2019</i>
		<i>(in thousands of US dollars)</i>	
Reconciliation of profit for the period to net cash generated from operating activities			
Profit for the period		56,501	70,914
Adjustments to reconcile profit for the period to net cash inflows from operating activities:			
Depreciation and amortisation	9	252,411	241,074
Employee profit sharing		8,002	4,563
Deferred income tax expense	7	(45,250)	(110,049)
Current income tax expense	7	116,630	93,189
(Gain)/loss on the sale of property, plant and equipment		(109)	127
Net finance costs		16,158	27,804
Foreign exchange loss/(gain)		19,819	(506)
Difference between pension contributions paid and amounts recognised in the income statement		517	477
Non cash movement on derivatives		(259)	(79)
Changes in fair value of Silverstream	10	31,824	(11,431)
Working capital adjustments			
Decrease in trade and other receivables		71,323	15,730
Decrease/(increase) in prepayments and other assets		1,996	(7,741)
Increase in inventories		(43,154)	(25,918)
Increase in trade and other payables		7,139	10,377
Cash generated from operations		<u>493,548</u>	<u>308,531</u>
Income tax paid ¹		(63,984)	(127,986)
Employee profit sharing paid		(7,046)	(12,849)
Net cash from operating activities		<u>422,518</u>	<u>167,696</u>

¹ Income tax paid includes US\$61.4 million corresponding to corporate income tax (June 2019: US\$111.2 million) and US\$2.2 corresponding to special mining right (June 2019: US\$17.9 million), for further information refer to note 7.

18 Financial instruments

a. Classification

As at 30 June 2020				
US\$ thousands				
Financial assets:	Amortized cost	Fair value through OCI	Fair value (hedging instruments)	Fair value through profit or loss
Trade and other receivables (Note 12 ¹)	1,155	-	-	222,640
Equity instruments at FVOCI	-	143,124	-	-
Silverstream contract (Note 10)	-	-	-	497,531
Derivative financial instruments	-	-	3,666	-
Financial liabilities:		Amortised Cost	Fair value (hedging instruments)	Fair value through profit or loss
Interest-bearing loans		801,772	-	-
Trade and other payables		118,329	-	-
Lease liabilities		12,859	-	-
Derivative financial instruments		-	8	-

¹ Relates to trade and other receivables from related parties and contractors, net of the provision for impairment

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 12 ¹)	4,353	-	-	212,265
Equity instruments at FVOCI	-	123,024	-	-
Silverstream contract	-	-	-	541,253
Derivative financial instruments	-	-	2,623	-
Financial liabilities:		Amortised Cost	Fair value (hedging instruments)	Fair value through profit or loss
Interest-bearing loans		801,239	-	-
Trade and other payables		117,358	-	-
Lease liabilities		12,544	-	-
Derivative financial instruments		-	1,789	-

¹ Relates to trade and other receivables from related parties and contractors, net of the provision for impairment

b. Fair value measurement

Fair value hierarchy

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: a) in the principal market for the asset or liability, or b) 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 interim consolidated 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.

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

	Carrying amount		Fair value	
	30 June 2020	31 December 2019	30 June 2020	31 December 2019
	<i>US\$ thousands</i>			
Financial assets:				
Trade and other receivables	1,155	4,353	1,155	4,353
Financial liabilities:				
Interest-bearing loans ¹	801,772	801,239	865,360	870,208
Trade and other payables	113,098	125,121	113,098	125,121

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

The carrying amounts of all other financial instruments are measured at fair value.

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

As of 30 June 2020				
Fair value measure using				
	Quoted prices in active markets (Level 1)	Significant observable (Level 2)	Significant unobservable (Level 3)	Total
<i>US\$ thousands</i>				
Financial assets:				
Trade receivables (Note 12)	-	-	222,640	222,640
Derivative financial instruments:				
Option commodity contracts	-	1,692	-	1,692
Option and forward foreign exchange contracts	-	1,974	-	1,974
Silverstream contract (Note 10)	-	-	497,531	497,531
Other financial assets:				
Equity instruments at FVOCI	143,124	-	-	143,124
	143,124	3,666	720,170	866,961
Financial liabilities:				
Derivative financial instruments:				
Option commodity contracts	-	-	-	-
Option and forward foreign exchange contracts	-	8	-	8
	-	8	-	8
As of 31 December 2019				
Fair value measure using				
	Quoted prices in active markets (Level 1)	Significant observable (Level 2)	Significant unobservable (Level 3)	Total
<i>US\$ thousands</i>				
Financial assets:				
Trade receivables (Note 12)			212,265	212,265
Derivative financial instruments:				
Option commodity contracts	-	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:				
Options commodity contracts	-	1,529	-	1,529
Option and forward foreign exchange contracts	-	260	-	260
	-	1,789		1,789

There have been no significant transfers between Level 1 and Level 2 of the fair value hierarchy, and no transfers into or 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 10) is shown below:

	2020	2019
	<i>US\$ thousands</i>	
Balance at 1 January	206,982	213,202
Sales	2,346,142	2,542,501
Cash collection	(2,335,450)	(2,560,613)
Changes in fair value ¹	11,324	5,299
Realised embedded derivatives during the year ¹	(10,406)	(7,985)
Balance at 30 June	218,592	192,404

¹ Changes in fair value and realised embedded derivatives during the year are recognised in revenues.

Valuation techniques

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

Option commodity contracts

The Group enters into derivative financial instruments with various counterparties, principally financial institutions with investment grade credit ratings. The Level 2 option commodity 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.

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 Level 2 foreign currency forward 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.

Silverstream contract (see note 10)

The fair value of the Silverstream contract is determined using a valuation model. The term of the derivative, which is based on Sabinas life of mine is currently 34 years and the valuation model utilises a number of inputs that are not based on observable market data due to the nature of these inputs and/or the duration of the contract. Inputs that have a significant effect on the recorded fair value are the volume of silver that will be produced and sold from the Sabinas mine over the contract life, the future price of silver, future foreign exchange rates between the Mexican peso and US dollar, future inflation and the discount rate used to discount future cash flows.

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

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

The following table demonstrates the sensitivity of the Silverstream contract valuation to reasonably possible changes in those inputs. There are no changes to equity other than those derived from the changes in profit before tax.

30 June 2020	Increase/ (decrease)	Effect on profit before tax: increase/ (decrease) <i>US\$ thousands</i>
Silver price	15% (25%)	101,555 (169,259)
Foreign exchange rate: strengthening/(weakening) of the US dollar	20% (15%)	(86) 91
Interest rate	25 basis point (25 basis point)	(14,649) 15,365
31 December 2019	Increase/ (decrease)	Effect on profit before tax: increase/ (decrease) <i>US\$ thousands</i>
Silver price	20% (15%)	146,873 (110,155)
Foreign exchange rate: strengthening/(weakening) of the US dollar	5% (5%)	(40) 44
Interest rate	50 basis point (50 basis point)	(32,969) 36,322

Equity investments

The fair value of equity investments is derived from quoted market prices in active markets.

Interest-bearing loans

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

Receivables from provisional sales

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

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

c. 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, including loans from related parties, as disclosed in the balance sheet, excluding net unrealised gains or losses on revaluation of cash flow hedges and debt instruments. 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 as at 30 June 2020 and 2019 consisted of only cash and cash equivalents.