INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FRESNILLO PLC

OPINION

In our opinion:

- Fresnillo plc's Group financial statements and Parent Company financial statements (the 'financial statements') give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2019 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006, and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements of Fresnillo plc which comprise the:

Group	Parent company
Consolidated balance sheet as at 31 December 2019	Parent Company balance sheet as at 31 December 2019
Consolidated income statement for the year then ended	Parent Company statement of changes in equity for the year then ended
Consolidated statement of comprehensive income for the year then ended	Parent Company statement of cash flows for the year then ended
Consolidated statement of changes in equity for the year then ended	Related notes 1 to 17 to the financial statements, including a summary of significant accounting policies
Consolidated statement of cash flows for the year then ended	
Related notes 1 to 30 to the financial statements, including a summary of significant accounting policies	

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report below. We are independent of the Group and Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

CONCLUSIONS RELATING TO PRINCIPAL RISKS, GOING CONCERN AND VIABILITY STATEMENT

We have nothing to report in respect of the following information in the annual report, in relation to which the ISAs(UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the annual report set out on pages 88-101 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation set out on pages 133-134 in the annual report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- the directors' statement set out on page 103 in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- whether the directors' statement in relation to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the directors' explanation set out on pages 102-103 in the annual report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

OVERVIEW OF OUR AUDIT APPROACH

Key audit matters	• Recognition of related party transactions, including revenue recognition; • Valuation of the Silverstream contract; • Recoverable amount of mining assets; • Recoverable amount of investments in subsidiaries (Parent Company only); and • Re-estimation of quantities held in leaching pads at Herradura.
Audit scope	• We performed an audit of the complete financial information of 6 components, being the 5 operating mining units and the Parent Company. These components accounted for: – 100% of Revenues; – 95% of Profit before tax, excluding Silverstream revaluation effects and material one-off transactions; and, – 82% of Total assets. • In addition, we performed specified procedures on specific balances at a further 5 components. These components accounted for: – 100% of the Silverstream revaluation effects; – 5% of Profit before tax excluding Silverstream revaluation effects and material one-off transactions; and, – 17% of Total assets.
Materiality	• Overall Group materiality was set at US$19.7 million which represents 5% of the average of profit before tax, prior to Silverstream revaluation effects and material one-off transactions over the last five years.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FRESNILLO PLC
CONTINUED

In the table below, each key audit matter is attributed an icon which is used to map these to our components in scope in the subsequent section.

KEY AUDIT MATTER

RECOGNITION OF RELATED PARTY TRANSACTIONS, INCLUDING REVENUE RECOGNITION ◆

- All of the Group's current year revenue from the sale of goods, being concentrates, doré, activated carbon, slag and precipitates (US$2,126.0 million; 2018: US$2,102.7 million), and a significant amount of its expenses incurred (US$155.0 million; 2018: US$137.1 million), arise from transactions with related parties. The Silverstream contract is also with a related party. These related parties are principally subsidiaries of the Group's direct parent, Industrias Peñoles ('Peñoles').
- Principal transactions include the sale of goods to the Met-Mex Peñoles refinery, administrative services received and the Silverstream contract.
- There is a risk that, if not at arm's length or not reflecting the goods or services provided in the period, such transactions could be used to manipulate earnings or to distribute profits to the Group's parent.
- There is also a risk that revenues are inappropriately recognised as a result of incorrect cut-off or inappropriate measurement of product sold.
- There is an ongoing focus by the Mexican tax authorities on transfer pricing as reflected by recently concluded and on-going tax inspections. There is therefore the potential risk of tax exposures arising from related party transactions.

➲ Our judgement is that the level of risk in this area remains consistent with the prior year.

We have not made significant changes to our audit response compared to the prior year.

Related party transactions are disclosed in Note 26 to the consolidated financial statements, Revenues in Note 4 and relevant accounting policies in Note 2.

OUR AUDIT RESPONSE

We performed full scope audit procedures over this risk area in 6 components, which covered 100% of the aggregate risk amount relating to revenue and 64% relating to related party expenses. In addition, we performed specified procedures in 2 components which covered 30% of the aggregate risk amount relating to related party expenses. We also performed specified procedures over the Silverstream contract, which covered 100% of the risk amount.

Identification of related parties and related party transactions	• We evaluated the appropriateness of management's process for identifying, recording and reporting related party transactions and tested relevant controls. • We assessed the role of the Audit Committee in identifying and monitoring related party transactions. • We read contracts and agreements with related parties to understand the nature of the transactions. • Throughout the performance of our audit procedures, we remained alert for any related party transactions not already identified by management or that are outside the normal course of business.
Revenue recognition	• We obtained confirmations of 100% of the revenue, including quantities delivered, and the period-end receivable balance. • On a sample basis we performed testing to verify physical deliveries of product in the year. • We performed revenue cut-off testing, by reference to shipment dates. • We evaluated the appropriateness of the accounting for embedded derivatives arising from the provisional pricing terms in sales contracts. • We obtained an understanding of the basis of the treatment and refining charges negotiated between the Group and Peñoles for the current year, these being deducted from revenue. We confirmed principal inputs to external benchmarks or other evidence. • We performed overall analytical procedures which consisted of comparing actual revenues on a disaggregated basis to detailed expectations developed based on production in the year and market prices for relevant metals and obtained explanations for any material variances.
Silverstream contract	• We tested a sample of cash receipts in respect of silver that is payable under the contract in the year. • The valuation of the Silverstream contract is discussed separately as a key audit matter below.
Other transactions with related parties	• On a sample basis we tested related party expenses against underlying contractual terms. • We utilised data analysis tools to interrogate entire data sets for potential related party transactions. • We compared actual results against detailed expectations of income statement line items impacted by related party transactions to corroborate that there was no evidence of manipulation.
Accuracy of disclosures	• We verified that related party disclosures in the financial statements are consistent with the results of our audit procedures.

Transfer pricing considerations	• We, along with our internal transfer pricing specialist, obtained and reviewed the most recent report (for 2018) to management from its transfer pricing specialists, as well as an update letter issued in early 2020 in respect of 2019. • We assessed the competence, capabilities and objectivity of management's specialist. • Our transfer pricing specialist inspected information to support transactions between Fresnillo and Peñoles.
Management override	• We performed overall analytical review procedures applying a low variance threshold at a disaggregated level, comparing production quantities against mine plans. We obtained explanations for variances through interviews with management and members of the Executive Committee, internal reporting to the Executive Committee and published production reports. Where relevant, we corroborated those explanations through EY's data analysis tools and external sources of information. • We also used EY's data analysis tools to search for terms indicating related parties and prepared a summary of transactions related to known related-party vendors and customers, which we compared to the schedule provided by management to the Audit Committee.

KEY OBSERVATIONS COMMUNICATED TO THE AUDIT COMMITTEE

- Our procedures did not identify issues with the identification, recording or reporting of related party transactions.
- We concluded that revenue recognition in the year is appropriate, including the treatment of related provisional pricing terms.
- In respect of transfer pricing in transactions with related parties, we confirmed that the methodology for determining transfer pricing in respect of the transactions with other Peñoles companies has not changed during the year and remains appropriate.

KEY AUDIT MATTER

VALUATION OF THE SILVERSTREAM CONTRACT ■

- The valuation of the Silverstream contract (asset value: US$541.3 million at 31 December 2019; 2018: US$519.1 million; revaluation effect: US$48.4 million pre-tax gain in 2019; 2018: US$15.0 million pre-tax gain), a derivative financial instrument, is estimated by management using a discounted cash flow model.
- Key assumptions are the estimation of the reserves and resources and the related production profile of the Sabinas mine (owned and operated by Peñoles), future silver prices and the discount rate applied. These assumptions require management judgement and estimation.
- The resulting valuation is sensitive to changes in future silver prices and the discount rate applied which may result in material revaluation effects in the financial statements.

Our judgement is that the level of risk has increased as a result of changes to the process for preparing the mine plan for Sabinas' operations.

We have made changes to our audit response in respect of the production profile of the Sabinas mine to evaluate whether the mine plan provides a basis that a market participant would consider, as set out below.

The nature of the Silverstream contract and related valuation considerations are disclosed in Note 13 to the consolidated financial statements and the relevant accounting policies in Note 2.

OUR AUDIT RESPONSE

We performed specified procedures over the valuation of the Silverstream contract at 31 December 2019 and related income statement revaluation effects. These procedures covered 100% of the risk amount.

Valuation model	• In conjunction with our valuation specialists, we evaluated the appropriateness of the valuation approach and related model used by the Company to determine the fair value of the Silverstream contract under accounting standards.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FRESNILLO PLC
CONTINUED

KEY AUDIT MATTER	
Reserves and resources and production profile of the Sabinas mine	• We interviewed the Sabinas mine geologist in order to understand the assumptions used in the estimation of reserves and resources and movements in the estimation in the year. • We interviewed management in financial and operational areas in respect of their review of the Sabinas mine plan prepared by Peñoles, focusing on the comparisons between the current year plan and the 2018 plan prepared under the previous process; • We confirmed that the appropriate members of the Sabinas mine planning team were involved in the preparation of the mine plan underpinning the Silverstream valuation; • Controls over the development of the mine plan are our primary source of assurance in this respect. We therefore issued instructions to the auditor of Peñoles to perform procedures and report to us in respect of the reserves and resources estimate and the mine plan of the Sabinas mine. These procedures included: – conducting walkthroughs to confirm our understanding of Peñoles management's processes to estimate quantities of reserves and resources and to develop the Sabinas mine plan; – testing of certain key Peñoles controls which address the risks associated with the estimation of reserves and resources quantities and the accuracy of the resulting mine plan; – gaining an understanding of reasons for changes in estimates of reserves and resources in the year; – assessing the professional competence, capabilities and objectivity of Peñoles' internal specialists involved in the estimation of reserves and resources quantities; and – evaluating the reasonableness and appropriateness of inputs to the reserves and resources estimates and Sabinas mine plan used at 31 December 2019, by reference to external market and internal operational benchmarks. • We discussed the results of the above procedures with the auditor of Peñoles and reviewed key working papers.
Key economic assumptions in the valuation	• With assistance from our valuation specialists we corroborated key economic assumptions in the valuation, including future silver prices and the discount rate applied. • This included comparison to market data to consider the appropriateness of silver price and discount rate assumptions when considered together in the valuation model and analysis of the consistency of assumptions to other accounting estimates. • We performed sensitivity analysis on the combination of silver price assumptions and discount rate.

KEY OBSERVATIONS COMMUNICATED TO THE AUDIT COMMITTEE

- We noted that the valuation model is consistent with that used in prior periods and we consider this appropriate for the nature of this long-term derivative contract.
- Our procedures confirmed that the mine plan underpinning the valuation was estimated in an appropriate way.
- We highlighted the sensitivity of the valuation to economic input assumptions, most significantly silver price and discount rate. Both management's long-term silver price and discount rate assumptions are at the lower end of respective ranges considered appropriate by EY valuation specialists, with off-setting impacts.
- We, therefore, performed sensitivity analysis to quantify the financial impact of changing both of these assumptions to levels at the mid-point of our range of acceptable values.
- We concluded that the overall valuation of the contract is above the range considered appropriate by EY valuation specialists, albeit by an amount less than our performance materiality. The difference between our range and management's valuation was reported as an unadjusted audit difference.

KEY AUDIT MATTER

RECOVERABLE AMOUNT OF MINING ASSETS ▲

- The identification of indicators of impairment is judgemental.
- When an impairment test is performed, the key assumptions underpinning management's assessment of the recoverable amount of mining assets are reserves and resources and related mine plans and production profiles, estimated future operating and capital expenditure, future commodity prices, exchange rates and the discount rates applied.
- The estimation of mineral reserves and resources quantities of the Group's mines requires significant judgement and estimation.
- The Group's reserves and resources are audited by SRK, a specialist engaged by management.
- Changes to assumptions could lead to material changes in estimated recoverable amounts, resulting in impairment of property plant and equipment (net book value being US$2,813.4 million, 2018 US$2,693.1 million). There is no impairment taken in prior years that may be reversed.

Our judgement is that the level of risk in this area has increased as a result of performance at certain mines being below expectation in the year.

We have made changes to our audit response in respect of key internal assumptions as set out below.

Management's assessment of the judgement and estimation required is set out in Note 2 to the consolidated financial statements, with results of management's assessment for impairment in Note 12. The reserves and resources tables are presented on pages 238-241, after the Parent Company notes.

OUR AUDIT RESPONSE

We performed full scope audit procedures over this risk area in 6 components, which covered 100% of the risk amount.

Indicators of impairment and methodology used to estimate recoverable values	• We reviewed management's identification of indicators of impairment under accounting standards. • We assessed the methodology used by management to estimate the recoverable value of each mining asset for which an impairment test was performed to ensure that this is consistent with accounting standards.
Estimation process for reserves and resources including external specialists engaged by management	• We walked through the process of the estimation of the reserves and resources quantities and tested relevant controls. • We walked through the process of determining mine plans from estimated reserves and resources quantities. • We assessed SRK's competence, capabilities and objectivity as a specialist engaged by management to audit the Group's estimates of reserves and resources and confirmed the scope of their work was appropriate for the purpose of financial reporting. • We read SRK's report, gained an understanding of the changes in reserves and resources estimates in the year and considered their observations on the Group's reserve and resource estimation process insofar as they affect the financial statements. • We engaged our own specialist (geologist) to evaluate the information provided by management's geologist. • We discussed directly with SRK the results of their report and compared their observations to other audit evidence.

KEY AUDIT MATTER

Key internal assumptions used in management's estimate of the recoverable values of mining assets	• We agreed related production profiles to the current mine plans for each mine and considered their consistency with our understanding of future plans at the mines obtained through interviews with both operating and senior management. • In the current year, members of the primary team visited the Fresnillo mine and held meetings with mine management to further our understanding of the mine's performance and recovery plans, observe the progress of certain capital projects and consider how these have been reflected in the production profile. • We assessed operating and capital costs included in the cash flow forecasts for consistency with current operating costs and forecast mine production and other forecast information. • We assessed the appropriateness of production sensitivities performed by management, with a focus on that for the San Julián mine given ore grade variability experienced in the year.
Key external assumptions used in management's estimate of the recoverable values of mining assets	• Working with our valuation specialists we assessed management's assumptions relating to future metals prices and discount rates, comparing these to market data and also for consistency with other estimates used in the financial statements. • We have performed sensitivity analysis on management's calculated recoverable values for alternative assumptions for metals prices and the discount rate applied.
Sensitivity disclosures	• We assessed the appropriateness of sensitivity disclosures included in the financial statements in light of our other audit procedures.

KEY OBSERVATIONS COMMUNICATED TO THE AUDIT COMMITTEE

- We assessed SRK as an appropriate specialist engaged by management for the purposes of auditing the reserves and resources of the Group.
- We confirmed that the audited reserves and resources estimates have been appropriately used in relevant financial statement calculations, including mine plans underpinning impairment tests.
- We consider the approach to determining the recoverable value of mining assets tested for impairment to be appropriate.
- Our procedures confirmed that the estimates of operating and capital costs are consistent with the production profiles of respective mines and related mine plans.
- We consider that management's discount rates applied are at the lower end of an acceptable range and we highlighted the impact of using alternative assumptions for discount rate as well as metals prices on the estimated recoverable value of mining assets.
- We concluded that the carrying values of mining assets are recoverable at 31 December 2019.
- We conclude that the sensitivity disclosures in the financial statements are appropriate given the limited headroom for certain assets.

KEY AUDIT MATTER

Recoverable amount of investment in subsidiaries (Parent Company only) ∇

- Investments in subsidiaries (US$5,546.9 million, 2018 US$6,415.1 million) are more sensitive to changes in recoverable value than the Group's underlying mining assets because these investments were re-measured at fair value in 2008 when the Group was established ahead of its Initial Public Offering.
- The principal driver of the recoverable amount of investments in subsidiaries is the estimated value of underlying mining assets held by the Group's subsidiaries. Refer to related considerations in the related key audit matter above.
- In addition, management estimates the recoverable value of exploration projects in considering the recoverable value of subsidiaries.
- Changes to assumptions could lead to material changes in estimated recoverable amounts, resulting in either impairment or reversals of impairment taken in prior years (2019 aggregate impairment of US$949.8 million, 2018 aggregate impairment of US$725.9 million).

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FRESNILLO PLC
CONTINUED

Our judgement is that the level of risk in this area has increased as a result of performance at certain mines being below expectation in the year and the legal separation of Minera San Julián from Minera Fresnillo and the resulting reassignment of investment balances.

Our response to the performance at certain mines is set out in the key audit matter above. We performed additional procedures in the current year in respect of the legal separation.

Management's assessment of the judgement and estimation required is set out in Note 2 to the Parent Company financial statements, with management's assessment of investments in subsidiaries included in Note 5.

OUR AUDIT RESPONSE

We performed full scope audit procedures over this risk area in 1 component, which covered 100% of the risk amount.

Key internal assumptions used in management's estimate of the recoverable value	• We have assessed the methodology used by management to estimate the recoverable value of each investment for which an impairment test was performed to ensure that this is consistent with accounting standards. • Refer to the key audit matter above with respect to procedures performed relating to the recoverable value of mining assets. • We have evaluated management's approach to valuing exploration prospects.
Key external assumptions used in management's estimate of the recoverable value	• Refer to the key audit matter above with respect to procedures performed relating to the recoverable value of mining assets. • We have performed sensitivity analysis on management's calculated recoverable values for alternative assumptions around metals prices and the discount rate applied.
Legal separation of Minera San Julián	• We assessed management's judgements related to the valuation of investment in Minera San Julián upon its legal separation from Minera Fresnillo. • We agreed the support for the calculation of that investment to historical records of investment in San Julián.
Sensitivity disclosures	• We assessed the appropriateness of sensitivity disclosures included in the financial statements in light of our other audit procedures.

KEY OBSERVATIONS COMMUNICATED TO THE AUDIT COMMITTEE

- We confirmed that our observations with respect to the recoverable amount of mining assets above are also relevant for the recoverable amount of investments in subsidiaries.
- We concluded that the judgements relating to the amounts of investment attributable to Minera San Julián upon its legal separation from Minera Fresnillo were reasonable.
- We conclude that the impairment reflected in the Parent Company financial statements is appropriate.
- We conclude that the sensitivity disclosures in the financial statements are appropriate.

KEY AUDIT MATTER

RE-ESTIMATION OF QUANTITIES HELD IN LEACHING PADS AT HERRADURA ●

- The recoverable quantity of gold from leaching pads is an estimate requiring consideration of a number of variables and is likely to evolve over time as further information is obtained from ongoing leaching activities and the analysis of the ore deposited.
- We consider that there is a risk of manipulation of the estimate as a result of management judgement involved in interpreting the results of any new testing in the year in combination with ongoing sales recovery information from the pads. This includes the extent to which any new test information is extrapolated across the full extent of the Herradura leaching pads.
- There is also judgement involved in the timing of the recognition of any change in estimate and the related effects on the financial statements.
- An increase in estimated recoverable gold content would result in a reduction of the cost of inventory per ounce and therefore of cost of sales.

Our judgement is that the level of risk in this area has remained at a similar level, although the nature of the risk has changed as no new testing data had become available.

We have changed our audit response to reflect the change in the nature of the risk.

Inventories are disclosed in Note 14 and cost of sales in Note 5 to the consolidated financial statements. The relevant accounting policies are set out in Note 2.

OUR AUDIT RESPONSE	
We performed full scope audit procedures over this risk area in the impacted component, which covered 100% of the risk amount.	
Methodology applied to make estimate	• We assessed the competence, capabilities and objectivity of management's geologist involved in estimating the recoverable quantity of gold from leaching pads. • We engaged an external specialist (geologist) to evaluate management's process for estimating the quantity of recoverable gold from leaching pads.
Calculation of estimate and related financial statement effects	• We challenged management as to whether there were operational indicators to suggest that a change to the estimated recovery rate was required during the year. • We performed sensitivity analysis of the impact that a potential change to the estimated recovery rate would have on cost of sales in 2019. • We reviewed the disclosures regarding estimation uncertainty in the financial statements to confirm their accuracy and clarity.
Management override	• We considered indicators of management bias in estimating the recovery rate. • As the evaluation of related controls requires the evaluation of the assumptions used in, and the output of, that process, we do not seek to rely on these controls. We increased the level of challenge when performing our substantive procedures, including the engagement of a specialist as discussed above.

KEY OBSERVATIONS COMMUNICATED TO THE AUDIT COMMITTEE

- Heap leach recovery rates are an estimate that continues to be refined as new information is obtained.
- We demonstrated the potential range that adjusting the estimated recovery rate could have had on 2019 cost of sales.
- We concluded that the estimated recovery rate in 2019 was appropriate.

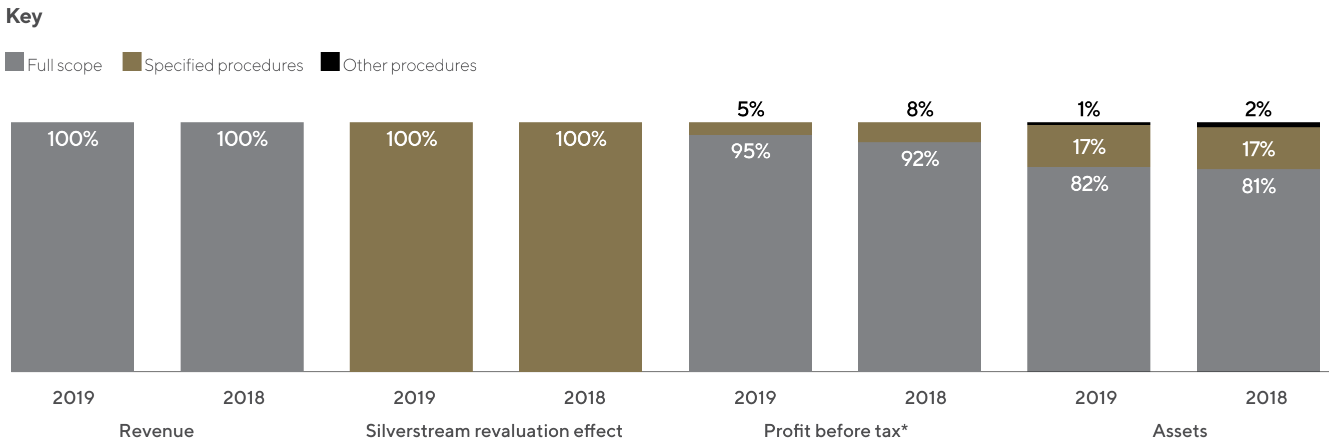
INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FRESNILLO PLC
CONTINUED

OVERVIEW OF THE SCOPE OF OUR AUDIT
TAILORING THE SCOPE OF OUR AUDIT
Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the Group, the effectiveness of group-wide controls, changes in the business environment and other factors such as recent Internal audit results when assessing the level of work to be performed at each entity.

We performed an audit of the complete financial information of 6 components (2018: 6) ('full scope components') which were selected based on their size or risk characteristics. These components cover the operating mining units in Mexico and the Parent Company. In some instances, operating mining units include more than one operating mine; the Penmont mining unit includes the Herradura, Noche Buena and Soledad & Dipolos mines.

We also performed specified audit procedures on specific account balances in a further 5 components (2018: 4). These accounts included property, plant and equipment, cash and cash equivalents administrative expenses, exploration expenses, taxation and all balances relating to the Silverstream contract. The procedures performed were on those account balances within those components which we deemed to be significant either because of the size of these accounts or their risk profile.

The reporting components where we performed audit procedures represented:



* Excludes sales, Silverstream revaluation effects, and material one-off transactions, being the interest expense arising on the voluntary tax amendment (2019) and the partial reimbursement for the insurance claim relating to the flood at Saucito (2018).

The audit scope of components at which we perform specified procedures may not include testing of all significant accounts of the component but will have contributed to the coverage reflected above.

The remaining components together represent an effect on the Group's Profit before tax excluding Silverstream revaluation effects and material one-off transactions (being the interest expense arising on the voluntary tax amendment (2019) and the partial reimbursement for the insurance claim relating to the flooding at Saucito (2018)), of less than 1% (2018: less than 1%) and 1% of total assets (2018: 2%). For these components, we perform other procedures, including analytical review and testing of consolidation journals and intercompany eliminations to respond to any potential risks of material misstatement in the Group financial statements.

CHANGES FROM THE PRIOR YEAR
In the current year, we have added Chile as a specified procedure scope component, in response to the increase in exploration expenses in that company.

INVOLVEMENT WITH COMPONENT TEAMS

All of the Group's significant operations are in Mexico and are audited by one local team under our direct supervision.

	Work performed by	
	Primary team	One component team under our direct supervision
Full scope components	● (Parent Company)	●●●●●
Components on which specified audit procedures are performed	●*●	●*●●

*In respect of the valuation of the Silverstream contract, the Primary team performs principal procedures relating to estimation directly. The component team performs certain supporting procedures regarding cash receipts, and the auditor of Peñoles provides support in respect of procedures on the estimation of reserve and resource quantities and the related mine plan at the Sabinas mine.

In establishing our overall approach to the Group audit, we determined the type of work that needed to be undertaken at each of the components by us, as the primary audit engagement team, or by the component auditor operating under our instruction. Of the 6 full scope components, audit procedures were performed on 1 directly by the primary audit team. For the components at which specified procedures were performed by component auditors, we determined the appropriate level of involvement to enable us to determine that sufficient audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole.

The primary engagement team, including the Senior Statutory Auditor, visited Mexico four times during the audit, during both the planning and execution phases, with members of the team working with and supervising the component team in Mexico for a number of weeks over several visits. These visits involved discussion and oversight of the component team audit approach, consideration of any accounting and auditing issues arising from their work, reviewing key audit working papers, meeting with management and attending closing meetings. In addition, members of the primary engagement team visited the Fresnillo mine, the Pyrites Plant and the Juanicipio development project during the year. This, together with the additional procedures performed at Group level, gave us appropriate evidence for our opinion on the Group financial statements.

Senior members of the component team attended Global Team Planning Events in the planning phase of the audit, discussed the results of interim and hard close procedures and interacted regularly with the local team between visits to Mexico as appropriate. The primary engagement team is predominantly composed of Spanish speakers in order to further enhance our interactions with both the component team and management.

The primary team was responsible for the scope and direction of the audit process. For certain procedures, in particular areas involving significant judgement and heightened audit risk, we performed work ourselves with support where required from the component team. In other cases, we reviewed key working papers including, but not limited to, the risk areas described above.

OUR APPLICATION OF MATERIALITY

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

MATERIALITY

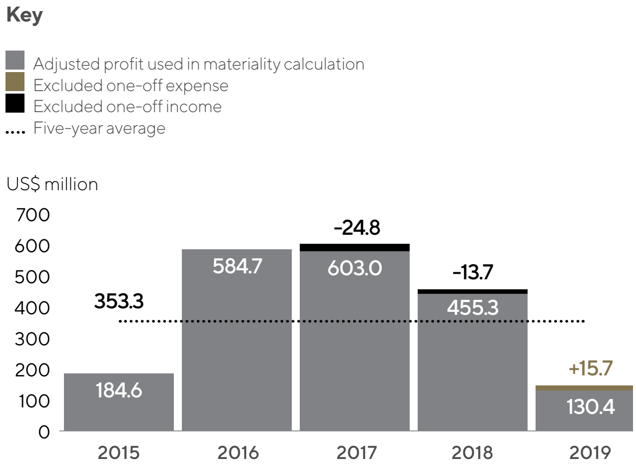
The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

In previous years, we determined materiality for the Group to be 5% of profit before tax prior to Silverstream revaluation effects, adjusted for any material one-off transactions ('basis profit'). At planning, we use forecast profit figures. We believe this measure of profit represents one of the main considerations for members of the Group, particularly as the Silverstream revaluation effects are principally non-cash in nature and one-off transactions are not reflective of the on-going operations of the business.

In the current year the Group has been operating below historical levels of profitability. Although there can be no certainty over future levels of profitability, we have concluded that, solely for the purposes of determining materiality, there are sufficient indicators to normalise the basis profit using the average of that for the last five years. An illustration of our approach to normalising basis profit is set out below, with profit before tax prior to Silverstream revaluation effects as the starting point.

At planning, we determined materiality for the Group to be US$20.9 million. During the course of our audit, we updated its calculation for the actual financial results of the year, which resulted in materiality of US$19.7 million (2018: US$23.4 million).

We determined materiality for the Parent Company to be US$54.0 million (2018: US$70.0 million), which is 1% (2018: 1%) of equity. The materiality of the Parent Company is higher than that of the Group, reflective of the Parent Company's primary role being that of a holding company.



Note: One-off items during the measurement period include the gain on sale of concession (2017), the partial reimbursement for an insurance claim relating to flooding at Saucito (2018) and an interest expense arising on the voluntary tax amendment (2019).

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FRESNILLO PLC
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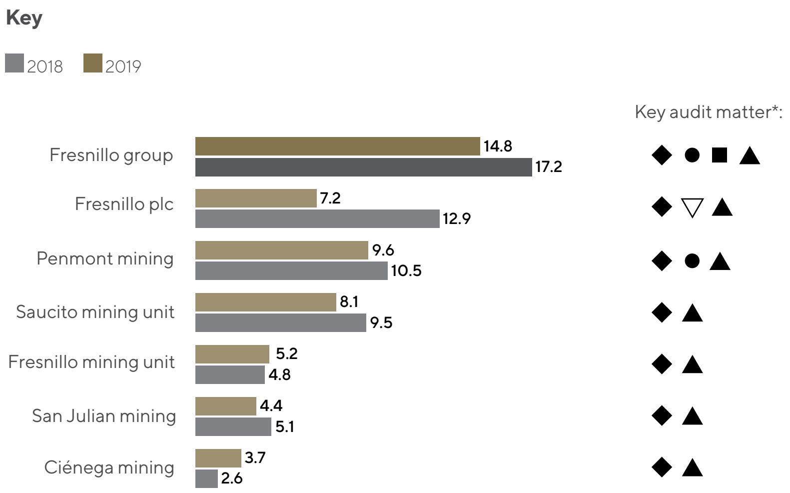
PERFORMANCE MATERIALITY

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality should be set at 75% (2018: 75%) of our planning materiality, being US$14.8 million (2018: US$17.5 million). We based this judgement on factors including the past history of misstatements, our ability to assess the likelihood of misstatements and the effectiveness of the internal control environment.

Audit work at component locations, for the purpose of obtaining audit coverage over significant financial statement accounts, is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. The performance materiality allocated to full-scope components in the current year is set out in the graph to the right.

Allocated performance materiality decreased in respect of all components, reflecting the overall performance of the Group.



* The icons correspond to the key audit matters set out above. Audit procedures in respect of the recoverable amount of investments in subsidiaries are performed at the performance materiality of the standalone Parent Company financial statements.

REPORTING THRESHOLD

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of US$1.0 million (2018: US$1.1 million), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

OTHER INFORMATION

Other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- Fair, balanced and understandable set out on page 135 – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- Audit committee reporting set out on pages 126-134 – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or
- Directors' statement of compliance with the UK Corporate Governance Code set out on page 111 – the parts of the directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R (2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

OPINIONS ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion, the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

In the light of the knowledge and understanding of the Group and the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

RESPONSIBILITIES OF DIRECTORS

As explained more fully in the directors' responsibilities statement set out on page 155, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

The objectives of our audit, in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group. We determined that the most significant, which are directly relevant to specific assertions in the financial statements, are those related to the reporting framework (IFRS, the Companies act 2006 and UK Corporate Governance Code), regulations impacting mining operations including mining laws, environmental and labour regulations and tax and employee profit sharing requirements in Mexico.
- We understood how Fresnillo plc is complying with those legal and regulatory frameworks by making enquiries to management, internal audit, those responsible for legal and compliance procedures and the company secretary. We corroborated our enquiries through our review of board minutes and papers provided to the Audit Committee.
- During the year, it was identified that certain dividend distributions, in the current year and previous years, were not made in accordance with The Companies Act 2006 because the necessary interim financial statements required to demonstrate that sufficient distributable reserves were available prior to payment of those dividends had not been filed at Companies House. We understood how the company, along with their legal and corporate secretarial advisors, plans to remedy these breaches and ensured that related disclosures in the financial statements were appropriate.
- We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur by meeting with management from various parts of the business to understand where it is considered there was a susceptibility of fraud. We also considered performance targets and their propensity to influence on efforts made by management to manage earnings. We considered the programs and controls that the Group has established to address risks identified, or that otherwise prevent, deter and detect fraud; and how senior management monitors those programs and controls. Where the risk was considered to be higher, we performed audit procedures to address each identified fraud risk. These procedures included testing manual journals and were designed to provide reasonable assurance that the financial statements were free of fraud or error.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FRESNILLO PLC
CONTINUED

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

OTHER MATTERS WE ARE REQUIRED TO ADDRESS

- We were appointed by the company on 4 May 2016 to audit the financial statements for the year ending 31 December 2017 and subsequent financial periods.
- The period of total uninterrupted engagement including previous renewals and reappointments is 12 years, covering periods from our initial appointment in 2008 through to the year ended 31 December 2019.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent Company and we remain independent of the Group and the Parent Company in conducting the audit.
- The audit opinion is consistent with the additional reports to the Audit Committee.

USE OF OUR REPORT

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Daniel Trotman
(Senior statutory auditor)
FOR AND ON BEHALF OF ERNST & YOUNG LLP, STATUTORY AUDITOR
London

3 March 2020

Notes:
1 The maintenance and integrity of the Fresnillo plc web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
2 Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

CONSOLIDATED INCOME STATEMENT
YEAR ENDED 31 DECEMBER

		Year ended 31 December 2019			Year ended 31 December 2018		
		US$ thousands			US$ thousands		
	Notes	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

	Notes	Year ended 31 December 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
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 2 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

		Attributable to the equity holders of the Company											
													US$ thousands
	Notes	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
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 (loss)/gain 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**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

Fresnillo plc ('the Company') is a public limited company 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 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 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.

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 property, plant and equipment 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'', 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(C) SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

Judgements

Areas of judgement, apart from those involving estimations, that have the most significant effect on the amounts recognised in the consolidated financial statements for the year ended 31 December 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, judgement 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; and
  - 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 unutilised 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 retranslated 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising at derecognition 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 derecognised.

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 derecognised. 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.

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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.

Derecognition 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(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 2019

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 recognised 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 Julián 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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; and
- 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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 reassessing 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 Ramón 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 Julián 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**	**Ciénega**	**Soledad-Dipolos**[4]	**Saucito**	**Noche Buena**	**San Julián**	**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.

Year ended 31 December 2018

US$ thousands	Fresnillo	Herradura	Ciénega	Soledad-Dipolos[4]	Saucito	Noche Buena	San Julián	Other[5]	Adjustments and eliminations	Total
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 Julián 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

4. REVENUES CONTINUED
(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 Julián 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

7. PERSONNEL EXPENSES CONTINUED
(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[3]	**16,956**	3,434
	70,670	50,010

3 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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10. INCOME TAX EXPENSE CONTINUED
(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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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10. INCOME TAX EXPENSE CONTINUED

(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 31 December 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 1 January 2019 and will remain in force until 31 December 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 authorisation 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 amortisation, 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 US$ thousands	Land and buildings	Plant and equipment	Mining properties and development costs	Other assets	Construction in progress	Total
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] US$ thousands	Land and buildings	Plant and equipment	Mining properties and development costs	Other assets	Construction in progress	Total
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' 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[4]	**19,717**	6,045
	629,776	498,168

4 Mainly 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 million). Borrowing costs were capitalised at the rate of 5.78% (2018: 5.78%).

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12. PROPERTY, PLANT AND EQUIPMENT CONTINUED

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 per ounce and US$18.7 per ounce (2018: US$1,310 per ounce and US$19.25 per 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: US$302.7 million) under high sensitivity; US$127.4 million (2018: US$72.3 million) under low sensitivity and on San Julián 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 Julián, 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 US$5.31 per ounce (2018: US$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 bars on 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 dollar 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).

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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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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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:

US$ thousands

		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
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)**

US$ thousands

		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
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.

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21. PENSIONS AND OTHER POST-EMPLOYMENT BENEFIT PLANS CONTINUED

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		
			US$ thousands
	Building	**Computer equipment**	**Total**
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 recognised in profit and loss for the year, additional to depreciation of right-of-use assets, included US$642.30 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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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 19 February 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 22 March and 21 June 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 5 February 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 13 February 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.

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CONTINUED

26. RELATED PARTY BALANCES AND TRANSACTIONS CONTINUED

(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

	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

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).
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.

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29. FINANCIAL INSTRUMENTS
(A) FAIR VALUE CATEGORY

	As at 31 December 2019			
	US$ thousands			
Financial assets:	**Amortised cost**	**Fair value through OCI**	**Fair value (hedging instruments)**	**Fair value through profit or loss**
Trade and other receivables[1] (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:	**Amortised 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:	Amortised cost	Fair value through OCI	Fair value (hedging instruments)	Fair value through profit or loss
Trade and other receivables[1] (note 15)	1,986	–	–	216,573
Equity instruments at FVOCI	–	78,219	–	–
Silverstream contract (note 13)	–	–	–	519,093
Derivative financial instruments	–	–	314	–

Financial liabilities:	Amortised 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.

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29. FINANCIAL INSTRUMENTS CONTINUED

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	–

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30. FINANCIAL RISK MANAGEMENT CONTINUED

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					
Year ended 31 December	Gold	Silver	Zinc	Lead	Effect on profit before tax: increase/ (decrease) (US$ thousands)	Effect on equity: increase/ (decrease) (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

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30. FINANCIAL RISK MANAGEMENT CONTINUED
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 percent 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.