FRESNILLO PLC

ANNUAL REPORT AND ACCOUNTS

2019

RISING TO THE CHALLENGES, MOVING FORWARD WITH CONFIDENCE

FRESNILLO®

A CHALLENGING YEAR

Fresnillo plc is the world's largest silver producer and Mexico's largest gold producer, listed on the London and Mexican stock exchanges.

OUR PURPOSE

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

STRATEGIC REPORT

CORPORATE GOVERNANCE

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ADDITIONAL INFORMATION

PERFORMANCE HIGHLIGHTS

Despite our failure to achieve our expected production volumes, our commitment to delivering long-term benefits to the full range of our stakeholders is undiminished, and Fresnillo remains a compelling investment case.

SILVER PRODUCTION

54.6MOZ
-11.6%

GOLD PRODUCTION

875.9KOZ
-5.1%

ADJUSTED REVENUE[1] (US$)

2,270.2M
+1.2%

EBITDA[2] (US$)

674.0M
-26.3%

TOTAL ATTRIBUTABLE SILVER RESOURCES

2,256.7MOZ
+2.4%

TOTAL ATTRIBUTABLE GOLD RESOURCES

39.0MOZ
-0.3%

GROSS PROFIT (US$)

461.7M
-40.9%

PROFIT FROM CONTINUING OPERATIONS (US$)

171.7M
-66.1%

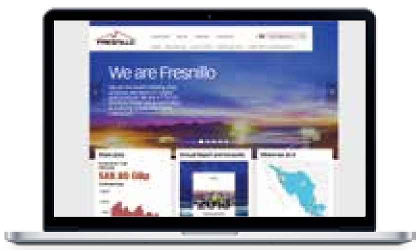
OPERATIONAL HIGHLIGHTS

- Silver production of 54.6 moz (including Silverstream) down 11.6% vs. 2018, driven by the lower ore grades at Saucito, Fresnillo and San Julián, both veins and disseminated ore body.
- Gold production of 875.9 koz down 5.1% vs. 2018 mainly due to the expected lower production from Noche Buena and a lower ore grade at San Julián Veins.
- Mine development at Juanicipio reached over 25 km, with ore from these activities as well as from the initial production stopes set to be processed at the Fresnillo beneficiation plant from June 2020.
- Construction of the Juanicipio beneficiation plant has been delayed by six months with commissioning now expected in mid-2021.
- Construction of the Pyrites Plant (phase II) at Fresnillo made good progress.
- The second phase of the beneficiation plant optimisation at Fresnillo also continued to progress.
- Silver resources increased 2.4%; gold resources remained stable at 39.0 moz.
- Silver reserves increased 1.7% reflecting the recognition of reserves at Juanicipio for the first time, offset by the decrease in reserves at the underground silver mines.
- Gold reserves decreased 16.0% mainly due to the exclusion of reserves at Soledad & Dipolos following the absence of an agreement with the Ejido community, and the exclusion of a number of benches at Herradura resulting from the negative infill drilling results and revised calculations.
- We regret to report that two fatalities occurred during 2019.
- We began work on defining a new programme to control costs and increase productivity in 2H19.

FINANCIAL HIGHLIGHTS

- Adjusted revenue[1] of US$2,270.2 million, up 1.2% over 2018 due to higher gold and silver prices partially offset by lower precious metals production.
- Gross profit of US$461.7 million, down 40.9% mainly due to higher production costs and depreciation; EBITDA[2] of US$674.0 million, down 26.3%.
- Profit from continuing operations before net finance costs and income tax of US$171.7 million, down 66.1%.
- Capex of US$559.3 million, down 16.4% primarily due to the commissioning of several projects in 2018, including the Pyrites Plant at Saucito and the dynamic leaching plant at Herradura.
- Dividends of US$142.2 million paid, down 52.3% mainly due to lower profits for the period, in accordance with our dividend policy.
- Strong balance sheet and low leverage ratio; cash and other liquid funds[3] of US$336.6 million, down 40.0% mainly due to the high level of capex and dividends albeit being lower 16.4% and 52.3% respectively vs. 2018.

1 Adjusted revenue is the revenue shown in the income statement adjusted to add back treatment and refining costs and gold, lead and zinc hedging. The Company considers this a useful additional measure to help understand underlying factors driving revenue in terms of volumes sold and realised prices. The reconciliation of Adjusted revenue to Revenue as shown in the income statement is provided on page 56.
2 Earnings before interest, taxes, depreciation and amortisation (EBITDA) is calculated as gross profit plus depreciation less administrative, selling and exploration expenses. The reconciliation of EBITDA to amounts determined in accordance with IFRS can be found on page 61.
3 Cash and other liquid funds are disclosed in note 30(c) to the consolidated financial statements.



Find out more online at **www.fresnilloplc.com**

WHERE WE OPERATE

Our core operations are in Mexico, a country with significant geological resources, strong potential for continued growth, a skilled workforce and solid infrastructure, and a mining history extending more than 500 years. In total, Fresnillo plc has mining concessions covering approximately 1.7 million hectares in Mexico, providing some 17,927 jobs and adding around US$1,752 million[1] to the Mexican economy each year.

6 ADVANCED EXPLORATION PROJECTS

See pages 30-34.

3 DEVELOPMENT PROJECTS

See pages 35-37.

7 OPERATING MINES

See pages 38-53.

1 Economic Value Distributed. This is considered to be a social performance measure. For more detail see page 17.

KEY ASSETS

Asset		Type	Main metal	Reserves (Silver)[3]	Reserves (Gold)[3]	Year[1]
OPERATING MINES						
1	**Fresnillo**	Underground	Silver primary	149.3 moz	483 koz	1554
2	**Saucito**	Underground	Silver primary	119.7 moz	500 koz	2011
3	**Ciénega**	Underground	Gold/Silver	38.6 moz	368 koz	1992
3	**San Ramón (Ciénega satellite)**	Underground	Gold/Silver	Reported as part of Ciénega		2012
3	**Las Casas, Cebollitas Cluster**	Underground	Silver/Gold	Reported as part of Ciénega		2019
4	**Herradura**	Open pit	Gold		6,679 koz	1997
5	**Soledad-Dipolos**[2]	Open pit	Gold	Excluded in 2019		2010
6	**Noche Buena**	Open pit	Gold		493 koz	2012
7	**San Julián**	Underground	Silver primary	90.1 moz	287 koz	2016

1 Represents start of commercial production.
2 Operations at Soledad-Dipolos are currently suspended.
3 As of 31 May 2019.

Read more in our Review of Operations on **pages 38-53.**

DEVELOPMENT PROJECTS

8 Second stage of the pyrites treatment plant

Facility to process historical and ongoing tailings from Fresnillo to increase metal recovery rates.

Annual total production, including Saucito tailings, expected to average 3.5 moz silver and 13 koz gold once operating at full capacity.

For more detail on the Pyrites Plant project see **page 35.**

8 Optimisation of the Fresnillo beneficiation plant

Project at the Fresnillo mine to process the higher lead and zinc grade at depth.

For more detail on the project to optimise the beneficiation plant see **page 36.**

9 Juanicipio

Silver project in the Fresnillo District. Annual total production expected to average 11.7 moz silver and 43 koz of gold.

For more detail on the Juanicipio project see **page 37.**

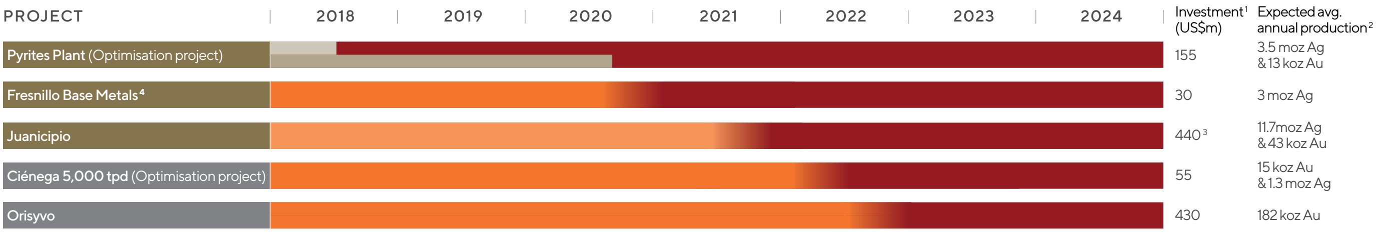
Asset		Main metal	Resources (Silver)[1]	Resources (Gold)[1]
EXPLORATION PROJECTS AND PROSPECTS				
10	**Centauro Deep**	Gold		2.2 moz Indicated & inferred gold resources.
11	**Centauro Pit Expansion as part of Herradura**	Gold		9.8 moz Measured, indicated & inferred gold resources.
12	**Orisyvo**	Gold	12.3 moz	9.6 moz
13	**Guanajuato**	Silver/Gold	88.9 moz	1.4 moz
14	**Rodeo**	Gold	11.5 moz	1.2 moz
15	**Tajitos**	Gold		530.0 koz

1 As of 31 May 2019.

For more on our exploration projects and prospects see **pages 30-34.**

In addition, we have many further early stage projects and prospects located in Mexico, Peru and Chile.

EXPECTED DELIVERY OF GROWTH



1 Estimated.
2 Total average annual production.
3 Total investment (of which 56% Fresnillo plc; 44% MAG Silver) as of 1 January 2018.
4 Increase throughput to 9,000 tpd subject to mine preparation.

Construction tailings flotation; Leaching plant; Production; Development & Construction; Mine development and Flotation plant construction; Approved by the Board; Subject to ongoing internal review (subject to Board approval)

RISK MANAGEMENT FRAMEWORK

We identify, monitor and mitigate the principal and emerging risks that could affect the Company's ability to deliver on its business model and strategic priorities.

See our Risk Report on **pages 88-103.**

WHAT ARE YOU DOING TO OVERCOME THE OPERATIONAL CHALLENGES FACED IN 2019?

The last 18 months have seen us fail to reach the high standards of operational performance consistently achieved since the IPO in 2008 – and which stakeholders have every right to expect from us, year after year.

Production did not improve as anticipated, due to a combination of challenges, including narrower veins, deeper mining and greater dilution. We understand the reasons for stakeholder concerns, share their frustrations and are committed to restoring their confidence – not just with words of reassurance, but with renewed determination and action.

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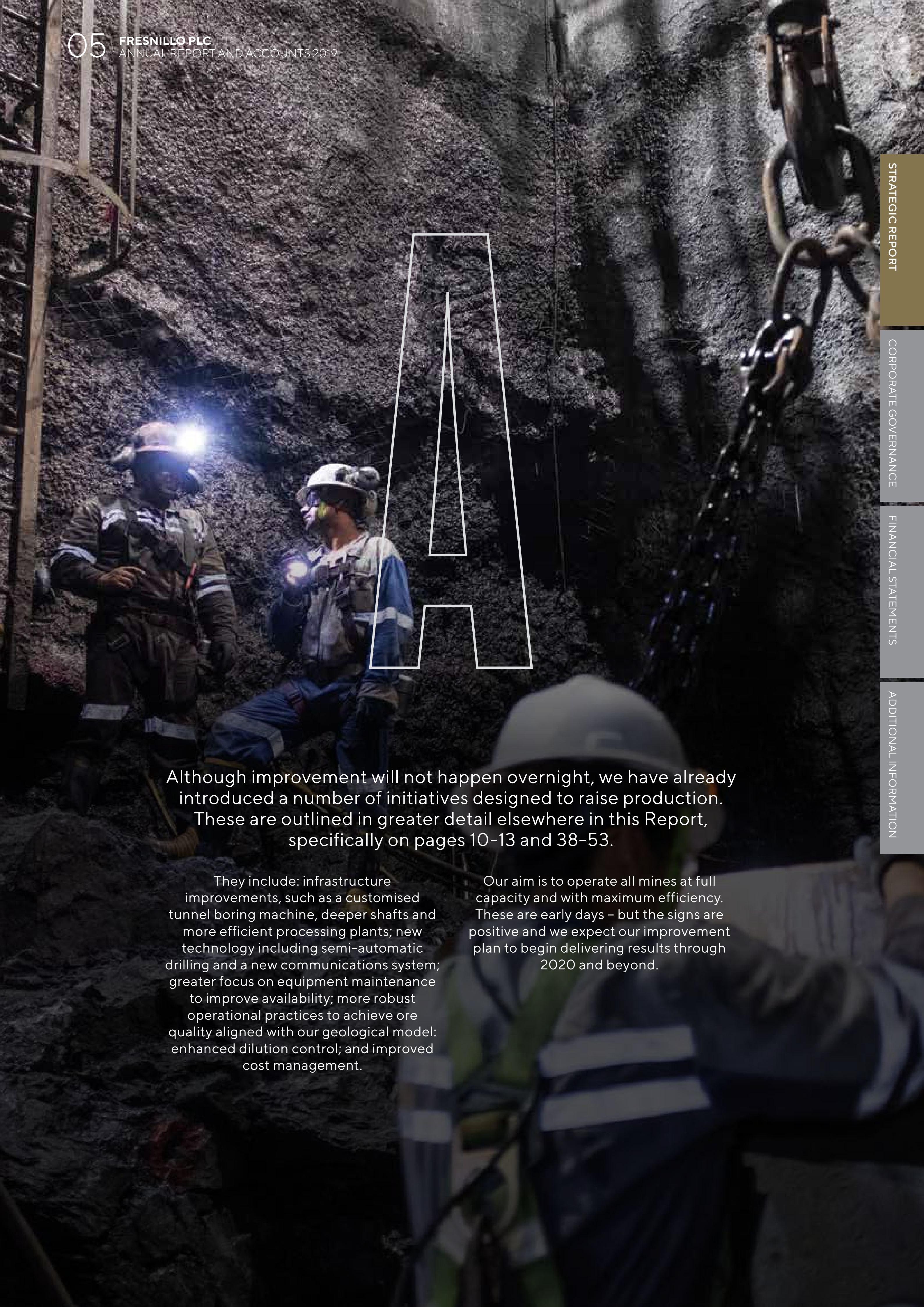


Although improvement will not happen overnight, we have already introduced a number of initiatives designed to raise production. These are outlined in greater detail elsewhere in this Report, specifically on pages 10–13 and 38–53.

They include: infrastructure improvements, such as a customised tunnel boring machine, deeper shafts and more efficient processing plants; new technology including semi-automatic drilling and a new communications system; greater focus on equipment maintenance to improve availability; more robust operational practices to achieve ore quality aligned with our geological model: enhanced dilution control; and improved cost management.

Our aim is to operate all mines at full capacity and with maximum efficiency. These are early days – but the signs are positive and we expect our improvement plan to begin delivering results through 2020 and beyond.

CHAIRMAN'S STATEMENT

ADDRESSING OUR OPERATIONAL SETBACKS, REAFFIRMING OUR COMMITMENT.

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

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

ALBERTO BAILLÈRES
NON-EXECUTIVE CHAIRMAN

A CHALLENGING YEAR FOR OUR OPERATIONS

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

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

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

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

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

The Chief Executive Officer provides greater detail on these projects on pages 10-13.


The expansion of the flotation plant at Fresnillo


Deepening of the San Carlos shaft at Fresnillo

FINANCIAL PERFORMANCE

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

Further detail on the financial results is provided on pages 54-63.

ARTICULATING OUR PURPOSE

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

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

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

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

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

HOW WE ARE REALISING OUR PURPOSE

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

Shareholders

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

Our dividend policy remains unchanged. We aim to pay out 33-50% of profit after tax each year, while making certain adjustments to exclude non-cash effects in the income statement. Dividends are paid in the approximate ratio of one-third as an interim dividend and two-thirds as a final dividend. Before declaring a dividend, the Board carries out a detailed analysis of the profitability of the business, underlying earnings, capital requirements and cash flow. Our aim is to maintain enough flexibility to be able to react to movements in precious metals prices and seize attractive business opportunities.

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

Employees and contractors

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

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

CHAIRMAN'S STATEMENT
CONTINUED

Pyrites plant construction at Fresnillo

Juanicipio project

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

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

Local communities

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

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

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

Environmental impact

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

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

You can read more about these initiatives and others on pages 66-87.

BOARD ACTIVITIES

As I report in my introduction to the Governance section on page 108, this has been a busy year for the Board. In addition to carrying out our regular activities, we have invested considerable time and expertise in understanding and responding to new regulatory requirements. The new UK Corporate Governance Code and the Companies Miscellaneous (Reporting) Regulations both came into effect on 1 January 2019.

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

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

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

Water treatment plant in the Fresnillo district

Employees reviewing a section of the Fresnillo mine

CHANGES TO THE BOARD

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

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

OUTLOOK

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

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

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

Alberto Baillères
Non-executive Chairman

CHIEF EXECUTIVE'S STATEMENT

RISING TO CHALLENGES, MOVING FORWARD WITH CONFIDENCE.

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

We fell short of the high mine planning and operational execution standards that we have come to expect from our teams, and this contributed to lower ore grades and tonnages than anticipated. Delays to infrastructure projects, poor contractor performance, higher costs, new regulatory pressures in Mexico and low equipment availability were significant challenges faced during the year.

None of these challenges is insurmountable in its own right – but what marks 2019 as an unusual year is that they coincided at several operations, indicating systemic failures that are now being addressed.

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

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

PRODUCTION HIGHLIGHTS AND PRICE REVIEW

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

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

More detail on our production can be found on pages 40-53 where we disclose the performance of each individual mine.

There was a steady increase in gold and silver prices during the second half of the year, on the back of healthy demand and a slight reduction in supply. Please see pages 14-15 for a more detailed discussion of market dynamics. In 2019, average realised silver prices rose by 3.9% while those for gold increased by 11.7%. Average prices for zinc and lead decreased, by 9.3% and 10.5% respectively.

A TIME TO PAUSE, REFLECT AND PREPARE

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

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

OCTAVIO ALVÍDREZ
CHIEF EXECUTIVE OFFICER

A haulage truck depositing material on the new leaching pad at Herradura

Engineers working at the tunnel boring machine at Fresnillo

MAXIMISING THE POTENTIAL OF EXISTING OPERATIONS

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

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

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

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

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

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

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

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

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

DELIVERING GROWTH THROUGH DEVELOPMENT PROJECTS

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

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

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

EXTENDING THE GROWTH PIPELINE

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

CHIEF EXECUTIVE'S STATEMENT
CONTINUED

View across the Saucito mine

Deepening of the Jarillas shaft at Saucito

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

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

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

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

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

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

ADVANCING AND ENHANCING THE SUSTAINABILITY OF OUR OPERATIONS

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

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

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

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

You can read more about some of these programmes on pages 66-87.

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

LOOKING AHEAD

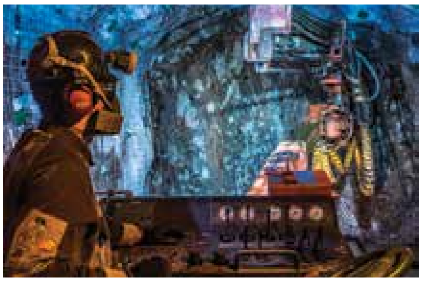
The coming year will see us continue to manage challenges, as we make progress with the initiatives I have outlined in this statement.

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

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

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


Diamond drilling in the Fresnillo district


A jumbo drill at work underground

The broader environment is to a degree characterised by uncertainty. Trade disagreements, particularly between the US and China, together with ongoing political and economic issues elsewhere, including Europe, could lead to headwinds for the mining industry. On the other hand, the greater uncertainty and risk of conflicts in several points of the world, as well as the coronavirus pandemic, could lead to higher precious metal prices. Furthermore, there appears to be support for our industry at the higher levels of the new Government in Mexico and we will continue to work hard to ensure that mining is supported by all parts of the federal and state administration.

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

Octavio Alvídrez
Chief Executive Officer

INVESTMENT CASE

DESPITE THE CHALLENGES WE FACED IN 2019, FRESNILLO REMAINS A COMPELLING INVESTMENT CASE:

Our high quality assets, ample mineral resources, competitive margins, disciplined approach to development, commitment to sustainable business practices and strong balance sheet – backed by a talented, experienced workforce – are the platforms for growth and returns.

Fresnillo is led by an experienced and recently strengthened executive team dedicated to unlocking the full potential of our operations.

MARKETS REVIEW

As a major player in the global precious metals industry, we are impacted by the dynamics of the silver and gold markets. Here, we outline how precious metals markets moved during the year, and the factors that influenced them.

PRECIOUS METALS PRICES INCREASED DURING THE YEAR

Silver and gold commodity prices are largely driven by US Federal Reserve interest rates, the strength of the US dollar and geopolitical events.

After four rate hikes in 2018, the US Federal Reserve reversed course due to concerns of a slowdown in economic growth and began cutting interest rates in July 2019. This was followed by two further rate cuts during the year before it signalled that the monetary easing cycle would be paused. This, in conjunction with heightened geopolitical issues and central banks continuing to be net purchasers of gold, has led to an increase in precious metals prices, which hit multi-year highs.

GOLD SUPPLY, DEMAND AND PRICES

The short-term demand for gold is strongly impacted by the perception of risk in the global economy, the strength of the US dollar and the impact of economic reform. In the longer term, gold is supported by the growing social economic development in emerging markets and the continued perception of gold's role as a store of wealth.

Having started 2019 at US$1,282/oz, gold prices remained bound within a narrow range, in line with the previous year's performance, before breaking out in June and hitting a multi-year high in September of US$1,552/oz.

As mentioned, this breakout was driven by the US Federal Reserve lowering its expectations of the US economy and preparing the market for a rate cut in July. This drove investors towards purchasing gold, as the opportunity cost of holding the metal lowered, especially in a market of negative yielding bonds. Furthermore, central banks continued their gold purchasing programmes to counterbalance fiat currency risk, especially as emerging market banks tend to hold high allocations of US treasuries, thereby bolstering demand for gold. The gold price ended the year at US$1,517/oz, up 18.3%, averaging US$1,392/oz.

As explained by the World Gold Council[1], global gold demand fell one percent year-on-year to 4,355 tonnes as the large increase in investment flows into Electronic Traded Funds ('ETFs') and similar products was matched by a price driven slump in consumer demand. As low interest rates and geopolitical uncertainty pushed gold backed ETFs to record highs of 2,885.5 tonnes, year-on-year gold and coin demand dropped 20% to 870.6 tonnes, the lowest level since 2009, driven by declines in the two primary markets, China and India. As is frequently the case with high and rising prices, retail investors looked to capitalise on the price rise by selling existing holdings while institutional investors turned bullish as interest rates were cut for the first time in ten years. Further to this, for the tenth consecutive year, central banks added gold to their reserves (650.3 tonnes in 2019), with 15 central banks adding at least one or more tonnes during the year.

Global gold supply increased two percent year-on-year to 4,776 tonnes driven by an 11% jump in recycling as consumers capitalised on the increase in the gold price during the second half of the year. This was partially offset by a small one percent contraction of mine supply (3,464 tonnes produced in 2019), the first decline in ten years. While production growth came largely from greenfield and brownfield development, this was outweighed by declines in some top producing nations, in particular China, which saw its third straight year of decline following stricter environmental restrictions implemented in recent years. Further, industrial action in South Africa and disputes between local communities and contractors in Latin America also led to lower production year-on-year.

SILVER SUPPLY, DEMAND AND PRICES

During the year, the price of silver largely followed that for gold, beginning the year at US$15.5/oz before moving higher in June and reaching a peak in early September of US$19.6/oz. The silver price ended the year at US$17.8/oz, with an average realised price of US$16.1/oz, up 3.4% year-on-year.

Mine output continues to provide most silver supply, with the remainder coming from recycling and scrap. Total silver supply for 2019 is expected to reach 849.3 moz[2], a small contraction year-on-year as several key producers, including Fresnillo, have not delivered the forecast growth in supply expected. Looking ahead, silver supply will be dictated by the restart of disrupted operations and key mines achieving targeted production.

Silver's unique characteristics – including exceptionally high electrical and thermal conductivity – mean that demand is headed by industry, purchasing around 60% of production. 2019 industrial demand remained at record highs driven by higher silver loadings, particularly in the automotive industry as vehicles become more sophisticated, in addition to higher photovoltaic demand as countries turn to more renewable energy sources.

Looking forward into 2020, with strong industrial demand, backed by the rejuvenated appeal of silver as a safe haven asset and the India-led demand for jewellery and silverware, the small surplus expected by the Silver Institute in 2019 should be absorbed, helping to benefit the price of the metal.

> "Fresnillo plc does not take a position on where prices, demand or sentiment are headed; however, we do monitor price movements and market dynamics using primarily third party analysis and forecasts in order to support our financial projections and cash management strategies, and prices will continue to influence budget considerations in areas such as exploration and the timing of certain capital expenditures."

1 World Gold Council, Gold Demand Trends Full year and Q4 2019, 30 January 2020.
2 Refinitiv Interim Silver Market Review, 15 November 2019 – New York City.

See the Silver Institute and World Gold Council websites for current industry and market information.

OUR OPERATING ENVIRONMENT

The second largest economy in Latin America, Mexico is characterised by a mature tax and legal framework. Although the country has a 500-year tradition of mining, its geological potential remains as strong as ever, with just over 240 companies undertaking mining projects in the country[3]. The industry directly employs over 379,000 people and represents 8.3% of Mexico's industrial GDP[4]. Mexico continues to be the largest producer of silver in the world and a top global producer of gold, copper and zinc, amongst other minerals. All of Fresnillo's current operations are located in Mexico and we remain committed to the long- term opportunities in the country. However, following the identification of favourable gold-silver potential, we have established exploration offices in Chile and Peru.

With all our current operations located in Mexico, and with gold and silver both making significant contributions to revenue, Fresnillo is in a unique position: we are exposed to the market dynamics of both the global precious metals industry, as well as those specific to companies operating in Mexico.

In silver, we consider our peer group to be other primary silver mining companies, notwithstanding the fact that close to two-thirds of global output is derived as a by-product of gold, lead, zinc and copper mines. In fact, Fresnillo plc has long been the top global producer of silver, both by-product and primary, and we aim to maintain that leadership position. We are also Mexico's largest gold producer, with our peers being other global gold mining companies with similar levels of annual production.

FRESNILLO IN CONTEXT
PEER GROUP: PRIMARY SILVER PRODUCERS, PRODUCTION IN MOZ

	2019	2018	2017	2016
Fresnillo plc[5]	**54.6**	**61.8**	**58.7**	**50.0**
Polymetal International plc	**21.6**	25.3	26.8	29.0
Hochschild Mining plc	**16.8**	19.7	19.1	17.0
Hecla Mining Company	**12.6**	10.4	12.5	17.0
Coeur Mining, Inc.	**11.7**	12.9	12.1	15.0
SSR Mining	**7.7**	3.7	5.0	10.0
Silver Corp Metals Inc.	**5.8**	6.0	6.4	6.0

PEER GROUP: GLOBAL SILVER PRODUCERS (BY-PRODUCT & PRIMARY), PRODUCTION IN MOZ

	2019	2018	2017	2016
Fresnillo plc[5]	**54.6**	**61.8**	**58.7**	**50.0**
KGHM Polska Miedz S.A.	**45.5**	38.2	38.9	38.0
Pan American Silver Corp.	**25.9**	24.8	25.0	25.0
Newmont Goldcorp Inc.	**15.9**	25.0	28.6	28.0
BHP Billiton	**14.5**	15.0	10.8	13.0
South32 Limited	**12.2**	12.5	15.6	21.0

PEER GROUP: MEDIUM-SIZED GOLD PRODUCERS, PRODUCTION IN KOZ

	2019	2018	2017	2016
Agnico Eagle Mines Limited	**1,782**	1,627	1,713	1,663
Polymetal International plc	**1,316**	1,216	1,075	890
Fresnillo plc	**876**	**923**	**911**	**935**
Petropavlovsk plc	**517**	422	440	416
OceanaGold Corporation	**470**	533	575	417
Coeur Mining Inc.	**359**	368	383	358
Hochschild Mining plc	**270**	260	255	246

KEY INDUSTRY TRENDS

The global mining industry is subject to a number of underlying trends that impact its competitiveness and viability. As many of these trends are aligned with our principal risks, we include detailed analysis of their implications, as well as our response and mitigating actions, on pages 88-101.

INCREASED ENVIRONMENTAL & SOCIAL FOCUS

High profile mining incidents across the globe have served to strengthen negative sentiment towards the industry as a whole. In particular, the tailings dam collapse in Brazil at the beginning of 2019 has led to increased focus on the issue of tailings dam safety across the global mining industry. Our response has been to further review our controls, as discussed in more detail on page 79. We are active contributors to the Investor Mining & Tailings Safety Initiative and work closely with peers in the international and Mexican mining community to promote the benefits of the mining industry and the importance of responsible mining practices.

STRATEGIC WORKFORCE CHALLENGES

Driven by the negative sentiment around the industry, attracting, developing and maintaining a young, dedicated and skilled workforce in the Mexican mining industry is becoming more challenging. We aim to provide an inclusive and diverse workplace; one where safety sits at the heart of everything we do, and where ethics and integrity are embedded into our culture. Through programmes with leading educational institutions, NGOs and government organisations, we look to recruit, retain and develop the best people we can. We provide further detail on this challenge in 'Our People' on pages 69-70.

FOCUS ON DECARBONISATION AND CLIMATE CHANGE

As stated by the UN, "Climate change is now affecting every country on every continent. It is disrupting national economies and affecting lives, costing people, communities and countries dearly today and even more tomorrow". As a major player in the extractive industry, we recognise that we have a responsibility to integrate renewables and clean technologies into our energy mix. We provide more detail on this challenge in the 'Energy and Climate' section on pages 76-78, including information on how we have considered the recommendations of the Task Force on Climate-related Financial Disclosures ('TCFD'), and how we have considered the physical, liability and transition risks associated with climate change, as we look to provide consistent climate-related financial risk disclosures for all our stakeholders.

3 https://www.sgm.gob.mx/Web/SINEM/mining/mining_companies.html
4 https://www.export.gov/article?id=Mexico-Mining-and-Minerals
5 Including Silverstream.

BUSINESS MODEL

Our business model spans the full mining value chain from exploration, development and construction, to mining operations.

WHAT WE DO

Gold and silver mining is the heart of our business model. We generate revenue by selling the metals contained in the ore we extract and process. We ensure the longevity of our business by exploring and developing new projects.

STRATEGIC RESOURCES AND RELATIONSHIPS

PEOPLE

We have a skilled workforce of 5,482 unionised workers and employees and 13,407 contractors who provide operational and other services, supported by an experienced and value-driven leadership team.

NATURAL RESOURCES

Our operations rely on a range of natural resources, including surface land, water, energy and fuel.

- 1.7 million hectares of surface land in mining concessions in Mexico.
- 950 megalitres of recycled water (efficiency of 79.89%).

RELATIONSHIPS WITH KEY STAKEHOLDERS

Including government, communities, suppliers, customers, shareholders and workforce. We are active members of several mining organisations and associations, where we use our influence to promote greater recognition of the advantages that mining brings to society.

FINANCIAL STRENGTH

We are working hard to enhance controls on cash, costs and expenses and adhere rigidly to capex budgets. A healthy balance sheet and low leverage ratio ensure sufficient resources to invest in advancing our pipeline and delivering returns to shareholders.

- Total equity of US$3,278.7 million.

PROPERTY AND EQUIPMENT

Our assets include properties, infrastructure, processing plants and mining equipment.

- Net book value of property, plant and equipment of US$2,813.4 million.

TECHNOLOGY

We leverage the knowledge of our employees to identify and implement innovative and effective technological solutions to support decision making and meet the challenges associated with new projects, maturing mines with declining ore grades, and rising social and environmental expectations.

RISK MANAGEMENT AND STRICT CORPORATE GOVERNANCE

We identify, monitor and mitigate the principal and emerging risks that could affect the Company's ability to deliver on its business model and strategic priorities.

1 EXPLORE

Continuous, sustained exploration is the engine that drives our business. We invest across all price cycles, seeking out ore deposits in order to expand our resource base and replenish reserves.

OUR COMPETITIVE ADVANTAGE

We draw extensively on all the skills and experience of our specialists. This team of over 95 geologists in Mexico, Peru and Chile – supported by 45 specialists in claims management, negotiation, community relations and environmental control, as well as 240 assistants drawn from local communities – has access to realistic budgets and is hugely respected across our industry. The team comprises a well-balanced mix of senior and junior professionals.

Read more information on **pages 30-34.**

4 SUSTAIN

Our commitment to sustainability is founded upon an ethical culture, responsible mining practices and sharing the benefit of mining with wider society. We believe that responsible mining is compatible with high stakeholder expectations in terms of ethical, social and environmental performance, and recognise that our social licence to operate is dependent upon being trusted by our stakeholders. Our social licence to operate is our most valuable intangible asset and we do all we can to ensure the highest standards of ethical behaviour, health and safety, environmental stewardship and governance, while sharing the benefits of mining with our communities.

OUR COMPETITIVE ADVANTAGE

Extensive understanding of the economy, culture and communities in Mexico; a track record of adopting best practices domestically, which meet our own high standards as well as those of international business.

Read more information on **pages 66-87.**

We ensure that our networks, systems and data are secure, in accordance with best practice, and also follow best practice in terms of corporate governance.

2 DEVELOP

Before we decide to develop a new mine, we check its potential against a set of strict criteria, including mineral content and associated costs. Only projects with the potential to create value across precious metal price cycles are developed into operating mines.

OUR COMPETITIVE ADVANTAGE

Strictly applied viability criteria including rates of return and high environmental and social impact standards; a district consolidation strategy that creates synergies across our prospects and projects, reducing capex requirements; synergistic benefits from our membership of the Peñoles Group, with common requirements across a number of service areas creating opportunities for costs to be shared; in-house teams for engineering and construction.

Read more information on **pages 35-37.**

3 OPERATE

We have a portfolio of seven mines, six of which are currently in operation and we continue to invest in infrastructure improvements, new technologies and new working practices to maximise the efficiency of each one.

OUR COMPETITIVE ADVANTAGE

High quality assets; ample mineral resources; healthy margins; a disciplined approach to development; commitment to sustainable business practices; a strong balance sheet; and a talented, experienced workforce.

Read more information on **pages 38-53.**

FOR WORKFORCE

We aim to provide a healthy and safe working environment for employees and contractors, as well as training and development opportunities for employees.

FOR COMMUNITIES

We invest in the local communities where we operate and minimise any negative health and environmental impacts.

FOR GOVERNMENT

We comply with all applicable laws and generate economic value through our operations.

FOR SHAREHOLDERS

We generate sustainable long-term financial returns.

FOR SUPPLIERS

We offer fair prices and provide technical support to our suppliers.

Economic Value Distributed is considered to be a social performance measure.

US$100.7M
WAGES AND BENEFITS TO WORKERS

US$123.7M
PAYMENTS TO FEDERAL GOVERNMENT

US$1,518.0M
PAYMENTS TO SUPPLIERS (CONTRACTORS)

US$9.3M
PAYMENTS TO LOCAL GOVERNMENTS

US$1,751.7M
TOTAL ECONOMIC IMPACT

BUILDING TRUST
RELATIONSHIPS WITH KEY STAKEHOLDERS

We rely on strong relationships with our key stakeholders in order to gain trust and social acceptance for our operations, to maintain our licence to operate and to create shared value. To this end, we engage with the communities where we operate, as well as with unions, contractors, and suppliers. We also work closely with government and regulators and ensure open communications with investors. The table below shows the engagement mechanisms that are currently in place with key stakeholders.

Stakeholder group	Why they matter	Engagement approach
EMPLOYEES AND UNIONS		
Metrics • Fatal injuries. • Total injury frequency rate. • Lost time injury frequency rate. • New cases of occupational diseases. • Turnover rate. • Gender diversity and payment gap.	• Positive relations with employees and unions is key to maintaining productivity and operating safely. • An experienced and engaged workforce is essential to operating safely and effectively. • Retention is key to accumulating experience and developing leadership skills. • Innovation and decision-making benefit from a diverse and talented workforce that brings different perspectives to the table.	***What Management does:*** • Social, ethical and engagement surveys, conducted by professional third parties to identify issues that matter to our stakeholders. • Collective bargaining, Health & Safety commission meetings and joint inspections of workplace conditions. • Fresnillo "plays fair" whistleblowing line. ***How the Executive Committee and Board complement the engagement efforts:*** • The CEO and COO engage union leaders in a constructive dialogue on safety and productivity. • The CEO participates in innovation fairs and dialogue through the 'One Day with the CEO' workshops. • The COO participates in joint workplace inspections with union representatives. • The Chairman, the Deputy Chairman and Board member, Arturo Fernández, periodically hold meetings with the labour union in order to ensure the best relationship and coordination with the union. • Board members visit mine sites to discuss safety, productivity and diversity.
COMMUNITY		
Metrics • Social and environmental incidents. • Local employment and procurement. • Social investment.	• Mutually beneficial relationships with communities lead to social acceptance, which is key to ensure the continuity of our operations, licence to operate and development of new projects.	***What Management does:*** • Our community relations teams meet regularly with official and unofficial leaders, local and regional authorities to understand and discuss their concerns and aspirations. • Operates grievance mechanisms to address concerns and queries of local communities. • Conducts social studies to identify and evaluate issues that matter to our communities. • Maintains a social investment portfolio with emphasis on education, health & sports, capacity building and water access. ***How the Board complements the engagement efforts:*** • Visits from Board members to communities to gain further insights on our social projects. • Meetings between the Chairman, the Deputy Chairman and other members of the Board with key government officials, both at the federal and local level.

What issues matter to our stakeholders	Governance activities of the Board and Board Committees	Decisions (D) and Actions (A)
• Productivity. • Innovation. • Labour and Human Rights. • Health & Safety. • Working conditions. • Security. • Remuneration (including statutory profit-sharing). • Diversity and inclusion. More details on these issues and the approach followed by Management to address them can be found in the Health, Safety, Environment and Community Relations (HSECR) section. *Outstanding issues resulting from the initial findings of the engagement led by Mr Arturo Fernández:* • Concerns of favouritism at the workplace, including favouritism in respect of promotions. • Inconsistencies in the involvement of the right people at the right time in decision-making processes.	• Mr Fernández has been designated as the director to supervise workforce engagement mechanisms on behalf of the Board. The Board evaluated the initial findings by Mr Fernández on workforce engagement. Further details on the role of Mr Fernández can be found in the HSECR Section. • Regular evaluation of Health & Safety programmes and their performance by the HSECR Committee and Board. • Assessment of the current participation of women, as well as actions and new initiatives to increase participation of women. This information will be reviewed annually by the Nominations Committee. • Evaluation and approval of the Modern Slavery Statement. • Oversight of whistle-blower arrangements and cases by the Audit Committee with further reviews by the Board every six months.	• **A** – Rollout of the leadership development workshops, a key component of the *'I Care, We Care'* programme. • **A** – Enhanced collaboration with unions on safety and productivity. Safety congress organised jointly by the Company and the union. New unionised recruits will now work Sunday shifts at the Fresnillo mine. • **D, A** – Design and implementation of the anti-harassment programme in 2020 based on employee and contractor engagement. • **A** – An initiative to develop innovative training facilities to enhance attraction and retention. • **D** – Commitment to continue with the evaluation of new initiatives to increase the participation of women.
• Communities' values, traditions and aspirations. • Employment and procurement opportunities. • Public infrastructure and services: education, health and water. • Land acquisitions and resettlements. • Environmental performance. More details on these issues and the approach followed by Management to address them can be found in the HSECR section.	• Community initiatives and performance are monitored by the Board and HSECR Committee. • Evaluation of social trends and their business implications.	• **A** – Strengthening the portfolio of social initiatives with the *'Flute without Borders'* cultural programme and reinforcing our capacity building efforts with community entrepreneurs. • **A** – Updating our social impact and reputational studies at our operations. • **A** – Following up on the Indigenous consultation carried out in 2018 at the San Julián mine through meetings with the community consultation committee, visits by the community to the construction site for the water reservoir and implementation of the rainwater harvesting systems in community households.

RELATIONSHIPS WITH KEY STAKEHOLDERS
CONTINUED

Stakeholder group	Why they matter	Engagement approach
GOVERNMENT AND REGULATORS		
Metrics • Health, safety and environment compliance record. • Social and environmental incidents. • Taxes and levies paid.	• Appropriate and respectful relations with representatives of local, state and federal governments are key to community, security and tax issues. • Constructive relations with health, safety and environmental regulators are key to preserving our permits and positively contributing to new regulations.	***What Management does:*** • Meetings with Federal authorities and regulators on regulatory issues through trade unions such as CAMIMEX (Mexican Mining Chamber) and sustainability associations such as CESPEDES (Mexican Chapter of the World Business Council for Sustainable Development). • Direct meetings with federal, state and local authorities regarding mining rights, environmental permitting, etc, in the regions where we operate. ***How the Executive Committee and Board complement the engagement efforts:*** • The CEO meets with key municipal, state and federal authorities on security, mining regulations and tax issues. • The Chairman meets with Mexican Cabinet Ministers and also the President of Mexico when appropriate.
CONTRACTORS		
Metrics • Fatal injuries. • Total injury frequency rate. • Lost time injury frequency rate.	• Collaborative partnerships with contractors to improve productivity and safety.	***What Management does:*** • Conducts social and workplace surveys to identify issues that matter to contractors. • Carries out due diligence procedures to verify the ethical profile of new contractors and suppliers. • Involves contract owners in accident or incident investigations. ***How the Executive Committee and Board complement the engagement efforts:*** • The CEO and COO meet with key contractors on production and safety matters.
MINORITY SHAREHOLDERS*		
Metrics • Financial and operational performance. • Dividend payments.	• Trust from our shareholders is key to sustaining continuous investment.	***What Management does:*** • Organises conference calls and roadshows. • Attends investment forums and conferences. ***How the Executive Committee and Board complement the engagement efforts:*** • Attendance at the Annual General Meeting. • Attendance at the Capital Markets Day in London. • CEO and CFO meet with analysts, hold conference calls following production reports and engage shareholders in roadshows.

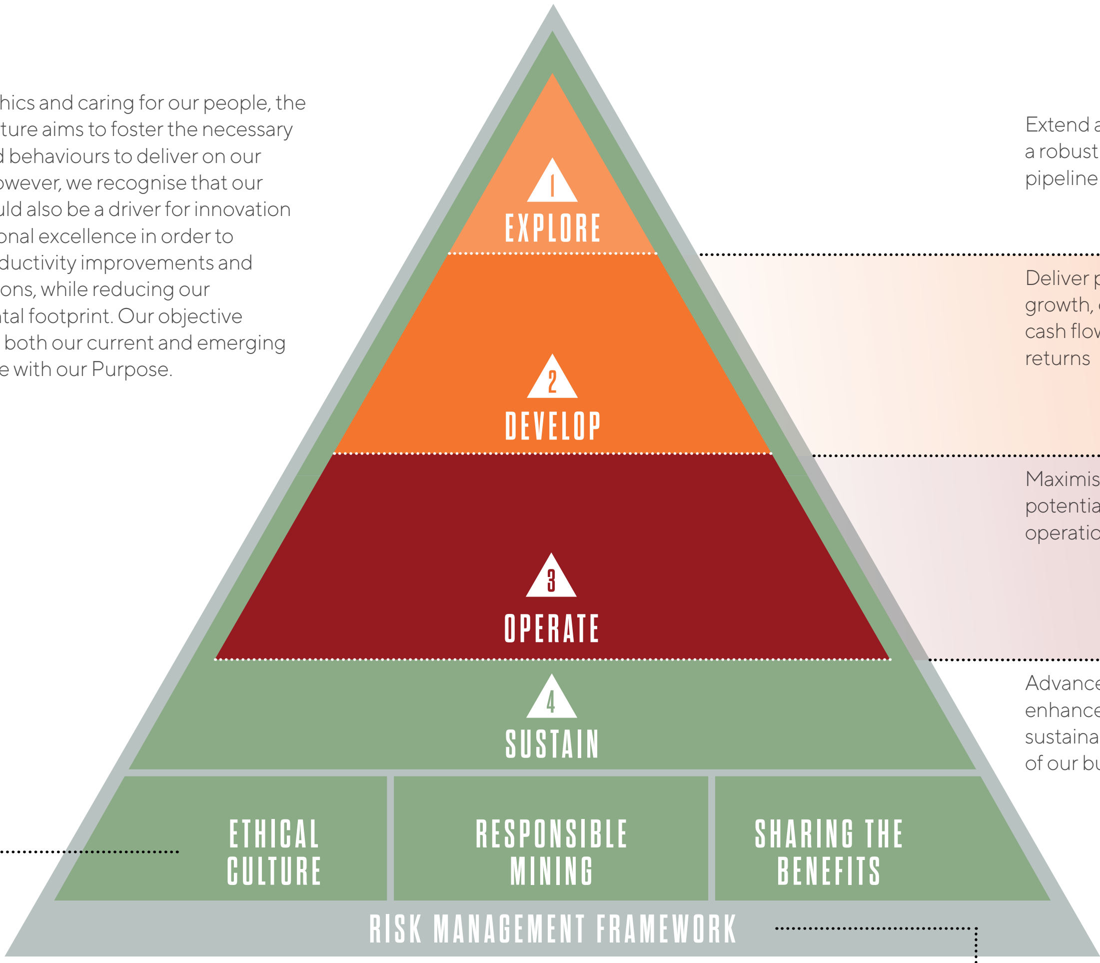
* The relationship with Industrias Peñoles, S.A.B. de C.V., the Company's significant shareholder, is discussed on pages 119 and 134 of the Corporate Governance Report and Audit Committee Report.

What issues matter to our stakeholders	Governance activities of the Board and Board Committees	Decisions (D) and Actions (A)
• Allocation of the Mining Fund. • Health, safety and environmental performance and compliance. • Labour & Human Rights. • Security. *Outstanding issues:* • Labour reform, mining fund reforms and municipal taxation.	• Evaluation of compliance challenges and economic implications of changes in tax, mining, safety, social and environmental regulations. • Evaluation of issues where the Company deems it strategically important to go beyond compliance: such as safety, cyanide management, climate change and tailing storage facilities. • The Audit Committee regularly monitors the Company's relationships with the Mexican tax authorities and reviews the UK tax strategy prior to approval by the Board. • The Audit Committee reviews the annual UK Payments to Governments filing prior to approval. • The Chairman, Deputy Chairman and Board member, Arturo Fernández, lend assistance on tax matters as may be necessary through liaison with government officials, including providing industry perspective.	• **A** – Environmental impact assessment to identify potential impacts and mitigation strategies in Juanicipio. • **A** – Increase the use of wind power to reduce the carbon footprint. • **A** – Join other industries in sharing best practices in water stewardship to inform the discussions of Congress and other stakeholders regarding water regulations. • **A** – Review by international experts of the safety and governance practices relating to our tailings storage facilities. • **D** – Proactively increase the capacity of our mineral waste storage facilities. • **A** – Participate in health, safety and environmental certifications by the Mexican authorities.
• Productivity/development rates. • Work conditions. • Labour and Human Rights. • Health & Safety. • Security.	• HSECR Committee oversight of safety performance of contractors. • Reviews of contractor engagement elements of the anti-bribery and corruption programme by the Audit Committee and the Board.	• **D** – Development of safety, leadership, accountability and risk skills through a learning environment with the *'I Care, We Care'* programme for contractors. • **D, A** – Design and implementation of the anti-harassment programme in 2020 based on employee and contractor engagement. • **A** – Reduction in the number of contractor firms in order to improve their productivity and safety performance. • **D** – Promote a more selective contractor base comprising larger and more experienced international contractors. • **A** – Monitoring the security situation and maintaining clear communications with contractors.
• Operating and cost performance. • CAPEX project execution. • Country risk uncertainty. • Environmental, social and governance performance. *Outstanding issues:* • Turnaround strategy. • Progress of the recovery in production at the Fresnillo mine. • Juanicipio project.	• Dividend decision making, balancing quality growth with returns across the cycle. • Evaluation of operating, cost and safety performance. • Assessment of projects' progress. • Close monitoring of the progress at the Fresnillo mine. • Audit Committee oversight of the Service Agreement with Peñoles and review of related party matters including the Met-Mex pricing (see page 134). • Oversight of environmental, social and governance performance.	• **D** – Support for a strategic plan that balances growth and return (see the 'Principal Decisions' of the section 172 Statement). • **D** – Dividend payment aligned with the policy. • **D** – Investment in growth with the approval of the Juanicipio project (see 'Principal Decisions' of the section 172 Statement).

OUR STRATEGY

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

Based on ethics and caring for our people, the Fresnillo culture aims to foster the necessary mindset and behaviours to deliver on our Purpose. However, we recognise that our culture should also be a driver for innovation and operational excellence in order to achieve productivity improvements and cost reductions, while reducing our environmental footprint. Our objective is to nourish both our current and emerging values, in line with our Purpose.



Extend and maintain a robust growth pipeline

Deliver profitable growth, optimise cash flow and returns

Maximise the potential of our operations

Advance and enhance the sustainability of our business

VALUES AND BEHAVIOURS

Integrity, trust, responsibility and loyalty demonstrate our ethical culture and are embedded in our behaviours:

- **Lead transformatively –** We expect our people to be role models, to be empathic, to stimulate creativity and to be an inspiration for their team.
- **Build trust –** We encourage people to create a culture of candour, to be accountable and to find solutions to their ethical dilemmas, and to have the courage to implement them.
- **Leverage diversity –** We encourage our people to embrace diversity, to learn how to deal with and minimise unconscious biases, and to challenge the existing organisational culture.
- **Act ethically –** Every employee should support others speaking up, raise ethical concerns and make correct decisions.

For more detail see Sustainability on **pages 66-87.**

PRINCIPAL RISKS

- Impact of metals prices and global macroeconomic developments.
- Potential actions by the Government.
- Access to land.
- Security.
- Safety.
- Union relations.
- Exploration.
- Projects (performance risk).
- Public perception against mining.
- Cyber security.
- Environmental incidents.
- Human resources.

STRATEGIC PRIORITIES FOR 2020/2021

- Continue to invest in our exploration pipeline, focused on brownfield exploration to maximise probability of returns.
- Convert resources into reserves.
- Increase the certainty of the geological models.

- Conclude the second phase of the Pyrites Plant on time and on budget.
- Successfully conclude the second phase of the optimisation of the beneficiation plant at Fresnillo.
- Continue construction of the Juanicipio project.

- Continue to unlock the full potential of the Fresnillo District.
- Improve operational efficiency.
- Focus on reducing cost and capturing efficiencies.

- Safety to remain at the heart of everything we do.
- Continue to maintain robust governance of tailings storage facilities (see page 79).
- Launch a stakeholder engagement initiative to review our materiality assessment.
- Continue working towards our target of 75% of renewables in our electricity mix.

LONG-TERM STRATEGIC PRIORITIES

- Continue to invest in our exploration pipeline.
- Increase resource base to drive future growth.
- Identify two further world-class assets with the potential to complement our portfolio.
- Continue advancing the projects in the pipeline.
- Operate our mines efficiently and profitably.
- Maintain a competitive cost profile.
- Continue to work to improve safety, recognising its position as our top priority.
- Further integrate renewable technologies to reduce our environmental impact.
- Continue to evolve our culture and desired behaviours in order to position the Company to meet the challenges ahead.
- Enhance recruitment policies to attract a diverse and talented workforce.

FINANCIAL KPIs

EARNINGS PER SHARE EXCLUDING POST-TAX SILVERSTREAM REVALUATION EFFECTS

Attributable profit available to equity shareholders, excluding the revaluation effects of the Silverstream contract divided by the weighted average number of shares in issue during the period. Monitors net profit levels generated for equity shareholders.

EBITDA, EBITDA MARGIN AND CASH FLOW FROM OPERATING ACTIVITIES BEFORE CHANGES IN WORKING CAPITAL

EBITDA is gross profit plus depreciation included within cost of sales, less administrative, selling and exploration expenses. EBITDA margin is EBITDA divided by total revenue.

Both EBITDA and cash flow from operating activities before changes in working capital measure the Group's ability to generate cash from its core business.

EARNINGS PER SHARE EXCLUDING POST-TAX SILVERSTREAM REVALUATION EFFECTS
(US$/SHARE)

0.231

2019	0.231
2018	0.461
2017	0.668
2016	0.453
2015	0.069

Lower profits divided across an unchanged weighted average number of shares in issue.

EBITDA AND EBITDA MARGIN
(US$ AND %)

674.0M 31.8%

2019	674.0	31.8%
2018	915.1	43.5%
2017	1,060.1	50.6%
2016	1,032.0	54.2%
2015	547.5	37.9%

Decrease versus 2018 as a result of lower gross profit and higher administrative expenses.

CASH FLOW FROM OPERATING ACTIVITIES BEFORE CHANGES IN WORKING CAPITAL
(US$)

685.5M

2019	685.5
2018	930.7
2017	1,073.9
2016	1,023.3
2015	537.5

Decrease versus 2018 due to lower profits.

PROGRESS AGAINST OUR STRATEGY

2019 Goals and Progress

1 EXPLORE

GOALS
- Effectively deploy US$140 million in exploration investment.
- Accelerate infill drilling programme at Saucito and San Julián to convert resources into reserves.
- Carry out preliminary economic assessments at Tajitos (Sonora) and San Juan (Durango)
- Continue the preliminary economic studies at Guanajuato and Orisyvo (Chihuahua).
- Implement parametric drilling at two projects in Chile and one project in Peru.
- Test-drill new targets that have been identified at San Julián, Fresnillo and Guanajuato.

PROGRESS
- Invested US$170.1 million in risk capital in exploration with 603,669 metres and 173,972 metres drilled at our operating mines and exploration projects, respectively.
- Gold reserves decreased by 16.0% while silver reserves increased 1.7% during the year.
- Silver resources increased 2.4% mainly due to intensive exploration at Saucito and San Julián veins.
- Gold resources remained stable at 39.0 moz mainly as a result of an increase in resources at San Julián (veins) and Centauro Deep, offset by the decrease at Herradura resulting from the negative infill drilling results and revised calculations.
- Continued infill drilling in the Fresnillo District and San Julián.
- Continued preliminary economic assessments at Tajitos (Sonora), Orisyvo (Chihuahua), Rodeo (Durango) and Guanajuato.
- Commenced drilling at the two projects in Chile and advancing discussions with communities regarding a project in Peru.

2020 Targets

2020 TARGETS
- Effectively deploy US$150 million in exploration at the high-priority targets.
- Convert resources into reserves at all our mines.
- Explore the new targets in the Fresnillo and San Julián Districts.
- Increase infill drilling programmes at all our mines.
- Advance the preliminary economic assessments at Orisyvo, Tajitos, Guanajuato and Rodeo.

2 DEVELOP

GOALS
- Pyrites Plant (phase II): Continue construction of tailings flotation plant at the Fresnillo mine to process historical and ongoing tailings, with commissioning due in 2H 2020.
- Initiate construction of Juanicipio subject to Board approval.

PROGRESS
- Construction of the Pyrites Plant (phase II) continued and remains on track to be commissioned in 2H 2020.
- Underground mine development at Juanicipio continued, although commissioning of the beneficiation plant has been rescheduled for mid-2021.
- Construction continued of phase II of the optimisation of the beneficiation plant at the Fresnillo mine.

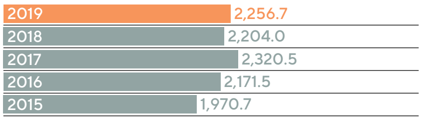
2020 TARGETS
- Conclude construction of the pyrites flotation plant and the optimisation of the beneficiation plant at Fresnillo in 2H 2020.
- Continue mine development at Juanicipio with the aim of reaching 40 kilometres in total, and production stopes ready in 3Q 2020.
- Advance the construction of the beneficiation plant at Juanicipio (now expected in mid-2021).

2019 Group KPIs/Performance

An indicator of the Group's growth potential and ability to discover and develop new ore bodies.

ATTRIBUTABLE SILVER RESOURCES[1]
(MILLIONS OF OUNCES)

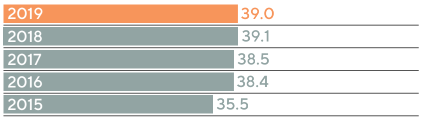
2,256.7



Increase mainly due to increased infill drilling and a successful exploration at Saucito.

ATTRIBUTABLE GOLD RESOURCES[1]
(MILLIONS OF OUNCES)

39.0



Remained stable versus 2018 as the positive results from the exploration activities at Centauro Deep, Guanajuato and Ciénega were offset by the lower resources at Herradura and San Julián.

1 2019 resources are presented as of 31 May 2019.

PYRITES PLANT (PHASE II)
(US$)

155M CAPEX BUDGET

135M TOTAL CAPEX TO DATE

JUANICIPIO
(US$)

395M ORIGINAL CAPEX

440M REVISED CAPEX

196M TOTAL CAPEX TO DATE

OPTIMISATION OF THE FRESNILLO BENEFICIATION PLANT
(US$)

30M CAPEX BUDGET

24M TOTAL CAPEX TO DATE

PROGRESS AGAINST OUR STRATEGY
CONTINUED

2019 Goals and Progress

2020 Targets

3 OPERATE

GOALS
- Produce between 58-61 moz silver, 910-930 koz of gold.
- Enhance management control in the Fresnillo district to improve development rates and increase productivity.
- Ramp-up of second line of Dynamic Leaching Plant.
- Contain costs.

PROGRESS
- Produced 54.6 moz of silver (including Silverstream) and 875.9 koz of gold, both slightly below revised guidance issued in mid-2019.
- Defined an action plan to improve operational efficiency in the Fresnillo District.
- Development rates increased (see pages 40-41).
- Successfully ramped up the second line of the Dynamic Leaching Plant and processed an average of 9,088 tpd, significantly above the nominal capacity of 8,000 tpd.
- Defined a cost reduction plan in response to an increase in costs across the portfolio.

2020 TARGETS
- Produce between 51-56 moz of silver, 815-900 koz of gold.
- Continue to implement the Fresnillo Full Potential Plan, as outlined by the CEO on pages 10-13 and the COO on pages 38-39.
- Implement the cost reduction plan.
- Increase overall equipment effectiveness at our mines.
- Continue construction of infrastructure.
- Ramp up of the tailings flotation plant at the Fresnillo mine, once it is commissioned.

4 SUSTAIN

GOALS
- Continue to define our Company Purpose, to express why Fresnillo exists, how we work and where we add value to society.

PROGRESS
- Defined the Company Purpose in 2H 2019.
- Sadly, we experienced two fatalities during the year. We remain committed to further embedding a safety culture in our operations.
- LTIFR decreased as a result of our efforts to embed our safety culture and enhance our safety expertise.
- Water intensity per tonne of mineral increased slightly due to operating conditions although efficiency remained relatively unchanged at 79.9%.
- Our carbon intensity increased due to an increase in electricity demand; wind energy represented 55.97% of our electricity supply (60.61% in 2018).

2020 TARGETS
- Ensure that all employees understand our Company Purpose and how it meets the needs of all our stakeholders.
- Nourish current and emerging values, coherent with our Purpose.
- Continue working towards our target of 75% of renewables in our electricity mix.
- Launch a stakeholder engagement initiative to review our materiality assessment.

2019 Group KPIs/Performance

Production: Monitors total production levels at our mines and contributions from advanced development projects.

SILVER PRODUCTION
(MILLIONS OF OUNCES)

54.6

2019	51.8	2.8	54.6
2018	58.1	3.7	61.8
2017	54.2	4.4	58.7
2016	45.7	4.6	50.3
2015	43.0	4.0	47.0

Decrease due to lower grades at the silver underground mines.

Graph illustrates silver production from our silver mines, with shaded portion representing additional ounces accrued under the Silverstream contract.

GOLD PRODUCTION
(THOUSANDS OF OUNCES)

875.9

2019	875.9
2018	922.5
2017	911.1
2016	935.5
2015	761.7

Decrease due to the expected lower production at Noche Buena and lower ore grade at San Julián veins.

Proven and probable reserves: A measure of the quality of the Group's operating assets and our ability to extend the life of operating mines at profitable levels.

SILVER RESERVES[1]
(MILLIONS OF OUNCES)

484.0

2019	484.0
2018	476.0
2017	501.7
2016	530.3
2015	547.6

Reserves increased due to the addition of reserves at Juanicipio, offset by the decrease in reserves at the mines due to the volumes mined during the year not being replaced, together with higher cut off grades and lower than expected ore grades in infill drilling in some areas.

GOLD RESERVES[1]
(MILLIONS OF OUNCES)

9.2

2019	9.2
2018	11.0
2017	11.7
2016	9.5
2015	9.5

Reserves decreased due to the exclusion of reserves at Soledad & Dipolos following the absence of an agreement with the Ejido community, and the exclusion of a number of benches at Herradura resulting from the negative infill drilling results and revised calculations.

1 2019 reserves are presented as of 31 May 2019.

FATALITIES AND INJURIES
(NUMBER OF FATAL INJURIES TO EMPLOYEES OR CONTRACTORS)

2

2019	2
2018	5
2017	1
2016	3
2015	1

LOST TIME INJURY FREQUENCY RATE (LTIFR)
(FOR EVERY 1,000,000 HOURS WORKED)

7.63

2019	7.63
2018	8.64
2017	8.14
2016	5.99
2015	7.51

WATER INTENSITY
(M^3 PER TONNE OF MINERAL PROCESSED)

0.29

2019	0.29
2018	0.26
2017	0.23
2016	0.22
2015	0.25

GREENHOUSE GAS INTENSITY
(TONNES OF CO_2E PER TONNE OF MINERAL PROCESSED)

0.0187

2019	0.0187
2018	0.0160
2017	0.0183
2016	0.0190
2015	0.0170

HOW ARE YOU SHORING UP YOUR RESERVES?

Not surprisingly, the downward trend in silver reserves seen over the last few years has caused some concern amongst stakeholders, in spite of the increase reported this year. Two different challenges have driven this reduction: a fall in the quantity of reserves, due to mineral being mined not being adequately replaced, in addition to higher cut off grades (a term used in our industry to determine what part of a mineral deposit to include in a resource and reserve estimate); and to a lesser extent, a change in the quality of reserves, because our programme of infill drilling has intersected lower grades than expected in localised areas of the mines.

So what are we doing to support this stabilisation and, where possible, reverse the situation?

We are addressing this issue head-on, in three different ways:

Costs

Our operational improvement plans aim to increase production levels while maintaining or lowering costs on a per unit basis, resulting in lower cut off grades, a principal factor underlying year-on-year changes. This will have the effect of increasing the reserves and resources available to us across our mine portfolio.

Infill drilling

In the past, we have maintained greater distances between drills, with the expected ore grade between those sites being inferred. We are addressing this by reducing the interval between drills. While some of the results of the extra drilling have revealed ore grades lower than expected, some have shown increased grades. In both cases, the programme is increasing certainty and therefore minimising the likelihood of unexpected grades in the future.

Exploration

We are fortunate to benefit from the expertise and experience of one of the industry's most respected exploration teams. Responsible for discovering many of our most significant vein systems, including those at Saucito and San Julián, this team is currently redoubling our exploration efforts in the world-class Fresnillo district, where we believe significant resources, and ultimately reserves, remain to be discovered.

REVIEW OF OPERATIONS

A STRONG GROWTH PIPELINE

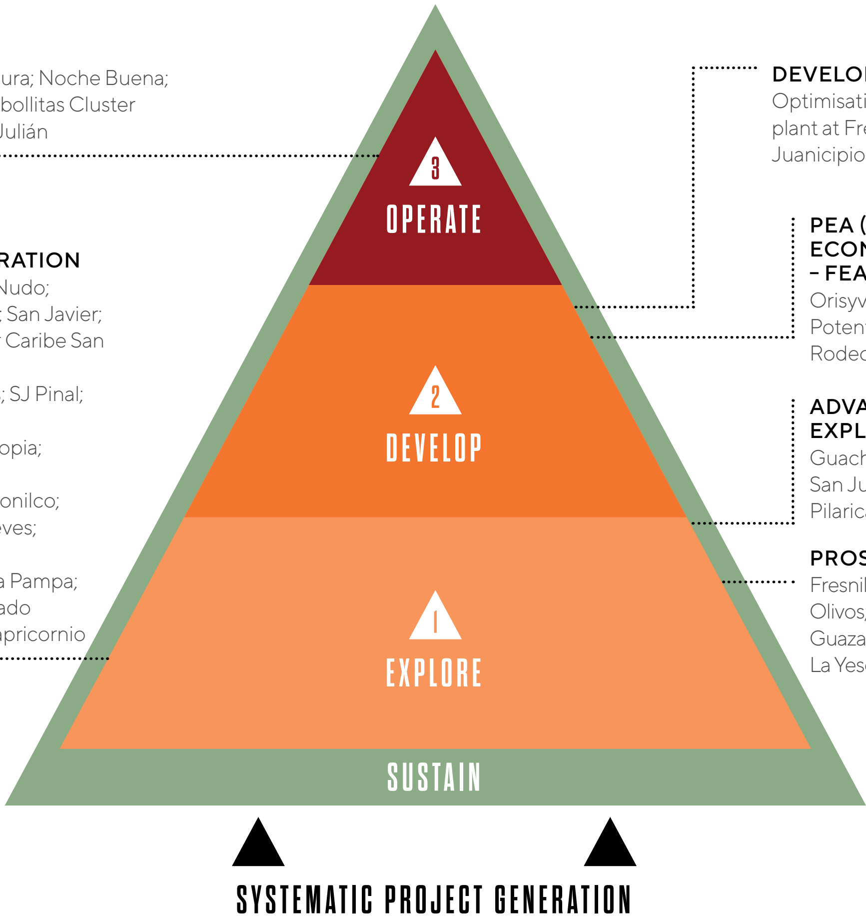
Our pipeline of exploration projects is key to our ongoing strategy of organic growth. The diagram below shows all our operations, projects and prospects across all stages.

MINE OPERATIONS

Fresnillo; Saucito; Herradura; Noche Buena; Ciénega; San Ramón; Cebollitas Cluster Soledad & Dipolos*; San Julián

EARLY STAGE EXPLORATION

- **Sonora and Sinaloa:** Nudo; Lejano; Alteño; Carina; San Javier; Cerritos; Rosario; Altar Caribe San Manuel; Santo Niño
- **Chihuahua:** Rosetillas; SJ Pinal; Lucero; Uruachi
- **Durango:** Canelas; VTopia; El Carmen
- **Zacatecas:** Urite; Atotonilco; Corredor Concha-Nieves; Villa Garcia
- **Peru:** Sto.Domingo; La Pampa; Supaypacha; Alto Dorado
- **Chile:** Condoriaco; Capricornio



DEVELOPMENT PROJECTS

Optimisation of the beneficiation plant at Fresnillo; Pyrites Plant; Juanicipio

PEA (PRELIMINARY ECONOMIC ASSESSMENT) – FEASIBILITY

Orisyvo; Centauro Great Potential; Guanajuato; Rodeo; Tajitos

ADVANCED EXPLORATION

Guachichil; Candameña; San Juan; Centauro Deep; Pilarica (Peru)

PROSPECTS IN DRILLING

Fresnillo District; San Nicolás; Bajio; Olivos; San Antonio; Lucerito; Guazapares Minitas Cebadillas; La Yesca; Dátil; Norias; Argentum

* Operations at Soledad & Dipolos are currently suspended.

EXPLORE

HIGHLIGHTS OF 2019

- Invested US$170.1 million in risk capital in exploration during the year.
- Increased silver resources by 2.4%, as a result of exploration at Saucito and San Julián.
- Gold resources remained stable at 39.0 moz, mainly due to positive exploration results at San Julián and Centauro Deep, offset by the decrease at Herradura resulting from the negative infill drilling results and revised calculations.
- Increased silver reserves by 1.7%, primarily through the inclusion of reserves at Juanicipio, which more than offset the decreases in silver reserves at our operating mines.
- Gold reserves decreased 16.0%, mainly due to the exclusion of reserves at Soledad & Dipolos following the absence of an agreement with the Ejido community, and the exclusion of a number of benches at Herradura resulting from the negative infill drilling results and revised calculations.
- All proven reserves were downgraded to probable.
- Commenced preliminary economic assessments at Orisyvo, Guanajuato, Tajitos and Rodeo.
- Discovered new silver-gold bearing veins in the Fresnillo and San Julián Districts.
- Consolidated claims at the Santo Domingo District in Peru.
- Initiated drilling at two projects in Chile, with positive results.

PRIORITIES FOR 2020

- Invest a further US$150 million during the year, with a continued focus on our Fresnillo and San Julián operations.
- Convert resources into reserves at all our operating mines.
- Conduct work to improve mine plans and geotechnical and financial models to upgrade probable reserves to the proven category in the next two years.
- Continue the exploration programme at Juanicipio to further confirm reserves and resources.
- Advance the preliminary economic assessments at Orisyvo, Guanajuato, Tajitos and Rodeo, albeit at a slower pace.
- Advance the drilling programmes at our optioned projects in Chile.

Diamond drill rig in the Fresnillo district

Mapping the geology of the Herradura pit

Our firm and unchanging commitment to exploration sets us apart from many of our peers and provides a solid platform for our future success.

Where most major mining companies in Mexico, or elsewhere, seek to grow through acquisition, we believe that the most effective and most sustainable route to growth is based on creating our own pipeline of reserves and resources – and that demands a long-term commitment to exploration. By continuing to invest in exploration across all precious metal price cycles and regardless of the peaks and troughs of economies, we aim to keep our pipeline well-stocked with a steady flow of opportunities and, specifically, to replace reserves mined each year.

Our exploration teams have a proud and highly respected reputation in the Mexican mining industry. They have been responsible for our most significant breakthroughs, such as those at San Julián and Saucito, and are ideally qualified to identify and develop new opportunities. One of the most important roles of our teams is to engage with local communities and seek their participation at an early stage of a project. Not only does this help safeguard our licence to operate, it also gives us the opportunity to meet and consult with local people, thereby ensuring that we are able to tailor any subsequent community support programmes to meet their specific needs. Please see pages 82-83 for more details on community engagement.

Our focus remains on Latin America, and in particular on maximising the geological potential in and around our current operations. At the same time, we are continuing to look to locate and consolidate new districts in Mexico, Chile and Peru where we have identified favourable gold-silver potential.

All our exploration projects are measured against a set of strict criteria to ensure they meet our operational and revenue objectives. For example, we will only proceed with a standalone project if it offers a minimum potential of 150 moz of silver or 2 moz of gold. We also consider a range of additional factors before commencing activities, such as ore grades, metallurgical recoveries, extraction costs, environmental impact, and sustainability and community investment, as well as the available infrastructure. Only those projects that score well against these requirements receive the green light.

2019 PERFORMANCE
RESERVES AND RESOURCES

To estimate resources and calculate reserves, we use the 2012 edition of the JORC code. With the exception of Orisyvo[1], we have continued to use a gold price of US$1,250/oz across our operations, including at our open pit operations, while the price used for silver reserves and resources remained at US$17.0/oz.

For the operating mines, the 2019 estimate and related audit of the Group's reserves and resources was brought forward to 31 May 2019, as compared to 31 December in previous years. This was to allow for a timely completion of the audit as this is a lengthy process. As a result, related reserves and resources in this report relating to operating mines are presented as of 31 May 2019 and compared to reserves and resources as of 31 December 2018. The earlier timing of the audit meant that costs considered in the estimation were taken from 2018, and not from the most recent 2019 cost base.

Reserves and resources relating to Juanicipio and exploration projects are presented as of 31 December, consistent with prior years.

Silver reserves increased 1.7% to 484.0 moz at year end (476.0 moz in 2018) as a result of the addition of reserves at Juanicipio, partly offset by the decrease in reserves at our underground silver mines. This decrease was due to several factors: the quantities of mineral mined during the year (known as depletion); the application of more rigorous dilution criteria; and a downward revision of anticipated ore grades in certain areas of the mines, following the campaign of infill drilling which we carried out to add greater certainty to the geological model, primarily at Fresnillo, San Julián, Ciénega and Saucito. Furthermore, higher cut off grades in some areas negatively impacted the silver reserves year-on-year.

Gold reserves decreased 16.0% to 9.2 moz at year end, driven by the exclusion of reserves at Soledad & Dipolos following the absence of an agreement with the Ejido community, and the exclusion of a number of benches at Herradura. With regard to Herradura, we are looking to lower the bench wall angles due to the rock quality in the pit. As this increases the mine's stripping ratio and costs, it reduces the number of low grade benches that are included in the reserves calculations. Gold reserves at other mines decreased due to either depletion or not being able to replace ounces mined during the year.

All proven reserves were downgraded to probable due to more stringent criteria and additional studies for geotechnical, hydrological and financial models required.

Silver resources increased 2.4% from 2.2 boz to 2.3 boz, mainly driven by positive results from the exploration campaigns at Saucito, and to a lesser extent at Guanajuato. Gold resources remained stable (39.0 moz vs. 39.1 moz in 2018) as the positive results from the exploration activities at Centauro Deep, Guanajuato and Ciénega were offset by the lower resources at Herradura and San Julián.

As the CEO explains on pages 10-13, our priority during 2019 has been to explore at and around our existing operations. In fact, almost 94% of the approximately 778,000 metres drilled during the year was carried out at, or close to, our existing operations. The following section provides details about our exploration pipeline, highlighting progress made in 2019 as well as outlining our plan for the year ahead.

1 Gold and silver prices used for the Orisyvo project were US$1,400/oz and US$17.5/oz respectively.

REVIEW OF OPERATIONS
EXPLORE
CONTINUED

Mapping the geology of the San Ramón satellite mine

EXPLORATION AT OUR EXISTING MINES

We work hard to ensure the long-term sustainability of our business and to drive growth by replenishing depleted reserves and maintaining a robust growth pipeline.

Great potential exists in brownfield sites around our existing mines – and this is where the majority of our exploration division budget was invested during 2019, supporting 123,700m of drilling in the areas of influence around the mines. In addition, we drilled 50,300m in greenfield targets where we are consolidating districts.

Within the mines, our focus was on infill drilling campaigns in order to define reserves and convert inferred resources into indicated resources, as well as to identify new resources within the mine area. In 2019, drilling in the mines totalled 604,000m.

FRESNILLO DISTRICT

While Fresnillo is one of the most important silver districts in the world, our exploration activities show that it remains under-explored. We are addressing this opportunity through an integrated approach based on detailed mapping, geophysics and geochemistry. This approach has located four new 'blind veins' in the Fresnillo District that we would not otherwise have been able to identify. Holes drilled in each area successfully located irregular near-surface silver and gold mineralisation. During 2020, follow-up drilling will explore the favourable ore-bearing horizon at depth. In addition, we have also recorded some interesting intercepts in the extensions of the Jarillas and the San Carlos vein systems. Across the district, we drilled 338,138m during the year.

HERRADURA DISTRICT

We carried out a total of 101,142m of drilling in the Herradura District in 2019. Activities were focused within the final Centauro pit to identify additional mineralised sections and to better define reserve blocks. Beyond the pit limits, our exploration teams identified three new structures for future underground mining and this led to an increase in resources.

CIÉNEGA DISTRICT

During the year we drilled 91,271m, with development continuing throughout the mine as well as on the recently discovered East extension of the Ciénega vein system, where a number of gold and silver bearing structures have been delineated. Exploration potential remains open in this new section of the mine. A prospecting programme has defined new areas which merit exploration within haulage distance of the main processing plant at Ciénega.

SAN JULIÁN DISTRICT

The year's drilling programme, which saw 177,237m drilled in the central and southern part of the San Julián District, delivered a significant increase in both total and indicated resources. The infill drilling programme delineated gold-silver ore-shoots with good continuity. A district-wide mapping programme has already identified a number of geological features which merit further exploration. Follow-up work – including more detailed mapping and rock geochemistry – is now in progress at these and at previously identified targets. An early outcome of these activities, which were complemented by detailed 3D modelling, is the discovery of the Frida vein – a new structure linking the two mineralised systems.

Previous exploration in the district, which included advanced electromagnetic technology and a helicopter support programme, had identified a number of targets. In order to obtain more detailed resistivity data on these targets, we launched a ground Audio-Magnetotelluric (AMT) geophysical programme. This is currently 95% complete, having surveyed more than 100 km distributed across 30 lines. A new selection of geophysical exploration drill targets will be ready for further investigation in early 2020.

DEVELOPMENT PROJECTS, PRELIMINARY ECONOMIC ASSESSMENTS AND FEASIBILITY STUDIES

Projects in this category have shown good potential for supporting our growth ambitions and have therefore been brought forward for further work. We carry out a wide range of exploration activities for these projects. For example, for projects in the relatively early stages we may conduct preliminary economic assessments (PEAs), which comprise an economic analysis of the potential viability of mineral resources. For more advanced projects such as Juanicipio, we undertake extensive de-risking activities to refine models, explore the extents of mineralisation and provide comprehensive support to a project as it moves into and through the development stage – a key moment in the journey towards becoming an operational mine.

JUANICIPIO – DEVELOPMENT PROJECT (56% FRESNILLO PLC, 44% MAG SILVER)

Drilling continues to extend silver, gold, and base-metal mineralisation at depth in the main NW-trending Valdecañas vein system. In addition, we have started drilling in the subsidiary NE-trending Venadas vein. A total of 25,272m were drilled during the year.

ORISYVO – PRE ECONOMIC ASSESSMENT

We completed 2,950m of test drilling at the Orisyvo project in 2019. Although results failed to identify a new ore body, we discovered positive hydrothermal alteration mineralogy and associated geochemical signatures, supporting the potential for further exploration.

We have designed an underground drilling programme for the main Orisyvo gold ore bodies, which will be executed in 2020. The aim of this programme is to obtain mineralised material for full-scale metallurgical test work over the entirety of the main ore bodies, and to provide additional geotechnical and grade distribution data to support a feasibility study. Both underground and open pit mining alternatives are being considered.


Diamond drilling exploration at Saucito

GUANAJUATO – PRE ECONOMIC ASSESSMENT

The drilling of 25,165m during the year has significantly increased total resources, in addition to increasing the degree of certainty by converting inferred resources into indicated. Hyperspectral remote sensing surveys combined with follow up and semi-detailed geological mapping outlined four new significant high potential drilling targets for 2020.

RODEO – PRE ECONOMIC ASSESSMENT

Rodeo hosts a significant gold resource amenable to open-pit mining and heap-leaching and a number of targets remain to be explored in the district. However, exploration has been delayed until surface land has been negotiated with the local Ejido communities. A strong community relations programme is in place while the negotiations continue.

TAJITOS – PRE ECONOMIC ASSESSMENT

We started the Pre Economic Assessment in 2019 and this will continue in 2020. Over the last 12 months, we focused on increasing the potential areas for disseminated gold in the western portion of the project. We carried out mapping and sampling activities, and added three new targets for future exploration.

The results of these activities support the extension of drilling to the west of the project. Extra surface land is being contracted to carry out the 2020 reverse circulation drilling programme (17,000m) with the aim of increasing the total resource to 2 moz of gold.

ADVANCED EXPLORATION PROJECTS AND PROSPECTS IN DRILLING

We constantly seek to evaluate opportunities that have shown good potential and may ultimately become part of the mine portfolio, and during 2019 our teams actively explored prospects across three different countries. Our activities at projects in this stage of the cycle include parametric drilling to confirm the geological model together with surface mapping and geochemical sample analysis.

MEXICO

Our drilling activities successfully increased resources at San Juan in addition to Durango. Just as significant, these properties include additional targets that merit exploration. Further work is required to fully assess the Cebadillas, Nayarit, San Antonio and Sonora prospects, while some good exploration results were obtained at Candameña, where we identified interesting drilling targets for next year.

PERU

We discovered additional silver resources at Pilarica and a preliminary economic assessment is now in preparation. Work is being carried out in the district to search for new targets in order to increase the size of the project, and we also identified a number of interesting targets during the year.

CHILE

The Capricornio project consists of more than ten epithermal veins. We initiated a drilling programme in 2019, with 6,107m drilled across 12 shallow holes to test four veins – and this produced promising gold results over significant widths. The programme will resume in 2020 as we continue to evaluate the Capricornio vein field, which displays numerous target zones.

The Condoriaco project comprises an extensive vein field over an area of 5 x 8 km, which saw some historic bonanza-grade gold and silver production. During 2019, we completed 2,448m of core drilling in two areas, detecting gold-silver plus some base-metal grades which warrant further exploration. Drilling at Condoriaco will continue in 2020.

EARLY STAGE EXPLORATION

We are carrying out a systematic exploration programme to locate prospects of interest in the main precious-metal belts of Mexico, Peru, and Chile (see portfolio triangle), with a team of geologists using up-to-date technology supported by intensive field work. This work includes the evaluation of selected, high-priority, open and third party-owned targets identified by an analysis of a country-wide Geographic Information System (GIS)-supported database.

We have identified a number of promising prospects in the Sonora, Sinaloa, Durango, Chihuahua, and Zacatecas states of Mexico. Additional claims were acquired in the gold belt of Peru, and exploration permits have been obtained for the Supaypacha project. Mineral concessions totalling 135,000 hectares have also been staked in promising precious-metal belts of Chile. We have scheduled reconnaissance and follow-up work to start in 2020, aimed at advancing the evaluation of these properties and eventually turning them into 100%-owned exploration projects.

REVIEW OF OPERATIONS
EXPLORE
CONTINUED

Project	Location	2019 Drilling (metres)	Mineral Resources (attributable)	Status
Guanajuato	Guanajuato	25,165	2019: **1,395 koz Au and 89 moz Ag** Change versus 2018: ↑ **186 koz Au;** ↑ **9 moz Ag**	In drilling, PEA[1]
San Julián Sur	Chihuahua/ Durango	46,613	2019: **0 koz Au and 0 moz Ag** Change versus 2018: ↓ **577 koz Au;** ↓ **53 moz Ag**	In drilling
San Juan	Durango	4,677	2019: **561 koz Au and 51 moz Ag** Change versus 2018: ↑ **11 koz Au**	In drilling
Candameña	Chihuahua	–	2019: **1,298 koz Au and 32 moz Ag** Change versus 2018: **nil**	Standby[2]
Tajitos	Sonora	–	2019: **530 koz Au** Change versus 2018: ↑ **51 koz Au**	Land acquisition
Fresnillo District	Zacatecas	51,782	Huizache, Plateros, Cesantoni veins (Additional resources in drilling not estimated yet)	In drilling
Centauro Profundo	Sonora	600	2019: **2,183 koz Au** Change versus 2018: ↑ **381 koz Au**	Standby
Orisyvo	Chihuahua	2,949	2019: **9,609 koz Au and 12 moz Ag** Change versus 2018: **nil**	In drilling
Lucerito	Durango	–	2019: **2,243 koz Au and 160 moz Ag** Change versus 2018: ↑ **4 koz Au;** ↑ **1 moz Ag**	Standby
Rodeo	Durango	–	2019: **1,215 koz Au and 11 moz Ag** Change versus 2018: **nil**	Land acquisition
Juanicipio[4]	Zacatecas	25,272	2019: **827 koz Au and 154 moz Ag** Change versus 2018: ↓ **35 koz Au;** ↑ **4 moz Ag**	In drilling
Guachichil	Zacatecas	–	2019: **1,182 koz Au and 18 moz Ag** Change versus 2018: ↑ **2 koz Au; nil Ag**	Standby
Pilarica	Peru	2,087	2019: **110 koz Au and 52 moz Ag** Change versus 2018: ↓ **1 moz Ag**	In drilling, PEA
Leones	Chihuahua	–	2019: **26 moz Ag** Change versus 2018: **nil**	Standby[3]
Manzanillas	Durango	–	2019: **141 koz Au and 3 moz Ag** Change versus 2018: **nil**	Standby[3]
Cebadillas	Nayarit	1,148	2019: **165 koz Au and 4 moz Ag** Change versus 2018: **nil**	In drilling[3]
La Yesca	Jalisco	–	2019: **27 koz Au and 5 moz Ag** Change versus 2018: **nil**	In drilling[3]
San Nicolás	Guerrero	–	2019: **112 koz Au and 16 moz Ag** Change versus 2018: **nil**	Standby[3]
Others	Mexico & Chile	15,427	–	–

1 Preliminary Economic Assessment.
2 No new resources model; updated metal prices only.
3 Not currently a major priority.
4 Mineral resources quoted reflect Fresnillo plc's attributable 56% ownership.

DEVELOPMENT PROJECTS

PYRITES PLANT (PHASE II)

Ownership: **100% Fresnillo plc**	
Location: **Zacatecas, Fresnillo District**	
Facilities: **Leaching plant at the Saucito mine, flotation plants at the Saucito and Fresnillo mines**	
Commercial production: **2Q 2018 (phase I), 2H 2020 (phase II)**	
Anticipated production: **Total annual average of 3.5 moz silver and 13 koz gold**	
Total approved capex: **US$155.0 million**	

TIMELINE:

- Construction of the flotation plant at the Fresnillo mine (phase II) continued as expected in 2019 and is on track to be concluded by 2H 2020.

2020 PRIORITIES:

- Conclude construction of the tailings flotation plant at Fresnillo.

ABOUT THE PROJECT

The Pyrites Plant is expected to improve overall recoveries of gold and silver, and to therefore maximise production in the Fresnillo district. This project was divided into two phases, the first phase consisted of the iron flotation circuit and pyrites leaching plant at the Saucito mine, which was commissioned mid-2018. The second phase, a 14,000 tpd tailings flotation plant at the Fresnillo mine, is under construction and is expected to be concluded in 2H 2020. Production is expected to total an average of 3.5 moz of silver and 13 koz of gold per year once both phases are operating at full capacity.

The second phase of the Pyrites Plant project will process the ongoing and historical tailings from the Fresnillo mine to produce a pyrites concentrate. This will be sent to a filtration plant and then on to the leaching plant at Saucito for the final part of the process to produce the precipitates.

KEY DEVELOPMENTS IN THE YEAR

The construction of the flotation plant at Fresnillo continued as expected and in line with the budget of US$49 million for the year. Main activities during the year included the installation of the thickener and flotation cells and the assembly of the cleaning circuit at the milling area.

The remaining US$15 million for the total approved capex of US$155 million will be allocated to a central laboratory for the Fresnillo district and auxiliary buildings.

BUDGETED CAPEX (US$)

155M

TOTAL CAPEX TO DATE (US$)

135M

DEVELOPMENT PROJECTS

OPTIMISATION OF THE BENEFICIATION PLANT AT FRESNILLO

Ownership:	**100% Fresnillo plc**
Location:	**Zacatecas, Fresnillo District**
Facilities:	**Zinc thickener (phase I), flotation cells (phase II) and vibrating screens (phase III) to be added to the Fresnillo mine beneficiation plant process, across three stages**
Commercial production:	**Fully operational only when mine is developed and prepared for expansion**
Anticipated production:	**Average annual production of 3 moz silver**
Total approved capex:	**US$30 million**

TIMELINE:

- Phase I was completed in 2017, phase II is currently ongoing and phase III will occur only when the mine is sufficiently developed and prepared in order to sustain the increase in capacity to 9,000 tonnes per day.

2020 PRIORITIES:

- Conclude construction of the second phase of this project by year end.

ABOUT THE PROJECT

The main objective of this project is to increase processing capabilities at the Fresnillo beneficiation plant to cope with the higher lead and zinc grades currently being mined at the deeper levels of the mine. A three-stage project, the first phase was completed in 2017 and comprised the installation of an additional zinc thickener. This year, construction of the second phase, the installation of flotation cells, advanced and is due to be concluded in 2H 2020. The third and final stage, increasing the plant capacity to 9,000 tpd from its current capacity of 8,000 tpd through the use of vibrating screens, will only be undertaken when the mine is able to sustain a consistent level of development, sufficient to support this higher level of processing capacity.

KEY DEVELOPMENTS IN THE YEAR

Good progress was made, with the installation of the additional flotation cells advancing in accordance with the timeline.

BUDGETED CAPEX (US$)

30M

TOTAL CAPEX TO DATE (US$)

24M

DEVELOPMENT PROJECTS

JUANICIPIO

Ownership: **56% Fresnillo plc, 44% Mag Silver Corp**

Location: **Zacatecas, Fresnillo District**

Facilities: **Underground mine and flotation plant**

Commercial production: **Development ore processed from June 2020, flotation plant mid-2021**

Anticipated production: **Annual average of 11.7 moz silver and 43.5 koz gold**[1]

Total capex: **US$395 million**[2] **(Fres: US$221 million)**

Revised capex: **US$440 million**[3] **(Fres: US$246.4 million)**

ABOUT THE PROJECT

Juanicipio is a joint venture project, with Fresnillo owning 56% and MAG Silver Corp owning the remaining 44%. This is a standalone project, located 14 kilometres from the Fresnillo mine, which is being constructed, developed and operated by Fresnillo plc.

The Juanicipio deposit consists of two main vein systems, the Valdecañas vein system and the Juanicipio vein, which are significant silver-gold epithermal structures. The Valdecañas vein system displays the vertical grade transition typical of the principal veins in the Fresnillo district, observed as a change from silver- and gold-rich zones at the top to increased lead and zinc in the deeper reaches.

KEY DEVELOPMENTS IN THE YEAR

Mine development continued to advance, and by the end of January 2020 had extended to over 25 km of the 42 km that we expect to complete by the end of the year.

However, we have adjusted the schedule for the construction of the flotation plant to enable the most efficient use of contractor labour. Commissioning is now anticipated by mid-2021 as opposed to previous guidance which indicated that construction would be completed by the end of 2020, followed by commissioning in early 2021. In the interim, from June 2020 approximately 16,000 tonnes of ore per month from the mine development and the initial production stopes will be processed at the Fresnillo beneficiation plant, which is expected to have spare capacity as the Fresnillo mine continues its operational recovery.

By bringing forward the start-up of the underground mine to June 2020, we anticipate an improvement in cash flow because income from production will be accelerated and capex spend spread across a longer period. Furthermore, the early start-up will further de-risk the metallurgical process, allowing a quicker and more certain ramp-up to 4,000 tonnes per day. The plant is expected to reach 85% name plate capacity in Q4 2021 and 90-95% in 2022.

Capex was revised from US$395 million to US$440 million to reflect additional actual expenditure recently incurred by the JV partners on the underground project, and the bringing forward of the full construction costs for two large life of mine ventilation shafts, plus some sustaining capital, to facilitate the early start to the underground works.

Other main activities of the year included the advancement of detailed engineering, the reviewing and awarding of several construction contracts and the purchase of key equipment.

Silver resources[4] at Juanicipio stand at 154 moz of silver and 827 koz of gold, with 86 moz of silver and 438 koz of gold recognised as reserves for the first time.

2020 PRIORITIES:

- Continue development of the mine.
- Fully prepare the first production stope by 3Q 2020.
- Start processing ore from development and initial production stopes in June 2020.
- Continue construction of the beneficiation plant.

BUDGETED CAPEX (US$)

395M

REVISED CAPEX (US$)

440M

TOTAL CAPEX TO DATE (US$)

196M

1 Feasibility study 2018.
2 Represents 100% of investment (56% Fresnillo plc, 44% Mag Silver) as of 1 January 2018.
3 Represents 100% of investment (56% Fresnillo plc, 44% Mag Silver).
4 Mineral resources quoted reflect Fresnillo plc's attributable 56% ownership.

DELIVERING THE OPERATIONAL TURNAROUND

Early in the year we welcomed a new Chief Operating Officer (COO) to Fresnillo. Having taken the operational helm at a pivotal moment for our Company, André Sougarret is leading the effort to address a number of challenges and deliver growth through our second decade. Here, he introduces himself before outlining some of those challenges and the measures he is putting in place to resolve them.

WHAT'S YOUR BACKGROUND, AND WHAT SKILLS DO YOU BRING TO FRESNILLO?

I worked in Chile for over 30 years, including 20 years with Codelco where I was responsible for managing and overcoming a series of major operational challenges at one of the biggest underground mines in the world. Although the issues that face us at Fresnillo are different, the technical and managerial experience I gained at Codelco is enabling me to both understand the underlying issues and create the appropriate solutions.

I also worked at Antofagasta, where the challenges were more geological and gave me an insight into the technology used at open pit mines. Again, this experience has given me knowledge that is proving invaluable as we begin the performance turnaround at Fresnillo.

My leadership of a major and successful rescue operation in a small, deep copper mine in Chile further renewed my commitment to always put safety first.

WHAT WERE YOUR FIRST IMPRESSIONS OF FRESNILLO?

In my first year at Fresnillo, I spent significant time gaining first-hand knowledge of our operations, understanding how they work and the challenges they face. Of course, I was already aware of Fresnillo's reputation as a significant Mexican mining company that had grown rapidly over its first ten years, and had built up an impressive portfolio of silver and gold mines.

But until I took up my post and visited the operations I wasn't fully aware of the potential of those assets to deliver a better performance, supported by a resource base and a committed, experienced exploration team that will continue to form the foundation for a sustainable, long-term business.

I am convinced that the challenges faced by Fresnillo are manageable provided that the right plans are in place. The technical skills are here and management commitment is unwavering to overcome the near-term setbacks.

WHAT IS YOUR TOP PRIORITY?

Safety is, and always will be, our greatest responsibility and our greatest challenge. I am very pleased to have joined a quality management team with a total commitment to safety – this is evident not just at senior management and Board level, but throughout the Company, including at each mine.

We must be relentless in our pursuit of zero fatal accidents for our 18,000 people, especially in the two areas where mining is traditionally most dangerous – rock falls and accidents involving machinery. Two of our people lost their lives during 2019 and this is simply unacceptable. Our total recordable injury frequency rate is below our best-in-class global peers, and I fully expect the '*I Care We Care*' programme to address this over the coming months and years, as we fully implement it at all our mines.

We are also carrying out surveys to evaluate our relationships with our main stakeholders, interviewing community leaders and hosting focus groups. Together, these activities enable us to identify the issues that matter to local communities and therefore identify risks and opportunities.

In tandem to this, we are putting even more resources behind ensuring that our tailings storage facilities ('TSFs') do not cause harm to the environment, our people, our assets or local communities. We have a total of 11 operational and closed TSFs and although none are as large as those of other mining companies, we have nevertheless stepped up the way we manage them.

HOW ARE YOU RESOLVING YOUR OPERATIONAL CHALLENGES?

We have already designed and implemented plans to address a number of near-term operational challenges, notably at the Fresnillo and Saucito mines. Our CEO discusses the most significant of these in his statement on pages 10-13, and you can also read more about initiatives at each mine on pages 40-53.

In brief, we aim to operate all mines at full capacity and with maximum efficiency. We will do this through operational discipline supported by the adoption of industry best practices. Flexible, long-term mine plans are key to our success – we must do what we say we will do, and when we say we will do it. That covers everything from making sure that mining infrastructure such as new shafts or ventilation systems are in place on time, to using the huge amount of data we collect in order to be more and more efficient, day after day. Furthermore, we will continue to invest in our people so that we have the right competences and skills in the right places at the right time.

HOW WILL THESE MEASURES IMPACT PRODUCTION OVER THE COMING YEARS?

Gold production is expected to decrease from 876 koz in 2019 to approximately 665 +/-5% koz in 2022, due to the closure of the mine at Noche Buena and the increased proportion of sulphides processed at Herradura as we mine deeper.

On the other hand, we expect silver production to increase from 55 moz in 2019 to approximately 71 moz +/-5% in 2022, driven by the start of operations at Juanicipio and the Pyrites Plant, together with the anticipated improvement in ore grades at both Fresnillo and Saucito.

This is the start of the next phase at Fresnillo. Looking further ahead, I anticipate a steady increase in efficiency as our existing mines operate to their full potential and our exploration pipeline continues to bring additional resources at our existing mines and new assets into our portfolio.

ANDRÉ SOUGARRET
CHIEF OPERATING OFFICER

CASE STUDY

WORKING SMARTER AS WE MINE DEEPER

The Fresnillo District is arguably one of the world's most important silver producing areas. However, as the years have progressed, the challenges of successfully operating the Fresnillo and Saucito mines which dominate this large district have become more acute. While the operations remain world-class and rich in potential, changing geological conditions, narrower veins, higher grade variability and greater depth have increasingly posed challenges.

Our initial failure to identify and adapt to these changing structural conditions led to lower grades, higher variability, and delays in infrastructure development. We are now working hard to turn the Fresnillo mine around and to prepare the Saucito mine for the future, specifically by implementing important infrastructure projects, process improvements, and productivity and efficiency projects to maximise the potential of these mines. These initiatives are ongoing and are expected to start delivering results during 2020.

The levers that will allow us to turnaround this performance are based on industry best practices. These include reinforcing the mine planning, enhancing operational control, validating the assumptions used to generate the operating models and the use of information technology.

One of the key challenges – and one which will have a short-term positive effect – is to control dilution by using a cavity monitoring system to implement systematic measurement of overbreak, together with adjusting drilling and blasting techniques to suit narrower veins.

Identifying shortcomings in the effectiveness of equipment is another area that demands attention. We are implementing systems to better monitor in-mine production and help us identify where we can improve equipment efficiency by practices such as semi-automatic drilling, shift changes and training, among others.

Alongside our drive to improve operational performance, we are implementing a reliability-focused maintenance system to improve the mechanical availability of equipment and thereby ensure production continuity. The in-mine equipment fleet will be the first to benefit from this new system.

In addition, we are working to gain specific knowledge of the increasing variability of the veins. For example, we narrowed the drilling grid from 70 metres to 50 metres, drilling a total of 338,138 metres during 2019. At the same time, we launched an action plan to improve the reserve and resource estimation process. This plan embraces both the operational and exploration functions and includes standardising the procedures to model resources, mapping the geological structures, sampling, and quality control (QC/QA) in the preparation of samples and chemical analysis.

The table below shows our action plan and some of its specific objectives, which are closely monitored:

Action	Fresnillo	Saucito
Improve dilution control	Reduce to 34% by 2020 and 31% in 2021.	Reduce to 37% by 2020 and 34% in 2021.
Continue infill drilling programme	85-90 thousand metres in 2020.	110-120 thousand metres in 2020.
Increase accuracy of samples	85% of samples below 20% of variability.	85% of samples below 20% of variability.
Reduce downtime	Increase work time by 30 minutes.	N/A
Improve maintenance reliability	Mean time before failure 12 hours.	N/A
	Mean time to repair 8 hours	N/A

MINES IN OPERATION

FRESNILLO

2019 OBJECTIVES

- Continue the infill drilling programme to improve the accuracy of the geological model.
- Enhance management controls.
- Increase development rates to over 3,000 metres per month in the short-term and commence operating the tunnel boring machine.
- Continue deepening the San Carlos shaft.
- Continue construction of the tailings flotation plant.
- Install flotation cells at the beneficiation plant.

2019 PERFORMANCE

- Infill drilling programme advanced successfully, contributing to improved geological certainty.
- Created four interdisciplinary teams tasked with analysing challenges and identifying the appropriate solutions.
- Action plan to stabilise production developed (see table on previous page), with specific targets to monitor progress.
- Development rates increased to an average of 3,037 metres per month in 2019; the tunnel boring machine was commissioned in Dec 2019.
- Deepening of the San Carlos shaft progressed on schedule, and is due to be concluded by 4Q 2020.
- Construction of second phase of the Pyrites Plant, a tailings flotation plant, continued as expected and is due to be commissioned in 2H 2020.
- Preparation and installation of the flotation cells advanced as planned.

2020 OBJECTIVES

- Continue the infill drilling programme.
- Monitor progress against the action plan (see page 39), including greater dilution control, reduced variability of samples and improved equipment availability.
- Increase development rates to 3,400–3,600 metres per month in the short-term and ramp up the tunnel boring machine.
- Continue implementing initiatives to increase productivity and efficiency.
- Conclude the deepening of the San Carlos shaft.
- Commission the tailings flotation plant.
- Conclude the installation of flotation cells.

One of the world's oldest continuously operated mines, Fresnillo produced 24% of the Group's total silver in 2019 and generated 15.9% of total adjusted revenue.

Ownership: **100% Fresnillo plc**	Location: **Zacatecas**
In operation since: **1554**	Mine life (years): **8.1 at 7,349 tpd (2,462k tpy),** (2018: 8.6)
Facilities: **Underground mine and flotation plant**	
Milling capacity (2019): **8,000 tpd/2,640,000 tpy**	
Workforce: **1,183 employees, 2,274 contractors**	

	2019	2018	% change
MINE PRODUCTION			
Ore milled (kt)	**2,462**	2,443	0.8
Silver (koz)	**13,007**	15,117	(14.0)
Gold (oz)	**52,259**	42,290	23.6
Lead (t)	**21,472**	19,619	9.4
Zinc (t)	**31,530**	31,094	1.4
Silver ore grade (g/t)	**185**	214	(13.6)
TOTAL RESERVES [1]			
Silver (moz)	**149.3**	176.7	(15.5)
Gold (koz)	**483**	566	(14.7)
AVG ORE GRADE IN RESERVES			
Silver (g/t)	**234**	243	(3.7)
Gold (g/t)	**0.76**	0.78	(2.6)
Cut-off grade (g/t AgEq)	**202**	212	(4.7)
TOTAL RESOURCES [2]			
Silver (moz)	**799.2**	812.0	(1.6)
Gold (moz)	**1.77**	1.83	(3.3)
AVG ORE GRADE IN RESOURCES			
Silver (g/t)	**338**	339	(0.3)
Gold (g/t)	**0.75**	0.76	(1.3)
Cut-off grade (g/t AgEq)	**136**	131	3.8

1 2019 reserves as of 31 May 2019.
2 2019 resources as of 31 May 2019.

KEY DEVELOPMENTS IN THE YEAR

Silver production decreased 14.0% from 2018 due to the lower than expected ore grade arising from higher dilution, differences between the actual ore grade in production and the one expected in the geological model and limited access to higher grade areas due to delays in development. In order to overcome these challenges, we have developed and implemented a comprehensive action plan which aims to control dilution, increase productivity and improve the certainty of the geological model, as further explained on page 39.

Ore throughput increased slightly to an average of 7,349 tpd (2018: 7,292 tpd). This was driven by factors including improved mine coordination and new initiatives to increase productivity, such as Sunday working for unionised employees, a development that was supported by the union and put into action during the year.

The average development rate for the year increased to 3,037 metres per month (2018: 2,884 metres per month), an increase of 5.3% as a result of work carried out by the contractor hired in 3Q 2018 and more timely mine preparation and investment in infrastructure.

In December 2019, we commissioned the state-of-the-art tunnel boring machine. Together with the recruitment of an additional contractor at the end of 2019, this will further enable an increased development rate of an average of 3,500-3,800 metres per month by year end 2020. However, we will continue to work to rationalise our contractor base in the future – our goal is for four contractor companies to each develop 1,000 metres per month.

Productivity, currently calculated as tonnes of ore milled per person, decreased compared to 2018. This was mainly due to the additional personnel hired to haul ore through a larger mine and an increased number of veins.

RESERVES AND RESOURCES

Silver resources decreased slightly, mainly due to the higher cut-off grade, thus resulting in areas of lower grade not being included within the calculations.

Silver reserves decreased, mainly due to the ounces mined during the year not being replaced and stricter audit criteria.

CAPITAL EXPENDITURES

Total capex spend in 2019 was US$172.8 million, primarily for mine development, sustaining capex, the construction of the second phase of the Pyrites Plant (see page 35), the optimisation of the beneficiation plant, the deepening of the San Carlos shaft and investments in technologies that will enhance the mine's efficiency and productivity, such as Track Plus, Ventilation Plus and Mine Ops.

2020 OUTLOOK

For 2020, the silver ore grade is expected to be in the range of 185-200 g/t, with the gold ore grade around 0.85-0.90 g/t.

The 2019 capex projects will continue in 2020 and will account for the majority of our investment in the year ahead.

FINANCIAL PERFORMANCE

Financial highlights	2019	2018	% change
Adjusted revenue (US$m)	**361.7**	378.3	(4.4)
Adjusted production costs (US$m)	**154.4**	120.7	27.9
Segment profit (US$m)	**164.6**	211.5	(22.2)
Capital expenditure (US$m)	**172.8**	121.1	42.7
Exploration (US$m)	**13.3**	18.2	(26.9)
Cost per tonne (US$)	**62.7**	49.4	26.9
Cash cost ($/oz silver)	**2.3**	0.5	360.0
Margin ($/oz)[3]	**13.8**	15.1	(8.6)
Margin (expressed as % of silver price)	**85.7**	97.1	
All-in sustaining cost (US$/oz silver)	**13.5**	8.9	51.8

3 Margin defined as average realised price less cash cost per ounce.

Adjusted revenue, excluding inter-segment sales, decreased by 4.4% to US$361.7 million, principally due to the 15.2% decrease in volumes of silver sold partially offset by the increase in silver price.

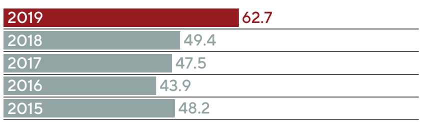
Cost per tonne increased 26.9% to US$62.7 in 2019, mainly due to an increase in development works and maintenance activities, together with increased consumption of operating materials. Additionally, cost inflation for this mine was 4% mainly due to contractors and labour.

Cash cost per silver ounce increased to US$2.3 (2018: US$0.5) principally due to lower silver ore grade, higher cost per tonne and higher treatment charges, partially mitigated by the higher by product credits. Margin per ounce decreased 8.6% to US$13.8. Expressed as a percentage of silver price, it decreased to 85.7% (2018: 97.1%).

All-in sustaining cost increased 51.8% over 2018. The US$4.6 per ounce increase was explained by higher capitalised mine development per ounce, an increase in sustaining capex per ounce and the higher cash cost.

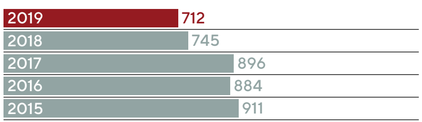
FRESNILLO
(US$/TONNE MILLED)

62.7



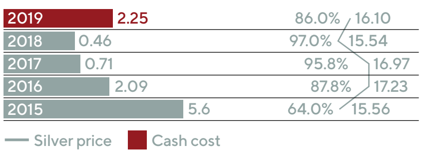
FRESNILLO ORE MILLED PER PERSON
(TONNES)

712



FRESNILLO CASH COST
(SILVER US$/OUNCE)

2.25



% Figures represent margin between cash cost and silver price

MINES IN OPERATION

SAUCITO

One of our most important assets, Saucito contributed 34% to total silver production in 2019 and generated 21.7% of total adjusted revenue.

Ownership: **100% Fresnillo plc**	Location: **Zacatecas**
In operation since: **2011**	Mine life (years): **4.7** (2018: 5.3)
Facilities: **Underground mine and flotation plant**	
Milling capacity (2019): **7,800 tpd/2,600,000 tpy**	
Workforce: **882 employees, 2,791 contractors**	

	2019	2018	% change
MINE PRODUCTION			
Ore milled (kt)	**2,753**	2,792	(1.4)
Silver (koz)	**17,160**	19,781	(13.3)
Gold (oz)	**79,539**	86,092	(7.6)
Lead (t)	**20,764**	22,662	(8.4)
Zinc (t)	**29,365**	29,506	(0.5)
Silver ore grade (g/t)	**228**	257	(11.3)
Gold ore grade (g/t)	**1.19**	1.25	(4.8)
TOTAL RESERVES [1]			
Silver (moz)	**119.7**	130.3	(8.1)
Gold (koz)	**500**	679	(26.4)
AVG ORE GRADE IN RESERVES			
Silver (g/t)	**287**	272	5.5
Gold (g/t)	**1.20**	1.42	(15.5)
Cut-off grade (g/t AgEq)	**257**	210	22.4
TOTAL RESOURCES [2]			
Silver (moz)	**495.5**	428.2	15.7
Gold (moz)	**1.8**	1.9	(5.3)
AVG ORE GRADE IN RESOURCES			
Silver (g/t)	**296**	271	9.2
Gold (g/t)	**1.05**	1.19	(11.8)
Cut-off grade (g/t AgEq)	**164**	141	16.3
PYRITES PLANT PRODUCTION			
Ore Processed (t)	**167,513**	131,780	27.1
Silver (koz)	**1,171**	977	19.9
Gold (oz)	**4,045**	3,556	13.8
Silver ore grade (g/t)	**299**	393	(23.9)
Gold ore grade (g/t)	**2.3**	2.8	(17.9)

1 2019 reserves as of 31 May 2019.
2 2019 resources as of 31 May 2019.

2019 OBJECTIVES

- Intensify parametric drilling and continue infill drilling programme.
- Increase development rates.
- Continue deepening the Jarillas shaft.

2019 PERFORMANCE

- Parametric drilling intensified and the infill drilling programme continued as planned, thereby increasing geological certainty.
- Development rates increased from 2,825 to 3,258 metres per month.
- Development of an action plan to prepare the mine for the future (see page 39), with specific targets to monitor progress.
- Deepening of the Jarillas shaft progressed as expected, reaching 882 metres out of a total of 1,000 metres.

2020 OBJECTIVES

- Continue infill drilling to convert resources into reserves.
- Monitor progress against the action plan (see table on page 39), including dilution control, sample variability and equipment availability.
- Increase development rates to 3,500-3,800 metres per month by year end.
- Continue implementing initiatives to increase productivity and efficiency.
- Continue deepening of the Jarillas shaft to 987 metres.

KEY DEVELOPMENTS IN THE YEAR

As expected, annual silver production was lower year-on-year mainly due to the decrease in ore grade, although to a lesser extent than forecast. The decrease in ore grade was due to the gradual depletion of higher grade areas and increased dilution as the Jarillas vein narrows. In order to overcome these challenges, we have implemented a comprehensive action plan aimed at controlling dilution, increasing productivity and improving the certainty of the geological model, as further explained on page 39. Annual gold production decreased 7.6% due to lower ore grade.

Ore throughput remained broadly stable year-on-year at 8,218 tpd, while mine development improved over the previous year, averaging 3,263 metres per month.

Deepening the Jarillas shaft at Saucito

The Saucito shaft

Productivity declined compared to 2018 mainly due to an increase in the number of contractors hired to increase development rates as we start mining deeper and narrower areas of the mine, as well as an increase in unionised employees to haul ore across longer distances.

Following its commissioning in mid-2018, this was the first full year of operation for the Pyrites Plant at Saucito, with the plant producing over 1.1 moz of silver and 4.0 koz of gold during 2019. This level of production is expected to continue through 2020.

The project to sink the Jarillas shaft from 630 metres to 1,000 metres continued, reaching 882 metres by the end of 2019. This project, which will provide access to the deeper reserves of the Jarillas vein, is expected to be completed by the end of 2023.

RESERVES AND RESOURCES

The infill drilling programme continued during the year, with results showing only minor variations from the geological model. Additional infill drilling will be carried out in 2020 to further improve the model's certainty. Silver reserves decreased 8.1% as reserves were not replenished during the year. However, silver resources increased 15.7% as a result of the exploration in the area of influence.

CAPITAL EXPENDITURES

Capital expenditures in 2019 totalled US$126.4 million, mainly allocated to in-mine development, sustaining capex and the project to deepen the Jarillas shaft.

2020 OUTLOOK

We anticipate developing between 3,500-3,800 metres a month by the end of 2020 as we rationalise the contractor companies and review their incentive schemes and mine preparation services.

The gradual depletion of the wider and higher ore grade areas is expected to continue into 2020 as we move into deeper areas of the mine, with the silver ore grade expected to be between 200-220 g/t and the gold ore grade decreasing to around 0.95 g/t.

Capex will primarily be allocated to increasing development rates, sustaining capex and the deepening of the Jarillas shaft, together with other minor investments in technology such as Ventilation Plus, Track Plus ProxAlarm and MineOps Optimiser.

FINANCIAL PERFORMANCE

Financial highlights	2019	2018	% change
Adjusted revenue (US$m)	**493.4**	492.0	0.3
Adjusted production costs (US$m)	**197.9**	167.7	18.0
Segment profit (US$m)	**238.1**	274.5	(13.3)
Capital expenditure (US$m)	**126.4**	148.4	(14.8)
Exploration (US$m)	**33.4**	36.6	(8.7)
Cost per tonne (US$)	**67.8**	60.1	12.8
Cash cost (US$/oz silver)	**2.3**	1.0	130.0
Margin (US$/oz)	**13.8**	14.6	(5.5)
Margin (expressed as % of silver price)	**85.7**	93.8	
All-in sustaining cost (US$/oz silver)	**11.0**	8.6	27.0

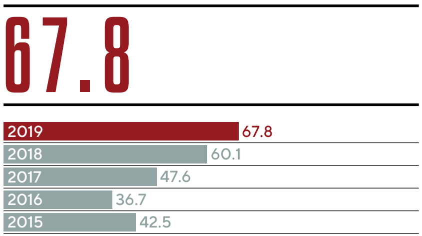
Adjusted revenue at Saucito remained broadly unchanged, mainly as a result of higher precious metal prices offset by the lower volumes of silver sold. The mine's contribution to total Adjusted silver revenue increased to 36.0% in 2019 (2018: 35.5%), with Saucito remaining the main contributor to total Adjusted silver revenues. Gold contributed 22.0% to Saucito's Adjusted revenue (2018: 19.7%), representing 9.1% of the Group's total Adjusted gold revenue.

Cost per tonne increased 12.8% to US$67.8, mainly due to the full year of operations of the new Pyrites Plant following its commissioning at the end of 1H 2018; cost inflation for this mine was 4.1% primarily due to contractors, operating materials and labour.

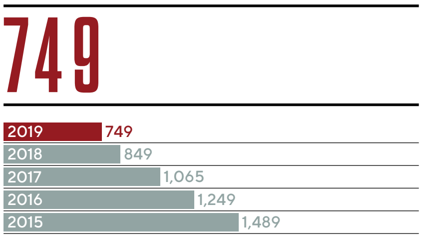
Cash cost per silver ounce increased to US$2.3 per ounce (2018: US$1.0 per silver ounce) mainly as a result of the higher cost per tonne, the lower silver grade and the higher treatment charges, partially mitigated by the increase in by-product credits per ounce of silver resulting from the higher price of gold and increased volume of zinc sold. Margin per ounce decreased to US$13.8 in 2019 (2018: US$14.6). Expressed as a percentage of silver price, it decreased from 93.8% to 85.7%.

All-in sustaining cost increased US$2.4 per ounce mainly due to higher capitalised mine developments per ounce and increase in cash cost, mitigated by lower sustaining capex per ounce.

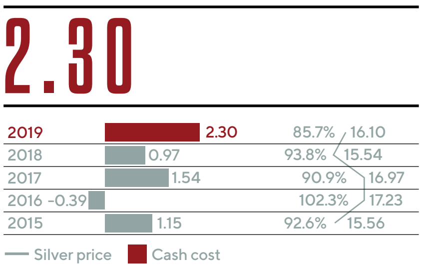
SAUCITO
(US$/TONNE MILLED)



SAUCITO ORE MILLED PER PERSON
(TONNES)



SAUCITO CASH COST
(SILVER US$/OUNCE)



% Figures represent margin between cash cost and silver price

MINES IN OPERATION

SAN JULIÁN

The San Julián silver-gold mine started operations in 2016. In 2019, it contributed 24% to total silver production and generated 15% of total adjusted revenue.

Ownership: **100% Fresnillo plc**	Location: **Chihuahua/Durango border**
In operation since: **2H 2016 (Veins)/ 2Q 2017 (Disseminated Ore Body)**	Mine life (years): **3.4 Veins** (2018: 3.5), **5.4 Disseminated Ore Body** (2018: 6.3)
Facilities: **Underground mine, flotation plant and a dynamic leaching plant**	
Workforce: **315 employees, 1,721 contractors**	

KEY DEVELOPMENTS IN THE YEAR

Silver and gold production at the San Julián veins decreased 20.6% and 21.5% respectively compared with 2018, primarily due to the lower ore grade resulting from the depletion of high-grade areas and differences between the actual ore grade in production and the one expected in the geological model. The infill drilling campaign initiated during the year will continue into 2020 to increase the geological certainty of the model. In addition, we will also implement improved drilling and blasting patterns to control dilution and thereby improve productivity.

Silver production decreased 5.5% at San Julián's Disseminated Ore Body (DOB) against 2018, due to the lower ore grade resulting from the change in the mine sequencing to maintain geotechnical stability. This adjustment meant lower grade areas were, and will continue to be, mined through 2020 until we regain access to the higher grade stopes. This is expected towards the end of the year.

Ore throughput at both beneficiation plants continued operating above nameplate capacity and is expected to decrease slightly in 2020, in accordance with the mine plan.

Productivity at San Julián decreased as a result of an increased number of contractors for development and to support the resequencing of the disseminated ore body. Construction of the water reservoir, with an investment of US$15 million, was successfully concluded in 2019, securing the long-term water supply for the mine.

To ensure operational continuity, we expect to commence the third and fourth stages of the expansion of the tailings dam during 2020, ensuring capacity for a further five years.

Capex spend in 2019 was US$78.4 million, mainly allocated to mining works, sustaining capex, the construction of the water reservoir and the implementation of the IT initiatives: Track Plus, ProxAlarm, Ventilation Plus and Mine Optimiser systems.

RESERVES AND RESOURCES

Silver and gold reserves at San Julián veins increased due to the successful exploration in the adjacent areas. The intensive exploration programme in the area of influence resulted in silver resources doubling at San Julián veins and gold resources increasing 61.3% over 2019.

Silver and gold resources at San Julián DOB decreased due to lower ore grades. Silver reserves decreased due to ounces mined not being replaced during the year and more strict criteria.

2019 OBJECTIVES

- Conclude the construction of the water reservoir.
- Increase productivity through the implementation of a fleet management system.
- Continue exploration in area of influence.
- Continue implementation of '*I Care, We Care*' safety programme.
- Obtain clean industry and International Cyanide Management Code Certification.

2019 PERFORMANCE

- Water reservoir commissioned in 2H 2019.
- Fleet management system partially implemented with a positive impact on productivity. Further benefits are expected in 2020.
- Operational plan developed and implemented at San Julián (veins).
- Mine sequencing of San Julián DOB changed to maintain geotechnical stability in some high grade areas.
- Exploration continued in area of influence with increases in gold and silver resources.
- '*I Care, We Care*' programme rolled out, driving best practices and improving safety indicators.
- Clean industry certification obtained, while initial activities for International Cyanide Management Code Certification were also carried out.

2020 OBJECTIVES

- Increase productivity by implementing operation management systems.
- Implement additional cost control initiatives and maintain strict control of sustaining capex.
- Intensify exploration programme and mining works.
- Continue infill drilling and dilution control.
- Start construction of phases III and IV at the tailings dam.
- Continue process to achieve International Cyanide Management Code Certification.

	2019	2018	% change
MINE PRODUCTION			
Total production			
Gold (oz)	**64,600**	82,344	(21.5)
Silver (koz)	**13,009**	14,630	(11.1)
PRODUCTION SAN JULIÁN VEINS			
Ore milled (kt)	**1,265**	1,271	(0.5)
Silver (koz)	**4,317**	5,434	(20.6)
Gold (oz)	**62,207**	79,218	(21.5)
Silver ore grade (g/t)	**115.4**	144.1	(19.9)
Gold ore grade (g/t)	**1.6**	2.0	(20.0)
PRODUCTION SAN JULIÁN DISSEMINATED ORE BODY			
Ore milled (kt)	**2,227**	2,221	0.3
Silver (koz)	**8,692**	9,196	(5.5)
Gold (oz)	**2,393**	3,125	(23.4)
Lead (t)	**7,648**	6,101	25.4
Zinc (t)	**22,697**	22,027	3.0
Silver ore grade (g/t)	**139.5**	154.4	(9.7)
Gold ore grade (g/t)	**0.1**	0.1	0.0
Lead ore grade (%)	**0.4**	0.4	0.0
Zinc ore grade (%)	**1.4**	1.4	0.0
RESERVES SAN JULIÁN VEINS [1]			
Silver (moz)	**22.4**	18.0	24.4
Gold (koz)	**245**	231	6.0
AVG ORE GRADE IN RESERVES SAN JULIÁN VEINS			
Silver (g/t)	**160**	126	27.0
Gold (g/t)	**1.75**	1.62	8.0
Cut-off grade (g/t AgEq)	**175**	162	8.0
RESERVES SAN JULIÁN DISSEMINATED ORE BODY [1]			
Silver (moz)	**67.8**	94.1	(27.9)
Gold (koz)	**42**	55	(23.6)
AVG ORE GRADE IN RESERVES SAN JULIÁN DISSEMINATED ORE BODY			
Silver (g/t)	**175**	209	(16.3)
Gold (g/t)	**0.1**	0.1	–
Cut-off grade (g/t AgEq)	**153**	170	(10.0)
RESOURCES SAN JULIÁN VEINS [2]			
Silver (moz)	**103.7**	51.1	102.9
Gold (koz)	**1,053**	653	61.3
AVG ORE GRADE IN RESOURCES SAN JULIÁN VEINS			
Silver (g/t)	**143**	112	27.7
Gold (g/t)	**1.46**	1.43	2.1
Cut-off grade (g/t AgEq)	**123**	110	11.8
RESOURCES SAN JULIÁN DISSEMINATED ORE BODY [2]			
Silver (moz)	**95.9**	105.2	(8.8)
Gold (koz)	**61**	63	(3.2)
AVG ORE GRADE IN RESOURCES SAN JULIÁN DISSEMINATED ORE BODY			
Silver (g/t)	**174**	227	(23.3)
Gold (g/t)	**0.1**	0.1	–
Cut-off grade (g/t AgEq)	**108**	133	(18.8)

CAPITAL EXPENDITURES

Capex spend in 2019 was US$65.3 million, mainly allocated to mining works, sustaining capex, the construction of the water reservoir and the implementation of IT initiatives: Track Plus, Ventilation Plus and Mine Optimiser systems.

2020 OUTLOOK

For the year ahead, the silver ore grade at the San Julián Veins is expected to be in the range of 110-120 g/t, with the gold ore grade expected to average 1.6-1.7 g/t.

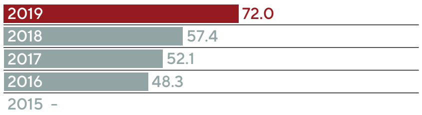
For the San Julián Disseminated Ore Body (DOB), silver ore grade for 2020 is forecast to be in the range of 140-150 g/t, with the gold ore grade averaging around 0.10 g/t.

Budgeted capex for 2020 will mainly be allocated to mining works, sustaining capex, the construction of the tailings dam phases III and IV, and the San Julián DOB project, with minor investment required to conclude the implementation of the IT initiatives.

1 2019 reserves as of 31 May 2019.
2 2019 resources as of 31 May 2019.

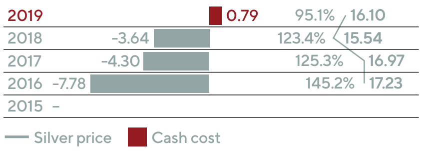
SAN JULIÁN (VEINS)
(US$/TONNE MILLED)

72.0



SAN JULIÁN (VEINS) CASH COST
(SILVER US$/OUNCE)

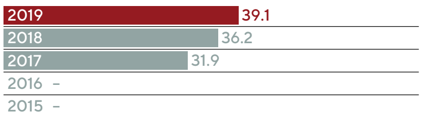
0.79



% Figures represent margin between cash cost and silver price

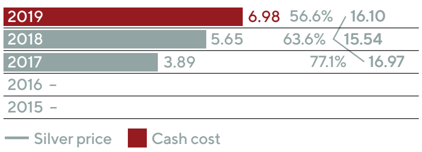
SAN JULIÁN (DISSEMINATED ORE BODY)
(US$/TONNE MILLED)

39.1



SAN JULIÁN (DISSEMINATED ORE BODY) CASH COST
(SILVER US$/OUNCE)

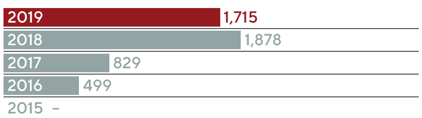
6.98



% Figures represent margin between cash cost and silver price

SAN JULIÁN (VEINS AND DISSEMINATED ORE BODY) ORE MILLED PER PERSON
(TONNES)

1,715



STRATEGIC REPORT
CORPORATE GOVERNANCE
FINANCIAL STATEMENTS
ADDITIONAL INFORMATION

MINES IN OPERATION – SAN JULIÁN
CONTINUED

Inside the control room for the Disseminated Ore Body

An employee at the Merrill Crowe plant at San Julián

FINANCIAL PERFORMANCE

Financial highlights	2019	2018	% change
Adjusted revenue (US$m)	**339.8**	366.5	(7.0)
Adjusted production costs (US$m)	**178.3**	153.4	16.2
Segment profit (US$m)	**128.2**	176.5	(27.4)
Capital expenditure (US$m)	**65.3**	83.1	(21.4)
Exploration (US$m)	**15.0**	14.3	4.9
Cost per tonne (US$) (Veins)	**72.0**	57.4	25.4
Cash cost (US$/oz silver) (Veins)	**0.8**	(3.6)	N/A
Margin (US$/oz) (Veins)	**15.3**	19.2	(20.3)
Margin (expressed as % silver price) (Veins)	**95.0**	123.4	N/A
All-in sustaining cost (Veins) (US$/oz silver)	**14.8**	5.1	190.2
Cost per tonne (US$) (Disseminated Ore Body)	**39.1**	36.2	8.0
Cash cost (US$/oz silver) (Disseminated Ore Body)	**7.0**	5.7	22.8
Margin (US$/oz) (Disseminated Ore Body)	**9.1**	9.9	(8.0)
Margin (expressed as % silver price) (Disseminated Ore Body)	**56.5**	63.7	N/A
All-in sustaining cost (Disseminated Ore Body) (US$/oz silver)	**10.8**	10.0	8.0

Adjusted revenue decreased as a result of reduced silver and gold production, partially mitigated by higher silver and gold prices.

At San Julián Veins, cost per tonne rose by 25.4%, mainly due to the increase in development. Cash cost increased mainly due to the lower ore grade and higher cost per tonne, mitigated by higher by-product credits per ounce of silver. Margin per ounce decreased to US$15.3 (2018: US$19.2), while margin expressed as a percentage of the silver price declined from 123.4% in 2018 to 95.0% in 2019.

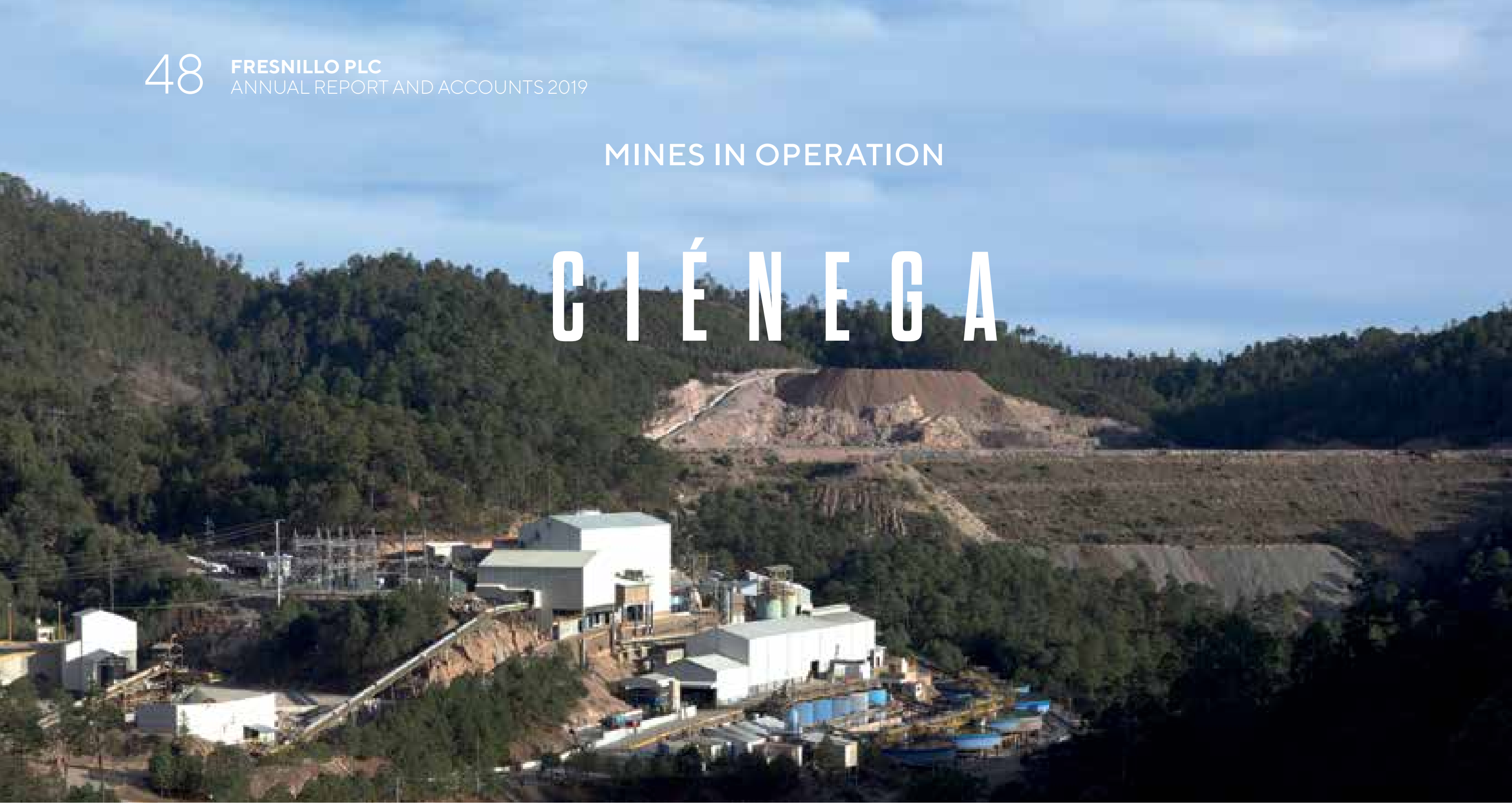
All in sustaining cost at San Julián veins increased due to higher capitalised mine development per ounce, increased sustaining cost per ounce and the factors affecting cash cost.

At San Julián DOB, cost per tonne increased by 8.0%, mainly due to the increased consumption of operating materials to improve stability in certain areas. The increase in cash cost was mainly explained by the lower ore grade achieved and higher treatment and refining charges resulting from the increase in volumes of lead and zinc concentrates send to Met-Mex.

The US$0.8 increase in all in sustaining cost at San Julián DOB was driven by the higher sustaining capex per ounce and the increase in cash cost, mitigated by a decrease in capitalised mine development per ounce.

"I ANTICIPATE A STEADY INCREASE IN EFFICIENCY AS OUR EXISTING MINES OPERATE TO THEIR FULL POTENTIAL"

ANDRÉ SOUGARRET, CHIEF OPERATING OFFICER



MINES IN OPERATION

CIÉNEGA

Ciénega is our most polymetallic mine, contributing almost 8% to total gold production and over 10% to total silver production. The mine generated 9% of total adjusted revenue during 2019.

Ownership: **100% Fresnillo plc**	Location: **Durango**
In operation since: **1992**	Mine life (years): **3.9** (2018 6.8)
Facilities: **Underground mine, flotation and leaching plant**	
Milling capacity (2019): **4,000 tpd/1,340,000 tpy**	
Workforce: **512 employees, 1,168 contractors**	

	2019	2018	% change
MINE PRODUCTION			
Ore milled (kt)	**1,329**	1,324	0.4
Silver (koz)	**5,796**	5,999	(3.4)
Gold (oz)	**65,583**	66,869	(1.9)
Lead (t)	**5,839**	4,799	21.7
Zinc (t)	**8,986**	5,892	52.5
Silver ore grade (g/t)	**159**	164	(3.0)
Gold ore grade (g/t)	**1.66**	1.65	0.6
TOTAL RESERVES [1]			
Silver (moz)	**38.6**	56.9	(32.2)
Gold (koz)	**368**	598	(38.5)
AVG ORE GRADE IN RESERVES			
Silver (g/t)	**229**	198	15.7
Gold (g/t)	**2.18**	2.08	4.8
Cut-off grade (g/t AgEq)	**Multiple**	Multiple	–
TOTAL RESOURCES [2]			
Silver (moz)	**129.0**	133.9	(3.7)
Gold (moz)	**1.5**	1.3	15.4
AVG ORE GRADE IN RESOURCES			
Silver (g/t)	**221**	191	15.7
Gold (g/t)	**2.55**	1.91	33.5
Cut-off grade (g/t AgEq)	**Multiple**	Multiple	–

1 2019 reserves as of 31 May 2019.
2 2019 resources as of 31 May 2019.

2019 OBJECTIVES

- Conduct an updated economic assessment for the expansion of the beneficiation plant at the Ciénega plant.
- Intensify exploration at the Rosario Transversal fault and commence exploration to the west of the San Ramón vein.
- Secure permits and begin engineering for the fourth tailings dam.

2019 PERFORMANCE

- Economic assessment postponed, due to a reassessment of the Group's priorities.
- Exploration continued at the Rosario Transversal fault and commenced to the west of the San Ramón vein.
- Construction of the third tailings dam continued but was not concluded during 2019.

2020 OBJECTIVES

- Implement additional cost control initiatives and maintain strict control of sustaining capex.
- Continue exploration at the Rosario Transversal fault and to the west of the San Ramón vein.
- Commence exploration at the Minitas area, located close to the Ciénega plant.
- Conclude construction of the third tailings dam.
- Start the site selection, engineering and permitting stage for the fourth tailings dam.

KEY DEVELOPMENTS IN THE YEAR

Annual gold production marginally decreased year-on-year due to a lower recovery rate. Gold ore grade remained broadly stable but still reflecting the natural depletion of the high grade areas at Las Casas and East Taspana.

Silver production decreased 3.4% against 2018 due to the lower ore grade, albeit still falling within the expected range.

Productivity decreased as contractors from the satellite mines were included in our calculations.

Construction of the third tailings dam advanced. This was not concluded during the year because works were paused due to the turnover of contractor personnel, before being resumed later in the year. The dam is expected to be commissioned in 1Q 2020, while engineering of the fourth tailings dam will start during 2020.

Other successful developments at Ciénega included the completion of the high compaction thickener, improving our water consumption metrics and reducing the amount of water sent to the tailings storage facility.

Our exploration programme continued throughout 2019, identifying additional mineralisation at Rosario Transversal and Taspana East. However, we postponed the preliminary economic assessment for the expansion of the Ciénega processing plant in order to allocate resources more efficiently to other Group priorities. Looking at the year ahead, the exploration programme will focus on identifying mineralisation at the main Ciénega mine.

In addition, we will concentrate on converting resources into reserves to the west and east of Ciénega as we look to further de-risk the 2,000 tpd expansion of the beneficiation plant at Ciénega, thereby improving the economic viability of the project.

RESERVES AND RESOURCES

Silver and gold reserves decreased due to the natural depletion of the Ciénega mine and the San Ramón satellite mine. Silver resources decreased due to a higher cut-off grade, while gold resources increased as a result of positive exploration results.

CAPITAL EXPENDITURES

Capex in 2019 totalled US$58.2 million and was allocated to mine development, sustaining capex, and the construction of the third tailings dam.

2020 OUTLOOK

In 2020, the average gold ore grade is expected to remain between 1.65-1.75 g/t, with the silver ore grade expected to average 155-165 g/t.

2020 is anticipated to be the final year of production from the San Ramón satellite mine, with additional mineralisation from Ciénega stopes expected to replace the spare capacity. This is expected to reduce haulage costs.

Budgeted capex for 2020 will mainly be allocated to mining works and sustaining capex. Other smaller capital investments in the year will support various IT initiatives as they near completion, including Track Plus, ProxAlarm, Ventilation plus and MineOps Optimiser.

FINANCIAL PERFORMANCE

Financial highlights	2019	2018	% change
Adjusted revenue (US$m)	**204.7**	187.1	9.4
Adjusted production costs (US$m)	**104.0**	93.8	10.9
Segment profit (US$m)	**84.9**	79.2	7.2
Capital expenditure (US$m)	**58.2**	72.9	(20.2)
Exploration (US$m)	**17.1**	22.9	(25.3)
Cost per tonne (US$)	**78.3**	70.8	10.6
Cash cost (US$/oz gold)	**(0.23)**	25.9	N/A
Margin (US$/oz)	**1,418.2**	1,243.4	14.1
Margin (expressed as % of gold price)	**100.0**	98.0	
All in sustaining cost (US$/oz gold)	**1,212.1**	1,413.9	(14.3)

Adjusted revenue increased 9.4% over 2018, mainly due to higher gold and silver prices. Ciénega is the Group's most polymetallic mine, a fact demonstrated by the significant contribution from silver, lead and zinc of 57.2% in 2019 (2018: 57.5%).

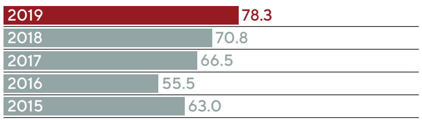
Cost per tonne at Ciénega increased 10.6% to US$78.3 primarily due to increased contractor, operating materials and labour costs.

The decrease in cash cost was primarily due to the higher by-product credits per gold ounce due to the increase in silver price and increased base metal contents sold. This was partially offset by the higher cost per tonne; the decrease in silver grade and higher treatment and refining charges. Margin per ounce increased to US$1,418.2 in 2019 (2018: US$1,243.4). Expressed as a percentage of gold prices, the margin increased to 100.0% (2018: 98.0%).

The US$201.8 per ounce decrease in all in sustaining cost was primarily driven by lower sustaining capex per ounce and the factors benefiting cash cost.

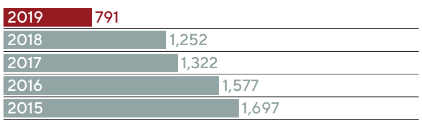
CIÉNEGA
(US$/TONNE MILLED)

78.3



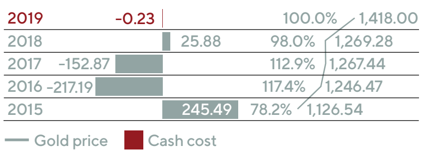
CIÉNEGA ORE MILLED PER PERSON
(TONNES)

791



CIÉNEGA CASH COST
(GOLD US$/OUNCE)

-0.23



% figure represent margin between cash cost and gold price

MINES IN OPERATION

HERRADURA

One of Mexico's largest open pit gold mines, Herradura produced 55.1% of the Group's total gold in 2019 and generated 30.6% of total adjusted revenue.

Ownership: **Minera Penmont (100% Fresnillo plc)**	Location: **Sonora**
In operation since: **1997**	Mine life (years): **11.7** (2018: 13.2)
Facilities: **Open pit mine, heap leach and Merrill Crowe plants; two dynamic leaching plants (DLP)**	
Workforce: **1,579 employees, 912 contractors**	

	2019	2018	% change
MINE PRODUCTION			
Ore deposited (kt)	**22,926**	22,157	3.5
Total volume hauled (kt)	**124,486**	124,024	0.4
Gold (oz)	**482,722**	474,168	1.8
Silver (koz)	**1,563**	1,523	2.6
Gold ore grade (g/t)	**0.80**	0.76	5.3
TOTAL RESERVES [1]			
Gold (moz)	**6.7**	7.4	(9.5)
AVG ORE GRADE IN RESERVES			
Gold (g/t)	**0.78**	0.78	–
Cut-off grade (g/t Au)	**Multiple**	Multiple	–
TOTAL RESOURCES [2]			
Gold (moz)	**9.8**	10.2	(3.9)
AVG ORE GRADE IN RESOURCES			
Gold (g/t)	**0.82**	0.80	2.5
Cut-off grade (g/t Au)	**Multiple**	Multiple	–

1 2019 reserves as of 31 May 2019.
2 2019 resources as of 31 May 2019.

2019 OBJECTIVES

- Ramp-up of the second line at the DLP.
- Continue infill drilling in the Centauro pit to reassess pit expansion.
- Start gradual conversion of haulage equipment to a dual fuel system.
- Conclude construction of leaching pad number 13.

2019 PERFORMANCE

- Second line at the DLP ramped up as expected.
- Infill drilling carried out in the Centauro pit, continuing on from the previous year, although expansion was postponed.
- Geotechnical programme initiated, with continuous monitoring of the benches, improvement in the quality of the blasting, and geotechnical drilling campaign.
- Dual fuel system installed in 27 of the haulage fleet, delivering economic and environmental benefits.
- Construction of leaching pad number 13 concluded, but following a six month delay due to a slow permitting process.

2020 OBJECTIVES

- Continue reviewing options for the mine plan.
- Conclude conversion of haulage equipment (model 785) to the dual fuel system.
- Increase haulage fleet productivity.
- Implement Carbon in Column process.
- Install vibrating screens to increase capacity at the leaching plants.

KEY DEVELOPMENTS IN THE YEAR

Annual gold production increased marginally compared to 2018, due to higher volumes and ore grade processed at the Dynamic Leaching Plant. This was partly offset by the lower than planned overall speed of recovery during the first three quarters of the year. This was because mineral that was scheduled to have been deposited on the newly constructed leaching pad, was instead deposited on the higher, older pads, thereby increasing the time required to recover the metal.

Construction of this new leaching pad, number 13, was delayed by six months due to a longer than anticipated permitting process that in turn affected the coordination of the subsequent activities. However, the first phase of leaching pad 13 was concluded mid-2019, thereby increasing the speed of recovery during 4Q 2019.

Productivity decreased compared to 2018 due to an increased number of personnel hired to haul material over longer distances.

The number of components underlying the planning of the mine changed from two to one in 2H 2018, and stripping costs have therefore since been considered across this single component. The entirety of the stripping costs are now recognised in the income statement, as opposed to their partial capitalisation. The reassessment from two to one components, led to a change in the stripping ratio; as a result in 2019 all costs relating to the total volume hauled of 124.4 million tonnes were expensed, as compared to only costs relating to 95.4 million tonnes of the total 124.0 million tonnes hauled in 2018. This increased the Group's adjusted production costs by approximately US$46.1 million.

In 2019, we began rolling out the dual fuel systems into our haulage fleet. As of the end of 2019, 27 trucks had been converted, with the remaining six due to be converted in 2020. This project not only lowers operating costs, but also reduces our carbon footprint.

Due to the prioritisation of mill maintenance during the year, we deferred our evaluation of the suitability of the vibrating screens to 2020. The screens will increase milling capacity from 8,700 tpd to 9,200 tpd at the DLP (phase I).

We continued our exploration programme at the Centauro pit with 89,260 metres of drilling during 2019. However, we took the decision to pace activities, particularly at the bottom of the pit where space is limited and coordination between operations and exploration equipment is more challenging. This, together with a decrease in gold reserves at the mine during the year, led us to defer the reassessment of the expansion of the pit to a later time.

RESERVES AND RESOURCES

Gold reserves and resources decreased as a result of the decision to maintain a more horizontal angle in the walls of the pit, thus excluding some benches that were previously included in the estimates.

CAPITAL EXPENDITURES

Capital expenditures in 2019 totalled US$37.5 million, which included mine preparation, sustaining capex and the construction of leaching pad 13. Other investments included implementation of ProxAlarm and the Fatigue Monitoring system, to reduce operator error and fatigue, as well as the implementation of the MineOps Optimiser system.

2020 OUTLOOK

Gold ore grades in 2020 are expected to be in the range of 0.75 – 0.80 g/t.

Capex for 2020 will mainly be focused on sustaining capex, mining works, and the implementation of the activated carbon process to increase gold recovery. Minor investments scheduled for 2020 include the full implementation of ProxAlarm and the Fatigue Monitoring system and continued implementation of the MineOps Optimiser system.

FINANCIAL PERFORMANCE

Financial highlights	2019	2018	% change
Adjusted revenue (US$m)	**693.9**	608.2	14.1
Adjusted production costs (US$m)	**415.0**	292.7	41.8
Segment profit (US$m)	**218.7**	323.0	(32.3)
Capital expenditure (US$m)	**37.5**	116.0	(67.7)
Exploration (US$m)	**28.1**	33.0	(14.8)
Cost per tonne (US$)	**18.1**	13.2	37.1
Cost per tonne hauled (US$)	**3.3**	3.1	6.5
Cash cost (US$/oz gold)	**818.6**	504.0	62.4
Margin (US$/oz)	**599.4**	765.3	(21.7)
Margin (expressed as % of gold price)	**42.3**	60.3	
All in sustaining cost (US$/oz gold)	**963.0**	806.7	19.4

Adjusted revenue increased due to higher volumes of gold and silver sold at higher prices.

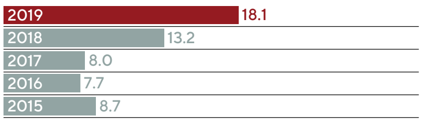
Cost per tonne of ore deposited increased 37.1%, mainly due to the increase in maintenance and higher consumption of operating materials associated with longer haulage distances and the increased stripping costs expensed following the reassessment of the number of mining components from two to one. Additionally, cost inflation for this mine was 3.2%, mainly due to diesel, maintenance and labour.

Cash cost per gold ounce increased to US$818.6, as a result of the higher cost per tonne and the reassessment of the number of mining components from two to one. Margin per ounce and margin expressed as a percentage of gold prices decreased to US$599.4 and 42.3%, respectively.

All-in sustaining cost increased by US$156.3 per ounce mainly due to the higher cash costs, mitigated by the decrease in capitalised stripping per ounce and lower sustaining capex per ounce.

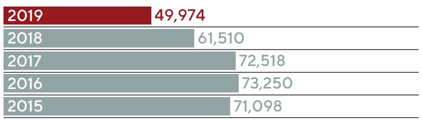
HERRADURA
(US$/TONNE DEPOSITED)

18.1



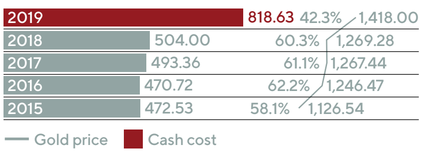
HERRADURA ORE/WASTE MOVED PER PERSON
(TONNES)

49,974



HERRADURA CASH COST
(GOLD US$/OUNCE)

818.63



% Figures represent margin between cash cost and gold price

MINES IN OPERATION

NOCHE BUENA

Noche Buena is located in the Herradura district, 23 kilometres from the Herradura mine. Noche Buena produced 14% of the Group's total gold in 2019 and generated nearly 8% of total Adjusted revenue.

Ownership: **Minera Penmont (100% Fresnillo plc)**	Location: **Sonora**
In operation since: **2012**	Mine life (years): **2.4** (2018: 1.9)
Facilities: **Open pit mine, heap leach and Merrill Crowe plant**	
Workforce: **519 employees, 368 contractors**	

	2019	2018	% change
MINE PRODUCTION			
Ore deposited (kt)	**12,167**	18,196	(33.1)
Total volume hauled (kt)	**48,621**	80,305	(39.5)
Gold (oz)	**127,166**	167,208	(23.9)
Silver (koz)	**58**	52	11.5
Gold ore grade (g/t)	**0.55**	0.52	5.8
TOTAL RESERVES [1]			
Gold (koz)	**493**	577	(14.6)
AVG ORE GRADE IN RESERVES			
Gold (g/t)	**0.53**	0.53	–
Cut-off grade (g/t Au)	**0.25**	0.25	–
TOTAL RESOURCES [2]			
Gold (moz)	**507**	592	(14.4)
AVG ORE GRADE IN RESOURCES			
Gold (g/t)	**0.53**	0.53	–
Cut-off grade (g/t Au)	**0.25**	0.25	–

2019 OBJECTIVES

- Maintain comparative low cash cost profile.
- Complete construction of leaching pad number 7.
- Implement the activated carbon project.
- Prepare mine closure plan.

2019 PERFORMANCE

- Ore deposited and total material moved decreased, however haulage across longer distances increased, thus affecting costs.
- Construction of leaching pad number 7 completed.
- Activated carbon project implemented and set to increase gold recoveries from the pads.
- Mine closure plan prepared and in place.

2020 OBJECTIVES

- Maintain comparative cash cost profile.
- Adjust fixed costs to reflect smaller operations as the mine nears closure.
- Implement the mine closure plan, while continuing to operate the beneficiation plant.

1 2019 reserves as of 31 May 2019.
2 2019 resources as of 31 May 2019.


Topographic team in the pit


Carbon in Column plant

KEY DEVELOPMENTS IN THE YEAR

Annual gold production decreased in accordance with the mine plan, due to a lower volume of ore processed as the mine approaches the end of its life, mitigated by higher ore grades and recovery rates. Furthermore, during the fourth quarter of the year, heavy rain and contractor difficulties negatively impacted the volume of ore processed during the year as a whole.

As this mine approaches closure, the focus remains on improving efficiency and reducing costs, such as through the Carbon in Column (CiC) project to increase gold recovery. Completed during the year, the CiC project processed 46.5 tonnes and is expected to increase the efficiency of gold recovery in the final years of the mine's life and at the neutralisation stage, when the gold content is expected to be lower. In addition, we are evaluating the option of using the column to process the tailings from the Merrill Crowe plant, which will improve its productivity.

Productivity decreased compared to 2018 due to a lower volume of ore and waste material hauled, lower availability of contractors' equipment and longer haulage distances.

RESERVES AND RESOURCES

Gold reserves and resources continued to decrease as a result of the natural depletion of the pit.

CAPITAL EXPENDITURES

Capital expenditures in 2019 totalled US$5.7 million, focused on sustaining capex, including the final construction of leaching pads and the implementation of the activated carbon process.

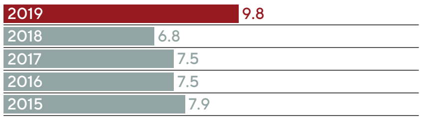
2020 OUTLOOK

In 2020, the average ore grade is expected to be in the range of 0.55 to 0.60 g/t.

Spending in 2020 will again primarily be for sustaining capex and the implementation of the activated carbon to process the tailings at the Merrill Crowe plant.

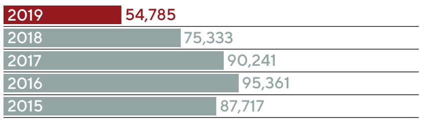
NOCHE BUENA
(US$/TONNE DEPOSITED)

9.8



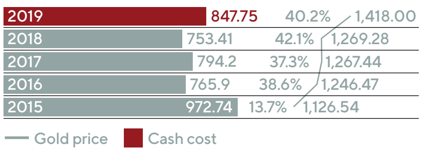
NOCHE BUENA ORE/WASTE MOVED PER PERSON
(TONNES)

54,785



NOCHE BUENA CASH COST
(GOLD US$/OUNCE)

847.75



% Figures represent margin between cash cost and gold price

FINANCIAL PERFORMANCE

Financial highlights	2019	2018	% change
Adjusted revenue (US$m)	**176.7**	211.4	(16.4)
Adjusted production costs (US$m)	**119.2**	122.8	(2.9)
Segment profit (US$m)	**58.3**	85.9	(32.1)
Capital expenditure (US$m)	**5.7**	50.2	(88.6)
Exploration (US$m)	**1.1**	3.0	(63.3)
Cost per tonne (US$)	**9.8**	6.8	44.1
Cost per tonne hauled (US$)	**2.5**	2.1	18.6
Cash cost (US$/oz gold)	**847.8**	735.4	15.3
Margin (US$/oz)	**570.2**	533.9	6.8
Margin (expressed as % of gold price)	**40.2**	42.1	
All in sustaining cost (US$/oz gold)	**922.9**	1,029.7	(10.4)

Adjusted revenue at Noche Buena decreased 16.4% to US$176.7 million, in line with the expected lower volumes of gold sold.

Cost per tonne at this mine increased 44.1% to US$9.8 in 2019, primarily as a result of lower economies of scale due to the decrease in volume of ore processed, as Noche Buena approaches its end of life.

Cash cost per gold ounce increased 15.3% to US$847.8, mainly due to higher cost per tonne. However, margin per ounce increased to US$570.2, while margin expressed as a percentage of the gold price declined from 42.1% in 2018 to 40.2% in 2019.

The US$106.8 per ounce decrease in all-in sustaining cost was the result of the lower capitalised stripping per ounce, partly offset by the higher cash cost.

FINANCIAL REVIEW

The consolidated Financial Statements of Fresnillo plc are prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU. This Financial Review is intended to convey the main factors affecting performance and to provide a detailed analysis of the financial results in order to enhance understanding of the Group's Financial Statements. All comparisons refer to 2019 figures compared to 2018, unless otherwise noted. The financial information and year-on-year variations are presented in US dollars, except where indicated. The full financial statements and their accompanying notes can be found on pages 169-215.

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

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

COMMENTARY ON FINANCIAL PERFORMANCE

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

Adjusted revenue increased slightly year-on-year due to higher gold and silver prices, which were mostly offset by the lower volumes of gold and silver sold. This slight increase was more than offset by the increase in adjusted production costs[2], higher depreciation and the much smaller positive effect from changes in inventory in 2019 compared to that in 2018 resulting from the gold content in the leaching pads at Herradura being reassessed. As a result, gross profit and EBITDA decreased 40.9% and 26.3% over 2018.

INCOME STATEMENT

	2019 US$ million	2018 US$ million	Amount US$ million	Change %
Adjusted revenue[3]	**2,270.2**	2,243.4	26.8	1.2
Total revenue	**2,119.6**	2,103.8	15.9	0.8
Cost of sales	**(1,657.9)**	(1,323.1)	(334.9)	25.3
Gross profit	**461.7**	780.7	(319.0)	(40.9)
Exploration expenses	**157.9**	172.8	(14.9)	(8.6)
Operating profit	**171.7**	506.7	(335.0)	(66.1)
EBITDA[4]	**674.0**	915.1	(241.1)	(26.3)
Income tax expense including mining rights	**(27.1)**	134.0	(161.1)	N/A
Profit for the year	**205.8**	350.0	(144.2)	(41.2)
Profit for the year, excluding post-tax Silverstream effects	**172.0**	339.5	(167.5)	(49.3)
Basic and diluted earnings per share (US$/share)[5]	**0.277**	0.475	(0.198)	(41.7)
Basic and diluted earnings per share, excluding post-tax Silverstream effects (US$/share)	**0.231**	0.461	(0.230)	(49.9)

1 Cash and other liquid funds are disclosed in note 30(c) to the consolidated financial statements.
2 Adjusted production costs is calculated as total production costs less depreciation and profit sharing. The Company considers this a useful additional measure to help understand underlying factors driving production costs in terms of the different stages involved in the mining and plant processes, including efficiencies and inefficiencies as the case may be and other factors outside the Company's control such as cost inflation or changes in accounting criteria.
3 Adjusted revenue is revenue as disclosed in the income statement adjusted to exclude treatment and refining charges and gold, lead and zinc hedging.
4 Earnings before interest, taxes, depreciation and amortisation (EBITDA) is calculated as gross profit plus depreciation less administrative, selling and exploration expenses.
5 The weighted average number of ordinary shares was 736,893,589 for 2019 and 2018. See note 17 in the consolidated financial statements.

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

PRECIOUS METALS PRICES

In 2019, the average realised silver price increased by 3.9% from US$15.5 per ounce in 2018 to US$16.1 per ounce in 2019, while the average realised gold price rose 11.7% from US$1,269.1 per ounce in 2018 to US$1,418.0 per ounce. In contrast, the average realised lead and zinc by-product prices decreased 9.3% and 10.5% year-on-year, to US$0.89 and US$1.15 per pound, respectively. (For more detailed information, see Markets review on pages 14-15).

However, the Group was affected by the results of the one-off five-year gold hedging programme entered into in 2014, and a series of financial derivatives entered into in 2019 to hedge a portion of its lead and zinc production, both of which are further described below.

MX$/US$ EXCHANGE RATE

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

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

COST INFLATION

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

Labour

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

Energy

Electricity

The Group's weighted average cost of electricity increased by 4.1% from 7.1 US cents per kW in 2018 to 7.4 US cents per kW in 2019. This increase was mainly due to the higher average generating cost of the Comisión Federal de Electricidad (CFE), the national utility.

Diesel

The weighted average cost of diesel in US dollars increased 6.7% to 87.9 US cents per litre in 2019, compared to 82.42 US cents per litre in 2018.

Operating materials

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

Unit prices of the majority of operating materials remained broadly stable in US dollar terms, with the exception being sodium cyanide, which experienced year-on-year inflation of 4.4%. However, this was partly offset by the decrease in the unit price of other reagents, such as zinc sulphate. As a result, the weighted average unit prices of all operating materials increased by 1.2% over the year. The majority of these items are dollar-denominated.

Contractors

Agreements are signed individually with each contractor company and include specific terms and conditions that cover not only labour, but also operating materials, equipment and maintenance, amongst others. Contractor costs are mainly denominated in Mexican pesos and are an important component of our total production costs. In 2019, increases granted to contractors, whose agreements were due for review during the period, resulted in a weighted average increase of 4.7% in US dollars.

Maintenance

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

Other costs

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

The effects of the above external factors, combined with the Group's internal variables, are further described below through the main line items of the income statement.

FINANCIAL REVIEW
CONTINUED

REVENUE
CONSOLIDATED REVENUE[1]

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

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

ADJUSTED REVENUE[1] BY METAL

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

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

ADJUSTED REVENUE BY METAL

	2019	2018
Gold	**53.0%**	49.9%
Silver	**33.8%**	36.3%
Zinc	**8.7%**	9.1%
Lead	**4.5%**	4.7%
Total	**100.0%**	**100.0%**

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

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

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

ADJUSTED REVENUE[1] BY MINE

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

VOLUMES OF METAL SOLD

	2019	% participation of each mine	2018	% participation of each mine	% change
Silver (koz)					
Saucito	**15,923**	**33.6**	17,968	34.2	(11.4)
Fresnillo	**11,778**	**24.8**	13,890	26.4	(15.2)
San Julián (Veins)	**4,215**	**8.9**	5,255	10.0	(19.8)
San Julián (DOB)	**7,368**	**15.5**	7,806	14.9	(5.6)
Ciénega	**5,330**	**11.2**	5,459	10.4	(2.4)
Herradura	**1,573**	**3.3**	1,503	2.9	4.7
Noche Buena	**23**	**0.0**	7	0.0	228.6
Pyrites Plant at Saucito	**1,212**	**2.6**	653	1.2	85.6
Total silver (koz)	**47,422**	**100**	**52,541**	**100**	**(9.7)**
Gold (koz)					
Herradura	**496**	**58.5**	460	52.2	7.8
Noche Buena	**105**	**12.4**	167	18.9	(37.1)
San Julián (Veins)	**62**	**7.3**	77	8.7	(19.5)
Saucito	**72**	**8.5**	74	8.4	(2.7)
Ciénega	**62**	**7.3**	63	7.1	(1.6)
Fresnillo	**46**	**5.4**	37	4.2	24.3
San Julián (DOB)	**1**	**0.1**	1	0.1	0.0
Pyrites Plant at Saucito	**4**	**0.5**	3	0.3	33.3
Total gold (koz)	**848**	**100**	**882**	**100**	**(3.9)**
Lead (t)					
Fresnillo	**19,544**	**39.8**	18,097	37.2	8.0
Saucito	**19,719**	**40.2**	20,362	41.9	(3.2)
Ciénega	**4,385**	**8.9**	4,385	9.0	0.0
San Julián (DOB)	**5,405**	**11.0**	5,770	11.9	(6.3)
Total lead (t)	**49,053**	**100**	**48,614**	**100**	**0.9**
Zinc (t)					
Fresnillo	**26,350**	**33.5**	26,248	36.3	0.4
Saucito	**25,622**	**32.6**	22,599	31.3	13.4
San Julián (DOB)	**19,034**	**24.2**	18,538	25.6	2.7
Ciénega	**7,590**	**9.7**	4,887	6.8	55.3
Total zinc (t)	**78,596**	**100**	**72,272**	**100**	**8.8**

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HEDGING

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

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

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

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

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

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

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

TREATMENT AND REFINING CHARGES

Treatment and refining charges[1] are reviewed annually using international benchmarks. Treatment charges per tonne of lead and zinc concentrate increased in dollar terms by 4.0% and 51.7%, respectively, compared to 2018, while silver refining charges declined by 17.0% over the year as a result of the lower mine supply of lead concentrates. The significant rise in the treatment charge per tonne of zinc is explained by the increase in mine supply, which is surpassing the limited worldwide smelting capacity. The increase in treatment charges per tonne of lead and zinc and reduction in silver charges, combined with the higher volumes of zinc concentrates shipped from our mines to Met-Mex, resulted in a 2.4% increase in treatment and refining charges set out in the income statement in absolute terms when compared to 2018.

COST OF SALES

Concept	**2019 US$ million**	2018 US$ million	Amount US$ million	Change %
Adjusted production costs[2]	**1,173.0**	952.0	221.0	23.2
Depreciation	**489.5**	411.8	77.8	18.9
Profit sharing	**9.1**	12.5	(3.4)	(27.4)
Change in work in progress and others	**(11.1)**	(53.6)	42.5	(79.3)
Others	**(2.6)**	0.4	(3.0)	N/A
Cost of sales	**1,657.9**	**1,323.1**	**334.8**	**25.3**

1 Treatment and refining charges include the cost of treatment and refining as well as the margin charged by the refiner.
2 Adjusted production costs is calculated as total production costs less depreciation and profit sharing. The Company considers this a useful additional measure to help understand underlying factors driving production costs in terms of the different stages involved in the mining and plant processes, including efficiencies and inefficiencies as the case may be and other factors outside the Company's control such as cost inflation or changes in accounting criteria.

Cost of sales increased 25.3% to US$1,657.9 million in 2019. The US$334.8 million increase is explained by the following combination of factors:

- An increase in Adjusted production costs (+US$221.1 million). This was primarily due to: i) an increase in development works mainly at Fresnillo, San Julián veins and Saucito (+US$56.9 million); ii) additional maintenance, operating materials and contractors associated with longer haulage distances, narrower veins, better equipment availability and the infill drilling programme mainly at Herradura, Ciénega and San Julián DOB (+US$46.2 million); iii) higher stripping costs expensed at Herradura following the reassessment of the number of mining components from two to one effective from 2H 2018 (+US$46.1 million); iv) cost inflation of 3.8% (+US$35.4 million); v) the additional adjusted production costs associated with the first complete year of operations at the Pyrites Plant at Saucito and the second line of the Dynamic Leaching Plant at Herradura (+US$33.4 million); and vi) other costs (+US$3.1 million).
- Depreciation (+US$77.8 million). This is mainly due to the increased depletion factors, the full year of operation at the Pyrites Plant and the second line of the dynamic leaching plant and the amortisation of capitalised mining works.
- The decrease in the change in work in progress of US$42.5 million (of which -US$85.6 million related to the reassessment of gold contents in the leaching pads at Herradura and US$43.1 million were explained by the variation of change in inventories excluding the latter effect). Change in work in progress was -US$11.1 million in 2019, mainly as a result of the increase in unit cost at Herradura and Noche Buena, together with an increase in the volume of inventories at the dynamic leaching plants. This compared negatively to the -US$53.6 million registered in 2018 mainly as a result of the reassessment of the gold content in the leaching pads at Herradura (see notes 2 (c) and 5 in the notes to the consolidated financial statements).

These negative effects were partly offset by year-on-year decrease in:

- Profit sharing (-US$3.4 million) and others (-US$3.0 million).

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

Cost per tonne is a key indicator to measure the effects of changes in production costs and cost control performance at each mine. This indicator is calculated as total production costs, plus ordinary mining rights, less depreciation, profit sharing and exchange rate hedging effects, divided by total tonnage processed. We have included cost per tonne hauled/moved as we believe it is a useful indicator to thoroughly analyse cost performance for the open pit mines.

Cost per tonne		2019	2018	% change
Fresnillo	US$/tonne milled	**62.7**	49.4	27.0
Saucito	US$/tonne milled	**67.8**	60.1	12.8
Ciénega	US$/tonne milled	**78.3**	70.8	10.5
San Julián (Veins)	US$/tonne milled	**72.0**	57.4	25.5
San Julián (DOB)	US$/tonne milled	**39.1**	36.2	8.0
Herradura	US$/tonne deposited	**18.1**	13.2	37.0
Herradura	US$/tonne hauled	**3.3**	3.1	7.8
Noche Buena	US$/tonne deposited	**9.8**	6.8	45.2
Noche Buena	US$/tonne hauled	**2.5**	2.1	18.6

Explanations regarding changes in cost per tonne by mine are covered in the Review of Operations section, on pages 40-53.

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

Cash cost per ounce		2019	2018	% change
Fresnillo	US$ per silver ounce	**2.3**	0.5	360.0
Saucito	US$ per silver ounce	**2.3**	1.0	130.0
Ciénega	US$ per gold ounce	**(0.2)**	25.9	N/A
San Julián (Veins)	US$ per silver ounce	**0.8**	(3.6)	N/A
San Julián (DOB)	US$ per silver ounce	**7.0**	5.7	23.6
Herradura	US$ per gold ounce	**818.6**	504.0	62.4
Noche Buena	US$ per gold ounce	**847.8**	735.4	15.3

Explanations regarding changes in cash cost per ounce by mine are covered in the Review of Operations section, on pages 40-53.

In addition to the traditional cash cost, the Group is reporting AISC, in accordance with the guidelines issued by the World Gold Council.

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

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

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ALL-IN SUSTAINING COST (AISC)

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

Explanations regarding changes in AISC by mine are covered in the Review of Operations section, on pages 40-53.

GROSS PROFIT
Gross profit, excluding hedging gains and losses, is a key financial indicator of profitability at each business unit and the Fresnillo Group as a whole.

Total gross profit, net of hedging gains and losses, decreased by 40.9% to US$461.7 million in 2019.

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

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

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

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

ADMINISTRATIVE AND CORPORATE EXPENSES
Administrative and corporate expenses increased 15.7% from US$83.3 million in 2018 to US$96.4 million in 2019, mainly due to an increase in advisory services provided by consultants (legal, safety, taxes, geological, amongst others), and increased corporate services provided by Servicios Industriales Peñoles, S.A.B de C.V., in relation to new operations, namely the Pyrites Plant and the second line of the dynamic leaching plant, and approved development projects.

EXPLORATION EXPENSES

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

Exploration expenses decreased as planned by 8.6% from US$172.8 million in 2018 to US$157.9 million in 2019, in line with the strategy to focus exploration at specific targets, including our current operating districts and advanced exploration projects (see pages 30-34). An additional US$12.2 million was capitalised, mainly relating to exploration expenses at the Juanicipio project, Guanajuato and Centauro Deep. As a result, risk capital invested in exploration totalled US$170.1 million in 2019, a 6.1% decrease over 2018. In 2020, total invested in exploration is expected to be approximately US$150 million, of which US$15 million is expected to be capitalised.

EBITDA

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

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

OTHER OPERATING INCOME AND EXPENSE

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

SILVERSTREAM EFFECTS

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

Since the IPO, cumulative cash received has been US$653.6 million. The Group expects that further unrealised gains or losses will be taken to the income statement in accordance with silver price cyclicality or changes in the variables considered in valuing this contract. Further information related to the Silverstream contract is provided in the balance sheet section on page 63 and in notes 13 and 29 to the consolidated financial statements.

FINANCE COSTS

Net finance costs of US$46.5 million compared unfavourably to the US$26.9 million recorded in 2018. The 2019 net finance costs mainly reflected: i) the interest on the US$800 million principal amount of 5.5% Senior Notes, net of interest received and capitalised; and ii) US$15.7 million in interest and surcharges, which resulted from aligning the tax treatment of mining works across the Group's underground mines to the agreement reached between SAT, Prodecon and Fresnillo plc relating to years 2014 to 2018, which was paid in 2019 (the voluntary tax amendment). Detailed information is provided in note 10 to the consolidated financial statements. A portion of the interests from the Senior Notes are capitalised, hence not included in finance costs. The amounts capitalised in 2019 and 2018 were similar so the year-on-year impact was immaterial.

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FOREIGN EXCHANGE

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

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

TAXATION

A corporate income tax credit of US$8.0 million arose in the current year which compared favourably to the US$120.6 million charge in 2018. The effective tax rate, excluding the special mining rights, was -4.5% (24.9% in 2018). The reason for the negative tax rate was the significant permanent differences between the tax and accounting bases, together with the low level of profit before income tax. The permanent differences were mainly related to: i) the revaluation of the Mexican peso which had an important impact on the tax value of assets and liabilities that are denominated in Mexican pesos (US$37.1 million); ii) the inflation rate which impacted the inflationary uplift of the tax base for assets and liabilities (US$17.1 million); iii) the tax credit related to the special tax on diesel (US$10.0 million); iv) a new border zone tax benefit which benefited the Herradura and Noche Buena operations (US$6.4 million); and v) the effect recorded in the year in respect of the voluntary tax amendment relating to the tax treatment for mining works at underground mines for the years 2014 to 2018 (US$5.1 million).

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

PROFIT FOR THE YEAR

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

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

CASH FLOW

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

	2019 US$ million	2018 US$ million	Amount US$ million	Change %
Cash generated by operations before changes in working capital	**685.5**	930.7	(245.2)	(26.3)
(Increase)/decrease in working capital	**(56.6)**	(127.9)	71.3	(55.7)
Taxes and employee profit sharing paid	**(193.0)**	(214.4)	21.4	(10.0)
Net cash from operating activities	**435.9**	588.4	(152.5)	(25.9)
Silverstream contract	**24.3**	36.3	(12.0)	(33.1)
Purchase of property, plant and equipment	**(559.3)**	(668.7)	109.4	(16.4)
Dividends paid to shareholders of the Company	**(142.2)**	(298.1)	155.9	(52.3)
Net interest (paid)	**(32.9)**	(15.7)	(17.2)	109.6
Net increase in cash during the period after foreign exchange differences	**(224.2)**	(335.2)	111.0	(33.1)
Cash and other liquid funds at 31 December[1]	**336.6**	560.8	(224.2)	(40.0)

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

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

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

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

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

Main uses of funds were:

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

PURCHASE OF PROPERTY, PLANT AND EQUIPMENT

	2019 US$ million	
Fresnillo mine	**172.8**	Mine development and purchase of in-mine equipment, including a tunnel boring machine, deepening of the San Carlos shaft and the construction of the second phase of the Pyrites Plant and the optimisation of the beneficiation plant.
Saucito mine	**126.4**	Development, replacement of in-mine equipment and deepening of the Jarillas shaft.
Herradura mine	**37.5**	Sustaining capex, construction of leaching pad and land acquisition.
San Julián Veins and DOB	**65.3**	Mine development, construction of a tailings dam and water reservoir and purchase of in-mine equipment.
Ciénega mine	**58.2**	Development, replacement of in-mine equipment and construction of a tailings dam.
Noche Buena mine	**5.7**	Implementation of the Carbon in Column process, construction of leaching pad and anti-collision system.
Juanicipio project	**86.2**	Construction of ramps and exploration expenditure.
Other	**7.2**	
Total purchase of property, plant and equipment	**559.3**	

ii) Dividends paid to shareholders of the Group in 2019 totalled US$142.2 million, a 52.3% decrease over 2018, in line with our dividend policy which includes a consideration of profits generated in the year (see page 7). The 2019 payment included the final 2018 dividend of US$123.1 million and the 2019 interim dividend paid in September of US$19.2 million.

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

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

BALANCE SHEET

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

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

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

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

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

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

DIVIDENDS

Based on the Group's 2019 performance, the Directors have recommended a final dividend of 11.9 US cents per Ordinary Share, which will be paid on 2 June 2020 to shareholders on the register on 24 April 2020. The dividend will be paid in UK pounds sterling unless shareholders elect to be paid in US dollars. This is in addition to the interim dividend of 2.6 US cents per share amounting to US$19.2 million. This final dividend is lower than the previous year due to the lower profit in 2019, and remains in line with the Group's dividend policy (see page 7).

The corporate income tax reform introduced in Mexico in 2014 created a withholding tax obligation of 10% relating to the payment of dividends, including to foreign nationals.

Historically the Company has been making dividend payments out of retained earnings generated before the tax reform came into force and no withholding tax has therefore been applicable. We expect that dividend payments relating to 2019 and future years will attract the withholding obligation. However, foreign shareholders may be able to recover such tax depending on their tax residence and the existence of double taxation agreements.

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

HOW ARE YOU MAKING FRESNILLO MORE ENVIRONMENTALLY SUSTAINABLE?

Environmental awareness, particularly around climate change, has increased significantly in recent years. As our Purpose makes clear, mining can be a major force for good – but only when it is carried out sustainably and for the benefit of all.

Energy consumption is a key element in sustainability. Mining requires energy at every stage of the value chain. For example, we use fossil fuels to extract and haul ore and remove waste rock, as well as electricity in our processing plants. As ore grades decrease and our mines go deeper, our energy demands are only going to go in one direction: up.

The equation between greater production and greater energy consumption places enormous responsibility on our shoulders. We must do all we can to minimise the amount and the type of energy we use – not only to cut greenhouse gas (GHG) emissions, but also to control our outgoings because energy represents an important portion of our overall costs.

The Sustainability section of this Annual Report (see pages 66-87) makes our position clear: Our goal is to improve energy efficiency and to progressively introduce cleaner technologies, including renewables, into our energy mix, in order to mitigate the physical, regulatory and reputational risks of climate change.

Wind energy already accounts for over half of the energy we use, and we expect to reach our target of 75% in 2020. Water stewardship is also absolutely central to how we work, given the dry and often desert-like environment around many of our mines. More than 80% of the water we need at our mines has been used before – either at our own operations or in nearby communities.

Of course, this is only the beginning – and there remains much work to do. However, our efforts are increasingly being recognised. In early 2020, we were recognised as one of the World's Most Ethical Companies by the Ethisphere Institute, while our Environment, Social and Governance (ESG) performance was recognised by our inclusion in the FTSE4Good Index in 2019.

LETTER FROM THE CHAIRMAN OF THE HEALTH, SAFETY, ENVIRONMENT AND COMMUNITY RELATIONS (HSECR) COMMITTEE

DEAR SHAREHOLDER,

The Health, Safety, Environment and Community Relations (HSECR) Committee ensures, on behalf of the Board, that the Company's approach is consistent with its Purpose; *'To contribute to the wellbeing of people, through the sustainable mining of silver and gold'*. This means embedding a safe and ethical culture, implementing responsible mining practices and sharing the benefits of mining with wider society. We recognise that the long-term sustainable success of the Company relies on building trust and mutually beneficial relationships with our stakeholders. The Committee evaluates the effectiveness of the Company in responding to the wider and evolving interests of our stakeholders. As Chairman of the HSECR Committee, I am pleased to present the activities that the HSECR Committee undertook during the year.

Maintaining a safe and healthy workplace is our highest priority, above production and profitability. Despite the improvement in total and lost time injury frequency rates, the regrettable loss of two colleagues in 2019 is a sad reminder that we have not succeeded in eliminating fatal injuries. We are firmly committed to doing so. We have reviewed the root causes of these events to ensure that lessons were learnt and communicated across the organisation. We believe in instilling a Safety culture of 'Caring for our People' based on shared values across the organisation, senior management accountability and a focus on high potential incidents. To this end, the Committee monitored the progress of the *'I Care, We Care'* programme that integrates best practices, systems, programmes and behaviours with the goal of working in a safe manner. In addition to the evaluation of the monthly performance for each mine, we compared the performance of unionised employee's and contractors and reviewed the most frequent injuries and locations where they occur.

We are committed to manage our Tailings Storage Facilities (TSFs) responsibly and being transparent with our stakeholders. The Committee reviewed the Company's approach for a new TSF governance and organisational structure based on international best practices. This includes safety inspections and the establishment of an Independent Tailings Review Panel (ITRP) that is conducting an accelerated programme of reviews for all sites. In 2019, the Company disclosed its TSF and management approach on its website.

Additionally, the Committee continued to provide oversight of the Company's community engagement strategy, with a focus on the social investment portfolio. The flagship programmes on Education, Health & Sports, Water and Capacity Building were reviewed, with this process including a consideration of their positive impacts as well as the challenges they will face as they move towards full implementation. The Committee evaluated the current progress on diversity with a focus on the inclusion of women. The current initiatives of the Company were reviewed as well as new initiatives with the potential to create value by increasing the participation of women in mining. In addition, the Committee evaluated the Modern Slavery Report for 2019 and also progress on the Ethics Culture Programme.

ROLE OF THE COMMITTEE

The role and duties of the HSECR Committee are set out in its terms of reference, a copy of which can be found on the Company's website at www.fresnilloplc.com. The Committee has responsibility over the following HSECR matters:

- Policies and systems.
- Performance and impacts.
- External reporting.
- Ethical culture.

HSECR COMMITTEE MEMBERSHIP

- Membership of the Committee: Mr Arturo Fernández (Chairman), Dame Judith Macgregor, Mr Jaime Lomelín and Mr Fernando Ruiz.
- Key contributors: Chief Executive Officer, Chief Sustainability Officer, Compliance Officer, Head of Legal, Sustainability and Community Relations, Human Resources and Procurement teams.

HSECR COMMITTEE ACTIVITY

During the year, the Committee met in accordance with its terms of reference.

We remain strongly committed to promoting a long-term focus and rigorous analysis of the Company's sustainability strategy. I am very pleased to report that our Environment, Social and Governance (ESG) performance was recognised by the inclusion of Fresnillo plc in the FTSE4Good Index and the Company was also ranked first in the Corporate Integrity Ranking in Mexico.

However, there is no room for complacency, and we continue to be fully committed to making further improvements on ESG issues that are significant to the Company and its stakeholders.

Yours faithfully,

Arturo Fernández Pérez
Chairman,
Health, Safety,
Environment and Community
Relations Committee

ARTURO FERNÁNDEZ PÉREZ
CHAIRMAN, HEALTH, SAFETY, ENVIRONMENT AND COMMUNITY RELATIONS COMMITTEE

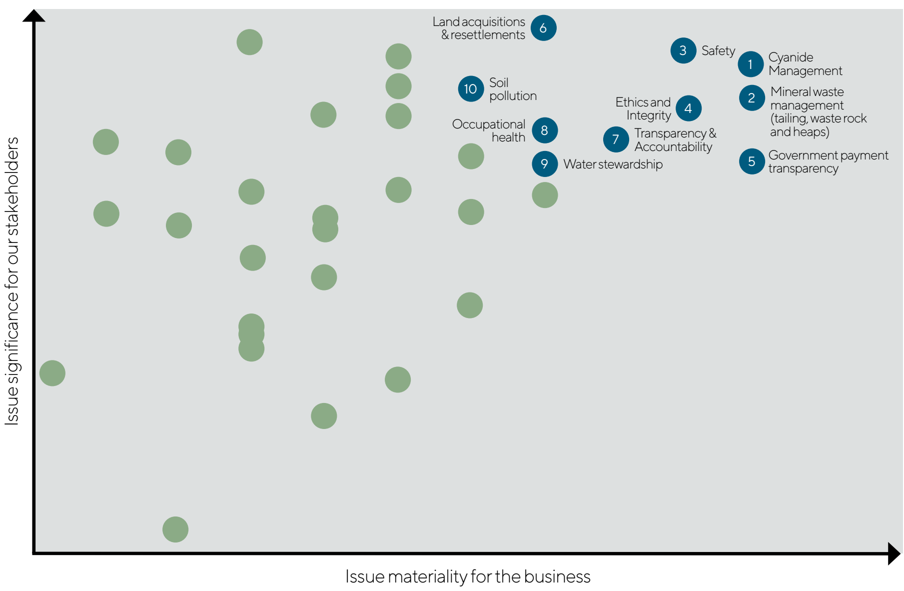
SUSTAINABILITY AT THE CORE OF OUR PURPOSE

We believe that responsible mining is compatible with high stakeholder expectations in terms of ethical, social and environmental performance, and recognise that our social licence to operate is dependent upon being trusted by our stakeholders. This underlines the importance of responsible business practices being deeply integrated into our business model, and of factors that affect stakeholders being considered at every critical decision-making level.

Our initiatives to use wind power, mine ventilation on-demand and innovative dual fuel trucks prepare the Company for a low carbon future, while reducing operating costs. The reuse of municipal wastewater, closed circuit processes, high compaction thickeners and collaboration with communities strengthen our water stewardship strategy. A comprehensive review of the safety and governance practices of our Tailings Storage Facilities (TSFs) will enhance our resilience and maintain the trust of our communities and regulators. Best social practices as indigenous consultation, prevention of modern slavery and ambitious targets for our social investment portfolio will keep us ahead of the curve in social acceptability in the communities where we operate. These are concrete examples of our commitment to contribute to *'the wellbeing of people, through the sustainable mining of silver and gold'*.

HOW DO WE REPORT SUSTAINABILITY?

In our Annual Report, we discuss the sustainability issues that are significant to our stakeholders and material to the business. We have identified these issues by engaging our stakeholders in an exercise known as materiality assessment.



Note: Material issues in blue, other issues in green.

AWARDS

During 2019, we were included in the FTSE4Good Index and ranked first in the Corporate Integrity Ranking in Mexico. We were also recognised by a number of other bodies this year, including: Ethics and Values in Industry from the Mexican Confederation of Industrial Chambers (CONCAMIN); and the Socially Responsible Company award from the Mexican Centre for Philanthropy (CEMEFI).

GAINING RECOGNITION FOR OUR SUSTAINABILITY PERFORMANCE

We were placed first in the Corporate Integrity Ranking, which assesses the 500 largest companies (national and international) operating in Mexico. This prestigious scheme is organised by the two most recognised anti-corruption NGOs, as well as a top business magazine and is funded by USAID. In addition, we were recognised as one of the World's Most Ethical Companies by Ethisphere. This honour is reserved for a small number of companies that prioritise ethical behaviour and understand the correlation between values-based leadership and overall business success.

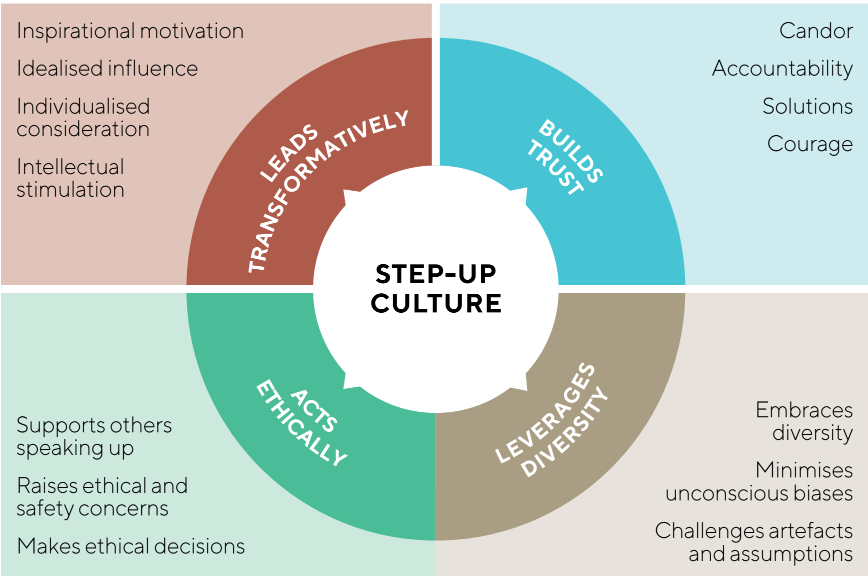
In 2019, we reviewed our Sustainability policy to reinforce our commitments with our stakeholders, in line with the expectations of the most recent versions of the Health & Safety and Environmental Management Systems: ISO 45,001:2018 and ISO 14,001:2015. See our policy at:

www.fresnilloplc.com/corporate-responsibility/sustainability/policy/

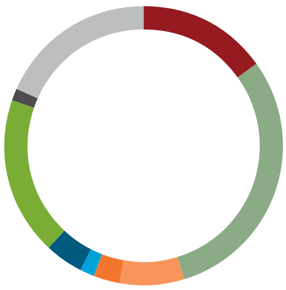
ETHICS CULTURE

Our behaviours and actions should always reflect our well-established ethical culture. We have identified the winning behaviours of a step-up culture and developed a strategy to embed ethics throughout Fresnillo.

STEP-UP CULTURE FRAMEWORK

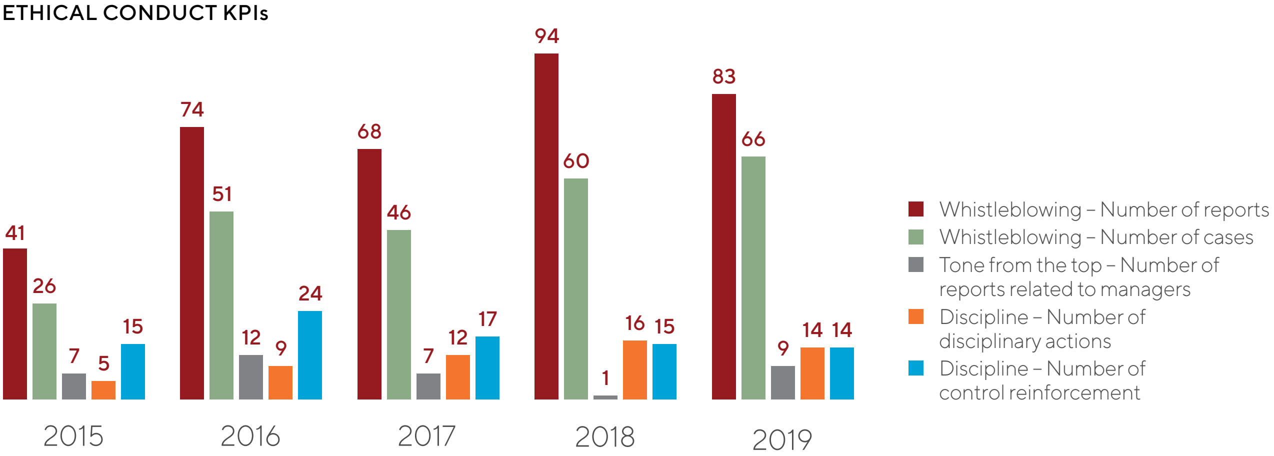


SUMMARY OF WHISTLEBLOWING CASES



Inappropriate arrangement with suppliers	10
Harassment	20
Conflict of interest	5
Professional negligence	2
Workplace violence	1
Theft	3
Abuse of Authority	12
Misuse of assets	1
Other	12

ETHICAL CONDUCT KPIs



EVALUATE, TRAIN AND SUPPORT OUR STEP-UP CULTURE

EVALUATION:
We benchmark our ethics and compliance practices with Ethisphere's Ethics Quotient, monitor our culture through Ethisphere's Ethical Culture & Perceptions Survey, and monitor our winning behaviours with the ad hoc survey designed by the Centre for Leadership Ethics of the University of Arizona.

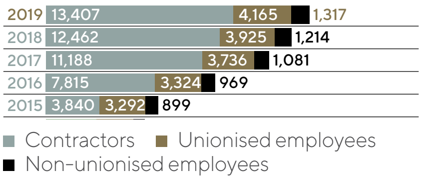
TRAINING:
We trained our executives and managers in masterclasses delivered by the professors of the University of Arizona. We also trained a group of internal trainers to deliver ethics workshops for the rest of our employees, and are deploying an e-learning course to reinforce areas of opportunity detected in the culture survey. All our training follows the 'Step-Up Culture framework'.

SUPPORT:
We use the 'moral compass' tool and the 'Step-Up Culture Framework' to enhance ethical decision making. We are converting our trainers into ethics ambassadors, and are learning and sharing best practices by participating in Ethisphere's Business Ethics Leadership Alliance (BELA) and the Center for Leadership Ethics of the University of Arizona. Furthermore, we are raising awareness of key elements of our code of conduct through e-learning.

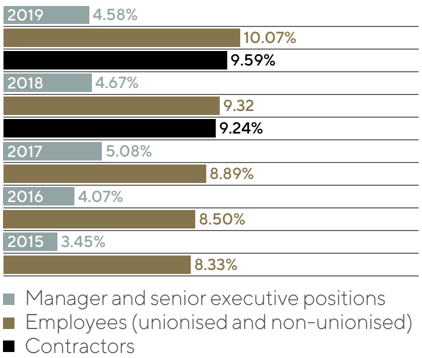
OUR PEOPLE

Our workforce is the strategic stakeholder (see pages 18-21 – section 172) that makes possible our contribution to the wellbeing of people through the sustainable mining of silver and gold.

WORKFORCE

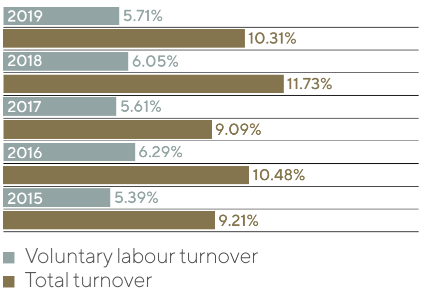


PERCENTAGE OF WOMEN

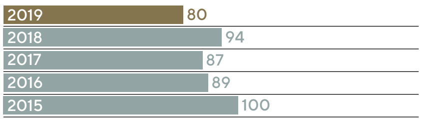


Note: This is the first year we are including statistics on women contractors. We traced data for 2018 and 2019.

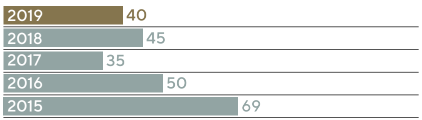
LABOUR TURNOVER



AVERAGE WORKFORCE TRAINING HOURS



AVERAGE HSECR TRAINING HOURS



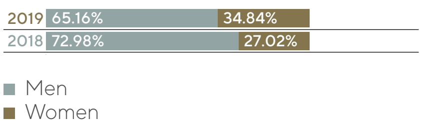
We seek to attract, develop and retain the best people, and engage them over the long-term. We continue to work hard to develop an organisational culture based on ethics and caring for our people. We respect labour rights and engage union representatives constructively. We conduct employee engagement surveys to better understand and respond to the expectations of our people. Our workforce comprises unionised employees, non-unionised employees and contractors.

TALENT MANAGEMENT

We seek to recruit, retain, and develop the most talented employees in order to ensure we have an appropriate pipeline to meet the future needs of the business. We attract and develop talent with a long-term mindset and emphasise the value of training and mentorship. We believe that the best retention strategy is to provide opportunities for people to learn and grow.

A cohort (batch) system is used to recruit short- and long-term interns and Engineers in Training. In order to increase diversity, we collaborate with leading educational institutions in Mexico to attract young and diverse talent in geology, metallurgy and mining engineering. We recruit graduates from our pool of interns through the Engineers in Training programme. These graduates are assigned a coach from our operations team who supervises their development and provides performance appraisals – and those with good appraisals receive permanent job offers, securing the talent pipeline for our growth strategy. Through this programme, we engage students from the earliest stages of their college education and encourage more women to participate in mining.

DIVERSITY IN TALENT ATTRACTION (JUNIOR NON-UNIONISED POSITIONS)



Our new performance appraisal mechanism aligns training needs and helps us identify high potential employees. We develop our high potential middle managers via the Leaders with Vision programme. This involves senior executives delivering seminars throughout the year as a mechanism to engage and mobilise our people. The executives participate in a training programme organised by the Autonomous Technological Institute of Mexico (ITAM), a leading business school. This year we achieved a 98% success rate regarding the development and training plan for senior managers and engineers, reaching 242 employees. 75% of them received training in leadership skills through our different institutional programmes. In 2020, we will continue delivering leadership training for the rest of our key personnel and start developing the leadership skills of 20% of our junior engineers.

How we meet our talent needs in our recruitment process	%
Engineers in training for supervising positions	35
Internal promotions for middle management positions	31
Experienced recruits for leadership positions	34

UNION RELATIONS

Unions are our strategic partners and key players in our drive to foster productivity and develop a safety culture. We respect the rights of employees to freedom of expression, association and collective bargaining. We engage unions to build trust through continuous dialogue, leadership development programmes, wellbeing activities (sports, culture, etc.) and continuous improvement projects. During 2018, we did not experience any work stoppages or industrial action as a consequence of labour disputes.

SUSTAINABILITY AT THE CORE OF OUR PURPOSE
CONTINUED

ENCOURAGING GREATER GENDER DIVERSITY

In the past, mining has been perceived as an industry only suitable for men. But times are changing – and a survey carried out among colleagues has confirmed that while there remains much to do, Fresnillo is making good progress in encouraging greater gender diversity.

Comments from women working in the mineral processing and community relations teams at our Saucito mine indicate that they feel they have accomplished their goals and are satisfied to belong to the mining industry. The women have high expectations – they want to move into managerial positions and to be supported to continue their professional development through training and mentoring programmes. The survey also highlighted that a good work/family balance is essential in order for women to advance to senior positions.

Thanks to the survey, we now have a greater understanding of gender diversity at Fresnillo, and know where and how we can improve – for example, by changing recruitment practices to attract more women into the industry. We recognise that these are early days. Changing the mindset of an industry to take advantage of the talent that women can provide will take both time and commitment. But we are convinced that greater diversity will not only make Fresnillo a fairer place to work – it will also make us a more profitable business.

Image: Women in our mineral processing facilities.

DIVERSITY & INCLUSION

We value and respect all people from diverse backgrounds. We aspire to develop an inclusive culture where our people feel valued and are inspired to contribute to their fullest potential. The participation of women slightly increased in 2019. However, there is lack of progress in the representation of women at managerial and senior executive roles. This reflects the challenges that women face to reach the top ranks of our Company. We recognise that increasing the participation of women, and being diverse and inclusive, is not only fair but strategically important to the business because it enhances innovation, stakeholder engagement and risk management. We are committed to implementing measures that increase the participation of women in Fresnillo and maximise their potential.

WHAT WE HAVE DONE

- Introduced a Diversity Policy (see our website).
- Participated at the Women in Mining (WIM) meetings in the Mexican States of Zacatecas and Sonora.
- Trained non-unionised employees, including senior management, on how to manage a diverse workforce, raising awareness of unconscious bias and its consequences on decision making.
- Increased the proportion of women recruited through our Engineers in Training programme from 27% to 35%.
- Introduced overall diversity KPIs, including our gender pay gap, and monitored unconscious bias as part of the ethics culture survey.

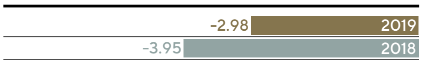
WHAT'S NEXT

- Change how we communicate to showcase more diverse role models.
- Continue to challenge our strategy of leadership development, for women increasing access to mentors, sponsors and networks.
- Review our Human Resources practices (such as recruitment, development, performance appraisal and promotion) to reduce the risk of implicit and explicit bias.
- Introduce a broader set of KPIs to understand patterns, plan interventions and monitor their effectiveness.

GENDER PAY GAP

We have policies in place based on salary scales to mitigate the gender pay gap. In 2019, the gender pay gap for non-unionised, non-executive employees was 2.98% compared to 3.95% in 2018. The gap is calculated using the weighted average salary per hierarchical level. The head count per hierarchical level and business unit is used to determine the weights in the overall average gap calculation.

OVERALL GENDER PAY GAP



	Open pit Operations	Underground operations	Projects	Explorations	Support and administrative staff	Average gap per hierarchical level
First level 'Senior Engineer'	-2.89%	-6.85%	-15.17%	-2.01%	-8.88%	-6.17%
Second level 'Junior Engineer'	-0.85%	-2.45%	-2.83%	11.37%	3.03%	0.20%
Third level 'Assistant'	14.25%	-22.50%	–	-7.37%	27.79%	-7.40%

ORGANISATIONAL CULTURE: OUR JOURNEY SO FAR

We are committed to creating sustainable long-term value for our stakeholders. In 2019, the Board rearticulated the Company Purpose: **'To contribute to the wellbeing of people, through the sustainable mining of silver and gold'.** This strategic decision has given momentum to our drive to foster a culture that brings together our Purpose, Strategy and Values.

OUR JOURNEY

With strong support from our Board of Directors, in 2013 we began a journey to embed ethics into our organisational culture. Our aim was to have a well-established ethics culture demonstrated by our behaviours and actions. Our ethics culture initiative was deployed in two phases:

- **Phase 1: Raising Awareness (2013–2015):** The objective of this first phase was to reduce behavioural risk, which is the gap between the intended behaviours (purpose, values, code of conduct, etc.), the expressed behaviours (training, advice, tone at the top, etc.), and the actual behaviours demonstrated by employees and leaders.
- **Phase 2: Step-Up Culture (2016–present):** We retained our focus on raising awareness and developing the ethical decision-making competencies of our people. Furthermore, in this phase we wanted to go beyond individual decision making, engaging our people to become stewards of our ethical culture.

In addition, in 2017 we launched a transformational initiative *'I Care, We Care'* to improve our safety performance. A key component of this strategy is 'values-driven' leadership. In 2019, senior and middle management participated in three-day safety leadership workshops aimed at setting the tone and strengthening their commitment to be safety role models.

WHAT KIND OF CULTURE ARE WE AIMING FOR?

We believe our culture should foster the necessary mindset and behaviours to deliver on our commitment to the sustainable mining of silver and gold. Along with ethics and safety, our culture should also be a driver of an innovation and operational excellence mindset that enhances productivity while reducing costs and our environmental footprint. Our initiatives to increase water and energy efficiency, reuse municipal wastewater, enhance tunnelling and ventilation technologies, replace diesel with natural gas and make a decisive move towards renewable electricity are clear examples of the outcomes of this mindset.

Our objective in 2020 is to nourish current and emerging values, coherent with our Purpose and aligned with the winning behaviours of our turnaround strategy.

WHAT WE HAVE DONE

BEHAVIOURS AND VALUES

- The ethical and safety behaviours that support the execution of the strategy have been identified:
  - Leading with a transformational mindset*
  - Building trust
  - Acting ethically
  - Leveraging diversity
  - Caring for our people
- These behaviours are aligned with our core values:
  - Trust
  - Responsibility
  - Integrity
  - Loyalty
  - Safety

* Leading with a transformational mindset has been approached from an ethical, safety and innovation perspective during our ethics culture training programme.

ENGAGING OUR PEOPLE

- The step-up ethics culture develops ethical decision-making skills based on our values
- The *'I Care, We Care'* initiative nurtures values-driven leadership based on caring for our people

MONITORING OUR CULTURE

- Surveys:
  - Employee engagement surveys (Great Place to Work)
  - Ethics Culture surveys (Ethisphere and the University of Arizona)
  - Safety surveys
- Metrics:
  - Safety:
    - Fatal Injuries
    - Total Injury Frequency Rate
    - Lost Time Injury Frequency Rate
  - Ethics:
    - Number of reports to the whistleblowing line
    - Number of reports to the whistleblowing line related to managers
    - Number of disciplinary actions
    - Number of control reinforcements

WHAT'S NEXT

BEHAVIOURS AND VALUES

- Analyse our innovation and efficiency success stories to identify those winning behaviours and values that are key success drivers.

ENGAGING OUR PEOPLE

- Set the tone with a communications campaign based on messages from our senior leadership, connecting the Company Purpose with ethical, safety, innovation and operational excellence.
- Leverage our current training and development programmes to foster the values that drive innovation and operational excellence.
- Review our criteria around incentives, attraction, retention and promotion to consider ethics, safety, innovation and operational excellence.
- Recognise innovation in the workforce.

MONITORING OUR CULTURE

- Surveys:
  - Employee engagement surveys (Great Place to Work)
  - Ad hoc surveys
  - Identify metrics on innovation and operational excellence mindset and behaviours

SUSTAINABILITY AT THE CORE OF OUR PURPOSE
CONTINUED

COMPATIBLE MINING
SAFETY

Our goal is to instil a safety culture focused on 'caring for our people', based on shared values across the organisation, driven by senior management and focused on high potential incidents.

Relevance and risk in the lifecycle of mining

EXPLORATION | DEVELOPMENT | OPERATION | CLOSURE

Risk: High Medium Low

ME CUIDO, NOS CUIDAMOS (I CARE, WE CARE) PROGRAMME

This programme enables the organisation to embrace ongoing innovation and continuous improvement regarding safety practices, risk assessments and controls, emergency preparedness and environmental performance.

An essential part of the programme is that all our people should work together to create an environment of trust and respect. The programme highlights the importance of safe work, recognises positive actions in work areas and creates a learning environment. In addition, it encourages awareness of individual and group commitment. This includes understanding the responsibilities of each job or function, the role of passion in the workplace, leadership, and companionship – in order to create a true culture of caring.

HOW WE WILL WIN

LEADERSHIP: VALUES-DRIVEN LEADERSHIP

KEY ACTIVITIES:
- Senior leadership education courses.
- Supervisor education courses.
- Coaching our people.

ACCOUNTABILITY: INTEGRATION OF SAFETY AND OPERATIONAL MANAGEMENT SYSTEMS

KEY ACTIVITIES:
- Promoting recognition of safety as the responsibility of line management.
- Senior management involvement in monitoring processes, systems, operations and reporting policies.

RISK COMPETENCIES – BEHAVIOUR: A MATURE AND RESILIENT SAFETY CULTURE

KEY ACTIVITIES:
- Stepback (a method used to raise awareness and identify safety risks in work areas).
- Positive recognition.

RISK COMPETENCIES – SYSTEMS: ESTABLISH A RISK-BASED MANAGEMENT SYSTEM

KEY ACTIVITIES:
- Internal documents aligned with ISO standards.
- Critical risk control protocols and organisational deployment.

LEARNING ENVIRONMENT: REDUCE RISKS THROUGH ENGINEERING, SYSTEMS, BEHAVIOURS AND LESSONS LEARNT

KEY ACTIVITIES:
- Communicate and implement improvements and corrective actions.
- Investigation – Eye On Risk.

The safety of our workforce is our priority

Octavio Alvídrez taking part in one of the 'I Care, We Care' seminars

GOOD PROGRESS WITH THE 'I CARE, WE CARE' PROGRAMME

- Conducted Risk Perception survey to identify strengths and challenges regarding workplace safety and risk perception.
- 353 middle managers and executives took part in Safety Leadership Training.
- Delivered 213 'Safety Risk Competence' training sessions, reaching 6,034 employees and contractors.
- Carried out Critical Risk Control Protocols (CRCP) training sessions with supervisors in all business units. We delivered three separate modules and trained a total of 1,315 supervisors. We also assessed Fresnillo plc CRCPs.
- Delivered Hazard Identification and Risk Assessment (HIRA) training to key business contractors, using the HIRA tool.
- Trained 386 employees on Emergency First Response.

Images: Leadership training sessions in Torreon and Zacatecas

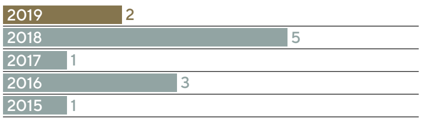
CERTIFICATIONS

	Fresnillo	Saucito	Ciénega	Penmont	San Julián
OHSAS 18001/ISO 45,000 Sets out criteria for international best practice in occupational health and safety management.	Certified	Certified	In process	Certified	In process

PERFORMANCE

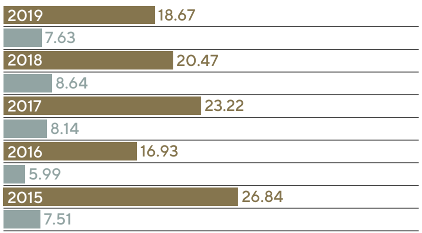
Although we have made progress in reducing injury frequency rates, we regret to report two fatalities for 2019. We are committed to improving our safety record and are strengthening our efforts to bring our safety culture and competencies closer to maturity.

FATALITIES/INJURIES



Number of fatal injuries to employees and contractors.

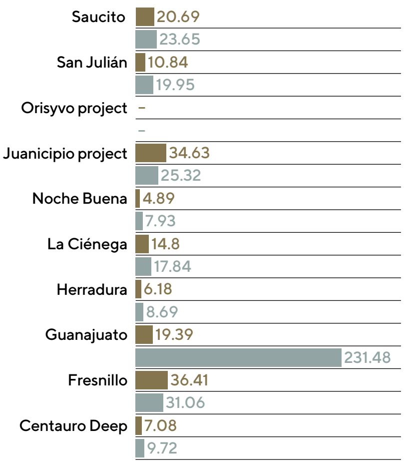
INJURY FREQUENCY RATE (TRIFR) FOR EVERY 1,000,000 HOURS



■ Total Recordable Injury Frequency Rates (TRIFR)
■ Lost Time Injury Frequency Rates (LTRIFR)

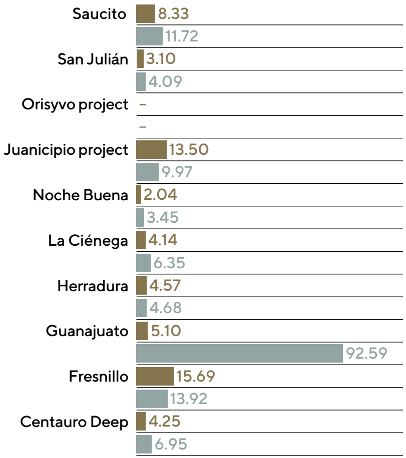
The number of fatalities + lost-time cases + restricted work cases + medical treatment + first aid cases per 1,000,000 hours worked.

TOTAL RECORDABLE INJURY FREQUENCY RATE (TRIFR) FOR EVERY 1,000,000 HOURS



■ 2019 ■ 2018

LOST TIME INJURY FREQUENCY RATE (LTIFR) FOR EVERY 1,000,000 HOURS



■ 2019 ■ 2018

The number of lost-time injuries + fatalities per 1,000,000 hours worked.

OCCUPATIONAL HEALTH

We strive to keep our people healthy and to prevent occupational diseases. Our approach aims to pre-emptively identify and manage the health risks to which our workforce is exposed. Preventive care and the promotion of healthier lifestyles can limit certain chronic diseases and enhance overall wellness and fitness for work. While our focus is on prevention, emergency response is a core competence of all our health teams.

Relevance and risk in the lifecycle of mining

EXPLORATION | DEVELOPMENT | OPERATION | CLOSURE

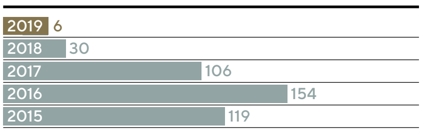
Risk: High Medium Low

HOW WE WILL WIN

KEY ACTIVITIES:

- Identify and monitor the level of exposure to physical and chemical risks to the health of our people (noise, dust, vibration, heavy metal contamination, extreme temperatures, etc.).
- Determine operating procedures, equipment, training and controls.
- Evaluate and improve the ergonomics to prevent musculoskeletal disorders.
- Ensure that everyone entering the workforce has a health check, including physical and psychosocial evaluations.
- Perform regular check-ups to screen for occupational diseases and advise on preventive care.
- Manage our own rehabilitation facilities to accelerate recovery from injuries.
- Implement our Healthy Lifestyles programme to support good dietary habits and the prevention and control of obesity-related diseases.
- Carry out biological monitoring to prevent sanitary risks.
- Hold Behavioural Change workshops, facilitated by psychologists who provide guidance and counsel on personal issues that may lead to accidents or workplace stress.

NEW CASES OF OCCUPATIONAL DISEASES



PROMOTING LONG-TERM WELLNESS

We work hard to improve the lives of our people, and during the year implemented two separate programmes at La Ciénega and in the corporate office in Torreón.

To prevent and control obesity-related diseases, our long-term campaign 'Bienestar siempre' (Being Well Always) raises awareness of healthy lifestyles based on good dietary habits and exercise. For example, we launched a fitness challenge to engage and help our employees, using dietitians and trainers to support their journey towards healthier lifestyles. Our dietitians also monitor dining rooms at our mining operations to ensure that healthier choices are on offer, and in addition work with local schools to promote healthier dietary habits in local communities.

We have also introduced an Employee Attention Programme to empower our people to improve their lives by making better decisions in line with their values, needs and life goals. The programme provides information and orientation across five key areas: emotional, medical, financial, legal and nutritional.

FRESNILLO. Bien estar siempre

CERTIFICATIONS

	Fresnillo	Saucito	Ciénega	Penmont	San Julián
Healthy Company Certification by Mexican health authorities of the implementation of best practice in occupational health and preventive care, including the promotion of healthier lifestyles.	Certified	Certified	Certified	Certified	In process
Smoke-Free Company A prerequisite for Healthy Company certification.	Certified	Certified	Certified	Certified	Certified

ENVIRONMENT

While the mining and processing of precious metals are essential industries, we recognise that our business consumes water, disturbs land and produces waste and greenhouse gases (GHG).

Optimising our use of resources, curbing any negative impact of our activities and being transparent and accountable regarding our environmental footprint are crucial elements of sustainable mining and help us to retain our social licence to operate.

Clean technologies play an important role in improving environmental performance and reinforcing the social acceptability of the mining industry. We support the Colorado Cleantech Challenge, an innovation showcase that connects mining companies with clean technology solution providers, with the mutually beneficial goal of meeting our industry's environmental challenges. In addition, our CEO, Octavio Alvídrez, is a member of the Lowel Institute of Mineral Resources of the University of Arizona. This leading research institute has the depth of expertise necessary to tackle the challenges that are critically important to modern mining.

We are also part of the World Environment Centre (WEC), a think tank that advances sustainable development through the business practices of member companies and in partnership with governments, non-governmental organisations, and other stakeholders.

ENVIRONMENTAL IMPACT ASSESSMENTS

Before developing any mining project, we conduct Environmental Impact Assessments (EIAs), which identify potential impacts and the actions required to manage them. EIAs address many issues, such as surface and groundwater resources, water quality, air quality, soils, biodiversity (including threatened or endangered species), landscape and socio-economic conditions. The insights gained from EIAs form the foundation for our Environmental Management Plans and systems such as ISO 14:001.

2019 CERTIFICATIONS & AWARDS

Certification/Award	Exploration	San Julián	Fresnillo	Saucito	Ciénega	Penmont Herradura	Penmont Noche Buena
ISO 14001 Framework and criteria for an effective environmental management system.	Certified	In process	Certified	Certified	In process	Certified	Certified
Clean Industry Certificate granted by the Mexican Environmental Authority to promote environmental audits, compliance with regulations and adoption of best practices. Level 1 – Basic, Level 2 – Advanced.	N/A	Certified Level 1	Certified Level 1	Certified Level 2	Certified Level 1	Certified Level 2	Certified Level 1
Environmental Excellence Award 2018 Award granted by the Mexican Environmental Authority to recognise leadership in the adoption of best practices and continuous improvement of environmental performance.	–	–	–	Award	–	Award	–
International Cyanide Management Code Sets criteria for the global gold mining industry on cyanide management practices.	N/A	In process	N/A	In process	N/A	Certified	Certified

MITIGATING THE IMPACT OF OUR OPERATIONS

We strive to ensure that our operations have minimal impact on local biodiversity. For example, both our new project at Juanicipio and our established mine at Herradura benefited from biodiversity initiatives during 2019.

At the Juanicipio project, we have:

- Relocated 21,596 plants (cactaceae and rosetophile desert scrub) from 5 hectares.
- Reforested 14.3 hectares with 6,787 nursery plants.
- Captured and released 30 reptiles and mammals.
- Carried out soil conservation works, such as ditches and barriers, on 30.7 hectares.

While working on stage II of the leaching pad project at Herradura, we have:

- Relocated 4,975 plants (cactaceae and rosetophile desert scrub) from 8 hectares.
- Reforested 2 hectares with 1,200 nursery plants.
- Captured and released 34 reptiles and mammals.
- Carried out soil conservation works, such as plant irrigation, on 12 hectares.

ENERGY & CLIMATE

Our goal is to improve energy efficiency and progressively introduce cleaner technologies, including renewables, into our energy mix, in order to mitigate the physical, regulatory and reputational risks of climate change.

Relevance and risk in the lifecycle of mining

EXPLORATION | DEVELOPMENT | OPERATION | CLOSURE

Risk: High Medium Low

Mining is an energy intensive business. Energy is used at every stage of the value chain, representing a significant portion of our overall costs. We use fossil fuels in the extraction and hauling of ore and removal of waste rock, as well as electricity in our processing plants. As ore grades decrease and mining goes deeper, we expect an increase in our energy demand. Given the relation between energy and greenhouse gas emissions, we also strive to decarbonise our processes to mitigate the impact on climate change. Our strategy is based on energy efficiency and the progressive integration of renewables into our energy portfolio.

We are working with the Carbon Trust to explore the resilience of our Strategic Plan and decarbonisation opportunities, based on a 'Well-below 2°C Scenario'. We have prepared this section having considered the recommendations of the Task Force on Climate-related Financial Disclosures ('TCFD').

GOVERNANCE

The Board's HSECR Committee reviews climate-related performance, risks and opportunities at its meetings with management, who are responsible for integrating climate change into the operating strategy. In 2019, the Board reviewed the progress of the project to implement dual fuel engines in the Herradura haulage truck fleet which are able to automatically switch between diesel and Liquefied Natural Gas (LNG), depending on the terrain. In addition, the HSECR Committee discussed with management the progress of incorporating more wind energy in the energy mix. In 2019, Ms Georgina Kessel joined the Board as an Independent Non-executive Director, broadening the expertise of the Board in matters relating to energy and climate change. Ms Kessel served as Minister of Energy from 2006 to 2011.

STRATEGY & RISK MANAGEMENT

Climate change is one of the sustainability issues identified in our non-financial materiality assessments. In addition, climate change is also a key driver of water stress which is one of the emerging risks identified by our Enterprise Risk Management activities, as part of Provision 28 of the 2018 UK Corporate Governance. We use Aqueduct, a tool developed by the World Resources Institute (WRI), to model climate change impacts on water resources. The water risk of our operations and projects is evaluated using climate change scenarios for 2020 and 2030. Further details are presented in the Water Stewardship section of this report.

Risks & opportunities	PHYSICAL		
Description	Impacts on the Company and its stakeholders	Risk management	
Acute	Changes in extreme events. More frequent and intense El Niña and La Niña phenomena are expected.	Droughts could lead to reductions in revenue from decreased throughput. An increase in the intensity of floods could represent additional challenges to tailings dams. Droughts and floods have the potential to negatively affect livelihoods in neighbouring communities.	We have constructed a water reservoir in the San Julián mine to increase resilience to droughts. Our tailings ponds incorporate infrastructure to prevent runoff water from entering the impoundments. We cooperate with communities to increase water access as well as water resilience.
Chronic	Increase of average temperatures and decrease of rainfall. Expected increase in water stress.	Higher temperatures increase loss by evaporation and therefore demand for water. An increase in water stress may lead to more competition for water resources in the areas where we operate.	See the water stewardship section for more information on our approach to managing chronic water risks.

Risks & opportunities	TRANSITION		
Description	Impacts on the Company and its stakeholders	Risk management	
Regulatory	Emerging regulations in Mexico on cap and trade systems.	Mexico's current carbon market pilot programme excludes emissions from haulage. However, new regulations may increase current carbon pricing and therefore operating costs.	We engage constructively with the Mexican Government through the Sustainable Development Commission for the Mexican Private Sector (CESPEDES).
Market	An increase in demand for solar panels increases the demand for silver.	Silver is used in the manufacturing of solar panels. An increase in the penetration of solar energy leads to an increase in the demand of silver. Higher demand may lead to higher prices and increased revenues.	We monitor the progress of this opportunity through the Silver Institute and specialised reports.
Technology	Costs to transition to lower emissions technology.	The technology to achieve deep decarbonisation in the long-term may not be available or affordable, increasing operating costs (i.e. Carbon capture and storage, electrification of heavy vehicles, hydrogen heavy vehicles, direct air capture, etc.).	We have seized technological opportunities to reduce both our carbon footprint and costs. Examples include the ventilation on demand system, optimisation systems in processing plants and fleet management and the introduction of dual systems for trucks. We engage with suppliers of truck equipment and ventilation systems as well as with industry associations to monitor the ways in which technologies are evolving.
Reputation	Stakeholder perceptions of our commitment to mitigating climate change.	An improving or declining reputation, depending on stakeholder perceptions of our actions relating to climate change.	We have increased the use of renewables in our energy mix, designed energy efficient water drainage systems in underground mines and optimised the location of leaching and waste rock heaps. In addition, we are exploring the adoption of a Science Based Target (SBT), with the help of the Carbon Trust.

METRICS AND TARGETS

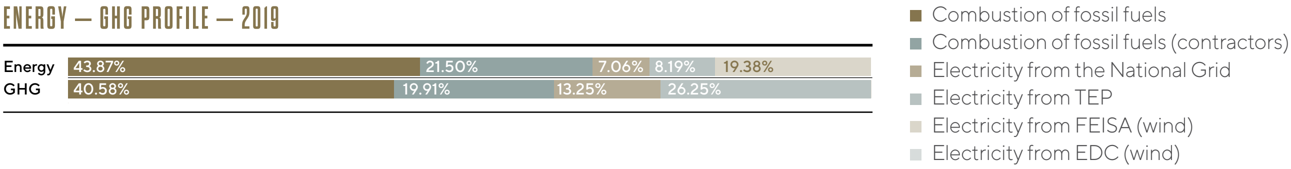
GLOBAL GHG EMISSIONS FOR THE PERIOD 1 JANUARY 2019 TO 31 DECEMBER 2019

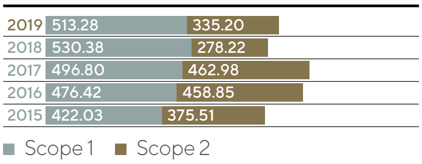
	GHG emissions (tonnes of CO_2e)			Energy (MWhe)		
	Reporting year 2019	Previous year 2018	Comparison year 2012	**Reporting year 2019**	Previous year 2018	Comparison year 2012
Scope 1 (direct emissions): Combustion of fuel (mobile and stationary sources).	**513,282**	530,377	375,121	**1,976,828**	2,009,237	1,385,448
Scope 2 (indirect emissions): Electricity purchased from the Mexican National Grid (CFE), WindForce Peñoles (FEISA) and Thermoelectric Peñoles (TEP).	**335,202**	278,224	329,245	**1,046,824**	950,547	420,615
Intensity measurement: Emissions and energy reported above per tonne of mineral processed.	**0.018**	0.0160	0.013	**0.067**	0.059	0.034

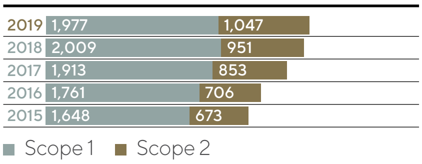
Methodology: We have reported on all of the emission sources required under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013. These sources fall within our operational control. We do not have responsibility for any emission sources that are not included in our Consolidated Statement. We have used the Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (Revised Edition).
Scope 1: All direct GHG emissions.
Scope 2: Indirect GHG emissions from consumption of purchased electricity.

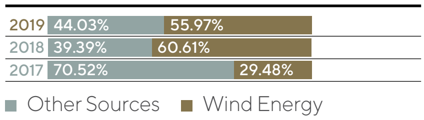
SUSTAINABILITY AT THE CORE OF OUR PURPOSE
CONTINUED

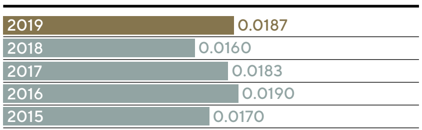
PERFORMANCE
Our greenhouse gas emissions increased by 4.93%. This was due to an overall increase of 10.1% in electricity demand driven by the second dynamic leaching plant in Penmont. Additional demand was met by wind energy 10.14% and other sources 89.86%. Wind energy represents 55.97% of our electricity supply (60.61% in 2018). We aim for renewables to account for 75% of our electricity mix.

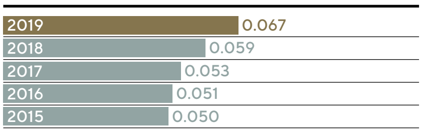
ENERGY – GHG PROFILE – 2019


GHG EMISSIONS (KT OF CO_2E)


ENERGY USE (GWHE)


ELECTRICITY SUPPLY


GHG INTENSITY (TONNES OF CO_2E PER TONNE OF MINERAL PROCESSED)


ENERGY INTENSITY (MWHE PER TONNE OF MINERAL PROCESSED)


CYANIDE MANAGEMENT

Our goal is to protect human health and the environment by responsibly managing sodium cyanide solutions and waste (tailings and spent heaps).

Environmental protection and safety are critical for cyanide leaching systems. We comply with international best practices as promoted by the International Cyanide Management Institute (ICMI) and the Mexican standard NOM-155 SEMARNAT-2007, which establishes environmental requirements for gold and silver leaching systems. As part of our commitment to safe cyanide management, we engage with local authorities and collaborate with fire departments and hospitals to build emergency response capabilities. We make operational and environmental information regarding cyanide management available to our stakeholders.

HOW WE WILL WIN
DESIGN AND OPERATE OUR GOLD PRODUCING MINES IN COMPLIANCE WITH THE INTERNATIONAL CYANIDE MANAGEMENT INSTITUTE (ICMI)

KEY ACTIVITIES:
- Purchase sodium cyanide from certified manufacturers.
- Protect the environment and communities during transport to our facilities.
- Protect our people and the environment during handling and storage.
- Follow working practices that prevent impacts on health or ecosystems.
- Optimise mineral processing to minimise the residual cyanide in tailings.
- Manage and monitor seepage to prevent impacts on groundwater.
- Provide our people with emergency response training, and on how to engage authorities and communities.
- Decommission facilities responsibly to prevent legacy issues.

Visit us online to learn more about our responsible cyanide management practices.

PERFORMANCE
Our operations at Herradura and Noche Buena are certified by the Cyanide Code. During 2019, there were no incidents related to cyanide management.

	2019	2018	2017	2016	2015
Sodium cyanide (NaCN) consumption (tonne)	**14,692**	13,497	11,653	10,117	8,451

MINERAL WASTE MANAGEMENT

Our goal is to protect local communities and the environment by managing mineral waste responsibly.

Relevance and risk in the lifecycle of mining

EXPLORATION | DEVELOPMENT | OPERATION | CLOSURE

Risk: High Medium Low

Our operations produce mineral waste and, in much smaller quantities, non-mineral hazardous waste. The global trend towards lower ore grades will increase mineral waste over time, especially in open pit mining. Mineral waste includes waste rock, spent heaps and tailings, with the management of the latter being a key concern for the industry. While very rare, recent tailings incidents in the industry have served as a reminder of the critical nature of these structures.

HOW WE WILL WIN

MANAGE OUR WASTE RESPONSIBLY TO PROTECT THE HEALTH AND SAFETY OF COMMUNITIES, THE QUALITY OF THE ENVIRONMENT AND OUR REPUTATION

KEY ACTIVITIES:

- Design our tailings dams following international best practices.
- Obtain permits to build and operate Tailings Storage Facilities ('TSFs').
- Operate TSFs with robust governance systems (See case study alongside).
- Seize opportunities to reuse tailings for backfilling in mining operations.

MANAGE CLOSURE RESPONSIBLY TO PREVENT LEGACY ISSUES

KEY ACTIVITIES:

- Close waste storage facilities in a manner that is compatible with the surrounding environment.

ENHANCING OUR GOVERNANCE OF TAILINGS STORAGE FACILITIES ('TSFs')

We are fully committed to addressing the expectations of our stakeholders to build and operate TSFs responsibly.

Over the years, our governance practices have been consistent with local and national regulatory standards and Mexican mining industry practices. During 2019, we launched a series of initiatives to further enhance our performance by aligning it with international best practices. These initiatives included:

- Updating the inventory of TSFs and validating the data register.
- Carrying out a programme of third party (Wood PLC) Dam Safety Inspections (DSIs) for TSFs.
- Establishing an Independent Tailings Review Panel (ITRP).
- Accelerating our programme of ITRP reviews for all sites.

The role of the ITRP is to advise on the design and implementation of our enhanced governance standards and organisational structure, which have been based on guidelines from the International Commission on Large Dams (ICOLD), Canadian Dam Association (CDA), Mining Association of Canada (MAC) and the International Council of Mining and Metals (ICMM).

PERFORMANCE

Our historical tailings facility at Fresnillo has been transformed into an ecological park for the community, with its environmental quality certified by the Mexican Environment Ministry.

		Unit	**2019**	2018	2017	2016	2015
Mine waste	Waste rock	Tonne	**141,717,898**	164,490,105	164,431,521	161,143,531	162,064,121
Processing waste from flotation-concentration facilities	Tailings	Tonne	**9,370,672**	8,795,869	8,062,207	6,030,362	5,877,794
Metallurgical waste from heap and dynamic leaching facilities	Tailings	Tonne	**6,137,482**	3,560,486	3,049,216	2,969,759	2,925,918
	Heaps	Tonne	**34,422,898**	39,912,814	42,448,200	39,570,603	37,366,591

SUSTAINABILITY AT THE CORE OF OUR PURPOSE
CONTINUED

WATER STEWARDSHIP

Our goals are to secure water access, minimise our water footprint and cooperate with our stakeholders.

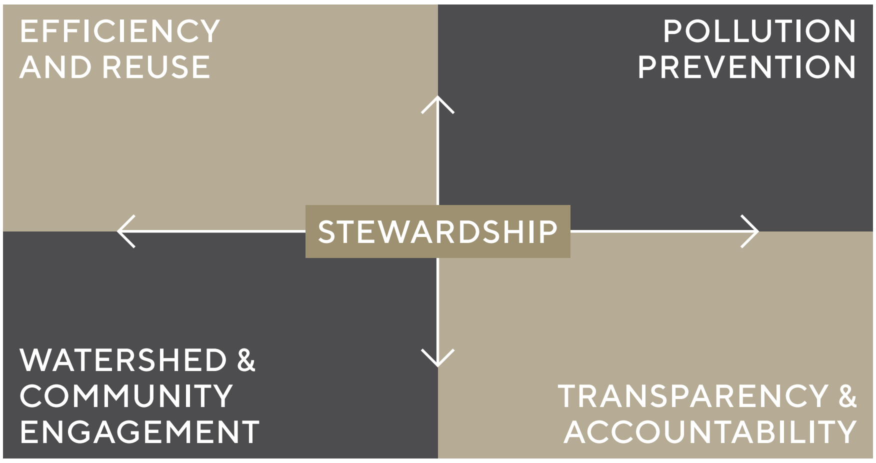
Relevance and risk in the lifecycle of mining

EXPLORATION | DEVELOPMENT | OPERATION | CLOSURE

Risk: High Medium Low

Mining and processing ore requires large volumes of water. In addition, many of our operations take place in arid regions where water is frequently a relevant issue for local communities. For these reasons, securing access to water and being responsible water stewards are critical success factors.

Before we commence any project, we carry out EIAs to gain knowledge of water resources and their vulnerability on a local and regional scale. Responding to the expectations of our stakeholders, we evaluate water risk using the Aqueduct tool from the World Resources Institute (WRI).



	Current conditions		Water stress considering climate change scenarios*	
Business unit	Overall water risk	Water stress	Business as usual 2030	Pessimistic 2030
Fresnillo	Medium – High (2-3)	Extremely High (>80%)	1.4x increase	1.4x increase
Saucito	Medium – High (2-3)	Extremely High (>80%)	1.4x increase	1.4x increase
Ciénega	High (3-4)	Extremely High (>80%)	1.4x increase	1.4x increase
Penmont	Extremely High (4-5)	Extremely High (>80%)	1.4x increase	1.4x increase
San Julián	Medium – High (2-3)	High (40-80%)	Near normal	1.4x increase

Water stress measures the ratio of total annual water withdrawal to average annual available blue water. This is a commonly used indicator also known as relative water demand.

* Climate change scenarios from WRI Aqueduct tool. Please check the climate change scenarios at: https://www.wri.org/aqueduct

HOW WE WILL WIN

EFFICIENCY AND REUSE

KEY ACTIVITIES:

- Implement efficient closed water circuits, eliminating the need to discharge processed water into water streams. (see the case study on the next page).
- Reuse wastewater from municipalities and our own operations and accommodations.

POLLUTION PREVENTION

KEY ACTIVITIES:

- Send unused water from dewatering to settlement ponds in order to control suspended solids, before discharging the cleaned water downstream.
- Ensure responsible cyanide management (see the Cyanide Management section of this report).
- Ensure the responsible operation of TSFs (see the Mineral Waste Management section of this report).

WATERSHED AND COMMUNITY ENGAGEMENT

KEY ACTIVITIES:

- Secure water rights from authorities before using any water in mining and mineral processing.
- Cooperate with water authorities and other stakeholders, including communities, to increase water access. (see the Communities section of this report).
- Share best practices with other industries and civil society at events organised by the World Environment Center (WEC) and CESPEDES (Mexican Chapter of the WBCSD).

TRANSPARENCY & ACCOUNTABILITY

KEY ACTIVITIES:

- Account for water use, using the Water Accounting Framework proposed by the Minerals Council of Australia.
- Respect our water quotas, monitoring our discharges and taking action to ensure that they adhere to water quality regulations.

PERFORMANCE

During the year, we detected no negative downstream impacts on ecosystems or waterbodies due to our groundwater intake or water discharges.

STATEMENT OF WATER INPUTS AND OUTPUTS IN MEGALITRES*

For the period 1 January 2019 to 31 December 2019

Category	Element	Sub element	2019	2018
Input	Surface water	Rivers and creeks	–	–
	Groundwater	Mine water	**6,304**	6,137
		Bore fields	**5,658**	5,663
		Ore entrainment	**381**	412
	Third party	Waste water	**843**	1,092
		Total water inputs	**13,186**	**13,304**
Output	Surface water	Discharges	**26**	75
	Other	Water entrained in concentrates	**34**	32
		Total water outputs	**60**	**108**

WATER DEVIATIONS IN MEGALITRES*

For the period 1 January 2019 to 31 December 2019

Category	Element	Sub element	2019	2018
Input	Surface water	Rivers and creeks	–	–
	Groundwater	Aquifer interception (Dewatering)	**7,695**	8,773
		Total water inputs	**7,695**	**8,773**
Output	Surface water	Discharges	**7,571**	8,749
		Supply to third party (Donation)	**124**	23
		Loss (evaporation, infiltration, etc.)	–	–
		Total water outputs	**7,695**	**8,773**

STATEMENT OF OPERATIONAL EFFICIENCY IN MEGALITRES*

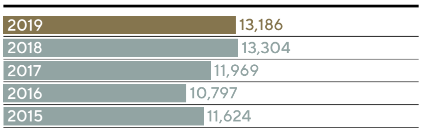
Efficiency for the period 1 January 2019 to 31 December 2019

	2019	2018
Total volume to tasks	**74,286**	63,934
Total volume of reused water	**59,347**	51,251
Efficiency of reuse	**79.89%**	80.16%
Total volume of recycled water	**982**	1,327

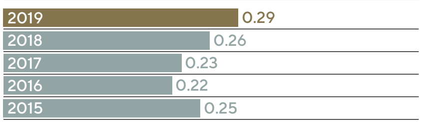
1 megalitre = 1,000 m^3

* To enhance transparency we followed the International Council of Mining and Metals (ICMM) water reporting guidance and the Mineral Council of Australia's Water Accounting Framework.

WATER WITHDRAWAL (MEGALITRE)



WATER INTENSITY (M^3/TONNE OF MINERAL PROCESSED)



SAVING WATER BY INCREASING RECOVERY AND REUSE

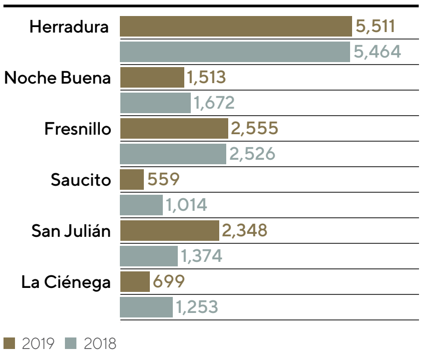
As part of our commitment to responsible water stewardship, we use High Compaction Thickeners to increase water recovery and reuse during our processes at flotation plants.

By reducing water content and increasing the density of tailings, these thickeners improve water efficiency. In addition, they deliver:

- Reduced storage requirements at TSFs.
- Improved safety of TSF embankments.
- Increased energy efficiency by reducing:
  - the volume of tailings pumped from the flotation plant to the TSF.
  - the volume of recovered water pumped from the TSF to the flotation plant.
- Reduced CAPEX and OPEX because we can use smaller capacity pumps instead of those required by a conventional thickener.

High Compaction Thickeners are currently deployed only at San Julián. However, we will be introducing a similar system at Ciénega as part of the mine's capacity expansion.

WATER INPUT (MEGALITRES)



COMMUNITIES

The communities where we operate are strategic stakeholders (see pages 18–21 – section 172) and we are committed to supporting them by implementing sustainable practices for mining silver and gold.

We earn and maintain the trust of communities through effective engagement and by being accountable for our impacts – and we recognise that this is the only way to obtain and preserve our social licence to operate. Our community strategy, which embraces all phases of the mining lifecycle, aims to build mutual understanding between our operations and local communities, ensuring that we engage, develop and grow together.

HOW WE WILL WIN

ENGAGING COMMUNITIES EFFECTIVELY IN THE LIFECYCLE OF MINING

KEY ACTIVITIES:

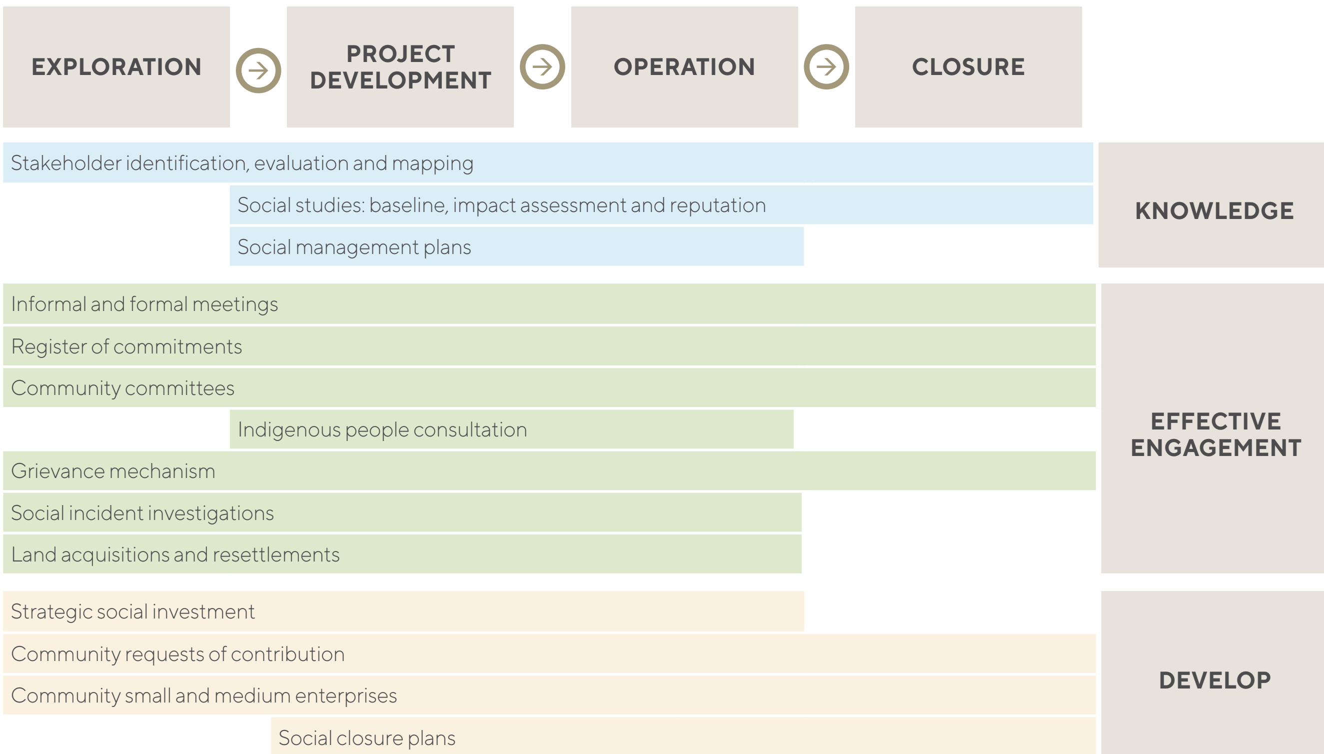
- **Exploration:** Our exploration teams are the first to establish contact with a local community. We identify the relevant stakeholders and focus our engagement efforts on obtaining temporary land access to explore and assess social risks.
- **Development:** Our stakeholder relationships deepen in this phase of the cycle, as we build trust through activities including local hiring, contracts and social investment. For our advanced feasibility and development projects, we conduct social risk assessments to help us identify the issues that matter most to the community.
- **Operation:** We regularly engage with the community via formal and informal meetings in order to manage expectations and detect risks and opportunities. We also carry out comprehensive perception studies which help us monitor how benefits are perceived and assess our impact on the key issues facing the community.

AVOID OR MITIGATE NEGATIVE IMPACTS ON THE COMMUNITIES WHERE WE OPERATE

KEY ACTIVITIES:

- Design our projects to avoid impacts and when not possible mitigate these impacts and address community concerns responsibly.
- Monitor and address the social impacts and concerns of the communities:
  - during the operation of a mine.
  - during the mine closure phase.

FRAMEWORK FOR COMMUNITY ENGAGEMENT IN THE LIFECYCLE OF MINING



LAND ACQUISITIONS & RESETTLEMENTS

Relevance and risk in the lifecycle of mining

EXPLORATION	DEVELOPMENT	OPERATION	CLOSURE

Risk: High Medium Low

OUR GOAL IS TO MANAGE RESETTLEMENT RESPONSIBLY, RESPECTING LOCAL LAWS AND FOLLOWING INTERNATIONAL BEST PRACTICES

Developing a mining project involves land acquisition and, in some cases, the resettlement of households. We recognise that these are complex and life-changing issues for communities. When poorly planned and managed, land acquisition and resettlement can adversely impact the livelihoods and social structure of communities, damage our relationships or even cause conflict. We recognise that the right to an adequate standard of living after land acquisition and resettlement projects is a basic human right.

HOW WE WILL WIN

KEY ACTIVITIES:

- Avoid resettlements whenever possible, by exploring alternative options.
- If resettlements are unavoidable, work together with affected households, communities and governments to minimise adverse impacts, restoring or improving livelihoods and living conditions.
- Further develop our competences and internal processes to manage resettlements, including social baseline and asset surveys, an entitlement and compensation framework, negotiation, livelihood restoration programmes and ongoing monitoring and evaluation.

PERFORMANCE

No community resettlements occurred at our operations or development projects during 2019.

GOVERNMENT PAYMENT TRANSPARENCY

Relevance and risk in the lifecycle of mining

EXPLORATION	DEVELOPMENT	OPERATION	CLOSURE

Risk: High Medium Low

OUR GOAL IS TO TRANSPARENTLY DISCLOSE OUR PAYMENTS TO GOVERNMENTS

Responsible mining can be a driver of economic and social development. However, corruption and poor governance diminish the benefits that society should gain from the revenues generated by mining resources. We believe that transparency regarding payments to governments builds trust and empowers society. (See our website for our report on payments to governments).

HOW WE WILL WIN

DISCLOSURE OF OUR GOVERNMENT PAYMENTS

KEY ACTIVITIES:

- Report government payments as required under the UK Reports on Payments to Governments Regulation 2014 and its amendment in December 2015 (the UK Regulations).

TRANSPARENCY & ACCOUNTABILITY

Relevance and risk in the lifecycle of mining

EXPLORATION	DEVELOPMENT	OPERATION	CLOSURE

Risk: High Medium Low

OUR GOAL IS TO PROVIDE ACCESS TO NON-FINANCIAL INFORMATION IN ORDER TO FACILITATE THE DECISION-MAKING PROCESSES OF OUR INVESTORS AND STAKEHOLDERS

Being transparent and accountable for our social and environmental performance are essential factors in building trust. By disclosing material non-financial information, we are able to help our investors make more effective investment decisions. Managing our negative impacts is the key to ensuring that our business model is socially acceptable.

HOW WE WILL WIN

DISCLOSURE OF ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) INFORMATION USING THE APPROPRIATE CHANNELS

KEY ACTIVITIES:

- Annual Report.
- Website.
- Carbon Disclosure Project.
- Modern Slavery Report.
- Meetings and traditional media to inform our local stakeholders.

ACCOUNTABILITY AND SENSIBILITY REGARDING OUR POSITIVE AND NEGATIVE IMPACTS

KEY ACTIVITIES:

- Conduct perception studies in the communities where we operate to identify positive and negative perceptions and impacts.
- Monitor media.
- Hold regular meetings with our stakeholders.
- Operate grievance mechanisms to engage people that may be adversely affected by our activities.

ENGAGING WITH LOCAL COMMUNITIES IN PERU

The Region of Cajamarca, located in northern Peru, is one of the most challenging regions of the country to carry out mining activities.

Activism has spread fears and concerns about the impact of mining. Through frank dialogue we have identified the concerns of communities regarding water scarcity, local employment, environmental impacts and social investment. Our Peruvian team has engaged with communities to address their concerns, providing relevant information, gathering opinions and suggestions and understanding their perceptions. Best practices such as equal and fair treatment, respect and empowerment enabled us to obtain the consent of the community to start exploring in the region.

WINNING THE SUPPORT OF INDIGENOUS COMMUNITIES

We are committed to respecting the values, culture and traditions of indigenous people, and to ensuring that our projects earn their support and goodwill.

For example, in 2018 constructive dialogue and inclusive participation with the Raramuri Indigenous People led to them granting their free, prior and informed consent to build and operate a water reservoir for our San Julián mine. During 2019, Raramuri leaders visited the construction site and met with our people in order to keep their communities informed. Once the water level of the reservoir had risen close to its maximum, the community returned to the site to confirm the security of the dam.

SUSTAINABILITY AT THE CORE OF OUR PURPOSE
CONTINUED

SHARING THE BENEFITS

In addition to effective stakeholder engagement, sharing the benefits of mining plays an important role in the wellbeing of people. We create value in the regions where we operate in the form of employment, procurement, talent development, strategic community investment and the payment of our fair share of taxes.

ECONOMIC IMPACT

Our activities create a positive economic impact in the regions where we operate. Employment, contracting opportunities and payment to governments are good examples of how we share the benefits of mining.

ECONOMIC VALUE DISTRIBUTED BY STATE

Zacatecas	16.75%
Sonora	25.50%
Durango	8.46%
Chihuahua	8.91%
Guanajuato	7.51%
Mexico City	19.64%
Estado de Mexico	4.60%
Coahuila	8.63%

MINING FUND

In 2014, Mexico introduced a special tax to create a fund for the sustainable development of mining regions. The funds are allocated to federal, state and municipal governments. Although this fund is intended to develop the infrastructure of communities surrounding mining operations, in reality state and municipal authorities invest large amounts of it elsewhere. We partner with the communities where we operate to engage the authorities and aim to encourage them to fund infrastructure projects that benefit mining communities.

FRESNILLO PLC CONTRIBUTION TO THE FUND FOR SUSTAINABLE DEVELOPMENT OF MINING STATES AND MUNICIPALITIES*

	2019 US$ million	2018 US$ million
	10.97	18.96

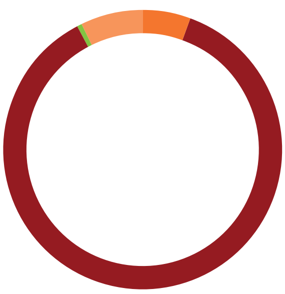
* Current mining fund taxes are used in our sustainability review as a social performance measure.

LOCAL EMPLOYMENT AND PROCUREMENT

Local employment is a key driver of social acceptability and community development. We promote local employment from the early days of the exploration phase onwards. In the development and operational phases, for example, we offer employment opportunities directly or through our mining contractors. Our local and regional labour as a percentage of the total workforce is 75.55%. Our Centre for Technical Studies (CETEF) trains mining technicians to meet our specific needs. CETEF candidates are chosen from the communities surrounding our operations, thus securing talent and strengthening our social licence to operate. We participate in the mining clusters of Zacatecas, Sonora and Chihuahua. These clusters contribute to the development of regional suppliers, strengthening their participation in the value chain of mining companies.

LOCAL EMPLOYMENT

ECONOMIC VALUE DISTRIBUTED



Wages and benefits to workers	5.75%
Payments to suppliers (contractors)	86.66%
Payments to local governments	0.53%
Payments to Federal Government	7.06%

Economic Value Distributed is considered to be a social performance measure.

US$100.7M
WAGES AND BENEFITS TO WORKERS

US$1,518.0M
PAYMENTS TO SUPPLIERS (CONTRACTORS)

US$9.3M
PAYMENTS TO LOCAL GOVERNMENTS

US$123.7M
PAYMENTS TO FEDERAL GOVERNMENT

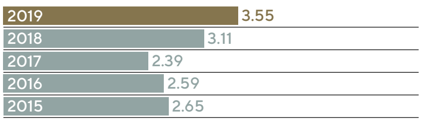
US$1,751.7M
TOTAL ECONOMIC IMPACT

SOCIAL INVESTMENT

We work with our communities to develop a purposeful social investment portfolio aligned with the relevant UN Sustainable Development Goals. Over the years we have increased our partnerships with civil society organisations in order to build capacity in the communities where we operate.

PERFORMANCE

COMMUNITY INVESTMENT IN (US$ MILLIONS)



COMMUNITY INVESTMENT BY STRATEGIC LEVER

Health & Sports	21%
Education	28%
Water	17%
Capacity building	3%
Other	31%

The increase in the category 'other' is due to investments in road improvement in our communities of La Ciénega and San Julián.

HOW WE WILL WIN

CONSOLIDATE OUR SOCIAL INVESTMENT PORTFOLIO

KEY TARGETS:

Programme	2019	2025
Reading ('Picando Letras')	70 Schools	120 Schools
Health weeks	Operations – Annually	Operations – Annually Advanced Projects – Every two years
Rocks and Minerals	25 Schools	40 Schools
Entrepreneurship and capacity building	104 persons trained	250 persons trained
First Robotics	4 Teams	6 Teams

SOCIAL INVESTMENT PORTFOLIO CREATES LONG-TERM VALUE WITH OUR COMMUNITIES

4 QUALITY EDUCATION

EDUCATION

Foster social cohesion and develop reading and STEM Skills

3 GOOD HEALTH AND WELL-BEING

HEALTH & SPORTS

Improve communities' health and habits

8 DECENT WORK AND ECONOMIC GROWTH

CAPACITY BUILDING

Develop community entrepreneurs and regional procurement

6 CLEAN WATER AND SANITATION

WATER

Work with communities to increase access to safe water

SUSTAINABILITY AT THE CORE OF OUR PURPOSE
CONTINUED

EDUCATION

GENERAL PURPOSE:
To support inclusive and quality education as a key lever to reduce poverty and inequality.

'PICANDO LETRAS':
As reading and dialogue are proved to play a key role in inclusion, we collaborate with the non-governmental organisation (NGO) International Board on Books for Young People (IBBY) to create collections and reading spaces for children with poor access to books. We train mediators (educators and parents) in activities and dynamics that promote the habit of reading so that it becomes an enjoyable experience, contributing to the development of autonomous readers in our communities.

ENROLLED CHILDREN
8,700+

COMMUNITIES
34

SCHOOLS
70

IMPROVED READING
28%

FIRST ROBOTICS:
We help develop talent, creativity and teamwork in high school students by collaborating with teachers and parents to implement the FIRST Robotics Programme. This scheme involves mentors from Fresnillo coaching teams to build robots for national competitions. One condition is that beneficiaries must take part in implementing social programmes for their community. Students from our robotics teams compete for four Excellence Scholarships which enable them to pursue college education in LaSalle Laguna University, Torreón.

ROCKS AND MINERALS:
In order to promote the benefits of mining and generate talent and interest in geology, we collaborate with the NGO INNOVEC and the State Governments of Zacatecas, Sonora and Guanajuato to implement our 'Rocks and Minerals' programme. This encourages children in the 3rd and 4th years to evaluate different types of rocks and minerals in an experiential and investigative way.

ENROLLED STUDENTS
1,200+

SCHOOLS
25

CAPACITY BUILDING

GENERAL PURPOSE:
To generate skills in local communities to help facilitate the diversification of the local economy and enable an effective economic transition after mine closure.

ENTREPRENEURSHIP TRAINING:
We aim to help people take advantage of the benefits of economic activity during a mine's operational life, and also to maintain their financial self-sufficiency after the mine closes. We do this by providing training and follow-up activities to small and medium-sized enterprises (SMEs) and entrepreneurs in the communities of Fresnillo, San Julián, Uruachi, Juanicipio, Rodeo and Guanajuato.

ENTREPRENEURS TRAINED SINCE 2017
230

ASSOCIATION WITH MINING CLUSTERS:
We believe in the importance of supporting sustained, inclusive and sustainable economic growth through productive employment, as well as the value of decent work for the members of local communities. We are members of the regional mining clusters of Zacatecas, Sonora and Chihuahua and work with them to help promote regional procurement capacities and talent development.

WATER

GENERAL PURPOSE:
To reduce our fresh water footprint and ensure that our communities have access to safe water.

RAINWATER HARVESTING SYSTEMS:
To ensure the availability and sustainable management of water, we collaborated with the NGO Captar to implement rainwater collection systems for houses in communities near the San Julián mine.

RAINWATER HARVESTING SYSTEMS
325

BENEFICIARIES
1,000

HEALTH

GENERAL PURPOSE:
To ensure healthy lives and promote the wellbeing of local people.

JORNADAS DE SALUD:
We aim to improve the health of people in our communities by providing medical services where they are most needed. In partnership with the National University Foundation (UNAM Foundation), we organised 'Health Weeks' in Fresnillo, Ciénega, Penmont and San Julián. We also provide dental and eye care to local communities and are collaborating with local authorities to offer more treatments.

BENEFICIARIES
10,500+

TRANSFORMING SITES TO PROMOTE LEISURE:
We recognise the role that nature can play in improving physical and mental health. For example, in Fresnillo we have reclaimed tailings ponds to form a leisure park which includes green areas and a boating lake. We have also developed and continue to provide financial support for a zoo in Fresnillo, which enables local people to see wild animals from around the world at close quarters and at a very reasonable cost.

ZOO VISITS PER MONTH
2,000+

MANAGING OUR RISKS AND OPPORTUNITIES

Our risk management process aims to strike a balance between mitigating and monitoring our risks, and maximising the potential reward. We have a structured internal risk management process in place to identify risks while simultaneously taking into account the views and interests of our stakeholders.

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

RISK MANAGEMENT SYSTEM

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

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

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

Within the system's identification phase, we capture emerging risks that could arise as a result of new developments that have a chance of impacting Fresnillo, either at a macro or operational level. To strengthen our emerging risks management framework, during the last quarter of 2019 and early in 2020 we carried out activities to: i) define the emerging risk concept for Fresnillo; ii) deploy effective monitoring mechanisms; iii) carry out horizon scanning to consider disruptive scenarios iv), and; implement mitigating control actions and enhance our risk awareness culture.

This process involved workshops, surveys and meetings with the Executive Committee, business unit leaders, support and corporate areas, as well as suppliers, contractors and customers. We also consulted third party information from global risk reports, academic publications, risk consulting experts and industry benchmarks.

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

RISK GOVERNANCE BASIS

TOP-DOWN
Oversight, identification, assessment and mitigation of risk at a corporate level

THE BOARD
- Reviews and approves risk management and internal control systems.
- Determines the nature and extent of principal risks.
- Monitors exposures to ensure their nature and extent are aligned with overall goals and strategic objectives.
- Sets tone on risk management culture.

EXECUTIVE COMMITTEE
- Identifies strategic risks.
- Assesses level of risk related to achieving strategic objectives.
- Oversees execution and implementation of controls into strategic and operating plans.

AUDIT COMMITTEE
- Supports the Board in monitoring risk exposures against risk appetite.
- Reviews the effectiveness of our risk management and internal control systems.

INTERNAL AUDIT
- Supports the Audit Committee in evaluating the effectiveness of risk mitigation strategies, and internal controls implemented by management.

BOTTOM-UP
Identification, assessment and mitigation of risk across all operational and functional areas

OPERATIONAL LEVEL*
- Performs risk identification and assessment across mining operations, projects and exploration sites.
- Embeds risk mitigation and internal controls monitoring across functional areas and business units.
- Embeds risk awareness, and safety culture in day-to-day operations.

All the risk governance, including principal, individual and emerging risks.

* Including personnel at mine sites, development projects, exploration sites and support areas.

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

We have a number of mitigation activities in place regarding water stewardship. Examples include: evaluating water risk using the Aqueduct tool from the World Resources Institute (WRI); carrying out an Environmental Impact Assessment (EIA) of irrigation and drainage projects to gain knowledge of water resources and their vulnerability on a local and regional scale; respecting our water quotas, monitoring our discharges and taking action to ensure that they adhere to water quality regulations; cooperating with water authorities and other stakeholders, including communities, to increase water access; implementing closed water circuits to eliminate the need to discharge processed water into water streams; reusing wastewater from municipalities and our own operations and camps; and, accounting for water use, using the Water Accounting Framework proposed by the Minerals Council of Australia. From 2020 onwards, emerging risk assessment will be embedded as part of the principal and individual risk management process.

2019 RISK ASSESSMENT

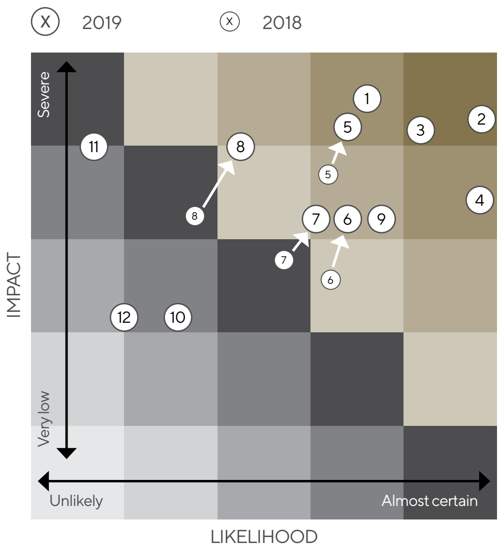
As part of our bottom-up process, each business unit head determined the perceived level of risk for their individual unit's risk universe. Executive management then reviewed and challenged each perceived risk level, and compared it to Fresnillo plc's risk universe (109 risks) as a whole. The results of this exercise were used as an additional input to define the Group's principal risks. We conducted the same risk analysis on advanced projects, detailing the specific risks faced by each project according to their unique characteristics and conditions.

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

The ERM narrowed down our 109 risks into major risks which are monitored by executive management and the Audit Committee. We then further consolidated these into 12 principal risks which are closely monitored by the Board of Directors.

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

HEAT MAP



Relative position

2019	2018	Risk*	
1	1	Impact of metal prices and global macroeconomic developments	(v)
2	2	Potential actions by the Government	(v)
3	3	Access to land	(v)
4	4	Security	
5	6	**Safety**	
6	7	**Union relations**	
7	8	**Exploration**	
8	9	**Projects (performance risk)**	
9	5	Public perception against mining	
10	10	Cyber security	
11	11	Environmental incidents	(v)
12	12	Human resources	

* Bold text indicates risks that changed order in 2019 (proposed by Management according to annual risk assessment).
(v) Risk that was considered for the viability assessment as detailed on pages 102-103.

Note for risk table: Change in risk level: vertical movement indicates impact ↑ and horizontal → movement indicates likelihood.

MANAGING OUR RISKS
RESPONSE/MITIGATION TO OUR RISKS

1

IMPACT OF METALS PRICES AND GLOBAL MACROECONOMIC DEVELOPMENTS

RISK DESCRIPTION

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

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

RESPONSE/MITIGATION

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

For more details see Financial Review on **pages 54-63.**

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

See note 29 in the consolidated financial statements on **page 210** for more details.

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

In terms of inflation, we experienced an increase in two of our main energy inputs over the previous year, with diesel (US cent per litre) increasing by 6.7% and kWh (US cent per kWh) by 4.1%.

See note 29 in the consolidated financial statements on **page 210** for more details.

DESCRIPTION OF RISK LEVEL

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

See the Markets Review on **pages 14-15** for more details.

KEY RISK INDICATORS

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

LINK TO STRATEGY

1 2 3

RISK APPETITE

High for metal prices, Medium for all other macroeconomic developments

CHANGE IN HEAT MAP

=

RISK RATING (RELATIVE POSITION)

2019: Very high (1)

2018: Very high (1)

2

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

RISK DESCRIPTION

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

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

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

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

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

RESPONSE/MITIGATION

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

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

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

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

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

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

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

DESCRIPTION OF RISK LEVEL

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

In addition, Mexico's corruption perception remains high. The country's score in the International Transparency 2019 Corruption Perception Index was relatively unchanged, despite the ranking being higher[1]. As a result, delays in obtaining permits for certain operations and/or projects remain a risk.

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

KEY RISK INDICATORS

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

RISK APPETITE

Low

RISK RATING (RELATIVE POSITION)

2019: Very high (2)

2018: Very high (2)

LINK TO STRATEGY

1 2 3 4

CHANGE IN HEAT MAP

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

MANAGING OUR RISKS
RESPONSE/MITIGATION TO OUR RISKS
CONTINUED

3
ACCESS TO LAND

RISK DESCRIPTION

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

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

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

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

RESPONSE/MITIGATION

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

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

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

DESCRIPTION OF RISK LEVEL

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

KEY RISK INDICATORS

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

LINK TO STRATEGY

1 2 3

RISK APPETITE

Medium

CHANGE IN HEAT MAP

=

RISK RATING (RELATIVE POSITION)

2019: Very high (3)

2018: Very high (3)

4

SECURITY

RISK DESCRIPTION

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

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

RESPONSE/MITIGATION

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

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

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

DESCRIPTION OF RISK LEVEL

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

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

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

KEY RISK INDICATORS

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

RISK APPETITE

Low

RISK RATING (RELATIVE POSITION)

2019: Very high (4)

2018: Very high (4)

LINK TO STRATEGY

1 2 3 4

CHANGE IN HEAT MAP

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1 Global Peace Index 2019 and Mexico Peace Index 2019 prepared by the Institute for Economics & Peace.

MANAGING OUR RISKS
RESPONSE/MITIGATION TO OUR RISKS
CONTINUED

5
SAFETY

RISK DESCRIPTION

It is an inherent risk in our industry that incidents due to unsafe acts or conditions could lead to injuries or fatalities.

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

RESPONSE/MITIGATION

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

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

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

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

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

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

See 'Safety' **pages 72-73** for more on our safety strategy and programmes.

DESCRIPTION OF RISK LEVEL

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

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

Frequent transportation of our people to remote business units is an ongoing feature of our operations. In many cases, these units have poor accessibility by road. Failure to comply with safety programmes, measures and audits or with the findings of inspections, continues to be a safety risk.

KEY RISK INDICATORS

- Accident rate.
- Days lost rate.
- Accident frequency.

LINK TO STRATEGY

4

RISK APPETITE

Low

CHANGE IN HEAT MAP

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RISK RATING (RELATIVE POSITION)

2019: Very High (5)

2018: High (6)

6
UNION RELATIONS

RISK DESCRIPTION

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

RESPONSE/MITIGATION

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

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

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

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

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

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

DESCRIPTION OF RISK LEVEL

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

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

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

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

KEY RISK INDICATORS

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

RISK APPETITE

Low

RISK RATING (RELATIVE POSITION)

2019: Medium high (6)

2018: Medium low (7)

LINK TO STRATEGY

2 3

CHANGE IN HEAT MAP

↗

MANAGING OUR RISKS
RESPONSE/MITIGATION TO OUR RISKS
CONTINUED

7
EXPLORATION

RISK DESCRIPTION

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

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

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

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

RESPONSE/MITIGATION

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

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

Our exploration strategy also includes:

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

See 'Exploration' **pages 30-34** for more on our exploration programmes and investment.

DESCRIPTION OF RISK LEVEL

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

This is mainly due to the following:

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

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

KEY RISK INDICATORS

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

LINK TO STRATEGY

I

RISK APPETITE

Medium

CHANGE IN HEAT MAP

↗

RISK RATING (RELATIVE POSITION)

2019: High (7)

2018: Medium (8)

8
PROJECTS (PERFORMANCE RISK)

RISK DESCRIPTION

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

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

RESPONSE/MITIGATION

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

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

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

The project development pipeline in 2019 included:

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

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

See Development Projects on **pages 35-37** for more information.

DESCRIPTION OF RISK LEVEL

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

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

We identify the following threats in project development:

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

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

At the Juanicipio project, we face the following threats:

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

KEY RISK INDICATORS

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

RISK APPETITE

Medium

RISK RATING (RELATIVE POSITION)

2019: High (8)

2018: Medium (9)

LINK TO STRATEGY

2

CHANGE IN HEAT MAP

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MANAGING OUR RISKS
RESPONSE/MITIGATION TO OUR RISKS
CONTINUED

9

PUBLIC PERCEPTION AGAINST MINING

RISK DESCRIPTION

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

RESPONSE/MITIGATION

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

- Increased understanding and accountability:
  - Monitoring public opinion within local and international media.
  - Holding continuous dialogue with our key local stakeholders through formal and informal meetings.
  - Carrying out social baseline, human rights and perception studies to better understand our positive and negative impacts.
  - Operating a grievance mechanism to address stakeholder concerns.
- Purposeful and aspirational engagement with local communities:
  - Maintaining a Social Investment Portfolio to create long-term value, aligned with the UN Sustainable Development Goals. We have identified four pillars where we can make a real difference: Education, Water, Health & Sports and Capacity Building.
  - Partnering with non-governmental organisations (NGOs) in these three pillars of social investment: Education (IBBY, INNOVEC & First Robotics), Water (Captar AC) and Health (National University Foundation).
- Collaborating with peers in the international and Mexican mining community to promote the benefits of the mining industry and responsible mining practices.
- Communicating our best practices regarding social and environmental responsibility.

See Community Relations in the Sustainability section on **pages 82-83** for more information.

DESCRIPTION OF RISK LEVEL

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

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

KEY RISK INDICATORS

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

LINK TO STRATEGY

1 2 3 4

RISK APPETITE

Low

CHANGE IN HEAT MAP

=

RISK RATING (RELATIVE POSITION)

2019: High (9)

2018: High (5)

10
CYBER SECURITY

RISK DESCRIPTION

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

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

RESPONSE/MITIGATION

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

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

- The US National Institute of Standards and Technology Cyber Security Framework (NIST CSF) which outlines how companies can assess and improve their ability to prevent, detect and respond to cyber attacks.
- Control Objectives for Information and Related Technologies (COBIT), which was created by ISACA, the international professional association for IT management and governance, to provide an implementable set of IT-related controls, processes and enablers.

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

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

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

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

The Audit Committee continues to monitor and oversee this risk.

DESCRIPTION OF RISK LEVEL

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

KEY RISK INDICATORS

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

LINK TO STRATEGY

2 3

RISK APPETITE

Low

CHANGE IN HEAT MAP

=

RISK RATING (RELATIVE POSITION)

2019: Medium (10)

2018: Medium (10)

MANAGING OUR RISKS
RESPONSE/MITIGATION TO OUR RISKS
CONTINUED

11

ENVIRONMENTAL INCIDENTS

RISK DESCRIPTION

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

RESPONSE/MITIGATION

Our environmental management system ensures compliance with international regulations and best practice, provides transparency, and supports initiatives that reduce our environmental footprint. We disclose our performance in our Environment section on pages 75-81.

Herradura, Saucito, Fresnillo and Noche Buena are certified under ISO 14001. Ciénega and San Julián are working towards achieving certification (ISO 14001 and 45000) during 2020.

Juanicipio has been recommended for certification. Additionally, Ciénega, Herradura, Saucito, San Julián, Juanicipio and Fresnillo are certified to Clean Industry standards. Our leaching operations in Herradura and Noche Buena comply with the Cyanide Code issued by the International Cyanide Management Institute.

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

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

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

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

DESCRIPTION OF RISK LEVEL

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

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

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

KEY RISK INDICATORS

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

LINK TO STRATEGY

4

RISK APPETITE

Low

CHANGE IN HEAT MAP

=

RISK RATING (RELATIVE POSITION)

2019: Medium Low (11)

2018: Medium Low (11)

12

HUMAN RESOURCES

RISK DESCRIPTION

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

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

RESPONSE/MITIGATION

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

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

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

Retention: Our aim is to be the employer of choice, and we recognise that in order to be a profitable and sustainable company, we have to generate value for our employees and their families. We do this by providing a healthy, safe, productive and team-oriented working environment that not only encourages our people to fulfil their potential but also supports process improvements. Our focus is on continuous improvement, driven by training, development and personal growth opportunities; in summary we concentrate on fair hiring, fair remuneration and benefits and gender equality as described in the Our People section on pages 69-70. During 2019, 94 employees were promoted (66% of our structure at a professional level) and 25 transfers took place between business units.

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

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

DESCRIPTION OF RISK LEVEL

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

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

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

KEY RISK INDICATORS

- Number of positions filled by area of speciality, for vacancies and new positions.
- Employee turnover rate.
- Average hours of training and professional development per employee.
- Number of contractor personnel relative to unionised personnel per business unit

LINK TO STRATEGY

1 2 3 4

RISK APPETITE

Medium

CHANGE IN HEAT MAP

=

RISK RATING (RELATIVE POSITION)

2019: Low (12)

2018: Low (12)

2019 VIABILITY STATEMENT

In accordance with Provision 31 section 4 of the UK Corporate Governance Code, and taking into account the Group's current position and its principal risks for a period longer than the 12 months required by the going concern statement, management prepared a viability analysis which was assessed by the Board for approval.

The Directors reviewed the viability period and confirmed that a five-year period to December 2024 remained suitable, in line with the nature of planning in the mining industry and the Company's five-year forecast period normally used to evaluate liquidity and contingency plans. It allows us to model capital expenditure and development programmes planned during the timeframe and reflects cash flows generated by the projects currently under development. Due to the long business cycles in our industry, the Directors considered that a shorter time period would be insufficient.

Reporting on the Company's viability requires the Directors to consider those principal risks that could impair the solvency and liquidity of the Company. In order to determine those risks, the Directors robustly assessed the Group-wide principal risks and operation-specific risks by undertaking consultations with executive management, mine managers and other personnel across our operations. Through these conversations, the Directors also identified low probability, high loss scenarios – 'singular events' – with the potential magnitude to severely impact the solvency and/or liquidity of Fresnillo.

For the purpose of assessing the Group's viability, the Directors identified that of our principal risks, the following are the most important:

- 'Impact of metals prices and global macroeconomic developments', specifically volatility in the prices of gold and silver over a period of time.
- 'Access to land.'
- 'Potential actions by the Government.' which could include a delay in obtaining permits and/or new restrictive regulations.
- 'Environmental incidents.'

It was determined that none of the individual risks would in isolation compromise the Group's viability. The Directors therefore went on to group principal risks into the following severe but plausible scenarios, in each case determining the risk proximity (how soon the risk could occur) and velocity (the speed with which the impact of a risk could be felt):

Scenario 1: Impact of metals prices and global macroeconomic developments. Our model assumes that prices for gold and silver in 2020 fall to US$1,450 per oz and US$17.4 per oz respectively. We then assume that precious metals prices remain at a low level for the following four years of the viability period, varying between US$1,206 – 1,351 per gold oz and US$15.2 – 17.4 per silver oz.

To create this impartial projection for the future low metals price environment, the Directors used an average of the three lowest forecasts from each year of the assessment, based on consensus estimates published by institutional financial analysts. This low metals price environment was deemed to be the most significant risk and pervasive across the Company. (Principal risk)

Scenario 2: Bench collapse at an open pit mine. A landslide occurs covering the lower pit of one of our mines. Due to the unexpected nature of the event, fatalities occur. Production is gradually ramped back up and re-established to full capacity. (Singular event)

Scenario 3: Tailings deposit breach at a mine. A tailings deposit collapses and tailings are released into the surrounding area, causing environmental damage. A fund is created by the Company to be used to remediate and compensate for any damages caused. The investigation into the causes of the event is drawn out and further time is needed for all environmental permits to be reinstated. As a result, the mine remains closed throughout the viability assessment period. (Principal risk)

Scenario 4: Flooding at a mine. An unforeseen fault containing water is cut into, with water then entering the mine in excess of pumping capacity, thereby halting production of one of the main areas in the mine. The ramp-up to pre-event production levels commences once management determines that it is safe to do so. (Singular event)

Scenario 5: Action by the Government at a mine. Explosives are stolen on site causing the authorities to suspend the mine's explosives permit. Production is halted while an investigation into the matter is completed. Once permits have been restored, production ramps back up to pre-event levels. (Principal risk)

Scenario 6: Access to land at a mine. Conflicts with local communities arise resulting in the Company having to cease operations, until negotiations can be finalised, and the land can be reoccupied. (Principal risk)

Scenario 7: The removal of concessions by the Government at a mine. Congress approves a new law enabling the Ministry of Economics to withdraw a concession. It is determined that a negative social impact took place following the rupturing of a cyanide tank, leading to the poisoning of the surrounding community. The Government withdraws all permits and mining concessions relating to the mine, with no intention of reinstating them in the future. This leads to the permanent closure of the mine for the duration of the viability period, while mitigating actions are undertaken. (Principal risk)

The hypothetical scenarios above are extremely severe in order to create outcomes that have the ability to threaten the viability of the Group. However, multiple control measures are in place to prevent and mitigate any such occurrences. Should any of these scenarios take place, various options are available to the Company in order to maintain sufficient liquidity to continue in operation including the deferral of capital and/or exploration expenditure and drawing down on the Group's existing unused credit facilities. When quantifying the expected financial impact and remediation time required for each of these risks, management performed benchmarking against the Group's own experience and against publicly available information on relevant, comparable incidents in the mining industry.

1 The average metals price derived from a range of Financial Institutions analysis as of December 2019.

While our expectation is that we will refinance all or part of the US$800 million Senior Notes, for all the scenarios above we reflect the repayment of the full amount upon their maturity in 2023.

All scenarios were first evaluated using average metals prices 1, and once the mitigation plans had been applied where necessary, it was decided that there was no threat to the viability of the Company. To create a more stringent test and further challenge the resilience of the Group, all scenarios were then overlaid with scenario one, (low metals prices) and then re-evaluated.

When these scenarios were remodelled, additional liquidity problems arose reflecting further negative cash balances in some periods. Nevertheless, by applying certain mitigating actions that the Company has identified, these problems were successfully alleviated, allowing for the continuity of the Company's operations.

The lowest cash balance level was identified in the combination of scenario three and the low metals prices scenario. This scenario reflects the tailings breach in 2020 with a resulting a negative cash balance from 2020, with the lowest cash balance in 2023 (-US$763 million).

If this scenario materialises, the Company considers it can undertake the following mitigating actions: draw down US$250 million from our existing credit line in 2020, defer investments in new projects during the viability period and considerably reduce exploration expenses from 2020 to 2024. The combination of these mitigations would result in this scenario maintaining a positive cash balance throughout the viability period, with a minimum cash balance of US$43 million during the fourth year (2023).

Scenario number 6, which considers our access to a mine ceasing from 2023, in combination with the low metals prices scenario would result in a negative cash balance of (-US$623 million) in 2023, were no mitigating actions to have been put in place in previous years in response to declining metals prices. In this combined scenario we would have expected to respond to falling metals prices earlier in the viability period by deferring capital or exploration expenditure, or drawing down on existing credit facilities. However, assuming these mitigating actions had not been undertaken, the Company's mitigating action would be to refinance all or part of the US$800 million Senior Notes in that year. With these actions, we would maintain a positive cash balance throughout the viability period.

Risk management and internal control systems are in place throughout the Group. Through the internal control systems, the Directors monitor key variables that have the ability to impact the liquidity and solvency of the Group, and we are confident that management is able to sufficiently mitigate any situations as they might occur.

Risk mitigation and control measures in place include a Crisis Committee, while the Board would also be briefed and convened as necessary, in order to respond to events as they develop. Dedicated personnel for managing media, engaging with authorities and other stakeholders are appointed at each level of the organisation, depending on the magnitude of the crisis.

Based on the results of this robust analysis and having considered the established controls for the risks and the available mitigating actions, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the five-year period of their detailed assessment. This longer-term assessment process supports the Directors' statements on both viability, as set out above, and going concern.

GOING CONCERN

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Review on pages 10-107. The financial position of the Group, its cash flows and liquidity position are described in the Financial Review in pages 54-63. In addition, note 30 to the consolidated financial statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

In making their assessment of the Group's ability to manage its future cash requirements, the Directors have considered the Company and Group budgets and the cash flow forecasts for the period to 31 December 2021. In addition, they reviewed a more conservative cash flow scenario with reduced silver and gold prices of US$16.5/oz and US$1,388/oz respectively throughout this period, while maintaining current budgeted expenditure and while only considering projects approved by the Executive Committee. This resulted in our current cash balances reducing over time but maintaining sufficient liquidity throughout the period.

The Directors have further calculated prices (US$15.6/oz and US$1,352/oz for silver and gold respectively), which should they prevail to the end of 2021, would result in cash balances decreasing to minimal levels by the end of 2021, without applying mitigations.

Should metals prices remain below the stressed prices above for an extended period, management has identified specific elements of capital and exploration expenditures which could be deferred without adversely affecting production profiles throughout the period. Finally management could amend the mining plans to concentrate on production with a higher margin in order to accelerate cash generation without affecting the integrity of the mine plans.

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

BOARD'S APPROACH TO STAKEHOLDER ENGAGEMENT

SECTION 172 COMPANIES ACT STATEMENT

In compliance with sections 172 ('Section 172') and 414CZA of the UK Companies Act, the Board of Directors of the Company (the 'Board') makes the following statement in relation to the year ended 31 December 2019:

Engagement with the Company's stakeholders is a key aspect of our business. The Board recognises that the medium and long-term sustainability of the Company, including its social licence to operate, is largely linked with value-creation for, and effective engagement with, our stakeholders.

Our 'Building Trust' section (pages 18-21 of the Strategic Report) sets out the stakeholder engagement mechanisms that are currently in place; including:
- who the key stakeholders are;
- why they are important to the Company;
- how engagement is being conducted;
- the principal issues that matter to each stakeholder group;
- the Company's governance activities; and
- the actions and outcomes which flow from these engagement mechanisms.

Further information about the Board's approach to engagement with stakeholders is also set out in the 'Board Leadership and Purpose' section of the Governance Report on pages 117-119.

The Board's principal decisions in 2019 were: (i) the approval of the Company's five-year Strategic Plan; (ii) the approval of the 2020 budget; and (iii) the decision to proceed with the development of the Juanicipio mine. The Board considers 'principal decisions' to be those decisions which entail significant long-term implications and consequences for the Company and/or its stakeholders – to distinguish these from the normal, ordinary course decision-making processes that the Board engages in. These principal decisions are discussed in the following pages.

Furthermore, the Board agreed at its February 2019 Board meeting, to identify points for discussion at future Board meetings which, due to their strategic nature, should include specific documented consideration of Section 172 stakeholder interests when they are discussed. This new requirement is now incorporated into the procedure for preparing Board meetings and a proforma template identifying the relevant stakeholder considerations has been developed for inclusion in the Board papers which accompany any such discussions.

The Company, its Board of Directors and Company management are fully committed to effectively engaging with all key stakeholders. Approved by the Board of Directors on 2 March 2020.

Principal Decisions

Decision:	APPROVAL OF THE STRATEGIC PLAN 2019–2023
Context	The Strategic Plan sets out the Company's strategic objectives and guidance on how to achieve them. It is developed considering a healthy balance between: (i) growth, shareholder returns under conservative assumptions of internal and external factors; and (ii) stakeholder considerations. The Executive Committee presents the plan for the Board's challenge and approval.
Stakeholder considerations	***In reviewing the Strategic Plan, the Board considered the potential impact that the Company's growth might have on its key stakeholders. The expected growth has several challenges with stakeholder implications:*** • Talent development, contractor workforce and organisational model. • Health & Safety, community, land access and environmental performance at existing operations (brownfield projects). • Community, land access and environmental issues deriving from new projects (greenfield projects). ***In addition, there are global trends with stakeholder implications that have been considered by the Board:*** • Resource sovereignty: increased expectations and demands leading to more social and labour conflicts. • Consistently higher tax pressure across countries. • Clean energy and the environment: increased pressure from regulators and environmental organisations to protect the environment.
Strategic actions supported by the Board	***The Board decided to approach these stakeholder implications with a focus on:*** • Generating value for all stakeholders in an increasingly challenging environment. • Prioritising excellent health, safety, social and environmental performance. ***The strategic actions supported by the Board to generate value for stakeholders are:*** • Implementing social and land access strategy to mitigate risks in new operations, especially in mines in new districts. • Defining and executing water access strategy for new operations at water stressed regions. • Developing next generations of leaders. • Growing contractors' workforces to operate new mines. • Adapting the organisational model to increased complexity (e.g. regional vs. mine model).

Impact of these actions in the long-term success of the Company	*By implementing the growth strategy, the Board identified the following value creation opportunities:* • Capacity building and talent development. • Employment and contracting opportunities. • Revenue income for national and local governments. • Supporting the causes of communities. • Making communities relevant and more independent. • Focus on consolidating districts. • Growth of quality assets. • Diversification in Mexico, Peru and Chile. • Capturing early stage M&A opportunities.
Outcome	In February 2019, the Board **discussed and approved** the Strategic Plan 2019–2023 (subject to any further reviews and/or refinements at subsequent Board meetings).
Decision:	2020 BUSINESS PLAN AND BUDGET
Context	The Business Plan and Budget sets the annual production targets and the necessary resources to achieve these targets, including significant investments for Company growth. It is developed considering the guidance of the Strategic Plan and the specific priorities and challenges faced by each operation and project, including stakeholder related considerations. The Executive Committee presents the Business Plan and Budget for the Board's challenge and approval.
Stakeholder considerations	In reviewing the Business Plan and Budget, the Board considered the potential impact that each operation and project might have on its stakeholders (employees & unions, local communities, government and regulators, contractors & suppliers, shareholders and customers) and the environment.
Strategic actions supported by the Board	*The strategic actions of the Business Plan and Budget, supported by the Board to generate value for stakeholders are:* • Enhance critical risk control protocols. Promote safety culture. Align health practices of contractors. Joint strategy with the union in order to increase safety and labour productivity. • Continue health programmes. Promote wellness programmes. Strengthen community relations and license to operate. • Environmental education, reforestation and capacity development programmes. • Continue with high standards of corporate governance and adherence to regulations. • Improve contractor management. • Increase the capacity of our hazardous waste storage facilities; reduce hazardous waste. Implement recommendations of advisors regarding tailings dams. • Follow up on the safety programme *'I Care, We Care'*. • Improve maintenance and infrastructure (ventilation, pumping, hauling, electric power, compressed air, communications). • Ensure the involvement of contract owners in accident or incident investigations. • Improve accuracy of geological modelling, which will bring greater certainty to specifications of concentrate supply. • Ensure growth in a sustainable way.
Impact of these actions in the long-term success of the Company	The Business Plan and Budget achieves a responsible balance between current operating performance and considerations that matter to our stakeholders in the short and long-term such as health & safety, wellness of the workforce, environmental performance and social acceptability.
Outcome	In October 2019, the Board **discussed and approved** the 2020 Business Plan and Budget.

BOARD'S APPROACH TO STAKEHOLDER ENGAGEMENT
CONTINUED

Decision:	APPROVAL OF THE JUANICIPIO PROJECT
Context	The Juanicipio project is a joint venture with MAG Silver of which Fresnillo owns 56%. This standalone project is located in the Fresnillo District, eight kilometers from the Fresnillo mine. It was first identified as a potential silver/gold project over ten years ago. The feasibility study was concluded in 2H18 and presented to the Board in April 2018. Following that meeting, an execution plan (taking account of lessons learnt from previous development projects, further analysis of the key risks and other planning considerations) was developed and discussed with MAG Silver. Subsequent drilling activities provided greater understanding of the potential at Juanicipio. In April 2019, the Board was asked to approve construction of the project, which represents an important investment by the Company.
Stakeholder considerations	*Shareholders* • A world-class silver mine with high grades, low costs and significant zinc and lead, thereby increasing the Company's asset base. *Community Relations* • Juanicipio is located in the Fresnillo District where the Company already has community relations programmes at the Saucito and Fresnillo mines. Community relations are therefore well-established and will further benefit from the contribution that this additional facility will make to the local economy. • Safe operation of tailing storage facilities. *Workforce* • The Juanicipio development is expected to create approximately 2,750 jobs during construction and 1,720 jobs once at full production. *Government* • All principal permits and licensing have been obtained. *Environment* • Water stewardship to reduce the water footprint through closed-circuit processes. • Decarbonisation of the power supply. • Minimise the impacts to biodiversity.
Strategic actions supported by the Board	• Accommodation will be built off site for the workforce. • Wastewater from the municipality of Fresnillo will be used to reduce the consumption of fresh water. • Tailing storage facilities will be designed following international best practice.
Impact of these actions in the long-term success of the Company	The decision to invest demonstrates confidence in the long-term outlook for mining in Mexico. The new mine will create significant employment and highlights Fresnillo's commitment to sustainable growth for the benefit of all stakeholders.
Outcome	In April 2019, the Board **discussed and approved** the Juanicipio project.

NON-FINANCIAL INFORMATION STATEMENT

This section of the Strategic Report constitutes Fresnillo plc's Non-Financial Information Statement, produced to comply with sections 414CA and 414CB of the Companies Act. The information listed is incorporated by cross-reference.

Non-Financial information	Policies and guidelines	Outcomes	Principal risk	KPIs
Environmental matters		• Environment section pages 75-81.	• Environmental incidents.	• GHG emissions. • GHG intensity. • Energy intensity. • Mining & metallurgical waste. • Water withdrawal. • Water intensity.
Company's employees	• Sustainability[1]. • Code of Conduct[2]. • Recruitment, selection and training of personnel[3].	• Our People section pages 69-70. • Safety section pages 72-73. • Organisational Culture section page 71. • Occupational Health section page 74.	• Security. • Safety. • Union relations.	• Labour turnover. • Training hours. • Injury frequency rates. • Cases of Occupational diseases.
Social matters		• How we report sustainability, materiality assessment section on page 67. • Communities section of the ARA, on pages 82-87.	• Access to land. • Public perception against mining.	• Economic value distributed. • Local employment. • Community investment.
Respect for human rights	• Sustainability[1]. • Diversity and inclusion[1]. • Code of Conduct[2].	• Diversity & Inclusion section on page 70.	• Human resources.	• % of women. • Diversity in talent attraction. • Gender pay gap.
Anti-corruption and anti-bribery (ABAC) matters	• Anti-bribery and corruption[1]. • Code of Conduct[2]. • Donations and Political Contributions[3]. • Promotional expenses (including gifts policy)[3]. • Third party Due Diligence[3]. • Government relations[3].	• Governance activities during 2019 included reviews of elements of the ABAC programme, which were presented periodically to the Board and to the Audit Committee. See pages 117 and 133. • During 2019 we continue performing our third party due diligence process (260 analysis, obtaining 14 high risk, 83 medium risk, 159 low risk and 4 third parties non-recommended thus rejected). • Corporate Integrity 500 & World's Most Ethical Companies by Ethisphere rankings See page 67. • Ethics Culture section on page 68.	• Potential actions by the Government (e.g. taxes, more stringent regulations).	• Completion rate on training programme for employees. • ABAC policy certification by third parties. • Details of number of cases of alleged inappropriate arrangement with suppliers (some of them related with alleged bribes). See page 131. • Ethical conduct. See page 68.

1 http://www.fresnilloplc.com/corporate-responsibility/our-policies/
2 http://www.fresnilloplc.com/corporate-responsibility/ethics-culture-and-integrity/code-of-conduct/
3 Public commitment as part of our Code of Conduct, detail on our stance and procedures available in our intranet policy site.

THE CHAIRMAN'S LETTER ON GOVERNANCE 2019

DEAR SHAREHOLDER,

With the latest changes to the UK Corporate Governance Code (the 'Code') taking effect this year, the Fresnillo Board has reviewed its governance framework to ensure that it is appropriate and has approached this task diligently. We remain committed to achieving the highest standards of corporate governance appropriate to our context.

In February 2019, Jaime Serra Puche, who was an independent Non-executive Director and a member of our Audit and Remuneration Committees, resigned from the Board because of the additional time commitments that he had taken on following his appointment as Chairman of BBVA Bancomer. Jaime had served on the Board for five years and his counsel and insight, particularly in relation to international trade and finance, was greatly appreciated by all of his Board colleagues. I would like to express my deep appreciation to Jaime for his contribution to the Board during that time. We were pleased to welcome Luis Robles to the Board as an independent Non-executive Director following his election at the 2019 AGM. Luis is a highly experienced banker and his knowledge and expertise will be a valuable addition to the Board. As ever, we considered this appointment on merit and considered Luis to be a strong replacement for Jaime. We remain committed to the principle of making appointments to the Board based on merit whilst, at the same time, continuing to broaden the gender diversity of the Board. In this instance, the former was the primary consideration but we recently demonstrated our commitment to the latter by proposing the election of Ms Myriam Guadalupe De la Vega as an independent Non-executive Director at our forthcoming AGM which, if approved will increase the number of female members on the Board to four (33% of the Board membership). I remain firmly convinced that the composition of the Board continues to include an appropriate balance of skills and experience to oversee the performance of the executive team and the development of long-term strategy.

The approval of the revised Directors' Remuneration Policy at the 2019 AGM (with over 99% of shares voted being in favour of the updated policy) was very welcome. It is pleasing that shareholders continue to overwhelmingly support the Board's approach to executive remuneration, particularly given the intention of the latest changes was to try to ensure that it is fit for purpose given the Company's Mexican context and its current position within the broader development cycle.

Throughout 2019, the Board has continued to evaluate its ongoing compliance with the Code. In particular, the Board has dedicated time to discussions about the Group's Purpose and the mechanisms for stakeholder engagement, particularly engagement with employees. We agreed that Arturo Fernández be designated as the Director responsible for overseeing the Company's engagement with its workforce. Arturo presented his first report to the Board in this capacity in October. The Board now also receives twice-yearly reports on the status of all cases raised via our whistleblowing hotline. The Board has also considered its procedures to ensure that stakeholder input into its key decision-making processes is evidenced appropriately, with a view to better demonstrating how the Board complies with Section 172 by taking account of various stakeholder interests in its key decisions. We also took the opportunity to use our Board effectiveness review this year (which was conducted by our Company Secretary) to assess our progress as a Board in fulfilling our duties and responsibilities under the Code.

As ever, my colleagues and I are always willing to discuss our corporate governance arrangements with any shareholder who wishes to engage with us on this topic. If there are any governance matters which shareholders wish to raise, they should contact our London office (the contact details are set out on page 244).

Yours faithfully

Mr Alberto Baillères
Chairman of the Board

OUR APPROACH TO GOVERNANCE

The Board takes corporate governance seriously and considers its responsibilities under the UK Corporate Governance Code (the 'Code') with care. With nearly 75% of its share capital owned by Peñoles, it is important to understand Fresnillo's corporate governance in the context of the Company's relationship with its parent company.

The Board considers this to be valuable because it brings the shareholder perspective into the boardroom and creates an additional level of accountability for the executive team compared to other listed companies.

Fresnillo's corporate governance framework has three features which we believe are a strength, even if they are unusual for UK public companies other than where there are controlling shareholders. These are:

1. **A fully non-executive Board:** There are no Executive Directors on the Board; although executives are invited to attend Board meetings. The Executive Committee meet between Board meetings and engage actively with the Peñoles-appointed Directors who challenge and/or endorse their thinking as appropriate. This is the first level of scrutiny and accountability for the senior management team. Matters are then presented to the Board for a second round of review and scrutiny.
2. **Membership of the Remuneration Committee:** The membership of the Remuneration Committee consists of a combination of Non-executive Directors (the majority of whom are independent) who bring important complementary perspectives to the work of the Remuneration Committee:
   - an understanding of shareholder expectations;
   - an understanding of the evolving remuneration expectations of investors on the London Stock Exchange; and
   - an understanding of the general approaches to remuneration within the Mexican market.

   Having the Chairman of the Company, who is non-executive but not independent, as a member of the Remuneration Committee, enhances the Committee's collective ability to take these perspectives into account in its discussions.
3. **Governance over related party matters:** Fresnillo plc derives synergistic benefits from services provided by Peñoles. Being a part of a group that has common requirements across a number of service areas, provides opportunities for resources to be shared efficiently from a cost point of view. The key elements of the Board's approach to ensuring that the Company's commercial relationship with its parent company, and other related parties, are maintained on an arm's length basis are described later in this section. The Audit Committee regularly reviews these arrangements to ensure that they provide the intended benefits to the Company in a transparent and controlled manner. In addition, the Board ensures that all such related party matters comply with the provisions of the Relationship Agreement and the related party requirements of the Listing Rules.

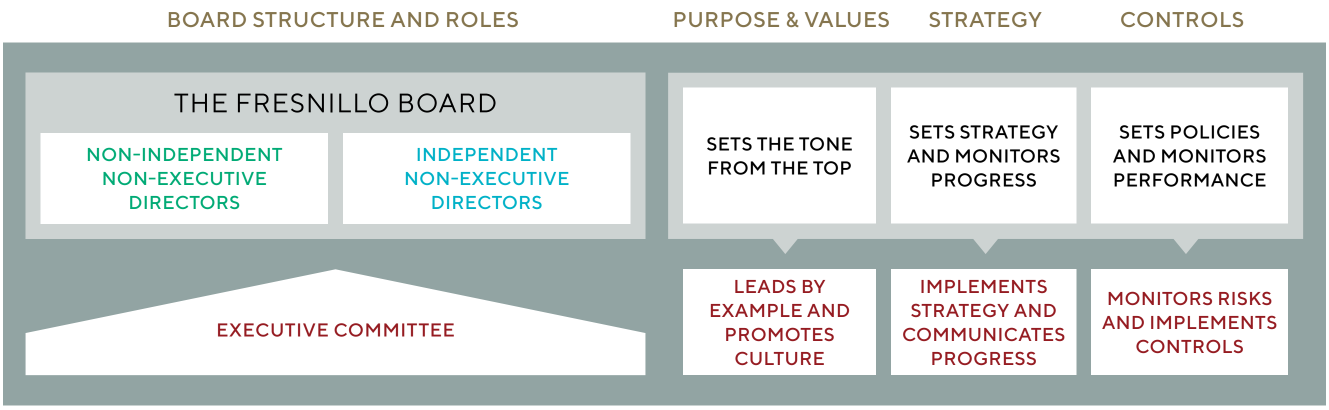
THE BOARD'S LEADERSHIP ROLE

The Board provides leadership to the Fresnillo Group setting the key values underpinning the culture by which the Group will continue to operate. The Board supervises the management of the Group's activities, including the implementation of both the Group's long-term plans and commercial strategy.

The Corporate Code of Conduct was reviewed and updated by the Board in February 2020 and establishes a foundation of values and behavioural standards that promote an environment of ethics and responsibility for the benefit of the Company's stakeholders. It also provides the framework for the Company's compliance with the UK Bribery Act and the Mexican anti-bribery and corruption legislation.

HOW THE BOARD WORKS

The Board has a formal Schedule of Matters reserved for its approval which includes approvals of major expenditure, investments and key policies. The schedule is regularly reviewed to keep it up to date with any regulatory developments and was updated to take account of changes to the Code and UK company law in April 2019.



OUR APPROACH TO CORPORATE GOVERNANCE
CONTINUED

The non-independent and independent Directors on the Board engage with the business of the Board from two different perspectives which enables two levels of scrutiny to be applied to the Board's decision-making and its oversight of the performance of the Executive Committee.

1st Level of Scrutiny: The Executive Committee meets with the Peñoles-appointed (and therefore non-independent) Non-executive Directors to ensure that any reports and proposals are properly challenged before they are brought to the full Board for discussion and, where appropriate, approval. Members of the Executive Committee also report on the performance of the business against targets agreed within the annual budget and business planning process.

2nd Level of Scrutiny: The independent Non-executive Directors bring an external perspective to bear when evaluating proposals and monitoring the implementation of strategy as well as operational and financial performance when matters are then brought to the full Board for discussion and approval (as appropriate).

The different participants therefore contribute to the work on the Board, through its meetings in the following way:

PRE-MEETING

Preparation of the agenda
- CEO/CFO/Company Secretary

Preparation of papers
- EXECUTIVE COMMITTEE MEMBERS

Internal review (see below)
- EXECUTIVE COMMITTEE MEMBERS
- PEÑOLES-APPOINTED NON-EXECUTIVE DIRECTORS AND CHAIRMAN

Circulation
- CEO/CFO (five days before meeting)

DURING BOARD MEETINGS

Presentation of papers/reports
- EXECUTIVE COMMITTEE MEMBERS

Committee Reports
- Committee Chairs

Approvals
- Under Schedule of Matters reserved to the Board:
  – FULL BOARD
- Under the Relationship Agreement:
  – INDEPENDENT NON-EXECUTIVE DIRECTORS

POST-MEETING

Preparation of minutes
- Company Secretary

Implementation of decisions
- EXECUTIVE COMMITTEE MEMBERS

Reporting back to the Board
- EXECUTIVE COMMITTEE MEMBERS

In addition to the internal reviews undertaken by the Executive Committee in discussion with the Peñoles-appointed Non-executive Directors, independent Non-executive Directors serving on the Audit Committee and the HSECR Committee will, through their work on those committees also engage more fully with key areas of the Board's work in relation to financial reporting, risk management and internal controls, health, safety and environmental performance and stakeholder engagement.

BOARD ATTENDANCE

Directors	Attendance
Alberto Baillères (Chair)	5/5
Alejandro Baillères	5/5
Juan Bordes	5/5
Arturo Fernández	5/5
Jaime Lomelín	5/5
Fernando Ruiz	5/5
Charles Jacobs*	5/5
Bárbara Garza Lagüera*	5/5
Georgina Kessel*	5/5
Judith Macgregor*	5/5
Alberto Tiburcio*	5/5
Luis Robles* (from 21/5/2019)	3/3
Jaime Serra* (until 25/2/2019)	0/1

Meetings in 2019	Other contributors
February April June July October	Chief Executive Officer Chief Financial Officer Chief Operating Officer Vice President of Exploration Head of Legal Company Secretary

* Independent Non-executive Director.
** Georgina Kessel was appointed a member of the HSECR Committee on 26 February 2020.

BOARD COMMITTEES

AUDIT COMMITTEE

Members	Attendance	Meetings in 2019	Other contributors
Alberto Tiburcio (Chair)*	6/6	February April June July October December	Chief Financial Officer Internal Audit Risk Manager Company Secretary External Auditor
Charles Jacobs*	6/6		
Luis Robles* (from 21/5/2019)	4/4		
Jaime Serra* (until 25/2/2019)	0/1		

REMUNERATION COMMITTEE

Members	Attendance	Meetings in 2019	Other contributors
Charles Jacobs (Chair)*	3/3	February April October	Chief Executive Officer Remuneration Consultants Company Secretary
Alberto Baillères	3/3		
Luis Robles* (from 21/5/2019)	2/2		
Jaime Serra* (until 25/2/2019)	0/1		

NOMINATIONS COMMITTEE

Members	Attendance	Meetings in 2019	Other contributors
Alberto Baillères (Chair)	2/2	February April	Chief Executive Officer Company Secretary
Bárbara Garza Lagüera*	2/2		
Alberto Tiburcio*	2/2		

HSECR COMMITTEE

Members**	Attendance	Meetings in 2019	Other contributors
Arturo Fernández (Chair)	2/2	April July	Chief Executive Officer Head of Sustainability Line Managers Chief Legal Officer
Jaime Lomelín (until 26/2/2020)	2/2		
Judith Macgregor*	2/2		
Fernando Ruiz	1/2		

UK CORPORATE GOVERNANCE CODE COMPLIANCE STATEMENT

As a company with a premium listing on the London Stock Exchange, Fresnillo is required under the FCA Listing Rules to comply with the provisions of the UK Governance Code (the 'Code') (a copy of which can be found on the website of the Financial Reporting Council www.frc.org.uk) or otherwise explain its reasons for non-compliance. The following statement is therefore made in respect of the year ended 31 December 2019.

For the financial year ended 31 December 2019 other than as set out below, the Company has complied with the Provisions of the Code, save in respect of:

- *Code Provision 19*, which provides that "the chair should not remain in post beyond nine years from the date of their first appointment to the board". Having been responsible for overseeing the successful development of the Group over many years and since its listing, the Board considers that his continued involvement as its Non-executive Chairman is very important to the continued success of the Company. The Board also considers that the continued oversight of the Company's strategic and operational integrity provided by it being a member of the Peñoles Group enhances the quality of its corporate governance rather than detracts from it (as explained further on page 109). As a consequence, the Board continues to value and endorse Mr Baillères' chairmanship of the Company. Given Mr Baillères' experience and understanding of Mexican business and its regulatory context, this assessment gains further validity in the current political and social environment in Mexico. The size, composition and balance of skills on the Board, including the independence and diversity of the Board and the existence of a senior independent director; and the adequacy of the succession plans were assessed as part of the Board effectiveness review during the year and were considered to be highly satisfactory.

- *Code Provision 32*, which provides that the Board should establish a Remuneration Committee of at least three independent Non-executive Directors. The Fresnillo Remuneration Committee is made up of three members including two independent Non-executive Directors, one of whom, Charles Jacobs, is the Chairman of the Committee. The Chairman of the Company, Alberto Baillères, who was not independent at the time of his appointment, is also a member. The Board believes that Mr Baillères' experience and knowledge of the Group and the Mexican market and his considerable contribution to the Remuneration Committee's deliberations justifies his membership of the Remuneration Committee. Mr Baillères is not involved in matters concerning his own remuneration.

In making its assessment concerning the Company's compliance with the Provisions of the Code, the Board considers that the Company's compliance with some Provisions during the year has been evolutionary as the Board has overseen new initiatives to further enhance the Company's compliance with the Code. Particular examples of this are the codification of the previously unwritten understanding of Purpose to more explicitly comply with Code Provision 2 and the development of the Company's procedures to further enhance the robustness of the Board's assessment of emerging risks in compliance with Code Provision 28.

Information about compliance with the Code's Provisions may be found in the following sections of this report:

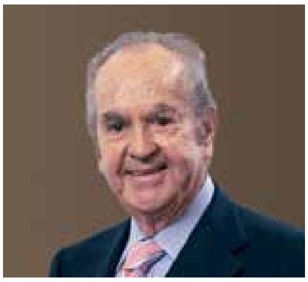
The following sections of this report also explain how the principles of the Code were applied and provide cross-references to other sections of the report and/or the Company's website, www.fresnilloplc.com where more detailed descriptions are available.

The following documents are available on the Company's website:

- Schedule of Matters reserved to the Board.
- Statement of Responsibilities of the Chairman, Chief Executive Officer and Senior Independent Director.
- Terms of Reference: Audit Committee; HSECR Committee, Nominations Committee; and Remuneration Committee.
- Directors' Remuneration Policy.

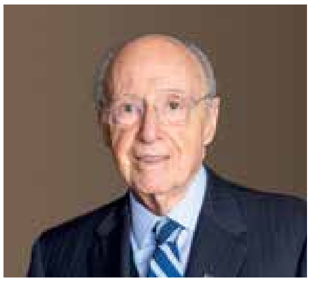
THE BOARD OF DIRECTORS

The non-independent Directors have more regular day-to-day access to the executive management of Fresnillo plc and therefore are able to engage with proposals put forward by the Executive Committee as they are developed.



	ALBERTO BAILLÈRES CHAIRMAN	**ALEJANDRO BAILLÈRES** NON-EXECUTIVE DIRECTOR AND DEPUTY CHAIRMAN
DATE OF APPOINTMENT	15 April 2008	16 April 2012
COMMITTEE MEMBERSHIP	Nominations Committee (Chairman) Remuneration Committee	None
CURRENT EXTERNAL LISTED COMPANY DIRECTORSHIPS	All four of the BAL Listed Entities (as defined below), Fomento Económico Mexicano S.A.B. de C.V., Grupo Televisa S.A.B., Grupo Kuo S.A.B. de C.V. and Dine S.A.B. de C.V.	All four of the BAL Listed Entities, Formento Económico Mexicano S. A. B. de C. V. (Alternate Director).
OTHER KEY CURRENT APPOINTMENTS	Mr Baillères is President of Grupo BAL. He is also a member of the board of Grupo Financiero BBVA Bancomer S.A. de C.V. and BBVA Bancomer, S.A., as well as being member of the board of trustees of Instituto Tecnológico Autónomo de Mexico, A.C.	Mr Baillères is Deputy Chairman of Grupo BAL. and a member of the board of trustees of Instituto Tecnológico Autónomo de Mexico, A.C.
KEY STRENGTHS AND EXPERIENCE	• Long-term knowledge and understanding of the Mexican commercial environment. • Relationships within the Mexican and international business communities. Over a period of 50 years, Mr Baillères has built up unprecedented experience and knowledge of both the Group and the Mexican markets in which it operates from both investor and supervisory perspectives.	• Insurance and related financial services in Mexico. • Broad board-level commercial experience in Mexico. As Deputy Chairman of Grupo BAL and former Chief Executive Officer of Grupo Nacional Provincial (a leading insurance company in Mexico), Mr Baillères brings knowledge and experience of Mexican and international business to his role.

NON-INDEPENDENT NON-EXECUTIVE DIRECTORS

			
JUAN BORDES NON-EXECUTIVE DIRECTOR	**ARTURO FERNÁNDEZ** NON-EXECUTIVE DIRECTOR	**FERNANDO RUIZ** NON-EXECUTIVE DIRECTOR	**JAIME LOMELÍN** NON-EXECUTIVE DIRECTOR
10 January 2008	15 April 2008	15 April 2008	Mr Jaime Lomelín served as a Director throughout 2019 but resigned as a Director on 26 February 2020.
None	HSECR Committee (Chairman)	HSECR Committee	
All four of the BAL Listed Entities and Bolsa Mexicana de Valores S.A.B. de C.V.	All four of the BAL Listed Entities, and Grupo Bimbo S.A.B. de C.V.	Kimberly Clark de Mexico S.A.B. de C.V., Orbia Advance Corporation S.A.B. de C.V., Grupo Cementos de Chihuahua S.A.B. de C.V., Grupo Mexico S.A.B. de C.V., Grupo Financiero Santander Mexico S.A.B. de C.V., Bolsa Mexicana de Valores S.A.B. de C.V. and two BAL Listed Entities (Grupo Nacional Provincial S.A.B. and Grupo Palacio de Hierro S.A.B. de C.V.).	
Mr Bordes is a member of the board of trustees of Instituto Tecnológico Autónomo de Mexico, A.C.	Mr Fernández is rector and a member of the board of trustees of Instituto Tecnológico Autónomo de Mexico, A.C. and a member of the board Grupo BBVA Bancomer S.A. de C.V. and BBVA Bancomer, S.A.	Mr Ruiz is a Non-executive Director of Rassini S.A.P.I. de C.V. and an adviser to the board of ArcelorMittal de Mexico S.A. de C.V.	
• Senior executive (CEO-level) responsibilities over many years. • Board membership of companies spanning a broad range of sectors and industries. During his career, Mr Bordes has held both senior executive management roles and board responsibilities with companies spanning a number of different sectors, particularly within Mexico.	• International economics and public policy. • Directorships of several Mexican companies. Mr Fernández' career brings together a solid academic economics background, many years' experience within the Mexican public policy arena and broad commercial experience (through board directorships of leading businesses in a number of sectors in Mexico).	• Mexican tax and accounting experience. • International board and audit committee experience. Mr Ruiz was, until 2006, managing partner of Chevez, Ruiz, Zamarripa y Cia., S.C., tax advisers and consultants in Mexico and now serves on the board and audit committees of several Mexican and international companies. He has extensive knowledge of Mexican tax and accounting issues.	

Note: Some Directors hold directorships of some or all of the following listed companies which all part of the consortium known as Grupo BAL (along with Fresnillo plc, see also page 147): Industrias Peñoles S.A.B. de C.V., Grupo Palacio de Hierro S.A.B. de C.V., Grupo Nacional Provincial S.A.B. and Grupo Profuturo S.A.B. de C.V. In this section, these companies are jointly or individually referred to as the BAL Listed Entities.

THE BOARD OF DIRECTORS
CONTINUED

The independent Non-executive Directors bring an external perspective to bear when evaluating proposals and conducting the business of the Board.

CHARLES JACOBS
SENIOR INDEPENDENT NON-EXECUTIVE DIRECTOR

BÁRBARA GARZA LAGÜERA
INDEPENDENT NON-EXECUTIVE DIRECTOR

	CHARLES JACOBS	BÁRBARA GARZA LAGÜERA
DATE OF APPOINTMENT	16 May 2014	16 May 2014
COMMITTEE MEMBERSHIP	Remuneration Committee (Chairman) Audit Committee	Nominations Committee
CURRENT EXTERNAL LISTED COMPANY DIRECTORSHIPS	Investec Plc/Investec Limited.	Fomento Económico Mexicano S.A.B. de C.V. and Grupo Financiero Santander Mexico S.A. de C.V.
OTHER KEY CURRENT APPOINTMENTS	Mr Jacobs is senior partner and Chairman of Linklaters LLP. Mr Jacobs is also a member of the Shanghai International Financial Advisory Council.	Ms Garza Lagüera is a non-executive director of Soluciones Financieras SOLFI.
KEY STRENGTHS AND EXPERIENCE	• Board and governance experience. • Legal professional with a focus on capital markets, mining and metals. Mr Jacobs brings his non-executive directorships at Investec and his 29 years of experience in governance, legal and regulatory matters to the boardroom. **As Senior Independent Director, Charles Jacobs is available to shareholders if they have concerns that have not been resolved through the normal channels of Chairman, Chief Executive Officer, Chief Financial Officer or Head of Investor Relations.**	• Mexican commercial and industrial experience. • International Board experience. As an experienced director, particularly through her career at Coca-Cola FEMSA and Fomento Económico Mexicano, the largest franchise bottler of Coca-Cola products in the world, Ms Garza Lagüera brings a broad experience of Mexican commercial and international business.

All of the current Directors will seek election or re-election by shareholders at the forthcoming Annual General Meeting.

INDEPENDENT NON-EXECUTIVE DIRECTORS

GEORGINA KESSEL
INDEPENDENT NON-EXECUTIVE DIRECTOR

30 May 2018

None

Iberdrola S.A. (Independent Non-executive Director and member of the Audit & Risk Committee).

Ms Kessel is a non-executive director of Grupo Financiero Scotia Inverlat, S.A. de C.V. (a subsidiary of The Bank of Nova Scotia) serving as Chair of the Risk Committee and a member of the Audit and Corporate Governance Committees) and a partner in Spectron E&I, an energy advisory firm.

- Ministerial experience within Mexican Government.
- Knowledge of Mexican energy sector.

Ms Kessel joined the Board as an independent Non-executive Director, broadening the expertise of the Board on energy and climate change. Ms Kessel served as Minister of Energy from 2006 to 2011 and chaired the Governing Board of the Federal Electricity Commission.

DAME JUDITH MACGREGOR, DCMG, LVO
INDEPENDENT NON-EXECUTIVE DIRECTOR

23 May 2017

HSECR Committee

None

Dame Judith is Vice Chair of the University of Southampton's Governing Council, Chair of the Strategic Advisory Group to the UK Global Challenges Research Fund and Member of the UK Arts and Humanities Research Council. She is a member of the Board of the British Tourist Authority, and Trustee of the University of Cape Town and Caradon Trusts.

- International diplomatic experience.
- Government relations in resource-rich countries.
- International research collaboration.

Dame Judith's distinguished career as a British diplomat brings a range of international experience to her role. She has worked closely with and promoted the interests and profile of UK companies across a wide range of sectors, including the mining sector, in a number of countries including Mexico.

LUIS ROBLES
INDEPENDENT NON-EXECUTIVE DIRECTOR

21 May 2019

Audit Committee
Remuneration Committee

Mr Robles is an independent non-executive director of Industrias Peñoles S.A.B. de C.V.

Mr Robles is an independent non-executive Director of Profuturo Afore S.A. de C.V. and Chairman of the Investment Committee of the Ainda Ingeniería & Infraestructura Investment Fund.

- Knowledge and understanding of the Mexican banking and financial sectors.
- Mexican and international board experience.

Mr Robles served as the Chairman of the board of the directors of BBVA Bancomer from 2012 until his retirement in September 2018, having previously served as Vice-Chairman from 2007-2012. Mr Robles trained as a lawyer and was Managing Partner of Robles & Zaldivar, S.C. from 1984 to 1993, when he joined the BBVA Financial Group. During his career in the banking and financial sectors, Mr Robles served on various national and international associations, including Vice Chairman of the Latin American Banking Federation (Federación Latinoamericana de Bancos) from 2010 to 2012 and various roles in the Mexican Banking Association (ABM) culminating in him being Chairman of the ABM from 2014 to 2017.

ALBERTO TIBURCIO
INDEPENDENT NON-EXECUTIVE DIRECTOR

4 May 2016

Audit Committee (Chairman)
Nominations Committee

Mr Tiburcio is an independent non-executive director of FEMSA, S.A.B. de C.V., Coca-Cola FEMSA, S.A.B. de C.V., Grupo Nacional Provincial S.A.B. and Grupo Palacio de Hierro S.A.B. de C.V.

Mr Tiburcio is an independent non-executive director of Grupo Financiero Scotia Inverlat, S.A. de C.V. (a Mexican subsidiary of The Bank of Nova Scotia), Profuturo Afore S.A. de C.V., Transparencia Mexicana, Instituto Tecnológico Autónomo de Mexico, A.C. and Tankroom S.A.P.I. de C.V.

- International and Mexican audit and accountancy and Mexican tax experience.
- Mexican and international board and audit committee experience.

Mr Tiburcio was the Chairman and CEO of Mancera S.C. (the Mexican firm of Ernst & Young LLP) from January 2001 until his retirement in June 2013 having been a partner for more than 30 years. He has served as statutory auditor and advisor to many prestigious Mexican companies and now sits on the boards and audit committees of important Mexican companies and institutions thus bringing significant Mexican tax as well as Mexican and international audit and accounting experience to the Board.

EXECUTIVE COMMITTEE

The Executive Committee comprises the most senior executives within the Fresnillo Group.

OCTAVIO ALVÍDREZ
CHIEF EXECUTIVE OFFICER

DATE OF APPOINTMENT
15 August 2012

COMMITTEE MEMBERSHIP
Mr Alvídrez is invited to attend Board, Audit Committee, HSECR Committee and Remuneration Committee meetings.

KEY STRENGTHS AND EXPERIENCE

- Mine management within Mexico.
- UK investor relations.

Mr Alvídrez has extensive experience within the mining industry having previously held the position of General Manager of the Madero mine operated by Peñoles, which is one of Mexico's largest mines. Mr Alvídrez joined the Peñoles Group in August 1988, since then he has held a number of senior operational and financial positions across Peñoles (Treasurer and Head of Procurement) and Fresnillo (Head of Investor Relations in London).

Mr Alvídrez is the current President of The Silver Institute, a director of the Lowell Institute for Mineral Resources of the University of Arizona, a member of the Mexican Mining Chamber and a Vice-president of the Advisory Board of the School of Mines of the University of Guanajuato, Mexico.

MARIO ARREGUÍN
CHIEF FINANCIAL OFFICER

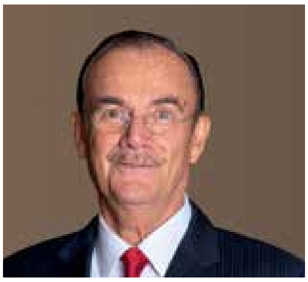
DATE OF APPOINTMENT
15 April 2008

COMMITTEE MEMBERSHIP
Mr Arreguín is invited to attend Board and Audit Committee meetings.

KEY STRENGTHS AND EXPERIENCE

- Accountancy and treasury.
- Investment banking.

Mr Arreguín was previously employed by Peñoles where he held the position of Chief Financial Officer for 11 years and Group Treasurer for six years prior to this. Mr Arreguín has a background in investment banking and project management.



DAVID GILES
VICE PRESIDENT, EXPLORATION

DATE OF APPOINTMENT
15 April 2008

COMMITTEE MEMBERSHIP
Mr Giles is invited to attend Board meetings.

KEY STRENGTHS AND EXPERIENCE

- Senior exploration experience within Mexico.
- Engineering and geology background.

During a 30-year career at Peñoles, Mr Giles held a number of senior management positions including Vice President of Exploration. Prior to this he worked for AMAX Inc., Corona Gold Corp. and Toromex. He is an officer of the Society of Economic Geologists and the Mexican Association of Mining Metallurgical and Geological Engineers.

ANDRÉ SOUGARRET
CHIEF OPERATING OFFICER

DATE OF APPOINTMENT
2 January 2019

COMMITTEE MEMBERSHIP
Mr Sougarret is invited to attend Board meetings and on occasion, Audit Committee meetings.

KEY STRENGTHS AND EXPERIENCE

- Senior project and operational experience.
- Strong mining and engineering track record.

Mr Sougarret's most recent role was as Executive Vice President at the National Mining Company (ENAMI), an organisation responsible for the growth of the mining industry in Chile. Prior to joining ENAMI, Mr Sougarret held several positions at the Teniente Division of Codelco implementing best practice methods across the entire division. His previous roles also include General Manager of the Centinela and Esperanza mines at Antofagasta plc. He has a degree in Mining Engineering from the University of Chile and an MBA in Company Administration from Loyola College.

Roberto Diaz served as the Chief Operating Officer until his retirement in early 2019.

BOARD LEADERSHIP AND PURPOSE

GENERATION AND PRESERVATION OF COMPANY VALUE

Fresnillo's Business Model and Strategy is set out on pages 16 to 17 and 22 to 23 of the Strategic Report and describes the basis upon which the Company generates and preserves value over the long term. In February 2019, the Board reviewed and approved the Group strategy for 2019–2023. This developed and extended the ten-year strategy previously approved by the Board in 2008. The Executive Committee report on the implementation of strategy at each Board meeting, with particular reference to performance against the published strategic targets.

PURPOSE

The Company's Purpose is set out on page 22 having been approved by the Board as a formal statement in October 2019. The Board considers that its Purpose has always been implicit within the ten year strategy approved in 2008 and that both the original strategy and the 2019–2023 strategy are consistent with the Purpose as now codified, supported by values and behavioural expectations that have not changed during the period since 2008.

THE BOARD AND CULTURE

The Corporate Code of Conduct has been approved by the Board and sets down its cultural expectations for the activities of all Directors, executives, employees and related third parties (including contractors, suppliers and the community) in the conduct of the Company's business. The Corporate Code of Conduct helps to ensure a foundation of values and sets standards for behaviour that encourage an environment of ethics and responsibility for the benefit of the Company's stakeholders. The Board monitors workforce behaviour through its regular review of whistleblowing reports and actions taken by management in response to issues raised via that medium (see page 68 for a further summary of whistleblower hotline claims during the year). The Chief Executive Officer updates the Board on different aspects of culture as part of his routine reports to the Board. During 2019, he specifically reported on the *'I Care, We Care'* safety strategy which included elements designed to change behaviours and create a more mature and resilient safety culture. The Board receives and considers updates on health and safety performance at every Board meeting, in particular information analysing serious injuries and fatalities, Lost Time Injury Frequency Rate, Total Recordable Injury Frequency Rate and new cases of occupational disease. These metrics have been used to monitor the progress made in improving the health and safety culture. In April, the Board received an in-depth report on the specific steps being taken to drive improved performance both through the *'I Care, We Care'* strategy and the intensified training for managers at all of the Group's mines, along with increased inspections of tailings dams and associated infrastructure. The Board also received reports from management on the levels of employee participation in anti-bribery and corruption update training.

STAKEHOLDER ENGAGEMENT

The Executive Committee is responsible for the day-to-day stewardship of all stakeholder relationships and its members report to the Board on the key metrics and initiatives. The Board, either directly or through its committees, engages or oversees engagement with the Company's stakeholders through a number of governance activities (which are described in more detail, along with further information about the Company's engagement with key stakeholders in the Stakeholder table on pages 18 to 21). The Board will continue to keep its approach to stakeholder engagement, whether direct or indirect (through the management team), under review.

WORKFORCE ENGAGEMENT

The Group's workforce consists employees (unionised and non-unionised) and contractors. Further information on our workforce may be found in the Our People section on pages 69 to 70.

WORKFORCE ENGAGEMENT PRIORITIES

Engagement with the workforce takes place through communication and feedback channels within which the management team take the primary role. During the year, the Board has increased its oversight of workforce engagement in relation to both communication and feedback mechanisms. In the case of communication, the focus of this activity has been the '*I Care, We Care*' programme, which was directed at employees and contractors with more focus on engagement with employees in 2019 but with plans to enhance engagement with contractors in 2020 (see Board and Culture section above). In the case of feedback, the primary focus has been on the Company's employee and culture and ethics surveys.

The Company has adopted various feedback mechanisms for engaging with the workforce, including:

- The '*Great Place to Work*' surveys deployed by the Great Place to Work Institute, an independent third party. These surveys have been implemented on a bi-annual basis since 2012 with the objective of monitoring workforce sentiment and Company culture. For the most part, unionised employees participate in these surveys, although at sites where employees are not unionised, non-unionised employees may be invited to participate in the surveys; and
- Annual ethical culture and diversity surveys, were begun in 2017 with the assistance of Ethisphere and updated in 2019 with assistance from the University of Arizona; also an independent third party. These surveys involve non-unionised employees being the sub-group among the employees where there are the greatest cultural and ethical risks (for example in relation to safety performance). In a pilot at Penmont, some senior managers of contractors also participated in this survey. The survey complements both the *'I Care, We Care'* programme focussed on safety culture as well as the general ethics training programme that has been developed for non-unionised employees and contractors.

BOARD LEADERSHIP AND PURPOSE
CONTINUED

In addition, since 2015 focus groups have been conducted bi-annually in the communities where the Company operates. Although the main purpose of these focus groups is to provide feedback on the Group's social performance within the communities in which it operates, it also provides some feedback on the Group's performance as an employer (covering non-unionised employees and contractors).

In February 2019, the Board considered possible mechanisms for Board engagement with the Group's workforce and agreed to use the existing mechanisms of both the *'Great Place to Work'* and the ethics and culture surveys to inform the Board about workforce engagement. In order to reinforce the Board's oversight of these engagement mechanisms so that they remain effective, the Board also agreed to designate Mr Arturo Fernández as the Non-executive Director responsible for overseeing those arrangements. In this capacity, Mr Fernández has received updates from the management team on these engagement mechanisms and reported to the Board on progress at the October 2019 Board meeting. He particularly focused on the management initiatives that were being formulated in response to the employee survey in 2018 and highlighted two particular areas of opportunity in relation to: (i) promotion and career progression; and (ii) the involvement of management in the decision-making processes. During 2019, Mr Fernández has also agreed with management that they should:

- Use the ethics and culture survey to evaluate behaviours which constitute part of a 'step-up culture' in ethics that the Company is promoting; and
- Specifically, engage with the Group's workforce within the scope of the community survey focus groups in order to further identify any issues that are relevant to both unionised and non-unionised personnel, as well as contractors. This exercise was due to be completed by the end of the year.

Once the information coming out of these surveys has been completed and fully reviewed, management will further refine and progress its workforce engagement mechanisms. The Board believes that this approach provides a more comprehensive and reliable means for assessing workforce attitudes and culture whilst ensuring that Mr Fernández is able to gain more detailed knowledge of, and provide Board-level sponsorship to effective workforce engagement.

WHISTLEBLOWER HOTLINE

The use of the Company's whistleblower arrangements is monitored quarterly by the Audit Committee (see the Audit Committee Report on page 131). The whistleblower hotline can be used by anyone who wishes to raise concerns, in confidence, about the Company's operations. The Audit Committee reviews updates on management responses to calls made to the whistleblower line and reports to the Board twice a year on the operation of the whistleblower hotline.

INVESTMENT IN THE WORKFORCE

The Company invests in its employees through training and development programmes and healthcare and wellbeing programmes. Further details are provided on pages 73 and 74. Employee remuneration primarily consists of basic salary, levels of which are negotiated annually with the unions, legal statutory bonus provision (PTU) and pension provision. Further details are provided in the Directors' Remuneration Report on page 141.

ENGAGEMENT WITH SHAREHOLDERS

The Board monitors the views of the Company's minority shareholders through reports on investor and analyst communications prepared by the Chief Financial Officer, which are included in the papers for each Board meeting. Such reports identify issues raised by investors during meetings with management during the previous quarter. During 2019, the Board spent time discussing and agreeing with management its communication with shareholders about the long-term strategy and the specific feedback from investors on the Q2 Production Report announcement.

The Chief Executive Officer and Chief Financial Officer meet with analysts, hold conference calls after quarterly production reports and engage with shareholders by participating in the major roadshows after preliminary and half-yearly results are announced. During 2019, an analyst visit to Mexico was arranged and a Capital Markets Day was held in London in November, which was also attended by Charles Jacobs, Senior Independent Director. The Head of Investor Relations in London is responsible for maintaining existing relations with analysts and major shareholders on a day-to-day basis, which is done by way of telephone calls and meetings and Charles Jacobs and Dame Judith Macgregor, the two London-based members of the Board, are also available to meet with shareholders in London. Contact with investors in Mexico is maintained through the Investor Relations Office in Mexico City. When issues are being considered by a Board committee for which the Chair concerned believes that shareholder dialogue would be useful, contact may be made with leading independent shareholders to discuss their views on that matter. Such contact has been made in previous years in relation to the tender of the external audit and the re-election of Directors at the AGM. However, it was not considered necessary to initiate any such discussions during 2019.

CONFLICTS OF INTEREST

The Group requires that Directors complete a 'Director's List'. The list sets out details of situations where each Director's interest may conflict with those of the Company (situational conflicts). Each Director has resubmitted their list as at 31 December 2019 for the Board to consider and authorise any new situational conflicts identified in the resubmitted lists. At the beginning of each Board meeting, the Company Secretary reminds the Directors of their duties under sections 175, 177 and 182 of the Companies Act which relate to the disclosure of any conflicts of interest prior to any matter that may be discussed by the Board. Further information about related party matters considered by the Board during the year are set out in the Audit Committee Report on page 134.

During 2019, in response to changes in the Code, a review of the Conflicts of Interest procedures was undertaken which concluded that the current procedures remain appropriate.

RELATIONSHIP AGREEMENT

Peñoles has entered into a relationship agreement with the Company (the 'Relationship Agreement') to ensure that relationships between the Fresnillo Group and the Peñoles Group are conducted at arm's length and on normal commercial terms. The non-independent Directors listed previously have been appointed to the Board by Peñoles pursuant to the Relationship Agreement.

The Relationship Agreement complies with the independence provisions set out in Listing Rule 6.1.4DR for controlled companies. The Company has complied with the independence provisions included in the Relationship Agreement during the financial year ended 31 December 2019. As far as the Company is aware, such provisions have been complied with during the financial year ended 31 December 2019 by Peñoles and/or any of its associates.

Peñoles has also undertaken not to exercise its voting rights to amend the Articles of Association in a way which would be inconsistent with the provisions of the agreement. It has also agreed to abstain from voting on any resolution to approve a 'related party transaction' (as defined in paragraph 11.1.5 R of the Listing Rules) involving any member of the Peñoles Group.

The following diagram summarises the approach taken to identify and manage related party transactions under the Relationship Agreement.

IDENTIFYING DIRECTORS' INTERESTS

PROCESS	HOW THIS IS MANAGED	RESPONSIBILITY
Monitoring of Directors' interests	If a Director has an interest in a company that could potentially enter into transactions with a Fresnillo plc Group company, the Board will normally consider that interest under its arrangements for authorising conflicts of interest under s175, Companies Act 2006.	Directors

PROCESS FOR MANAGING A POTENTIAL RELATED PARTY TRANSACTION

PROCESS	HOW THIS IS MANAGED	RESPONSIBILITY
Contract negotiation and verification	The best possible commercial terms are negotiated by management and, where possible, they will seek to verify them against international benchmarking reports and/or independent valuation or assessment.	Fresnillo Executive Committee and management
Financial scrutiny	Review of the key financial terms of any major transaction which are verified where possible as to price and quality by external consultants or independent benchmarking.	Audit Committee
Independent Director approval	Under the Relationship Agreement and the Listing Rules, the independent Non-executive Directors must approve any transaction with the Peñoles Group or its associates without the non-independent Directors voting.	Independent Non-executive Directors

DIRECTOR CONCERNS

Directors have the right to raise concerns at Board meetings, and can ask for those concerns to be recorded in the Board minutes. The Group has also established a procedure which enables Directors, in relevant circumstances, to obtain independent professional advice at the Company's expense.

DIVISION OF RESPONSIBILITIES

ROLES

The composition of the Board is structured to ensure that no one individual can dominate the decision-making processes of the Board. The Board as a whole, which consists of six non-independent Non-executive Directors and six independent Non-executive Directors, is led by the Chairman. One of the independent Non-executive Directors is designated as the Senior Independent Director. The Executive Committee provides operational leadership to the Group and is headed by the Chief Executive Officer. The respective responsibilities of the Chairman, Chief Executive Officer and the Senior Independent Director are set down in a written statement which was updated at the Board meeting in October 2019.

CHAIRMAN'S INDEPENDENCE

The Chairman, Mr Alberto Baillères, is beneficially interested in more than 50% of the share capital of the Company through his interest in Industrias Peñoles S.A.B. de C.V., the Company's controlling shareholder ('Peñoles'). Mr Baillères is also the Chairman of Peñoles and other companies within the BAL Group. Mr Baillères has been the Chairman of the Company since 2008. Mr Baillères was appointed to the Board by Peñoles pursuant to the Relationship Agreement (see page 119), thus at the time of his appointment, he was not independent. Having been responsible for overseeing the successful development of the Group over many years, the Board considers that his continued involvement as its Non-executive Chairman is very important to the continued success of the Company. The Board also considers that the continued oversight of the Company's strategic and operational integrity through its membership of the Peñoles Group enhances the quality of its corporate governance rather than detracts from it (as explained further on page 109). As a consequence of this, the Board continues to value and endorse Mr Baillères' chairmanship of the Company. Given Mr Baillères' experience and understanding of Mexican business and its regulatory context, this assessment gains further validity in the current political and social environment in Mexico. Notwithstanding the expectations of the 2018 UK Corporate Governance code, the Board does not expect to change this assessment for the foreseeable future.

The Relationship Agreement continues to provide a foundation for a transparent governance system, which ensures that the Company benefits from Mr Baillères' leadership and experience while being able to demonstrate to other shareholders that the Fresnillo Group is capable of carrying on its business independently of any companies with which he is connected. In particular, the Relationship Agreement ensures that transactions and relationships between the Fresnillo Group and its controlling shareholder are at arm's length and on competitive commercial terms. Further information regarding the Relationship Agreement can be found on page 119.

DIRECTORS' INDEPENDENCE

The Board considers the following Directors to be independent: Charles Jacobs, Bárbara Garza Lagüera, Georgina Kessel, Dame Judith Macgregor, Luis Robles and Alberto Tiburcio. The Board, through the Nominations Committee has assessed each of these Directors by reference to the criteria set out in Provision 10 of the Code and the Board remains satisfied that they are each independent in character and judgement. In making this assessment for Mr Alberto Tiburcio, the Board notes that he retired as Chairman and Chief Executive Officer of Mancera S.C., the Mexican firm of EY, the Company's auditors, in June 2013 and that he was not involved in the provision of audit or any other services to the Company by Ernst & Young LLP prior to his retirement. Mr Tiburcio is an independent non-executive director of Grupo Nacional Provincial, S.A.B. and Grupo Palacio de Hierro, S.A.B. de C.V., which are companies within the BAL Group. Given that he is not involved in executive duties in any of those companies and has a similar obligation to be independent for those two companies as for Fresnillo, the Board does not consider that Mr Tiburcio's position as an independent Non-executive Director of the Company is adversely impacted by those two appointments. The Board believes that Mr Tiburcio's experience in Mexican and international business and his experience and knowledge of Mexican and international accounting and audit practice and corporate governance are particularly valuable to the Board and the Audit Committee, making him eminently qualified to be the Chairman of the Audit Committee. Furthermore, the Board notes that Mr Robles is an independent non-executive director of Industrias Peñoles, S.A.B. de C.V., which is a company within the BAL Group. However, it has also considered that Mr Robles is not involved in executive duties in that company and has a similar obligation to be independent for that company as for Fresnillo. Consequently, the Board does not consider that his position as an independent Non-executive Director of the Company is adversely impacted by that appointment.

SENIOR INDEPENDENT DIRECTOR

Charles Jacobs is the Senior Independent Director. In February 2019, Mr Jacobs convened a meeting of the independent Non-executive Directors to evaluate the performance of the Chairman and to assess the good standing of the Relationship Agreement. The independent Non-executive Directors were satisfied that there were no issues or concerns in respect of either matter. Mr Jacobs provided feedback to the Chairman on those discussions.

TIME COMMITMENT AND OVERBOARDING

All Directors pre-clear any proposed appointments to listed company boards with the Chairman, prior to committing to them and such appointments are ratified by the Board at the next possible meeting. None of the Directors took on any significant new additional external appointments in the year.

The Non-executive Directors are required, by their letters of appointment, to spend 14 days per annum on Company business. The Nominations Committee is satisfied that all of the Directors spend considerably more than this amount of time on Board and committee activity. Nevertheless, the Nominations Committee annually reviews the time commitments to ensure that all Board members continue to be able to devote sufficient time and attention to the Company's business. Its philosophy in doing so, is to consider (i) the total workload of each Non-executive Director, and (ii) the particular value that each Director brings to the Board. In making this assessment, the Nominations Committee takes into account the following factors:

- Public companies vary considerably in the expectations that they place on their non-executive directors. It considers that a global company with various lines of business operating in many countries, should not count the same as a single-product company with operations primarily in just one country. Fresnillo plc falls into the latter category and because of the relative commonality of its activities, the Board does not consider that it needs more than four scheduled Board meetings a year, a factor which is reflected in the relatively low fees that the Company pays its Non-executive Directors.
- This relatively low number of meetings is further justified by the degree of governance oversight of the Company. This comes by virtue of it also being a member of the BAL Group, of which, five of the Directors are also members in a primary capacity and three of the Directors are involved in an independent non-executive capacity. The calendar for Board and Committee meetings is scheduled to align with the other meetings of companies, including listed companies within the BAL Group ownership structure. This ensures that Fresnillo plc Directors who are appointed to the boards of other companies within the BAL Group do not have any time conflicts with their other commitments on BAL Listed Entity boards.

The other listed company directorships of the Fresnillo plc Directors is set out on pages 112 to 115 of this report. The Board and Committee attendance record of each of the Directors during 2019 is set out on page 110 of this report.

In addition, during 2019 the Nominations Committee specifically considered the issue of overboarding and time commitment in relation to the external listed appointments of Fernando Ruiz and noted that for the whole of his time on the Fresnillo Board, Mr Ruiz has held many other listed company directorships. These directorships are mainly on the boards of listed Mexican companies which are considered less time consuming because of the size of their boards and the frequency of their meetings. Over the past year, Mr Ruiz has reduced the number of listed company directorships that he holds. Mr Ruiz' attendance record at Fresnillo Board and committee meetings has been solid and has never been a matter of concern to the Nominations Committee or the Board. Of greater importance to the Nominations Committee is the value to the Board of Mr Ruiz' advice and expertise, particularly in the area of tax and government fiscal policy. The Board are keen that Mr Ruiz continues to remain a member of the Board, albeit given his length of service on the Board, he is no longer considered to be an independent Director.

COMPANY SECRETARY

The advice and services of the Company Secretary (whose appointment and removal are matters reserved for the Board) are also available to the Directors.

COMPOSITION, SUCCESSION AND EVALUATION

BOARD PERFORMANCE EVALUATION

In order to evaluate its own effectiveness, the Board undertakes annual appraisals using a combination of externally facilitated and internally-run evaluations over a three-year cycle. The cycle of the Board's evaluations is summarised as follows:

YEAR 1	YEAR 2	YEAR 3
Externally facilitated Board evaluation using questionnaires and/or interviews.	Follow-up on action plan prepared in response to Year 1 evaluation using internally-facilitated questionnaires.	Focus on outstanding and emerging issues arising from the action plan using internally-facilitated questionnaires.

Being the third year of the three year cycle, the 2019 evaluation was conducted by the Company Secretary by means of a confidential questionnaire. The aim of the evaluation was: (i) to follow-up on the progress to date on the implementation of the actions arising from the previous two evaluations; and (ii) to focus on topics that board effectiveness reviews are expected to cover following recent changes to the Code. A report on the findings from the Board effectiveness review was circulated to Board members prior to the October Board meeting and discussed at that meeting.

The Board noted the progress made in the following areas since the previous Board effectiveness review:
- the focus on future strategy;
- the additional information supporting the Key Performance Indicator metrics presented to the Board;
- reporting on community relations;
- improvements in the format of Board papers; and
- further developments to the process for post-investment reviews.

The 2019 review included questions about the effectiveness of contributions of each member of the Board; the size, composition, diversity and balance of skills on the Board; and the adequacy of the succession plans (see also the Nominations Committee Report on page 125). The Board received a full update on succession planning at its meeting in February 2020.

INDIVIDUAL PERFORMANCE REVIEWS

The 2019 Board Performance Evaluation considered the performance and effectiveness of the contributions of each member of the Board. It also considered whether there were any specific development needs for Board members. Based on the results of that evaluation exercise, the Chairman did not consider that any further steps were required to improve the performance of any individual Directors.

The independent Non-executive Directors meet annually in order to evaluate the performance of the Chairman.

Non-executive Directors occasionally meet the Chairman without executives being present; the performance of the Executive Committee is discussed during such meetings.

BOARD DEVELOPMENT AND INDUCTION

Senior management present on the Group's strategic initiatives to provide the Non-executive Directors with more information about the broader context to the Company's activities. In addition, there is a regular distribution of industry briefings on technical, market and sector issues.

Directors are encouraged to visit the Company's mines to familiarise themselves with the Fresnillo Group's operations, to meet staff and visit community projects supported by the Group. During 2019, a number of the Non-executive Directors made mine visits including to Fresnillo, Saucito and Ciénega and the Pyrites Plant.

Briefings by the Company's legal advisers are arranged for all new Directors. In June 2019, such a briefing was given to Luis Robles to familiarise him with the duties and responsibilities of a director of a UK listed company and the UK Corporate Governance Code. In addition, the Chairman discusses training or development needs with Board members from time to time.

NOMINATIONS COMMITTEE REPORT

DEAR SHAREHOLDER,

As a London-listed company, our overall approach to diversity is judged by UK standards even though we operate in an industry and corporate environment in Mexico, which has a different cultural context to virtually all of our peers in the FTSE 350 indices. The Hampton-Alexander Review, for example, assumes that significant change can be achieved over a period of five years. In an environment where the turnover of executive directors is rapid, as in the UK, such an assumption may be realistic. When the business context operates to different norms, such expectations become much more difficult to achieve. To illustrate this, in 11 years as a listed company, Fresnillo has made just three changes to its Executive Committee, which consists of four people. On each occasion, we have appointed the best person available to the Executive Committee. The most recent occurance was the appointment in January 2019 of our Chief Operating Officer, André Sougarret, whose unparalleled credentials justified his appointment on merit. Thus, whilst we remain committed to broadening gender diversity, the reality is that the pace of change is unable to match that expected in some quarters.

Notwithstanding the lack of availability of experienced female managers and leaders within Mexican mining and business in general, our commitment to playing our part in promoting change is clear as we aim to remedy this through our development programme. We comment both in this report and the Sustainability Report on the steps the Company has taken to encourage more women into mining and we believe that these initiatives will bring change about in the medium/long term. We acknowledge our responsibility to take a broader view of progress in promoting diversity amongst management and the wider workforce, and we agreed, in February 2019, that the Nominations Committee would annually review changes to the gender/diversity split across the Company and the steps being taken by the business to promote diversity. The first of these reviews was undertaken at our scheduled meeting in February 2020. We considered a proposal to participate in the CLIMB Framework for developing a transformation plan to maximise the potential of women in the Company and recommended to the Board that this be discussed in detail at its meeting in April 2020.

The main task of the Nominations Committee during 2019 was to find a replacement for Jaime Serra as an independent Non-executive Director. Towards the end of 2018, Jaime indicated to me that his other commitments were making it difficult for him to fulfil his obligations to the Fresnillo Board, particularly following his appointment as Chairman of BBVA Bancomer. Recognising the excellent contribution that Jaime had made to the Board during his time as a Director, his resignation was accepted with reluctance. During the early part of 2019, we considered potential replacements for Jaime and agreed to invite Luis Robles to join the Board, which he did at the 2019 AGM. Given his extensive experience in Mexican banking and commerce, we saw Luis as a good replacement for Jaime – filling the void in skills and experience created by Jaime's departure, particularly in relation to banking and commercial finance. I am very pleased to welcome him to our Board. We also agreed that Luis should replace Jaime as a member of both the Audit and Remuneration Committees. Notwithstanding that, our latest appointment to the Board was male, 44% of our Board appointments since 2012 have been female. At our February 2020 meeting, we also agreed to propose to the Board the election of a fourth female Director – Myriam Guadalupe De la Vega – at our forthcoming AGM. This will result in a third of our Board membership being female.

We remain firmly convinced that there is an excellent combination of skills and experience around the Board table which will serve the Board well in the future. We will continue to keep this under review.

Yours faithfully

Mr Alberto Baillères
Chairman of the Nominations Committee

NOMINATIONS COMMITTEE REPORT
CONTINUED

MEMBERSHIP OF THE NOMINATIONS COMMITTEE
The Nominations Committee consisted of the following Directors as at 31 December 2019:
- Mr Alberto Baillères (Chairman), Non-executive Director;
- Ms Bárbara Garza Lagüera, independent Non-executive Director; and
- Mr Alberto Tiburcio, independent Non-executive Director.

Ms Garza Lagüera and Mr Tiburcio are both independent Non-executive Directors and therefore the majority of the members of the Nominations Committee are independent in compliance with the requirements of the UK Corporate Governance Code.

ROLE
The Nominations Committee is responsible for making recommendations to the Board on the structure, size and composition of the Board and its committees and succession planning for the Directors and other senior executives. Before making appointments of new Directors and members of the Executive Committee, the Nominations Committee is responsible for evaluating the balance of skills, knowledge and experience on the Board and identifying and nominating suitable candidates for approval by the Board. Prior to making such recommendations, the Nominations Committee considers the other time commitments and significant external interests of such candidates to ensure that they are able to contribute effectively to the Board.

The Nominations Committee has approved the Board Appointments and Board Diversity Policies which provide the framework for the Nominations Committee and the Board's approach to Board appointments. The Board has also approved a Group Diversity Policy.

BOARD APPOINTMENTS POLICY
The Nominations Committee and Board are strongly committed to the principle of equality of opportunity when making new appointments to the Board while ensuring that appointments are based on merit. The Nominations Committee continues to consider the composition of the Board with this commitment in mind.

The criteria for determining the composition of the Board and future Board appointments continue to be based on:
- Relationship Agreement requirements for appointments to the Board by Peñoles.
- The Company's leading position as a precious metals miner in Mexico.
- The Company's inclusion in the FTSE 100 Index.
- The specific functions on Board committees which independent Directors will be required to fulfil.
- The provisions set out in the current terms of reference of the Nominations Committee and the Board Diversity Policy.

The Nominations Committee does not use open advertising or retain any external consultants when making new appointments to the Board as it is not considered necessary considering the Company's contacts within Mexico and further afield.

BOARD DIVERSITY POLICY PROGRESS
All Board appointments are made on merit. The Board recognises and embraces the benefits of having a diverse Board; particularly the value that different perspectives and experience bring to the quality of Board debate and decision-making. Considerations such as background and experience; age; gender; and shareholder perspectives are taken into account in considering the composition of the Board.

The Board believes that setting targets for the number of people from a particular background or gender is not an effective approach. The Board will therefore look to follow the principles of this policy rather than specified quotas or targets. At Board level, four out of nine (44%) new Directors' appointments since 2012 have been female, resulting in a current female representation on the Board of 25%. In February 2020, the Committee considered and approved a proposal to recommend to the Board that Ms Myriam Guadalupe De la Vega be put forward for election to the Board at the 2020 AGM. This combined with the retirement of Jaime Lomelin, which was also announced at the same time, will result in the female representation on the Board increasing to 33%.

Below Board level, the level of female representation remains low. The Board recognises that very few women are attracted to mining engineering and geology academic programmes in Mexico and, in view of the stage of development of Mexico, the participation of women in the labour force as a whole is still relatively low. Given this status quo, the Group Diversity Policy may have a long-term impact on strategy by creating new sources of talent, but it will take time. The Company is therefore committed to hiring and developing women with educational training in mining engineering, geology, finance and accounting. At the Nominations Committee meeting in February 2020, the Committee considered a suggestion made by one of our Directors, Ms Georgina Kessel, that the Company adopt the CLIMB framework developed by McKinsey to develop a comprehensive transformation plan to maximise the potential of women in the Group. This programme is based on five components – Commitment; Leadership; Infrastructure; Metrics and Behaviours. The Committee proposed that the Board consider this in detail at its April 2020 meeting and has asked Ms Kessel to join the HSECR Committee with a view to being a diversity champion on that Committee.

A further explanation of the steps that the Company is taking to promote diversity across its businesses is set out in the Sustainability Report on pages 69 to 70.

Board composition: gender split	2018	2019
Male	9/12	**9/12**
Female	3/12	**3/12**

Board composition: nationality split	2018	2019
Mexican	10/12	**10/12**
British	2/12	**2/12**

Full versions of the Board Appointments Policy and Process and the Board Diversity Policy and the Group Diversity Policy, can be found on the Company's website (www.fresnilloplc.com).

BOARD EVALUATION
A summary of the overall approach taken by the Board to the annual Board effectiveness review in 2019 is set out on page 122 of the Corporate Governance Report. As part of the 2019 review, Directors were asked to appraise the effectiveness of contributions of each member of the Board; the size, composition, diversity and balance of skills on the Board; and the adequacy of the succession plans. While levels of satisfaction in response to these questions were generally high, the Board agreed that the succession plans should be presented and discussed more formally at its meeting in February 2020.

ACTIVITY DURING 2019
The Nominations Committee met twice during the year and considered the following matters.

BOARD AND COMMITTEE APPOINTMENTS
As explained in the Chairman's introduction to this report, the Nominations Committee discussed a potential replacement for Jaime Serra Puche following his resignation from the Board in February 2019. Mr Serra's political and financial experience were key factors in his original appointment to the Board. In 2018, Georgina Kessel, who had previous experience serving in government was appointed to the Board; therefore it was not necessary to appoint someone with political experience to replace Mr Serra. However, it was felt that it would be helpful to bring more banking and commercial financial experience onto the Board to replicate the experience and perspectives previously brought to the Board by Mr Serra. Consequently, it was agreed that Mr Luis Robles be invited to join the Board and become a member of the Audit Committee and the Remuneration Committee, which he did in May 2019. The Nominations Committee monitors the long-term evolution of the membership of the Board as a whole. This review was undertaken at the Nominations Committee's meeting in February 2019 and the Nominations Committee was satisfied that no immediate actions were required in this regard.

The Nominations Committee reviewed the composition and effectiveness of the Board Committees in 2019 and was satisfied with the current membership of each of those Committees.

EXECUTIVE SUCCESSION PLANNING
Each year, the Nominations Committee reviews a schedule of possible successors for all the positions on the Executive Committee (Chief Executive Officer, Chief Financial Officer, Vice President of Exploration and Chief Operating Officer). This review considers both short-term emergency and long-term planning scenarios. Any actions needed to support the development of potential long-term successors are discussed.

OTHER NOMINATIONS COMMITTEE ACTIVITY
The Nominations Committee also considered the following matters:
- Approval of the Nominations Committee Report prior to publication.
- Review of the time commitment required from each Director and their other external appointments which resulted in a recommendation being made to the Board supporting the proposed re-election of each and all of the continuing Directors at the 2019 AGM.
- A self-evaluation exercise was undertaken by the Nominations Committee in February 2019 (which concluded that the Nominations Committee is functioning well). The satisfactory output from the 2019 Board Evaluation exercise was reviewed and noted by members of the Nominations Committee.

AUDIT COMMITTEE REPORT

DEAR SHAREHOLDER,

I am pleased to introduce the Audit Committee Report for the year ended 31 December 2019.

In February 2019, Jaime Serra Puche resigned from the Board. His input into the work of the Committee will be missed and I would like to begin by thanking him for his many years of contribution to the work of the Audit Committee. I am delighted to welcome Luis Robles who joined the Committee following his appointment to the Board in May. Luis is an excellent addition to the Committee bringing with him a broad range of business experience and financial awareness and I am confident that he will be able to make a significant contribution to the Committee, just as Jaime did.

There have been a number of themes to our work during 2019. With governance and corporate reporting increasingly coming under the spotlight, we have been evaluating the impact of the implementation of the 2018 UK Corporate Governance Code on our activities and reporting for the 2019 financial year; particularly the aspects of stakeholder reporting which fall within the remit of the Committee. Thus, for example, we also started to share with the Board a summary of the whistleblowing reports reviewed by the Honour Commission and subsequently reviewed by the Committee. We will do this twice a year in future.

As can be seen in the Financial Review, 2019 was a challenging year for the Company with results being below expectations and an uncertain macro economic environment (both in Mexico and globally). This set the context for the Committee in discharging its primary responsibilities for the oversight of financial accounting and reporting together with the monitoring of internal controls.
In addition, the Committee particularly focussed on the following matters during the year:

- Given the challenging circumstances this year, the Audit Committee paid particular attention to the reasonableness of its processes and conclusions with respect to key areas of judgement and estimation including the estimation of reserves and resources, the Silverstream Contract, long term assets (and their possible impairment), and going concern and viability assessments during the final quarter of the year.
- The Company's tax contingencies was a further continuing topic under scrutiny. As disclosed in previous annual reports, there have been a number of routine inspections performed by the tax authorities in recent years, with further routine inspections initiated in 2019 and in the first weeks of 2020. We have monitored these investigations closely although there have been no significant changes to report during the year. Whilst a number of inspections are ongoing, the Committee has noted progress by the Company during the year, including reaching satisfactory agreements with the tax authorities on certain matters. However, the outcome of ongoing inspections is difficult to predict and progress in this area will remain a focus for the Committee in 2020.
- The re-estimation of the inventory quantities held in leaching pads at Herradura was discussed and it was concluded, based on the evidence available at the time of the review, that no adjustment to the estimated recovery rate was required in 2019.
- In June, the Committee considered and recommended to the Board a proposal to align the Company's tax treatment of mining works across all of its underground mining operations subsidiaries (for the years 2014 to 2018) with the Conclusive Agreement entered into with SAT, PRODECON (Mexico's tax ombudsman) and the Company on 30 November 2018. Accordingly, the Board retrospectively approved a voluntary tax amendment for these years to apply the same criteria regarding the tax treatment of mining works to all its underground mines.
- IT security and data protection were also subjects that the Committee reviewed several times during the year. The Company continues to make progress in this important area.
- At the end of 2018, the Committee retained Deloitte to conduct an evaluation of the effectiveness of the work performed by Internal Audit. The results, which were released and discussed in the second quarter of 2019, showed very satisfactory results with no major suggestions for improvements. Internal Audit has already implemented most of the recommendations arising from the evaluation with the rest under consideration for implementation during 2020.

Towards the end of 2019, the Committee undertook an internal evaluation of its effectiveness through an internally developed questionnaire which was completed by the Committee members and key participants in the Committee's meetings. Overall, the results were satisfactory with some areas for improvement in the Committee's processes identified. Suggestions for improvement will be considered in 2020. It is worth noting that most of the suggestions made during the previous review in late 2018 were implemented during the year.

In order to keep the Board informed of the Committee's activities on a timely basis, in the final quarter of the year, we began to circulate our minutes to all Board members as soon as they were available (which we will continue to do in the future).

As ever, I am always available to deal with any queries about the work of the Audit Committee and plan to attend the 2020 Annual General Meeting to answer any shareholder questions that might be raised on that occasion.

Yours faithfully

Alberto Tiburcio
Chairman of the Audit Committee

MEMBERSHIP OF THE AUDIT COMMITTEE

The Audit Committee consisted of the following Directors as at 31 December 2019:

- Mr Alberto Tiburcio (Chairman), independent Non-executive Director;
- Mr Charles Jacobs, independent Non-executive Director; and
- Mr Luis Robles, independent Non-executive Director.

Mr Robles was appointed to the Audit Committee on 21 May 2019 and replaced Mr Jaime Serra, who resigned from the Board on 25 February 2019. The current composition of the Audit Committee therefore complies with the requirements of the UK Corporate Governance Code. The relevant experience of the current members of the Committee is summarised as follows:

Committee member	Financial and auditing experience	Sector and country experience
Alberto Tiburcio (appointed to the Committee on 4 May 2016 and appointed Chairman of the Committee on 30 May 2018)	Previously Chairman and CEO of EY (Mexico). Experience in national and international accounting and audit practice and corporate governance.	Various Mexican and international industries. Board and Audit Committee experience at various public companies.
Charles Jacobs (appointed to the Committee on 30 May 2018)	General business finance experience by virtue of being Senior Partner and Chairman of Linklaters LLP. Non-executive of a financial services group, Investec.	An adviser to several UK natural resources companies and boards.
Luis Robles (appointed to the Committee on 29 May 2019)	Previously Chairman of BBVA Bancomer.	Career in Mexican banking and finance.

The Chief Financial Officer and representatives from external and Internal Audit attend all meetings. The Chief Executive Officer, other members of the Executive Committee and management attend where appropriate and external advisors attend for specific matters if relevant.

COMMITTEE EFFECTIVENESS

Since the inception of the Audit Committee, there has been a continuing programme of the Audit Committee evaluation from time to time.

In 2019, an internal effectiveness review of the Audit Committee was conducted by the Company Secretary using a questionnaire-based approach. The output from that review was discussed at the meeting of the Audit Committee in December 2019 and a number of specific steps were agreed; mostly focussed on further improving the efficiency of the Committee's processes.

Members of the Audit Committee take responsibility for updating their knowledge of accounting and audit issues as well as relevant regulatory issues. Recognising the rapid pace of regulatory development in the UK, the Chairman of the Committee initiated a review of the Audit Committee training and development programme during the second half of the year with a view to establishing a more structured approach to training for Committee members which will be undertaken in the first half of 2020.

The terms of reference of the Committee were reviewed to take account of the requirements of the new UK Corporate Governance Code and the Board approved the updated version in February 2019.

COMMITTEE ACTIVITY

The Audit Committee met six times during 2019. Its scheduled programme of activity broadly encompassed the following:

REPORTING

Financial Reporting:
Overseeing the Company's financial and narrative reporting to shareholders (including considering that it was fair, balanced and understandable).

Stakeholder Relationships and Reporting:
Overseeing the Company's reporting on certain stakeholder issues.

Whistleblowing:
Overseeing on behalf of the Board, the whistleblower line and the work of the Honour Commission.

ASSURANCE

External Audit:
Overseeing the work of and the Company's relationship with the External Auditor.

Internal Audit:
Overseeing the work and findings of the Internal Audit team.

RISK AND CONTROLS

Risk:
Overseeing the operation of the Company's risk management framework.

Internal Control:
Monitoring the Company's internal control environment.

Related Parties:
Overseeing the financial aspects of the Company's commercial relationships with related parties.

In addition to the five scheduled meetings during the year, the Audit Committee also met to consider a proposal from management concerning the amendment of the tax treatment of mining works which was subsequently agreed by the Board and announced on 1 July 2019.

This report sets out the key activities of the Audit Committee in discharging its duties during 2019.

AUDIT COMMITTEE REPORT
CONTINUED

REPORTING

FINANCIAL REPORTING

The Company reports to shareholders on its financial performance twice a year. During the 12 months prior to the date of this report, the Audit Committee reviewed the interim financial statements for the six months to 30 June 2019 and the full-year financial statements and Annual Report for the year to 31 December 2019. To aid the Committee members' understanding of the reported financial results during the year, the Chief Financial Officer updated the Committee on the Group's quarterly financial performance at each of its meetings in February, April, July and October.

The principal steps taken by the Audit Committee during the past 12 months in relation to its review of the published financial statements were:

- Review of interim financial statements for 2019 and Interim Announcement and consideration of EY's comments on these draft documents;
- Review of plan for preparing the financial statements and Annual Report for the year ending 31 December 2019, including a request to management to accelerate the preparation of the Annual Report to provide more time for the Committee and the Board to review and assess that the Annual Report is fair, balanced and understandable, reflecting emerging best practice;
- Review of the significant judgements and estimates that impact the financial statements (see below);
- Review of the financial statements and Annual Report for the year ending 31 December 2019 and consideration of EY's comments on these documents;
- Consideration of new accounting standards, particularly IFRIC 23, their implications for the Company's financial reporting and whether any changes were required to the existing accounting policies.

The Committee also evaluated a letter from the Financial Reporting Council ('FRC') received in late 2019 with observations on the 2018 Annual Report[1] and considered the Company's response to that letter. The Committee was pleased to note the FRC's confirmation, in February 2020, that it had concluded the correspondence on this matter. In response to one of the questions raised by the FRC, the Company filed interim financial statements to remediate a technical breach of s838 of the Companies Act, 2006 in relation to some dividend payments made in prior years.

SIGNIFICANT JUDGEMENT AREAS

The Audit Committee considered the principal areas of financial statement risk and judgements made in relation to both the interim and full year financial statements, prior to respectively recommending those financial statements to the Board for approval. In many cases, these significant judgement areas were the same as those considered in previous years; however, as the mining cycle progresses these areas of judgement or estimation evolve and new ones may need to be considered while others may become less important.

PROCESS FOR THE REVIEW OF SIGNIFICANT JUDGEMENTS

The Significant Judgement process may be summarised in the following way:

ANNUAL ASSESSMENT OF KEY FINANCIAL STATEMENT RISKS → IDENTIFICATION OF KEY VARIABLES TO CONSIDER → REVIEW OF SOURCES OF ASSURANCE → DISCUSSIONS WITH MANAGEMENT AND EY → COMMITTEE'S CONCLUSION ON ACCOUNTING TREATMENT, PRESENTATION AND DISCLOSURE

SIGNIFICANT AREAS OF JUDGEMENT IN 2019

The significant judgement areas considered by the Audit Committee in 2019 are set out below. In each case, the Audit Committee concluded that the accounting treatment and disclosure in the financial statements is appropriate.

RELATED PARTY TRANSACTIONS INCLUDING REVENUE RECOGNITION (SEE NOTE 26 TO THE CONSOLIDATED FINANCIAL STATEMENTS)	
ASSESSMENT OF THE RISK	Fresnillo has a controlling shareholder and as a result has very strong ties both to Peñoles and the broader BAL Group. There is a risk that related party relationships could be taken advantage of to manipulate earnings, or otherwise distort the Company's financial position and/or transfer value to Peñoles or another BAL company inappropriately. Furthermore, related party transaction disclosure requirements allow investors to understand the nature and extent of the Company's transactions with related parties and there is a risk that disclosures in the financial statements could be inaccurate or incomplete.
VARIABLES CONSIDERED	Every year, the Audit Committee scrutinises the probity of all major related party transactions to ensure that they are entered into transparently and fairly to all shareholders (see the section of this report headed 'Related Parties').

1 The FRC stated that the scope of their review was based on the Company's 2018 Annual Report and was conducted by staff of the FRC who have an understanding of the relevant legal and accounting framework. The review did not benefit from detailed knowledge of the Company's business or an understanding of the underlying transactions entered into and therefore their review does not provide assurance that the 2018 Annual Report is correct in all material respects.

SOURCES OF ASSURANCE	The Audit Committee considered management reports on the transactions with related parties during the year. In particular, it received a presentation from the Chief Executive Officer on the trading relationship with Met-Mex, the basis on which pricing is determined by reference to third party benchmarking reports and additional analysis of Met-Mex's pricing with other third party customers, supported by a further written explanation from the Chief Executive Officer of the negotiations conducted between the Company and Met-Mex in agreeing the 2019 charges. Given the change to the formula for calculating silver refining charges in the year (as discussed in the 'Related Parties' section on page 134), the Audit Committee also requested that management further formalise its internal documentation of the basis of those charges. This was tabled and reviewed at the Audit Committee meeting in February 2020. The Audit Committee discussed EY's procedures to ensure that related party transactions are recognised accurately and correctly reported in the relevant disclosures in the Annual Report, as well as their related conclusions. Internal Audit routinely review agreements between the Company and Peñoles, the results of which are reported to the Audit Committee as part of its annual Internal Audit Programme updates.

SILVERSTREAM CONTRACT (SEE NOTE 13 TO THE CONSOLIDATED FINANCIAL STATEMENTS)

ASSESSMENT OF THE RISK	The Silverstream contract represents a large asset on the balance sheet which can, as a result of movements in variables discussed below, give rise to large, albeit non-cash, income or expense amounts in the income statement.
VARIABLES CONSIDERED	The Silverstream contract is a derivative financial instrument which must be reflected at fair value at each balance sheet date. The fair value is most sensitive to the timing and volume of forecast production derived from the reserves and resources and production profile of the Sabinas mine, estimated future silver price and the discount rate applied in the valuation.
SOURCES OF ASSURANCE	The Audit Committee discussed with management and EY the inputs into the valuation at the balance sheet date and associated sensitivity analysis. It also reviewed management's suggested disclosures relating to the Silverstream contract. It discussed with EY their procedures and conclusions for their audit of the valuation.

RECOVERABLE AMOUNT OF LONG-TERM NON-FINANCIAL MINING ASSETS (SEE NOTE 12 TO THE CONSOLIDATED FINANCIAL STATEMENTS)

ASSESSMENT OF THE RISK	The recoverable amount of long-term non-financial assets is influenced by the level of reserves and resources for each mine at any moment in time, the likelihood that the resources can be economically mined and the expected phasing of planned production (mine plan). Other key variables considered include the expected metal prices, costs and discount rates. The estimated valuation of the recoverable amount of long-term mining assets will change year-on-year in response to changes in these inputs. If the financial statements are not adjusted accordingly there is a risk of significant financial misstatement.
VARIABLES CONSIDERED	The reserves and resources, prices, costs, discount rates and related mine plans for each business unit along with management's assessment of impairment indicators were considered.
SOURCES OF ASSURANCE	The Audit Committee noted that the specialist third party reports on management's estimates of reserves and resources and management's estimates of recoverable value had been prepared and then assessed by EY, using specialists where necessary. The Audit Committee also noted the reports made to the Board on the reports from SRK Consulting UK Ltd (the Company's independent reserves and resources auditor) on reserves and resources. The Audit Committee further evaluated EY's assessment of the management position on the mines most at risk and sensitivities performed by EY for alternative metals price and discount rate scenarios.

RE-ESTIMATION OF QUANTITIES IN INVENTORY (SEE NOTE 14 TO THE CONSOLIDATED FINANCIAL STATEMENTS)

ASSESSMENT OF THE RISK	Inventory on leaching pads accumulates over time, during which period the estimated future recovery of gold from that inventory may change. This may result in an incorrect estimation of the metal quantities held in the leaching pads. The re-estimation of metal quantities of ore held in leaching pads at Herradura had to be considered in 2018 as a result of significant new information obtained from samples that became available due to the cutting of an access road through the leaching pad. The possibility of changes to the quantities in inventory during 2019 as result from further changes in recovery processes was considered during that year.
VARIABLES CONSIDERED	The Audit Committee considered management's response to enquiries from EY concerning information around recovery rates from the pads, including: (i) the most current sales recovery rates at Herradura; (ii) the status of sample drilling at Herradura; and (iii) results from similar testing at Noche Buena.
SOURCES OF ASSURANCE	The Audit Committee has discussed the answers given to EY by the operational management team in response to enquiries concerning this matter.

AUDIT COMMITTEE REPORT
CONTINUED

REPORTING CONTINUED

MINERAL RESERVES AND RESOURCES (SEE PAGES 238 TO 241)

ASSESSMENT OF THE RISK	Reserves and resources are a primary driver of Fresnillo's market valuation and a significant input into calculations of depreciation and assessments of impairment. Inaccuracies in the estimation of reserves and resources would lead to broad implications across the Annual Report and Accounts.
VARIABLES CONSIDERED	The estimation of mineral reserves and resources requires significant judgement, not only in respect of mineral physically in place but also metal price and cost assumptions used to determine the cut-off grade for identifying economically viable ore bodies. There is also judgment in developing and maintaining the mine plans which estimate the timing and quantities of related production.
SOURCES OF ASSURANCE	The Audit Committee received a spoken update from management on the report by SRK on the reserves and resources (excluding Silverstream). The accompanying report of the Vice President of Exploration that was presented to and discussed by the Board in February 2020 was also noted. The Audit Committee also considered EY's evaluation of the competence and objectivity of SRK. Whilst, the Audit Committee were satisfied with the estimation of reserves and resources disclosed in the Annual Report, it also noted observations raised by EY and SRK concerning the Group's processes for the estimation of reserves and resources and has initiated a review of those procedures.

TAXATION AND PTU (SEE NOTE 10 TO THE CONSOLIDATED FINANCIAL STATEMENTS)

ASSESSMENT OF THE RISK	The taxation of mining companies in Mexico has been the subject of much ongoing attention as reflected by a number of tax inspections that are ongoing or have been initiated by the tax authorities. In addition, certain tax assets and liabilities are denominated in Mexican pesos and are revalued in US dollars during the period, resulting in foreign exchange gains or losses which need to be taken into account when assessing the tax charge for the period and the deferred taxes computation. In accordance with the Mexican legislation, local companies also pay employee profit sharing ('PTU') equivalent to approximately 10% of the taxable income of each fiscal year. There is a risk that deductions taken when calculating tax and PTU charges may be challenged, and that any resulting exposures to payable taxation and PTU may not have been provided for appropriately.
VARIABLES CONSIDERED	The Audit Committee reviewed the status and potential outcomes of tax audits (including those in progress during the year) and certain requests for information received in early 2020. It reviewed reconciling items applied to accounting profit in determining profit subject to taxation and PTU as set out in papers prepared by management. As a separate exercise in June 2019, the Audit Committee also specifically reviewed a management proposal concerning the tax treatment of mining expenditure across the Group's underground mining operations (by reference to an agreement reached with the Mexican tax authorities in relation to two of the underground mines in 2018) which proposed on a voluntary basis, that the same tax treatment should be applied to all its underground mines for the period 2014-2018. This was recommended to and approved by the Board and announced on 1 July 2019.
SOURCES OF ASSURANCE	Throughout the year the Audit Committee received updates on the status of tax inspections. Reviews of tax related matters were also undertaken by Internal Audit. The Audit Committee reviewed management's supporting memoranda on the consolidation of tax and PTU and sought EY's views on the same. It ascertained the degree to which judgements and adjustments are supported by internal and/or external subject matter experts and ensured that they corresponded with information presented during the year prior to approving the relevant disclosures in the Annual Report.

ENSURING THAT THE ANNUAL REPORT IS FAIR, BALANCED AND UNDERSTANDABLE

The Audit Committee supports the Board in ensuring that the Annual Report is fair, balanced and understandable. The approach taken by the Board in relation to the Annual Report and financial statements for the year ended 31 December 2019 is described on page 135 of the Corporate Governance Report. During the year, this procedure was reviewed, taking account of emerging best practice concerning the approaches that listed companies should be taking in making this assessment. Management were asked to consider options for enhancing the formalisation and documentation of the process for the 2019 year-end. As a result, it was agreed that the timetable for preparing the Annual Report would be accelerated to enable drafts of the different sections of the Report to be circulated to Board members earlier than in previous years, thus allowing more time for comments to be passed back to management. This change in the timetable ensured that Internal Audit could complete their review of the non-financial reporting prior to the Board's approval of the Annual Report. In support of this process, the Audit Committee also:

- reviewed the Annual Report and financial statements, taking into account comments made and reports issued by EY, raising comments and questions with management and then deciding whether to recommend them to the Board for approval; and
- discussed with Internal Audit any issues arising from the review that they undertake of the principal non-financial numbers in the Annual Report (which are extracted from the Company's operational records).

STAKEHOLDER REPORTING

The Audit Committee plays a role in overseeing, on behalf of the Board, some key aspects of reporting concerning the following aspects of the Company's relationships with key stakeholder groups.

Employees: The Audit Committee continued to review the work of the Honour Commission in relation to matters raised via the whistleblower line (see following section).

Government/Tax Authorities: In particular, it closely monitors the Company's relationship with the Mexican tax authorities, with the status of any outstanding tax audits reviewed at most meetings. In June 2019, the Audit Committee reviewed a management proposal concerning the tax treatment of works at underground mines and recommended it to the Board for approval. The Audit Committee also reviewed the reconciliation of tax and PTU and monitored the ongoing dialogue with the Mexican tax authorities on tax matters.

During 2019, the Audit Committee reviewed the Company's Payments to Governments data, published in June; and the Company's UK Tax Strategy Statement, published in November.

WHISTLEBLOWING

The *'Fresnillo Plays Fair'* whistleblower hotline allows stakeholders to anonymously report (via an independent third party) violations of the Group's Code of Conduct. The hotline is available for all stakeholders, including employees and third parties, so that any concerns about misconduct or impropriety may be raised and dealt with appropriately. All matters raised via the hotline are processed by an independent third party for review by the Honour Commission (which comprises the Chief Executive Officer, the Chief Financial Officer, the Chief Operating Officer, the Compliance Officer, the Director of Internal Audit, the Vice President of Exploration and the Head of Legal). A summary of the whistleblowing cases, which also includes the decisions of the Honour Commission in relation to each case, is reviewed by the Audit Committee each quarter. During 2019, in compliance with Provision 6 of the Code, it was agreed that the Chairman of the Audit Committee present a summary of the cases considered by the Honour Commission to the Board every six months. The first such report was presented at the Board meeting in July 2019.

In 2019, there were a total of 66 reports (compared to 60 in 2018). In 2019, 74% of the reports were concluded in the year with the remainder, having been raised in the latter part of the year, still under investigation. Further details about the whistleblowing reports in 2019 are set out in the Sustainability Report on page 68.

During 2019, the Audit Committee was satisfied that all matters had been or continue to be, properly investigated with appropriate action taken. The Audit Committee continues to consider that current level of issues raised shows that the programme is taken seriously across the Group and is operating satisfactorily.

ASSURANCE

EXTERNAL AUDIT

RELATIONSHIP WITH EY

EY has been the Company's auditor since its listing on the Main Market of the London Stock Exchange in 2008. The Audit Committee led a rigorous tender process in 2015/2016, as a result of which EY was appointed for a further period of no more than ten years. During 2019, the Audit Committee, with input from the Chief Financial Officer, discussed and agreed phased changes to the Audit Partners both in Mexico and the UK, in compliance with rotation rules. Alejandro Moran took over as the Mexican Audit Partner in April 2019. The UK Audit Partner is Daniel Trotman and he will complete his term as the Audit Partner at the conclusion of the 2019 audit. The appointment of the replacement UK Audit Partner was discussed specifically with the Chairman of the Audit Committee and the Chief Financial Officer and collectively by the Audit Committee. As a result, it was agreed that Steve Dobson will take over as the UK Audit Partner for the 2020 audit.

During 2019, the members of the Audit Committee met twice with representatives from EY without management present and once with management without representatives of EY present, to ensure that there are no issues in the relationship between management and the external auditor which it should address. There were none.

EXTERNAL AUDIT PROCESS

The key steps in the Audit Committee's interactions with EY during the past 12 months were:

- The review of a report from EY providing their observations and opportunities arising from the 2018 audit process and management responses to those observations in April 2019.
- Discussion with EY of the findings from their review of the interim results for the period ended 30 June 2019 in July 2019.
- The review of the 2019 half-year representation letter given to EY in July 2019.
- The review and approval of the external audit plan, fees and terms of audit engagement in October 2019.
- The review of the results of the 'hard close audit' for the ten months to 31 October 2019, in December 2019.
- The review of EY's report following completion of the audit for the year ended 31 December 2019, in February 2020.
- The review of the representation letter given to EY for the 2019 full-year audit.

Quality, objectiveness and independence of the external auditor: The Audit Committee is mindful of its responsibility to ensure that the external auditor maintains its independence and objectivity and is appropriately qualified with sufficient resources and expertise to fulfil the role. The Audit Committee specifically reviewed, and is satisfied with, the independence of EY as the external auditor based on disclosures provided by EY in accordance with UK Ethical Standards for the audit profession. The Audit Committee discussed the quality, objectiveness and independence of the EY team with the management team and was satisfied that there were no concerns in this regard.

AUDIT COMMITTEE REPORT
CONTINUED

ASSURANCE CONTINUED

Non-audit services policy: The Audit Committee initiated a review of its policy for the provision of non-audit services to the Fresnillo Group by the external auditor in late 2019 to take account of changes to the FRC's Ethical Standard. This review is expected to be completed in early 2020.

The current policy permits the engagement of the external auditor to provide statutory audit services, certain assurance, and due diligence services to be pre-approved where fees are less than US$5,000. Any engagement of the external auditor to provide permitted services above US$5,000 is subject to the specific approval of the Audit Committee. During 2019, the Audit Committee authorised EY to provide tax services in Peru for up to US$20,000 (this work has not yet commenced) and accounting support in relation to the application of new standards (IFRIC 23) for US$30-50,000 (it was decided not to proceed with this work). Both pieces of work, and work undertaken to assist in tax inspections as required of the statutory auditor, were not considered to compromise EY's independence. The ratio of fees paid for non-audit work in relation to audit work during the year was 0.28:1.00.

Details of the fees paid to EY during the year are shown in note 27 to the consolidated financial statements.

EVALUATION OF THE EFFECTIVENESS OF THE EXTERNAL AUDIT AND THE AUDITOR

The Audit Committee assesses the effectiveness of EY as its external auditor from two perspectives:

- Reviews of the work of EY's UK practice, as a firm, undertaken by the Financial Reporting Council's Audit Quality Review Team; and
- Its own assessment of the effectiveness of the external audit process and the role played by both EY's UK and Mexican teams in the performance of the annual audit.

Audit Quality Review: The Audit Committee reviewed the report of the FRC on its Audit Quality Review ('AQR') on EY as a firm and discussed with the EY Audit Partner whether any of the AQR's findings were relevant to the firm's audit of the Fresnillo financial statements. The conclusion from that review was that there were no major matters of concern to consider.

Audit Committee assessment of EY: Following the completion of the 2018 Annual Report, the Audit Committee undertook a review of the performance and effectiveness of EY at its April meeting. The Chief Financial Officer and finance team provided their insights into their interaction with the EY teams during that process. The Committee noted that EY was generally performing well with an overall consensus being that the working relationship was good. Some minor areas for improvement were suggested, particularly bearing in mind the evolving expectations of the UK regulator in respect of audit quality.

The Audit Committee regularly monitors the steps taken by EY to ensure that the balance of work between the UK and Mexico is efficient and effective. The implementation of commitments made by EY for improving audit efficiency at the time of their successful tender in 2016 continued to be monitored by the Audit Committee during 2019.

REAPPOINTMENT OF THE EXTERNAL AUDITOR

In February 2020, taking account of the reviews of the effectiveness of the external auditor, the Audit Committee recommended to the Board the reappointment of the external auditor, EY at the Company's 2020 Annual General Meeting. The reappointment of the auditor will be subject to a review of proposed fees for the 2020 audit in October 2020.

INTERNAL AUDIT

The Head of Internal Audit and Deputy Director of Internal Audit attend all meetings of the Audit Committee. Towards the end of each year, Internal Audit present their proposed Internal Audit Plan and resourcing requirements for the following year. The 2020 Internal Audit Plan was presented to the Audit Committee in October 2019. The Internal Audit team seeks to complete audits across all of the Fresnillo Group's mining assets based on key operating risks on a regular basis. During 2019, Internal Audit visited each of the operating mines and reviewed a number of aspects of their operations including safety, environmental incidents, community relations, contractors, permits/concessions/access to land, costs, production and productivity. They also reviewed the key projects, taxation and compliance and IT security.

Each quarter, there is a review of significant Internal Audit findings (including progress on the most significant points from previous audits) reflecting on the outcomes of the audits conducted during the most recent quarter. Members of the Audit Committee meet with the Head of Internal Audit and the Deputy Director of Internal Audit two times a year without management present. The last meeting was in October 2019.

At each meeting during the year, the Audit Committee also focused on the progress made by management in dealing with 'red flag' items, being the most serious control weaknesses, raised during internal audit visits to ensure that the management responses to remediation are appropriate and timely progress in reducing the number of red flags over time.

In addition, the Audit Committee also monitored the quality of the dialogue between Internal Audit and the Executive Committee in reviewing Internal Audit findings and agreeing action plans with appropriate levels of operational buy-in to deal with the points raised. The Audit Committee met with the Chief Executive Officer and Chief Operating Officer several times during the year to review the outstanding points and is satisfied with the progress achieved through this dialogue. The Chief Operating Officer attends all closing meetings between Internal Audit and business unit management.

Internal Audit review and check the non-financial information included in the Annual Report to ensure that it is correct and report to the Audit Committee to confirm once that process is complete.

An evaluation of the effectiveness of the work performed by Internal Audit was undertaken by Deloitte towards the end of 2018 and the results of which were discussed in the second quarter of 2019. Internal Audit implemented most of the recommendations arising from the evaluation during the year, with the rest being considered prior to being implemented during 2020.

RISK AND INTERNAL CONTROL

RISK

The Audit Committee monitors how the Company's risk management framework is operating. Operational responsibility for risk lies with line management (details of the risk management system are set out on pages 88 and 89). During 2019, the Audit Committee undertook:

- Half-yearly reviews of the risk matrix and Key Risk Indicators (KRIs).
- Half-yearly reviews of the Principal Risks and Uncertainties prior to the publication of both the interim and full-year reports.
- Quarterly reviews of the reporting to the Board on the effectiveness of current controls; and
- Regular reviews of updates on the Group's anti-bribery and corruption programme (including regular updates on the completion rates for the online training programmes) which demonstrated that the Group's corporate values and elements of the control culture in relation to ethics remain embedded throughout the organisation.

The Audit Committee discusses potential changes to the Group's risk profile through its regular reviews of the Risk Matrix and its consideration of any associated recommendations from management proposing changes to the Risk Matrix to take account of changing and emerging risk. During the year, the Group's Risk Manager initiated a further review of the Group's risk management framework in order to further enhance the processes for assessing risk, particularly emerging risk. The Audit Committee received updates on this work at its October 2019 and February 2020 meetings.

FINANCIAL RISK MANAGEMENT

The Company's objectives and policies on financial risk management including information on the Company's exposures to market risk, such as foreign currency, commodity price, interest rate, inflation rate and equity price, risks, credit risk, and liquidity risk can be found in note 30 to the consolidated financial statements. During the year, the Audit Committee reviewed the Company's Treasury Policy and concluded that no further changes were required.

NON-FINANCIAL RISK AREAS

The Audit Committee regularly reviews and receives management updates on current issues and developments that could have potential to give rise to specific risks. In this, the Audit Committee is guided by regular updates it received from management on specific issues that it considers should be kept under review. Thus, during 2019, regular reports were received on legal matters (including land titles and litigation) and a review of the Group's compliance with mining licence conditions at each of its business units. Where new potential areas of risk are considered by management as part of their regular reviews of the Risk Matrix, the Audit Committee may request further bespoke updates from management to supplement its general review of risk and internal controls. No new areas of non-financial risk were identified during 2019.

INFORMATION TECHNOLOGY

In 2019, the Audit Committee continued to receive updates on the Group's IT strategy, its linkage to the Group's overall business strategy and the financial implications of that strategy for the business plan. It also monitored the progress of the Peñoles and Fresnillo management teams in developing the cyber security framework for the Group. Further information about the Group's approach to IT is set out on page 99 of the Strategic Report.

GOING CONCERN

The Directors must satisfy themselves as to the Group's ability to continue as a going concern for a minimum of 12 months from the approval of the financial statements. The Audit Committee supported the Board in this assessment by considering whether the Company has adequate liquid resources to meet its obligations as they fall due. In February 2020, the Audit Committee reviewed the Group's budget and cash flow forecasts for the period to December 2021, taking into account the Company's anticipated production profiles at each mine, budgeted capital and exploration expenditure and the sensitivity of the cash flow forecasts to movements in metal prices, including stress testing those forecasts to identify the levels to which metals prices must fall to put pressure on working capital levels.

The Audit Committee also considered EY's report on this assessment and on the reasonableness of assumptions therein, including their consistency with assumptions and estimates used elsewhere in the preparation of the financial statements. The Audit Committee also challenged management on the feasibility of the mitigating actions and the potential speed of their implementation. Following this assessment, the Audit Committee satisfied itself that the going concern basis of preparation is appropriate and the financial statements appropriately reflect the conclusions on going concern.

VIABILITY ASSESSMENT

The executive team has developed a comprehensive approach to the viability assessment which is then reported in the Viability Statement. The key steps of this approach are explained within the Viability Statement, which is set out in the Strategic Report on pages 102 to 103. In December 2019, the Audit Committee received an update on the methodology that the executive team adopted in preparing the Viability Statement and then reviewed the output from that process, including consideration of observations reported by EY, and the proposed Viability Statement itself in February 2020.

INTERNAL CONTROL

The Audit Committee assists the Board in monitoring the effectiveness of the Company's internal control environment. This monitoring includes oversight of all material controls including financial, operational, regulatory and compliance. During the year, the Audit Committee reviewed each of the quarterly internal control reports which were then circulated to the full Board for its review. At the end of the financial year, the Audit Committee oversaw the annual process for monitoring the Group's system of internal controls. The Audit Committee is supported by the work of the Internal Audit team who, during 2019, continued to promote a better understanding of the importance of the Group's internal procedures in mitigating risk and enhancing internal controls.

QUARTERLY INTERNAL CONTROL REPORTS

During 2019, the Audit Committee continued to review each of the quarterly internal controls reports which were introduced in 2016 and which are prepared and submitted to the Board at each of its regular meetings. This document specifically reports on developments in the Key Risk Indicators and the key internal control issues arising from the quarterly Internal Audit reports. From time to time, the Audit Committee has proposed changes to those reports based on its own discussion of Internal Audit's findings.

AUDIT COMMITTEE REPORT
CONTINUED

RISK AND INTERNAL CONTROL CONTINUED

ANNUAL REVIEW OF THE SYSTEM OF INTERNAL CONTROLS

The Audit Committee's review of the Group's system of internal controls aims to improve the understanding of how the various sources of assurance (mainly the three lines of defence) interact in the review and execution of material controls by identifying and addressing any gaps in the control framework. Consequently, once a year, the Audit Committee oversees the review of the Group's system of internal controls through an assessment, conducted by Internal Audit, setting down the various sources of assurance (such as operational management, financial management, executive management and Internal Audit) assess the execution of material controls so as to identify and address any gaps in the control framework. To this end, the Group Compliance Officer and Risk Manager survey managers at the business unit to seek their views on the full range of internal controls processes. Their findings are compared to the findings from a similar evaluation undertaken by the Internal Audit team. Any discrepancies are analysed and used to identify potential areas for further discussion. This combined approach underpins assessment of the ongoing effectiveness of the Group's system of internal controls. The Audit Committee reviewed the output from this process in February 2020.

Control exceptions identified in the current year included those relating to the embedding of the right environment; health and safety culture (specifically about explosives handling); mine reinforcement; enhancing procedures for monitoring tailings dams in accordance with international leading practices; optimising mine planning; contractor performance; and the timely granting of permits to guarantee the business continuity. Management is committed to meet the action plans aimed at effectively remediating the findings as well as meeting the production plans and the short and medium-term operation expansion plans and fostering a safe, efficient and productive environment. In the current year the reserves and resources auditor identified weaknesses in the Company's internal processes and controls in respect of this estimate, which led, amongst other impacts, to proven reserves being downgraded to probable. Improving governance in this important area will be a focus for 2020. These control exceptions are not pervasive throughout the Group operations but have been identified in some business units.

On the recommendation of the Audit Committee, the Board agreed that the following statement be made about the review of the system of internal control in the 2019 Annual Report and Accounts.

The Board has, through the Executive Committee and the Audit Committee (at its February 2020 meeting), reviewed the effectiveness of the Group's system of internal controls. Following this review, the Board considers that the measures that have been or are planned to be implemented, particularly those specifically highlighted in this report, complement Fresnillo's risk management framework and are appropriate to the Group's circumstances.

The Board is committed to the continued development of its internal control regime with a view to achieving and maintaining best practice levels of risk management and internal control for international mining companies listed on the London Stock Exchange.

RELATED PARTIES

With Peñoles, the Company's parent company, owning just under 75% of the issued share capital of the Company (see page 154), it has and will continue to have a significant level of influence over the affairs and operations of Fresnillo. Being part of the same Group provides an opportunity to achieve synergistic operational, financial and administrative benefits by combining the resourcing of common services that can be shared between Peñoles and Fresnillo. Although these arrangements are beneficial to Fresnillo, the Audit Committee performs a role in overseeing these arrangements to ensure that they continue to operate impartially.

The principal arrangements entered into between the Company and related parties and reviewed by the Audit Committee during the year were:

THE MET-MEX AGREEMENT	As it does every year, the Audit Committee considered the proposed charges in respect of the Met-Mex arrangements for 2019, comparing proposed treatment and refining charges to Fresnillo to comparable prices charged by Met-Mex to independent customers and to those of other smelters taking account of ore composition and transport costs to validate that they are reasonable. With two independent customers no longer using the Met-Mex facility, Fresnillo and Peñoles agreed a change to the formula for calculating silver refining charges. Management were asked to circulate a paper setting out the basis on which the new formula was agreed. Based on the satisfactory outcome of the Audit Committee's review of the proposed charges, the Audit Committee recommended to the Board that the independent Directors approve the proposed charges for 2019 under the Met-Mex arrangements, which they did at the Board meeting in October 2019. As part of its review of the Met-Mex arrangements, the Audit Committee also confirmed with management that the transfer pricing assessments in respect of prior year transactions (which are undertaken for tax reasons by the Group's external adviser, PriceWaterhouseCoopers had been completed with no issues noted. It is expected that a similar assessment in respect of the 2019 transactions will be received in due course.
OTHER AGREEMENTS	There are other dealings with related parties in the ordinary course of business (e.g. insurance brokerage) which, although not requiring approval by independent Directors, will from time-to-time be reviewed by the Audit Committee to ensure that the arrangements are on a reasonable arm's-length basis. During the year, the Audit Committee reviewed the annual insurance renewal for which GNP, a related party, acted as broker.

The Shared Services Agreement is an agreement between the Company and Peñoles under which 24 categories of services are provided to the Company by Peñoles. The Shared Services Agreement was renewed for five years with effect from 1 January 2018. Internal Audit conducts reviews of approximately one third of the services provided each year to ensure that these services are provided in accordance with the agreed KPIs. As a result, all services are reviewed by Internal Audit over a three-year cycle. Internal Audit reports to the Audit Committee on its review of the Shared Services Agreement.

ENSURING THAT THE ANNUAL REPORT IS FAIR,BALANCED AND UNDERSTANDABLE

In relation to the Annual Report and financial statements for the year ended 31 December 2019, there are a number of steps that the Board undertook to ensure that the Annual Report is fair, balanced and understandable. An explanation of the process adopted in preparing the Annual Report and analysis of the basis upon which each requirement for it to be 'Fair', 'Balanced' and 'Understandable' had been met was summarised in a paper which the Board discussed at its meeting on 26 February 2020. The key features of this process were:

- The narrative sections of the Annual Report were drafted by the members of the team with specific responsibility for the areas referred to in the sections that they prepare. The individuals involved included the Head of Investor Relations, the Head of Risk, the Head of Sustainability, the Compliance Officer, Head of Legal, the Company Secretary and Mine Managers.
- As narrative sections of the Annual Report were prepared, copies were circulated to Board members for review and comment. Such comments were incorporated into updated versions of the Annual Report.
- About a month prior to the Annual Report being approved by the Board, members of the Audit Committee and other Directors reviewed a current draft, enabling them to assess whether the information was consistent with their understanding of the Company's business and the nature and content of discussions at the Board during the year. Comments were received from the Directors on most areas of the Annual Report and these were incorporated into subsequent drafts of the Annual Report. The sections of the Annual Report which were particularly commented on included: the Section 172 Statement, the Sustainability Report, the presentation of Risks and the use of Alternative Performance Measures.
- Suggested changes put forward by the Directors, based on knowledge obtained through Board and Audit Committee papers and discussion and other interactions with management, were taken into account by management in preparing the final version of the Annual Report.
- At the same time, Internal Audit undertook a review exercise of the principal non-financial numbers in the Annual Report which are extracted from the Company's operational records and their findings were appropriately reflected.
- The Audit Committee also reviewed the Annual Report and financial statements, taking into account comments made and reports issued by EY and decided to recommend them to the Board for approval.

As a result of the above procedures, the Board considers that, taken as a whole, the Annual Report is fair, balanced and understandable.

The Corporate Governance Report which is set out on pages 108 to 135 has been approved by the Board of Directors of Fresnillo plc.

Signed on behalf of the Board

Charles Jacobs
Senior Independent Director
2 March 2020

REMUNERATION AT A GLANCE
REMUNERATION POLICY IN SUMMARY

REMUNERATION POLICY OBJECTIVE

WHAT DOES THE POLICY SEEK TO ACHIEVE?

The Group's Remuneration Policy seeks to ensure that the Company is able to attract, retain and motivate its Executive Directors and members of the Executive Committee. The retention of key management and the alignment of management incentives to the Group's Purpose are the key objectives of this Policy.

ALIGNMENT OF THE REMUNERATION POLICY TO PURPOSE AND STRATEGY

OUR PURPOSE

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

STRATEGIC PRIORITIES	RELEVANT BONUS METRICS
EXPLORE Extend and maintain a robust growth pipeline	• Replenishment and expansion of reserves and resources • Exploration projects progress
DEVELOP Deliver profitable growth, optimise cashflows and returns	• Development projects progress • Management of contractors • EBITDA
OPERATE Maximise the potential of our operations	• Production – increase in ounces produced • Synergies and teamwork • Management of contractors
SUSTAIN Advance and enhance the sustainability of our business	**Employees/ Contractors**: • Safety (various metrics) • Labour relations **Communities**: • Project-based metrics **Environment**: • Environmental risk management **Shareholders**: • EBITDA

COMPONENTS OF DIRECTORS' REMUNERATION
HOW IS EXECUTIVE REMUNERATION STRUCTURED?

COMPONENT	RATIONALE
SALARY	Setting base salary levels for Executive Directors and members of the Executive Committee at an appropriate level is key to managerial retention in Mexico. Salaries are positioned within a range of possible salaries according to experience and length of service. Ordinarily, subject to performance, the same percentage will be applied to salary increases across the Company for senior management and other employees alike.
BONUS	The annual bonus rewards the achievement of financial and strategic business targets and the delivery of personal objectives. Annual bonus is capped at six months' salary and is paid on the basis of metrics set out in the remuneration policy.
BENEFITS	Benefits are provided in line with the Group's policy on employee benefits.
PENSION	The Group operates a defined contribution scheme. Executive Directors and key management are entitled to membership of the defined contribution scheme.
LONG-TERM INCENTIVES	The annual bonus scheme sets targets which are aligned to the long-term strategic objectives so that these priorities are embedded within the day-to-day activities of our business. The Company does not operate a long-term incentive plan.
SHARE-BASED REMUNERATION	The Company does not use share-based forms of remuneration because historically it has not been a common form of remuneration in Mexico.

ADDITIONAL FEATURES OF FRESNILLO'S REMUNERATION POLICY	
SHAREHOLDING GUIDELINES	In the absence of share-based incentive schemes, the Company does not adopt shareholding guidelines for executives.
RECOVERY OF BONUS	The absence of long-term incentives and the operation of Mexican law makes it difficult to adopt claw-back and malus arrangements. There is however scope within the bonus scheme for bonus awards to be adjusted downward at the discretion of the Remuneration Committee.

OBJECTIVE OF THE ANNUAL BONUS
WHAT DOES THE ANNUAL BONUS SEEK TO ACHIEVE?

The annual bonus is set for and based on performance over a single-year period but the KPIs and targets are also designed to ensure that both short-term objectives and the long-term development of the Fresnillo Group are given broadly equal priority within variable remuneration.

COMPONENTS OF THE ANNUAL BONUS IN 2019
WHAT WAS ACHIEVED?

PERFORMANCE		2019	2018	CHANGE (%)
EXPLORE	**TOTAL SILVER RESERVES** (MOZ) **TOTAL GOLD RESERVES** (MOZ)	**484.0** **9.2**	476.0 11.0	1.7 (16.0)
DEVELOP	**EBITDA** (US$M) **PROFIT FOR THE YEAR** (US$M)	**674.0** **205.8**	915.1 350.0	(26.3) (41.2)
OPERATE	**SILVER PRODUCTION** (MOZ) **GOLD PRODUCTION** (KOZ)	**54.6** **875.9**	61.8 922.5	(11.6) (5.1)
SUSTAIN	**TOTAL ENVIRONMENTAL INCIDENTS** **FATALITIES**	**0** **2**	0 5	NIL (60.0)
CEO'S REMUNERATION	**TOTAL SALARY** (US$'000) **BONUS** (US$'000)	**871** **NIL**	829 NIL	4.9 NIL

DIRECTORS' REMUNERATION REPORT
CHAIRMAN'S ANNUAL STATEMENT

We believe that our decisions have been in tune with the concerns of both the Board and the Company's shareholders about the Company's performance. In particular, we decided that the outcome from the Chief Executive Officer's salary review in 2019 should be a percentage increase below that being awarded, on average, to the rest of the workforce and, for the second year running, we did not pay an annual bonus...

DEAR SHAREHOLDER,

OUR APPLICATION OF THE REMUNERATION POLICY IN 2019

There is no doubt in the collective view of the members of the Board and the Remuneration Committee that 2019 was a difficult year for the Company. Whilst some of the problems that the management team have had to deal with may be circumstantial, there have been a number of aspects of the Company's performance which are attributable to performance of the management team. The Remuneration Committee has been acutely aware of this in its discussions during the year and we believe that our decisions have been in tune with the concerns of both the Board and the Company's shareholders about the Company's performance.

In particular, reflecting these concerns, we decided, for the second year running, the Chief Executive Officer should not receive a bonus under the Annual Bonus Plan because his points total did not meet the minimum level at which bonuses are paid. We also agreed that the outcome from the Chief Executive Officer's salary review in 2019 should be a percentage increase below that being awarded, on average, to the rest of the workforce. Whilst we hope that these issues will turn out to be relatively short-term ones, we take some comfort in seeing that our approach to remuneration is appropriate when performance is below what we and our stakeholders expect. We hope that it will be a positive motivator when performance improves, as we believe it will do.

EXECUTIVE REMUNERATION THAT REMAINS FIT FOR PURPOSE

As ever the Remuneration Committee has continued to ask whether its approach to executive remuneration remains appropriate to the long-term needs of the Company. Last year, I highlighted changes to the annual bonus arrangements for our senior management team designed to better align them to our strategy, as the Company moves from a phase of fairly rapid growth to one of consolidation.

As a result, we proposed changes to the Annual Bonus Plan which were incorporated into the updated Directors' Remuneration Policy proposed to the 2019 AGM and approved by over 95% of our independent shareholders as well, of course, by our controlling shareholder. Details of the new Bonus Plan are set out later in this report on pages 142 to 144.

The Remuneration Committee remains vigilant to the fact that Fresnillo takes a unique approach to executive remuneration reflecting the cultural differences between remuneration practices in Mexico and those adopted in the countries in which many of our peer group operate. In particular, we do not use long-term equity-based incentives as a component of executive remuneration; neither do we have any requirements for shares to be held by our executives. We reviewed the appropriateness of this policy during the year, with assistance of our advisers, WillisTowersWatson and whilst we see some movement in market practices in relation to the use of long-term incentives in Mexico, we do not consider that these are sufficiently strong enough to warrant a change in our approach.

OUR STAKEHOLDERS AND REMUNERATION

We recognise that our approach to executive remuneration matters to most if not all of our stakeholders and we believe that our current Policy during 2019 takes account of the interests of our key stakeholders in the following ways:

Shareholders

- Mr Baillères, who represents almost 75% of the share ownership of the Company, sits on the Remuneration Committee and brings a shareholder perspective to the Committee's discussions.
- Feedback from major shareholders and proxy voting agencies provided prior to the AGM is considered by the Remuneration Committee in the course of its discussions during the following year.

Workforce

- Salary reviews for the members of the Executive Committee are decided after taking account of the average salary increases discussed and agreed with the unions.
- Metrics that promote good employment practices, e.g. appropriate management of health and safety and the relations with unionised employees and contractors, are included in the targets for the Annual Bonus Plan.

Communities and environment

- Metrics that promote good community relations and sound environmental stewardship are included in the targets for the Annual Bonus Plan.

In applying the Policy to our bonus arrangements in 2019, we decided to align the KPIs more closely to the Group's strategic priorities and key stakeholder relationships as set out below.

ENDORSING OUR APPROACH TO EXECUTIVE REMUNERATION

In April, we received and reviewed a report from WillisTowersWatson on developments in market practice in Mexico in relation to long-term/share-based incentives. In the light of this review, we reaffirmed our practice of not awarding long-term share incentives for the reasons set out in our Remuneration Policy. In a cyclical sector such as ours, we also believe that long-term incentives are rarely aligned to the year-on-year changes in the performance of the business.

During the year, we received reports from the Company Secretary on UK regulatory developments in relation to executive remuneration, including the implications of changes to the UK Corporate Governance Code in relation to remuneration. As a Committee, we were comfortable with the Company's compliance with these requirements which continue to allow us to take an appropriate approach to remuneration within the Mexican context.

COMMITTEE DISCUSSIONS DURING 2019

During the year, the Remuneration Committee met three times and its discussions and decisions included the following:

- Approval of and recommendation of changes to the Remuneration Policy (to better align the Annual Bonus Plan to the strategic needs for the Group) for Board and shareholder approval at the 2019 AGM.
- Approval of salary reviews for the Chief Executive Officer and members of the Executive Committee by reference to reports about Mexican inflation trends and internal employee salary reviews and benchmarking reports from WillisTowersWatson.
- Review of the performance of the Chief Executive Officer and members of the Executive Committee compared to the KPIs set for 2018 and approval of annual bonus awards for 2018 based on achievement of KPI targets.
- Review of KPI targets for the Chief Executive Officer and members of the Executive Committee for 2019, including consideration of the effectiveness of changes to the targets to reward better performance in safety improvement and exploration efforts set the previous year.
- Review of a report from WillisTowersWatson on developments in market practice in Mexico in relation to long-term/share-based incentives.
- Review of the Non-executive Directors' fees.
- Revision of KPIs for Chief Executive Officer and members of the Executive Committee for 2019 to better align with the Strategic Plan.
- Other activities, e.g. Committee evaluation, as required by the Committee's terms of reference and review of the terms of reference of the Committee.

As ever, I am always interested to hear the views of shareholders on our approach to executive remuneration.

Yours faithfully

Charles Jacobs
Chairman of the Remuneration Committee

DIRECTORS' REMUNERATION REPORT
ANNUAL REPORT ON REMUNERATION 2019

INTRODUCTION

This report sets out information about the remuneration of the Directors and Chief Executive Officer of the Company for the year ended 31 December 2019. In accordance with the Regulations (as defined on page 149), the information provided in the section entitled 'Directors' Remuneration – 1 January 2019 to 31 December 2019' and accompanying notes, has been audited by Ernst & Young LLP.

Although the Chief Executive Officer is not currently a member of the Board, the Remuneration Committee continues to report on his remuneration in this report as if he were a Director, in keeping with the spirit of the Regulations and the Committee's own practice.

GOVERNANCE OF REMUNERATION

MEMBERSHIP OF THE REMUNERATION COMMITTEE

The Remuneration Committee has responsibility for making recommendations to the Board on the Group's Remuneration Policy for Executive Directors and the Chief Executive Officer and other members of the Executive Committee, and for determining specific remuneration packages for senior management, including pension rights and any compensation packages, as well as remuneration of the Chairman within agreed terms of reference. The Remuneration Committee consisted of the following Directors as at 31 December 2019:

- Mr Charles Jacobs (Chairman), independent Non-executive Director;
- Mr Alberto Baillères, Chairman of the Board; and
- Mr Luis Robles, independent Non-executive Director.

Mr Robles was appointed to the Remuneration Committee on 21 May 2019 and replaced Mr Jaime Serra, who resigned from the Board on 25 February 2019. Although the UK Corporate Governance Code states that the Remuneration Committee should be made up of independent Non-executive Directors, the Board believes that it is vital that the membership of the Committee is made up of Non-executive Directors who are able to bring the following perspectives to the working of the Remuneration Committee:

- An understanding of shareholder expectations;
- An understanding of the evolving remuneration expectations of investors on the London Stock Exchange; and
- An understanding of the general approaches to remuneration within the Mexican market.

The current composition of the Remuneration Committee is therefore considered to be appropriate. The Chairman of the Committee, Charles Jacobs has been a member of the Remuneration Committee since his appointment to the Board in 2014. Although Mr Baillères was non-independent at the time of his appointment to the Board (and therefore his membership of the Remuneration Committee does not comply with Provision 32 of the UK Corporate Governance Code), the Board continues to uphold the view that Mr Baillères' experience and knowledge of the Group and the Mexican market and his considerable contribution to the Remuneration Committee's deliberations justifies his membership of that Committee.

ADVISORS TO THE REMUNERATION COMMITTEE

Remuneration consultants (Mercer, Hay Group and Data Compensation) are engaged by Group companies to provide benchmarking information on remuneration across the Fresnillo Group but not to provide guidance on the structure of remuneration. While the Remuneration Committee takes such information into account when considering Executive Committee remuneration, none of these advisors are considered to materially assist the Remuneration Committee in the performance of its duties.

During the year, WillisTowersWatson have advised the Remuneration Committee in relation to: (i) the current remuneration practices in Mexico and (ii) the updating of the Peer Group for the purposes of benchmarking remuneration under the Directors Remuneration Policy. They also confirmed that the Chief Executive Officer's remuneration remains within the parameters for remuneration agreed by the Remuneration Committee in compliance with the Directors' Remuneration Policy. During 2019, the Group paid WillisTowersWatson US$9,558 (2018: US$nil).

All of the consultants that the Group uses are independent of the Company and each of the Directors. No remuneration consultants are directly engaged by the Remuneration Committee itself.

The Company Secretary ensures that the Remuneration Committee fulfils its duties under its terms of reference and provides regular updates to the Remuneration Committee on relevant regulatory developments in the UK.

The Group Human Resources Department provides information on Mexican market trends and compensation structures for the broader employee population in the Fresnillo Group.

USE OF DISCRETION BY THE REMUNERATION COMMITTEE

During the year, the Remuneration Committee decided to award a lower percentage salary increase to the Chief Executive Officer compared to the average salary increase for the rest of the workforce, reflecting concerns about the performance of the business during the year. The Remuneration Committee did not consider it necessary to use the discretion that it is authorised to exercise, under the Directors' Remuneration Policy in adjusting outcomes under the Annual Bonus Plan. It should be noted, however, that some non-financial targets and outcomes within the KPIs for the Annual Bonus Plan are considered by the Remuneration Committee on the basis of recommendations made by the Chairman and the Deputy Chairman of the Board.

EXECUTIVE REMUNERATION IN 2019

The total remuneration paid to the Chief Executive Officer, Octavio Alvídrez, during the year was US$1,164,183, made up of:

	2019		2018	
	US$	**MX$'000**	US$	MX$'000
Salary	**870,752**	**16,772**	829,925	15,986
Benefits	**96,004**	**1,849**	78,396	1,510
Bonus	**0**	**0**	0	0
Pension	**197,472**	**3,803**	(22,208)	(428)

Although the total remuneration of the Chief Executive Officer rose by 31% in 2019, this was primarily the consequence of the actuarial calculation of his pension accrual as a result of changes in inflation and exchange rates between 2018 and 2019. Mr Alvídrez' salary rose by 5% and he was not paid any bonus for the year.

SALARY

Factors considered in setting salary and workforce engagement on remuneration

POLICY ON THE CONSIDERATION OF WIDER EMPLOYMENT CONDITIONS AND REMUNERATION

When setting pay and benefits for Executive Directors and members of the Executive Committee, the Remuneration Committee takes account of pay and conditions across the Group. It will consider the overall pay increase percentage negotiated each year with employee representatives as its starting point taking account of inflation and other information supporting the annual pay award for employees.

Benchmarking information on pay and employment conditions provided by Mercer, Hay Group and Data Compensation was used across the Group in determining salaries for all employee grades including senior management. These reports benchmarked salaries by reference to peer groups in mining, large companies in Mexico and internationally.

The Company negotiates salary increases with the unions annually, to take effect from 1 April each year. The agreed rates are also used as the point of reference in setting the annual salary review for the Chief Executive Officer. Information about the average salary increase negotiated with the union for 2019-2020 was considered by the Remuneration Committee at its meeting in April 2019 prior to agreeing the level of the Chief Executive Officer's salary review for 2019-2020.

Mr Alvídrez was therefore awarded a salary increase of 5.0% from 1 April 2019, as a result of which, the salary payable under Mr Alvídrez' service agreement is MX$1,020,611 per month, which excludes payments for holidays, Company-paid savings contributions and other cash benefits. The percentage level of salary increases for employees during the year was an average of 5.5%. As required by the Directors' Remuneration Policy, WillisTowersWatson have confirmed that the Chief Executive Officer's remuneration remains in line with the Policy.

POLICY ON THE ALIGNMENT OF EXECUTIVE REMUNERATION AND THE MARKET

A formal review of the Executive Director and Executive Committee members' remuneration is conducted by WillisTowersWatson and will be undertaken at least once every three years. These enable the Remuneration Committee to validate the Company's policy towards remuneration and ensure that it is globally as well as locally competitive. The analysis evaluates the elements of base salary, short-term compensation (guaranteed payments and short-term bonus) and long-term compensation (primarily stock programmes) separately. With assistance from WillisTowersWatson, the Remuneration Committee has established a peer group which will be used to benchmark any Executive Director's and any Executive Committee member's remuneration (the 'Peer Group') to ensure that it remains within the parameters set out in this Policy.

The Peer Group will be reviewed at least every three years, and updated where necessary, to ensure that it remains an appropriate comparator group of companies.

DIRECTORS' REMUNERATION REPORT
ANNUAL REPORT ON REMUNERATION 2019
CONTINUED

Benchmarking

The Remuneration Committee has agreed that the Chief Executive's salary should be set within a range of 25-75% of the Peer Group for base salary. In April 2019, WillisTowersWatson undertook a review of the Chief Executive Officer's remuneration by reference to the Peer Group and confirmed that it remained within these parameters. The Remuneration Committee also decided to review the Peer Group, in response to merger and acquisition activity within the global mining sector and in October 2019 it agreed that to update the Peer Group to make it a more relevant as a reference group for future years.

POLICY BENCHMARKING PEER GROUP

Region	Peer Group to 2019	Peer Group from 2019
Mexico	Grupo Mexico Goldcorp	Grupo Mexico Leagold Mining
USA/Canada	Agnico Eagle Mines Ltd Goldcorp Inc. Hecla Mining Co. Newmont Mining Corporation Pan American Silver Corp. Yamana Gold Inc.	Agnico Eagle Mines Ltd Centerra Gold Hecla Mining Co. IAM Gold Newmont Goldcorp Pan American Silver Corp. Yamana Gold Inc.
Europe	Hochschild Mining Acacia Mining	Hochschild Mining Antofagasta

BENEFITS

The Chief Executive Officer participates in the Company-wide benefits scheme. Details of the benefits paid to the Chief Executive Officer during the year are set out on page 146.

VARIABLE REMUNERATION

POLICY ON ANNUAL BONUS PLAN AND VARIABLE REMUNERATION

It is the Company's policy not to use its equity to incentivise long-term performance. The Company's core strategy is one of long-term sustainable growth. Sustainable growth in mining requires the steady and safe expansion of the Group's operations through the discovery of new resources and construction, maintenance and/or expansion of new mines. No distinction is therefore made between short and long-term incentives.

Factors considered in setting bonus

The Remuneration Committee annually reviews the effectiveness of key performance indicators ('KPIs') and targets that were set for the prior year. In 2018, it undertook a review of the overall structure of the Annual Bonus Plan and while it concluded that it remained broadly appropriate, it considered that the Company is moving into a phase of consolidation rather than growth, and therefore agreed a revision to the structure of the Annual Bonus Plan which was incorporated into the revised Remuneration Policy which was then proposed to and approved by shareholders at the 2019 AGM.

Following approval of the Remuneration Policy, the Annual Bonus Plan includes metrics and targets which are aligned to at least one of the four main themes of the Group's strategy. In developing the Annual Bonus Plan for 2019, the number of performance metrics and targets was increased to align the plan outcomes more specifically to the Group's strategic priorities and key stakeholder relationships. In particular, specific new metrics were included to achieve the following:

Strategic priorities	• Progress in executing key exploration projects • Progress in executing development projects
Stakeholder relationships	• Enhanced relationships with employees and contractors • Effective community relationships

Improving the safety culture within the Group has been an important priority for the Board given the safety performance in recent years. Consequently, metrics have been included in the Annual Bonus Plan specifically to incentivise the promotion of a strong safety culture across the workforce.

The Remuneration Committee also, with effect from 2018, introduced a cap on each of the KPIs (other than the Safety KPI) such that the points awarded on any KPI (other than Safety) cannot exceed 135% of the target set for that KPI at the beginning of the year.

ANNUAL BONUS

Mr Alvídrez achieved 55.6 points under the bonus scheme for the year ended 31 December 2019 (2018: 87.1 points) and therefore was not awarded a bonus for 2019.

The objectives, the measures associated with each objective, and the relative weighting between objectives, as applied to Mr Alvídrez' annual bonus payment, are detailed in the following table.

Objective	Measure	Weighting points	2019 Target	2019 Result	Points awarded
Financial	(Adjusted EBITDA for the year/Budgeted EBITDA) x 100[4]	20	734	517 (-30.0%)	0.0
Production	Increase in equivalent ounces produced compared to the prior year production level[3]	20	151.1	136.7 (-10.0%)	0.0
Exploration	(Total Resources for the year/Total Resources prior year) x 100[2]	5	1.35	2.28 (+69.0%)	8.4
	Net increase in resources upgraded from inferred to measured and indicated (MI Resources for the year/MI Resources prior year) x 100[2]	5	1.35	0.60 (-55.0%)	0.0
	Reserves replenishment[2] (Reserves at the year-end/Reserves prior year) x 100	4	100%	87.0% (-13.0%)	3.5
Exploration Projects Progress	Progress compared to project plan for four key exploration projects (to be reviewed each year) (Target = 90% progress: Maximum = 100% progress, proportional decrease to nil from 90% to zero %[5])	8	(i) 90.0% (ii) 90.0% (iii) 90.0% (iv) 90.0%	112.0% 89.0% 71.0% 98.0%	3.30 (3) 1.97 (2) 1.57 (2) 1.08 (1)
Projects	Progress compared to project plan for three key development projects (to be reviewed each year) (Target = 92% progress: Maximum = 100% progress, proportional decrease to nil points from 92% to zero %[6])	12	(v) 92.0% (vi) 92.0% (vii) 92.0%	85.0% 81.0% 79.0%	4.63 (5) 2.63 (3) 3.43 (4)
Human Resources	Performance of contractors: Management of contractors – progress with stripping programmes (Target = 100% progress: Maximum = 110% progress, proportional decrease to nil points from 100% to zero %)	3 (Underground)	100.0%	77.0%	2.31
		2 (Open Pit)	100.0%	89.0%	1.78
	Unionised labour relations (Discretionary award)	2			2.00
	Management of contractors programme (Target = 90% progress on planned work: Maximum = 100% progress, proportional decrease to nil points from 90% to zero %)	1	90.0%	95.0%	1.05
Safety	Fatal accidents (see note 7 below)	10	0	2	0.00
	Progress in implementing the safety plan for the year (Target = 95% progress: Maximum = 100% progress, proportional decrease to nil points from 95% to zero %)	3	95.0%	95.0%	3.00
	Reduction in the Lost Days Ratio compared to previous year (Lost days/ Total Headcount, including contractors) Maximum: 10% or more reduction	3.5	8.64	7.63 (-12.0%)	3.91
	Reduce the Injury Rate compared to previous year (Total accidents/Headcount) Maximum: 10% or more reduction	3.5	20.47	18.67 (-9.0%)	3.81
Communities	Perception poll outcomes Effectiveness metrics	3 3	4 0.78	4 0.89	3.0 2.59
Synergies and teamwork	Discretionary target to be agreed by the Chairman and Deputy Chairman	2	95%	100%	2.2
Total		**100**			**56.2**
Adjustments[10]	Safety[8]	0	2		(0.56)
	Environmental[9]	0	0		0.00
Total		100			55.6

1 The points weighting is considered by the Remuneration Committee each year to ensure that it reflects an appropriate balance of priorities for management according to the Strategic Plan. Where a change of emphasis is considered to be necessary, the weighting will be amended in future years. For 2019, the targets, weighting and measures were amended to reflect that the Company is moving into a phase of consolidation rather than growth.
2 Increase of 2.0 points per each 1% of audited Resources above Target. A decrease of 2 points per each 1% below Target. Resources will be weighted to take account of quality and potential commercial viability. Increase of 2.0 points per each 1% of audited Reserves above Target. A decrease of 2.0 points per each 1% below Target. Reserves will be weighted to take account of quality and commercial viability.
3 For 2019, lead and zinc production was included in the production target as well as silver and gold. Increase of 1.0 point per increase in Production up to 5.0 points. Decrease of 1 point in the case of a 1% decline in Production from zero to 5% reduction, decrease of 1.5 points for each additional 1% decline between 6% and 10% reduction, for each additional 1% percentage decline beyond 10% decline, 3 points are deducted.
4 EBITDA is adjusted to exclude currency fluctuation, the effect of year-on-year changes in metals prices and any revaluation of the Silverstream contract. Increase of 1.0 point per % increase in EBITDA up to 7.0 points, decrease of 1.0 point in the case of a 1% decline in EBITDA from zero to 5% reduction, decrease of 1.5 points for each additional 1% decline between 6% and 10% reduction, for each additional 1% percentage decline beyond 10% decline, 2.5 points are deducted.
5 Exploration Projects for 2019 were (i) The new JM Ore Deposit at San Julián (3.0 points); (ii) Fresnillo District – Jarilllas West (2.0 points); (iii) Condoriaco Project (2 points); and (iv) Guanjuato Project (1 point).
6 Projects for 2019 were (v) Juanicipio (5.0 points); (vi) Engine conversion to gas at Herradura (3 points); and (vii) Development at underground mines (4.0 points).
7 In the event of zero fatalities during the year, a premium of 10 points will be awarded for safety. For the purposes of calculating fatalities; all fatalities are included, irrespective of whether they are employees or contractors.
8 In the event of a fatality, zero points will be awarded for safety, the number of points awarded will be further reduced by 1% if there are two fatalities. From the remaining total score, an additional 2% will be deducted if there are three fatalities. In the case of four fatal accidents, an additional 3% will be deducted from the remaining total score and so on for further fatalities.
9 In the event of an environmental incident, the total bonus score will be reduced by 1% per each Environmental Incident reported to Profepa up to three incidents. In the case of four incidents or more, a further 3% for each incident will be deducted and so on.
10 Under the Remuneration Policy, the Remuneration Committee has discretion to make adjustments to bonus payments in certain circumstances.
11 The maximum points awarded cannot exceed 35% above the weighting.

DIRECTORS' REMUNERATION REPORT
ANNUAL REPORT ON REMUNERATION 2019
CONTINUED

RECONCILIATION OF ADJUSTED NET PROFIT TARGETS AND OUTCOMES TO THE CONSOLIDATED FINANCIAL STATEMENTS

US$ millions	2019 Result	2018 Result
Profit for year as shown in the financial statements	**205.8**	350.0
Interest, tax, depreciation and amortisation	**516.6**	N/A
Adjustments:		
Changes due to currency fluctuations	**35.3**	(27.5)
Changes due to year-on-year movements in metal prices (including the effects of metal hedging)	**(192.8)**	61.4
Changes due to the movement in the valuation of the Silverstream contract	**(48.4)**	(10.5)
Adjusted EBITDA (2018: net profit) total for bonus purposes	**516.6**	373.0

The Chief Executive Officer is prohibited from participating in the PTU scheme and therefore may only receive a bonus maximum equal to six months' pay. All other employees are eligible for PTU payments annually which can be as high as 200% of salary in exceptional years.

2020 Bonus Targets
The 2020 weightings and measures are set out in the table above. The 2020 targets and performance against those targets will be disclosed in next year's report.

PENSION ENTITLEMENT

POLICY ON PENSIONS
The Group operates two pension schemes: (i) a defined benefit scheme which was closed to new members on 1 July 2007 with benefits frozen at this date for existing members, subject to indexation with reference to the Mexican National Consumer Price Index; and (ii) a defined contribution scheme (which was introduced on 1 July 2007). Membership of the latter scheme is voluntary, members earning a salary of no more than 25 times the minimum wage in force from time to time may make contributions of 5% to the scheme.

On behalf of members earning a salary of no more than 25 times the minimum wage in force from time to time the employing company may make contributions of 5% to the scheme. The employing company may also make additional contributions between 5 and 8% of salary to this plan. Members may elect to match percentages between 5% to 8% of salary. Executive Directors may participate the Group's pension schemes on the same basis as any other employee.

Mr Alvídrez is a member of the defined benefit scheme in relation to services with the Company prior to 1 July 2007. He is also a member of the defined contribution scheme. He is expected to retire at his normal retirement age of 60 years.

CHAIRMAN AND NON-EXECUTIVE DIRECTORS

POLICY ON CHAIRMAN AND NON-EXECUTIVE DIRECTORS
The remuneration of the Chairman of the Company and the Non-executive Directors consists of fees that are paid quarterly in arrears. The Chairman and Non-executive Directors do not participate in any long-term incentive or annual bonus schemes, nor do they accrue any pension entitlement. The Chairman of the Company does not receive any fees for acting as Chairman other than his fees as a Non-executive Director.

The fees payable to Non-executive Directors are calculated on the following bases:
- A base fee of £35,000 per annum is paid to each non-UK-based Non-executive Director to reflect the time commitment and level of involvement they are required to make in the activities of the Board as a whole.
- There are no set fees for membership of any Board committees or for the chairmanship of the Board, other than as follows.
  - The UK-based Non-executive Directors receive a higher fee, currently £90,000 per annum, to reflect the additional time commitment that they make in order to travel to Board meetings in Mexico and for responsibilities as Committee members and, where appropriate, as Senior Independent Director and/or Chairman of any Committee.
  - When the Chairman of the Audit Committee is resident in Mexico, he/she will receive an additional fee of £15,000 per annum.
  - Members of the Audit Committee will receive an additional fee of £5,000 per annum.

The key terms of the Non-executive Directors' letters of appointment for the directors serving during the year are as follows:

Director	Date of original letter of appointment	Notice period from Director to the Company	Duration of term[1]	Fees p.a.
Alberto Baillères	15 April 2008	3 months	1 year	£35,000
Juan Bordes	15 April 2008	3 months	1 year	£35,000
Arturo Fernández	15 April 2008	3 months	1 year	£35,000
Fernando Ruiz	15 April 2008	3 months	1 year	£35,000
Alejandro Baillères	16 April 2012	3 months	1 year	£35,000
Jaime Lomelín	15 August 2012	3 months	1 year	£35,000
Bárbara Garza Lagüera	11 April 2014	3 months	1 year	£35,000
Charles Jacobs	11 April 2014	3 months	1 year	£95,000
Alberto Tiburcio	4 May 2016	3 months	1 year	£50,000
Dame Judith Macgregor	22 May 2017	3 months	1 year	£90,000
Georgina Kessel	7 May 2018	3 months	1 year	£35,000
Luis Robles	10 May 2019	3 months	1 year	£40,000

1 Unexpired term: The Non-executive Directors all have rolling contracts which are subject to the annual re-election at the Annual General Meeting. The current term expires on 29 May 2020, being the date of the next Annual General Meeting but the appointment will continue after that date provided that each Director is re-elected at the AGM.
2 Copies of the Directors' letters of appointment and service agreements are available for inspection at the Company's registered office.

SHAREHOLDERS AND REMUNERATION

POLICY ON ENGAGEMENT WITH SHAREHOLDERS ON REMUNERATION

The composition of the Remuneration Committee has been designed to ensure that the views of the controlling shareholder (through the membership of the Chairman of the Board on the Committee) and the independent shareholders (through the membership of a UK-based Director on the Committee) can be represented. The Remuneration Committee has considered the views of organisations such as Institutional Shareholder Services (ISS) and the Investment Association both generally and as reported to the Company in relation to its own executive remuneration practices prior to each Annual General Meeting, when considering the Remuneration Policy and its application.

AGM VOTING ON THE REMUNERATION REPORT

The Remuneration Committee's approach to executive remuneration has received strong support from shareholders at every Annual General Meeting since the Company's listing on the London Stock Exchange in 2008. More than 95% of independent share votes cast on the advisory vote at each AGM have been in favour of the Directors' Remuneration Report.

	All shares voted		Free float shares voted		
	For	Against	For	Against	Number of votes withheld
2011	99.98%	0.02%	99.88%	0.12%	5,125
2012	99.91%	0.09%	99.54%	0.46%	1,814,818
2013	99.97%	0.03%	99.82%	0.18%	115,987
2014: Remuneration Policy	99.72%	0.28%	98.69%	1.31%	532,589
2014: Remuneration Report	100.00%	0.00%	99.99%	0.01%	531,072
2015: Remuneration Report	99.91%	0.09%	99.55%	0.45%	814,989
2016: Remuneration Report	99.89%	0.11%	99.48%	0.52%	44,391
2017: Remuneration Policy	99.87%	0.13%	99.42%	0.58%	43,901
2017: Remuneration Report	99.86%	0.14%	99.34%	0.66%	43,901
2018: Remuneration Report	99.79%	0.21%	98.99%	1.01%	12,203
2018 Remuneration Policy	99.45%	0.55%	97.32%	2.68%	9,907
2019: Remuneration Report	99.41%	0.59%	96.99%	3.01%	15,761
2019: Remuneration Policy	99.45%	0.55%	95.72%	4.28%	269,961

Note: Prior to 2014, there was only one vote on the Directors Remuneration Report at each Annual General Meeting.

DIRECTORS' REMUNERATION REPORT
ANNUAL REPORT ON REMUNERATION 2019
CONTINUED

AUDITED INFORMATION – DIRECTORS' REMUNERATION – 1 JANUARY 2019 TO 31 DECEMBER 2019
SINGLE TOTAL FIGURE OF REMUNERATION

The detailed emoluments received by the Executive and Non-executive Directors and the Chief Executive Officer during the year ended 31 December 2019 are detailed below:

	2019					2018				
US$'000	Salary/Fees	Benefits	Bonus	Pension	Total	Salary/Fees	Benefits	Bonus	Pension	Total
Chairman										
Alberto Baillères	**45**	**0**	**0**	**0**	**45**	47	0	0	0	47
Non-executive Directors										
Alejandro Baillères	**45**	**0**	**0**	**0**	**45**	47	0	0	0	47
Juan Bordes	**45**	**0**	**0**	**0**	**45**	47	0	0	0	47
Arturo Fernández	**45**	**0**	**0**	**0**	**45**	47	0	0	0	47
Bárbara Garza Lagüera	**45**	**0**	**0**	**0**	**45**	47	0	0	0	47
Charles Jacobs	**118**	**0**	**0**	**0**	**118**	120	0	0	0	120
Georgina Kessel[1]	**45**	**0**	**0**	**0**	**45**	28	0	0	0	28
Jaime Lomelín	**45**	**0**	**0**	**0**	**45**	47	0	0	0	47
Judith Macgregor	**115**	**0**	**0**	**0**	**115**	120	0	0	0	120
Luis Robles[2]	**31**	**0**	**0**	**0**	**31**	0	0	0	0	0
Fernando Ruiz	**45**	**0**	**0**	**0**	**45**	47	0	0	0	47
Alberto Tiburcio	**64**	**0**	**0**	**0**	**64**	58	0	0	0	58
Former Directors										
Jaime Serra[3]	**7**	**0**	**0**	**0**	**7**	47	0	0	0	47
Guy Wilson[4]	**0**	**0**	**0**	**0**	**0**	49	0	0	0	49
Total	**695**	**0**	**0**	**0**	**695**	751	0	0	0	751
Chief Executive Officer										
Octavio Alvídrez[5]	**871**	**96**	**0**	**197**	**1,164**	830	78	0	(22)	886
Grand Total	**1,566**	**96**	**0**	**197**	**1,895**	1,581	78	0	(22)	1,637

1 Georgina Kessel was appointed to the Board on 30 May 2018.
2 Luis Robles was appointed to the Board on 21 May 2019.
3 Jaime Serra resigned from the Board on 25 February 2019.
4 Guy Wilson retired from the Board on 30 May 2018.
5 Details of benefits provided and the bonus paid to Mr Alvídrez are set out in the tables below.

The Company does not operate a long-term incentive plan or any share-based incentives.

BENEFITS

The Chief Executive Officer participates in the Company-wide benefits scheme. The benefits provided to Mr Alvídrez during the year consisted of:

US$	2019	2018		2019	2018
Life insurance premiums	**35,097**	28,632	Club memberships	**4,342**	2,543
Chauffeur	**34,404**	31,818	Medical insurance premiums	**1,513**	3,039
Subsistence/meal benefits	**14,376**	5,147	Social security	**1,087**	1,041
Car	**5,185**	5,185			

PENSION

The pension entitlement of the Chief Executive Officer is as follows:

US$'000	Defined Contribution Scheme (DCS)	Defined Benefit Scheme (DBS)
Rights as at 31 December 2019[1]	771	1,024
Additional benefit in the event that the Chief Executive Officer retires early.	In the event of early retirement, Mr Alvídrez is entitled to receive his accumulated contributions (both member and Company) to the DCS.	Mr Alvídrez is not currently entitled to any additional benefit on early retirement in the DBS.

	Accumulated accrued benefits (as at 31 December)		Increase in accrued benefits during the year[1]		Increase, before inflation and the effect of foreign exchange, in accrued benefits during the year	
US$'000	**2019**	2018	**2019**	2018	**2019**	2018
Octavio Alvídrez	**1,794**	1,486	**308**	39	**199**	5

1 The increase in accrued benefits during the year includes a revaluation effect of US$66k (2018: (US$25k)).

SHARES HELD BY DIRECTORS

The number of Ordinary Shares of the Company in which the Directors were beneficially interested at 1 January 2019 and at 31 December 2019 was:

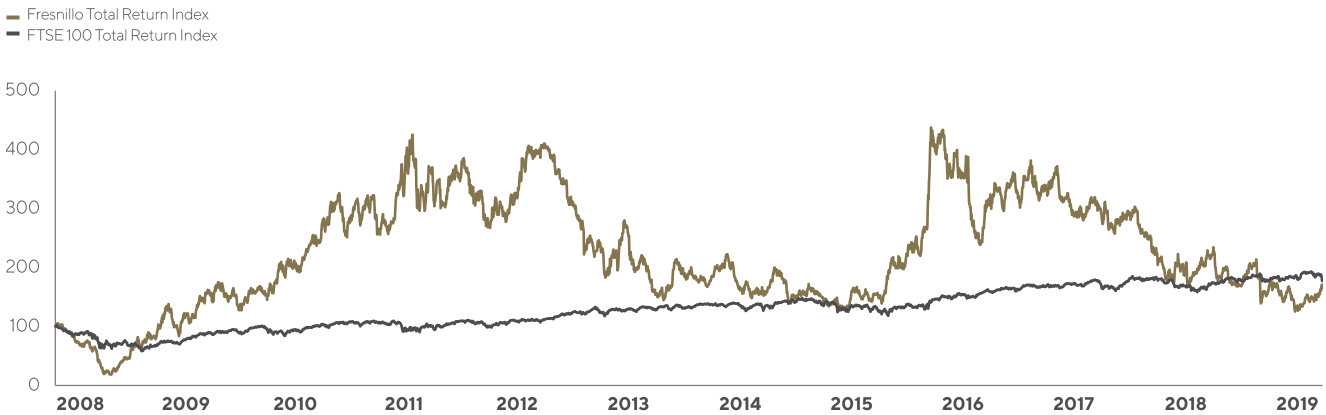
Director	1 January 2019	31 December 2019
Alberto Baillères[1]	**552,595,191**	552,595,191
Alejandro Baillères	**–**	–
Juan Bordes	**15,000**	15,000
Arturo Fernández	**–**	–
Bárbara Garza Lagüera	**–**	–
Charles Jacobs	**–**	1,600
Georgina Kessel	**–**	–
Jaime Lomelín	**–**	–
Dame Judith Macgregor	**–**	–
Luis Robles[2]	**N/A**	–
Fernando Ruiz	**30,000**	30,000
Jaime Serra[3]	**–**	N/A
Alberto Tiburcio	**–**	–

1 Alberto Baillères holds an indirect interest in the Company. Mr Baillères and companies controlled by Mr Baillères hold, in aggregate 68.9% of the issued share capital (and voting rights) of Peñoles. Peñoles holds 552,595,191 Ordinary Shares (74.99%) of the issued share capital in the Company. Fresnillo plc and Peñoles are part of the consortium known as Grupo BAL which is controlled and directly or indirectly majority-owned by Mr Baillères.
2 Luis Robles was appointed to the Board on 21 May 2019.
3 Jaime Serra retired from the Board on 25 February 2019.

ADDITIONAL INFORMATION ON REMUNERATION

SHARE PRICE PERFORMANCE

As required by the Regulations, the following graph sets out the performance of the Company's share price since its listing compared to the FTSE 100 Index. As the Company was a constituent of the FTSE 100 Index for most of the year, this is deemed to be the most appropriate index for comparative purposes for the year-ended 31 December 2019.



DIRECTORS' REMUNERATION REPORT
ANNUAL REPORT ON REMUNERATION 2019
CONTINUED

CHIEF EXECUTIVE OFFICER'S SERVICE AGREEMENT

During the year, Mr Alvídrez served as Chief Executive Officer but was not a member of the Board. Mr Alvídrez is employed under a contract of employment with Servicios Administrativos Fresnillo S.A. de C.V., a subsidiary of Fresnillo plc. Mr Alvídrez contract commenced on 15 August 2012 and is governed by Mexican Federal Labour Law. Mr Alvídrez service agreement does not have a fixed term and may be terminated in writing by either party. There is no provision in Mr Alvídrez service agreement entitling him to additional compensation for termination other than those required by Mexican labour laws for termination without cause. No benefits are payable on termination.

Under his service agreement, Mr Alvídrez is entitled to 26 working days' paid holiday per year. He is not entitled to profit-sharing (PTU). Mr Alvídrez is also entitled to life insurance, the use of a chauffeur and company car, the payment of medical insurance premiums covering limited expenses and check-ups, meals and subsistence payments and club subscriptions.

TOTAL REMUNERATION OF THE CHIEF EXECUTIVE OFFICER

The total remuneration of the Chief Executive Officer for the past seven years, in US dollars, has been as follows:

Year ending 31 December	2013	2014	2015	2016	2017	2018	**2019**
Total remuneration (US$'000)	1,116	1,217	1,166	1,111	1,072	886	**1,164**
Percentage change on previous year	(41.5%)	9.1%	(4.2%)	(4.7%)	(3.5%)	(10.7%)	**31.38%**
Proportion of maximum bonus paid to CEO in year	33.33%	33.33%	33.33%	66.66%	33.33%	Nil%	**Nil%**

YEAR-ON-YEAR PERCENTAGE CHANGE IN REMUNERATION OF CEO AND ALL EMPLOYEES

	Percentage change (in US dollar amounts) 2018–2019		
	Base salary/Fees	Benefits	Annual bonus
Chief Executive Officer	5.0%	22.4%	0.0%
All employees	18.5%	11.7%	12.3%

RELATIVE IMPORTANCE OF THE SPEND ON PAY

	2019	2018	% change
Staff costs (US$'000) [1]	**126,723**	109,549	15.8
Distributions to shareholders (US$'000)	**142,221**	298,442	(52.3)

1 Staff costs are taken without PTU in order to make a like-for-like comparison with the Chief Executive Officer who does not receive PTU.

PAYMENTS TO NEW OR DEPARTING DIRECTORS

During the year, the Company has not recruited any executive Directors; nor has it made any payments to past Directors or made any payments to Directors for loss of office.

This report has been approved by the Board of Directors of Fresnillo plc.

Signed on behalf of the Board.

Charles Jacobs
Chairman of the Remuneration Committee
2 March 2020

DIRECTORS' REMUNERATION REPORT
APPENDIX: SUMMARY OF THE DIRECTORS' REMUNERATION POLICY

INTRODUCTION

The current remuneration policy of the Company has been prepared in accordance with The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 ('the Regulations') and was approved by shareholders at the AGM held on 21 May 2019. The Remuneration Committee has assessed the criteria recommended by Code Provision 40 of the 2018 UK Corporate Governance Code and believes that the policy has always been inherently clear, simple, designed to avoid of excessive rewards, predictable and proportionate. The effective date of the policy is dated 21 May 2019. The full text of the current remuneration policy may be found on pages 143 to 147 of the Fresnillo plc 2018 Annual Report and Accounts, which may be found on the Company's website www.fresnilloplc.com.

As required by UK law, the remuneration policy is binding in relation to Directors. The Company currently has no Executive Directors who would be bound by the remuneration policy. However, the Company treats the Chief Executive Officer as if he were an Executive Director for the purposes of the remuneration policy and for reporting on his remuneration.

REMUNERATION POLICY

The Group's remuneration policy seeks to ensure that the Company is able to attract, retain and motivate its Executive Directors and members of the Executive Committee. The retention of key management and the alignment of management incentives and the creation of shareholder value being key objectives of this policy.

Setting base salaries for Executive Directors and members of the Executive Committee at an appropriate level is a key to managerial retention in Mexico. Therefore, the Remuneration Committee seeks to ensure that salaries are market competitive both within the Mexican context and internationally for comparable companies. Total compensation is set within a range around the median level for the Company's Peer Group within Mexico and internationally, total remuneration is benchmarked triennially to ensure that the whole remuneration package is maintained at this level over the long term. Salaries are positioned within the range according to experience and service.

The table below sets out the key elements of Executive Directors' pay set out in the remuneration policy (the 'Policy Table'):

BASE SALARY

PROVIDES THE CORE REWARD FOR THE ROLE

Operation	Reviewed annually and fixed for 12 months starting on 1 April each year and the review is influenced by: • Role, experience and performance. • Average workforce salary adjustments. • Mexican economic factors. • Comparison with the Company's Peer Group in Mexico and internationally. Salaries are benchmarked triennially by reference to companies of similar size and complexity and will be positioned within a mid-range of the Company's comparator Peer Group in Mexico and internationally. The next review will take place in April 2019.
Maximum value	The Executive Director's salary will be reviewed taking account of the benchmarking information received by the Remuneration Committee and the maximum value of the Executive Director's base salary will be positioned within the mid-range for companies in the Peer Group of Mexican and international resources companies. An Executive Director's salary will be increased in line with increases applied across the whole workforce. In exceptional circumstances, the Executive Director's salary may be increased by up to but never more than 10% above the average pay increase for the whole workforce of the Company in any year. The rationale for such increases will be fully explained in the Annual Report on Remuneration.
Performance metric	The Remuneration Committee considers individual salaries at the appropriate meeting each year by reference to the factors noted under the 'Operation' heading in this table. Details of the current remuneration of the Executive Director are provided in the Annual Report on Remuneration.
Discretion	The Remuneration Committee will establish the Company's comparator Peer Group in Mexico and internationally as part of the triennial review which it will consider in April 2019. The Peer Group will be reviewed again in April 2019. The Committee will report on the outcome of these reviews within the relevant Annual Report on Remuneration.

DIRECTORS' REMUNERATION REPORT
APPENDIX: SUMMARY OF THE DIRECTORS' REMUNERATION POLICY
CONTINUED

ANNUAL BONUS

REWARDS THE ACHIEVEMENT OF BOTH SHORT AND LONG-TERM FINANCIAL AND STRATEGIC BUSINESS TARGETS AND DELIVERY OF PERSONAL OBJECTIVES

Operation	Targets are renewed annually and relate to the strategic aims of the business as a whole. A scoring system is used for the plan. Each objective set for the executive at the beginning of the year is allocated a points-rating which represents a median performance target for that objective. Upper and lower point thresholds are set to allow for outstanding performance and to ensure that underperformance is not rewarded. For each member of the Executive Committee (including the Chief Executive Officer, the Chief Financial Officer, the Vice President of Exploration and the Chief Operating Officer), a bonus is only payable if the aggregate performance equals or exceeds 100 points. Bonus payments are paid for aggregate performance against target at or above 100 points and is made on a prorated basis between two months' salary paid for the achievement of 100 points and six months' salary paid for the achievement of 115 points or more, as follows:

Number of points	Months' salary paid
100.00	Two months' salary.
100.01–115.00	Prorated on a linear basis between two months' salary and six months' salary.
115.01+	Six months' salary.

Maximum value	The maximum percentage of salary is 50% (six months' salary) and is paid where Executive Directors achieve 115.01 points or more under the Annual Bonus Plan (the target is 100 points).
Performance metric	The KPI targets are intended to focus on risks that are within the control and influence of management. Thus, the management of safety, security, project, human resource, exploration teamwork, synergies, community and environmental risks are all currently implicitly covered within the KPIs. The KPIs and targets, which are set by reference to the reserves and resources and financial metrics at the previous year end and/or set in the budget for the forthcoming financial year are also designed to ensure that both short-term objectives and the long-term development of the Fresnillo Group are given equal priority. The achievement of project milestones will be used to measure project management performance and the Committee's discretion will be applied for subjective metrics such as teamwork. Details of the measures, targets and performance which is tested on an annual basis will be provided in the Annual Report on Remuneration.
Discretion	The Remuneration Committee considers that the KPIs, upon which bonuses are based, may need to evolve from year-to-year in line with the strategy and therefore it retains the discretion to make appropriate adjustments to the KPIs themselves, the bonus bands within the overall maximum and the individual KPI weightings from year-to-year. The Remuneration Committee retains the discretion to adjust bonus payments in the following circumstances: (i) A downward adjustment where the KPI outcomes would result, in the opinion of the Remuneration Committee, in a bonus payment which cannot be justified by the Company's financial or operational performance during the year (or in respect of previous years). In this case a downward adjustment would be applied. (ii) Where factors outside the control of Executive Directors, e.g. force majeure circumstances, have significantly depressed the level of points awarded. In deciding whether adjustment is merited, the Remuneration Committee will consider the appropriateness of the Executive Director's response to those circumstances; in this situation a modest upward adjustment may be considered. (iii) Poor executive response to adverse health, safety or environmental performance during the year, in which case a downward adjustment would be considered. The use of any such discretions will be fully explained in future Directors' Remuneration Reports.

Note: Any adjustment in individual KPI weightings will not result in their achievement being any less difficult to satisfy.

BENEFITS

HELP RECRUIT AND RETAIN EMPLOYEES

Operation	An Executive Director would be entitled to life insurance, the use of a company car and chauffeur, meal and subsistence benefits, the payment of premiums for medical insurance covering limited expenses and check-ups. Benefits may be changed if Company policy on benefits changes.
Maximum value	The current benefits are set out in the Annual Remuneration Report. The maximum value of benefits will be determined by Company policy that is applicable from time to time.
Performance metric	None.
Discretion	The Remuneration Committee may consider changes to the benefits made available to Executive Directors in line with any changes in the policy for benefits provided to all employees.

PENSION

REWARDS CONTINUED EMPLOYMENT AND SUSTAINED CONTRIBUTION	
Operation	The Group operates a defined contribution scheme. Executive Directors are entitled to membership of the defined contribution scheme.
Maximum value	The maximum Company contribution for any employee may not exceed 13% of salary.
Performance metric	None.
Discretion	Not applicable.

POLICY ON SHAREHOLDING GUIDELINES

Fresnillo has not introduced share ownership guidelines. The Company does not operate share-based incentive arrangements given that the culture for incentives in the Mexican market does not favour share-based incentives. Consequently, there would be neither opportunity nor appetite for executives to build a shareholding in the Company and therefore the Remuneration Committee has not adopted any shareholding guidelines.

POLICY ON THE CONSIDERATION OF WIDER EMPLOYMENT CONDITIONS AND REMUNERATION

Subject to the 10% limit in the Policy Table, the Remuneration Committee may agree pay increases above or below the agreed percentage in exceptional circumstances, where in its discretion it considers such variance to the norm to be justified. Other than the WillisTowersWatson report specifically commissioned by the Remuneration Committee, the same benchmark reports are used in the evaluation of executive and employee remuneration, thus providing a common approach to both.

Below Board level, a statutory profit-sharing arrangement ('PTU') is operated which in some years has enabled employees to receive significant levels of bonus in line with the increased profitability of the relevant employing company. Neither the Chief Executive Officer nor any of the Non-executive Directors participate in a PTU scheme within the Fresnillo Group. The other members of senior management group below Board level are employed by Servicios Administrativos Fresnillo S.A. de C.V., which pays annual PTU payments. However, such payments are modest.

DIRECTORS' REPORT

In accordance with Section 415 of the Companies Act 2006, ('the Act'), the Directors of Fresnillo plc present their report for the year ended 31 December 2019.

The Directors believe that the requisite components of this report are set out elsewhere in this Annual Report and/or on the Company's website www.fresnilloplc.com. The table sets out where the necessary disclosures can be found.

BUSINESS PERFORMANCE	
Results	Results for the year ended 31 December 2019 are set out in the Financial Review on pages 54 to 63 and the consolidated income statement on page 169.
Dividends	Information regarding the proposed dividend can be found in the Financial Review on page 63. Information regarding dividend payments can be found in the notes to the consolidated financial statements on page 199. 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 Act, 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 reserves at each time that the 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. The relevant dividends were the Interim Dividends in 2011, 2012, 2013, 2018 and 2019, the Extraordinary Dividend in 2013 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 as far as possible to the position they would have been in had the relevant dividends been made in full compliance with the Act.
Strategic Report	The Strategic Report can be found on pages 1 to 107.
Corporate Governance Statement	The Company's statement on Corporate Governance can be found on page 111.
Directors Remuneration Report	The Directors Remuneration Report can be found on pages 136 to 151.
Activities in research and development	The Company does not have any research and development activities.
Future developments	Details about the Company's future developments can be found in the Strategic Report on pages 24 to 25.
Post-balance sheet events	There have been no post-balance sheet events.
DIRECTORS	
Directors	Directors that have served during the year and summaries of the current Directors' key skills and experience are set out in the Corporate Governance Report on pages 112 to 115.
Directors' Interests	Details of the Directors' beneficial interests are set out in the Directors Remuneration Report on page 147.
Directors' Indemnities	The Company has given indemnities to each of the Directors in respect of any liability arising against them in connection with the Company's (and any associated company's) activities in the conduct of their duties. These indemnities are subject to the conditions set out in the Act and remain in place at the date of this report.
Directors' and Officers' Liability Insurance	Directors' and Officers' Liability Insurance cover is in place at the date of this report. Cover is reviewed annually.
CONSTITUTION	
Articles of Association	Any amendments made to the Company's Articles of Association may be made by a special resolution of shareholders. The following is a summary of the structure, rights and restrictions of the Company's share capital: The Company has two classes of share capital: 736,893,589 ordinary shares of US$0.50 ('Ordinary Shares') and 50,000 deferred shares of £1.00 each ('Sterling Deferred Shares'). The Ordinary Shares are listed on the London Stock Exchange and the Mexican Stock Exchange. The rights and obligations attaching to these shares are governed by UK 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. On a show of hands every shareholder present in person or by proxy (or being a corporation represented by a duly authorised representative) shall have one vote, and on a poll every shareholder who is present in person or by proxy shall have one vote for every share held. The Notice of Annual General Meeting specifies deadlines for exercising voting rights and appointing a proxy or proxies.

	There are no restrictions on the transfer of the Ordinary Shares other than: • the standard restrictions for a UK-quoted company set out in article 32 of the Company's Articles of Association; • where, from time to time, certain restrictions may become imposed by laws and regulations (for example, insider trading laws); and • pursuant to the Listing Rules of the Financial Conduct Authority whereby certain Directors, officers and employees of the Company require the approval of the Company to deal in the Ordinary Shares. A Director may be elected either to fill a casual vacancy or as an additional Director, but so that the total number of Directors shall not thereby exceed the maximum in accordance with the Company's Articles of Association. Any person so appointed by the Directors shall retire at the next Annual General Meeting and shall then be eligible for election. No shareholder holds securities carrying special rights as to the control of the Company. There are no limitations on the holding of securities. There are no restrictions on voting rights or any arrangements by which, with the Company's cooperation, financial rights carried by securities are held by a person other than the holder of the securities. There are no agreements between holders of securities that are known to the Company which may result in restrictions on the transfer of voting rights. The Sterling Deferred Shares only entitle the shareholder to payment of the amount paid up after repayment to Ordinary Shareholders on winding up or on a return of capital. The Sterling Deferred 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 Shares at a price of £1.00 or, as custodian, purchase or cancel the Sterling Deferred Shares or require the holder to transfer the Sterling Deferred Shares. Except at the option of the Company, the Sterling Deferred Shares are not transferable.
Branches outside the UK	The Company's operations are outside the UK.
Change of control	The following represents the likely effect on significant agreements with the Company were it to be subject to a change of control: • The New Services Agreement contains a discretionary provision for Servicios Administrativos Peñoles, S.A. de C.V to terminate the agreement should they so wish if there is a change of control of Fresnillo plc; • There are no formal 'change of control' provisions within the Silverstream contract or Met-Mex arrangements; • The Group's mining concessions are held by several of its Mexican subsidiary companies. As long as the companies holding the mining concessions remain Mexican resident companies, there are no provisions within the concession agreements which would be triggered by a change of control of the Company. The Company does not have any agreements with any Non-executive Director, Executive Director or employee that would provide compensation for loss of office or employment resulting from a change of control.

STAKEHOLDERS AND POLICIES

Section 172 Statement	The Company's Section 172 Statement can be found in the Strategic Report on page 104.
Employee engagement	Details of how the Company engages with its workforce can be found in the Strategic Report on pages 18 to 19.
Stakeholder engagement on key decisions	Details of the key decisions and discussions of the Board during the year and the main stakeholder inputs into those decision are set out in the Strategic Report on pages 104 to 106 and Corporate Governance Report on page 118.
Payments to governments	In June 2019, the Company approved and published a report disclosing payments made to governments. The report can be found on the Company's website. http://www.fresnilloplc.com/investor-relations/regulatory-announcements
Modern Slavery Statement	The Company has approved and published on its website its Modern Slavery Statement in accordance with the Modern Slavery Act 2015. http://www.fresnilloplc.com/corporate-responsibility/modern-slavery/
Diversity policy	In February 2018 the Company approved and published on its website its policy on diversity. http://www.fresnilloplc.com/corporate-responsibility/our-policies/
UK tax strategy	The Company's UK tax strategy for the financial year ending 31 December 2019 is published on its website. http://www.fresnilloplc.com/corporate-responsibility/tax-strategy/
Greenhouse gas emissions	Details of the Company's greenhouse gas emissions can be found in the Social and Sustainability Report on page 77 of the Strategic Report.
Political contributions	The Company did not make any donations to political organisations during the year.
Financial risk	Details of the Company's policies on financial risk management and the Company's exposure to price risk, credit risk, liquidity risk and cash flow risk are outlined in note 30 to the consolidated financial statements.

DIRECTORS' REPORT
CONTINUED

SHAREHOLDERS AND SHARE CAPITAL

Share Capital	Details of the Company's share capital are set out in note 17 to the consolidated financial statements on page 198.
Authority to purchase own shares	The Company was authorised by a shareholders' resolution passed at the Annual General Meeting held in May 2019 to purchase up to 10% of its issued Ordinary Share capital. Any shares which have been bought back may be held as treasury shares or, if not so held, must be cancelled immediately upon completion of the purchase, thereby reducing the amount of the Company's issued and authorised share capital. This authority will expire at the forthcoming Annual General Meeting and a resolution to renew the authority for a further year will be proposed. No shares were purchased by the Company during the year.
Major interests in shares	As at 31 December 2019, in accordance with DTR 5, the Company had been advised of the following notifiable interests (whether directly or indirectly held) in its voting rights:

	Number of voting rights		%	
	As at 31 December 2019	As at 31 December 2018	**As at 31 December 2019**	As at 31 December 2018
Industrias Peñoles S.A.B. de C.V.	**552,595,191**	552,595,191	**74.99**	74.99
First Eagle Investment Management LLC.	**37,114,461**	36,858,006	**5.04**	5.00
BlackRock Inc.	**Not disclosed**[1]	27,463,364	**Below 5.00**	3.72

1 BlackRock's last notifications stated that their holdings had fallen below 5%. Details of the resulting total of voting rights held was not disclosed.

As at 2 March 2020, the Company had not been advised of any changes.

2019 Annual General Meeting	At the 2019 Annual General Meeting ('AGM'), all resolutions put to shareholders were passed by a majority. Prior to the AGM, the Company consulted with a number of shareholders in relation to the resolutions to re-elect the Directors. In accordance with UK Listing Rules applicable to companies with a controlling shareholder, the resolutions relating to the re-election of the independent Non-executive Directors required approval by a majority of votes cast by independent shareholders as well as all the shareholders of the Company. Further to the UK Corporate Governance Code provisions, details of proxy voting are presented at the AGM and final figures are announced to the London Stock Exchange and uploaded to the Company's website as soon practicable after the AGM.
2020 Annual General Meeting	The Company's twelfth AGM will be held on 29 May 2020 at 12.00 noon at The Royal Aeronautical Society, 4 Hamilton Place, London, W1J 7BQ. In planning the business of each AGM, the Board takes account of institutional shareholder guidelines on pre-emption rights, share buy-backs and shareholder rights in relation to general meetings when drafting the usual resolutions dealing with those matters. In each case, resolutions are presented to the AGM to give the Board flexibility to respond to market developments.

AUDITORS AND AUDIT

Auditor reappointment	A resolution to reappoint Ernst & Young LLP as auditor will be proposed at the AGM.
Audit information	Each of the Directors at the date of the approval of this report confirms that: • So far as he/she is aware, there is no relevant audit information of which the Company's auditor is unaware; • He/she has taken all the reasonable steps that he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of the information; and • The confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Act.

LISTING RULES DISCLOSURES

Listing Rule 9.8.4C	Disclosure requirements under Listing Rule 9.8.4C are identified below along with cross-references indicating where the relevant information is set out in the Annual Report: • Capitalised interest of the year ended 31 December 2019 and information regarding tax relief can be found on page 195. • Details of significant contracts with controlling shareholders can be found on page 134. • Details pertaining to services provided to the Company by Peñoles are set out on pages 205 to 207. • Statement confirming agreement has been entered into with controlling shareholder and that independence provisions are complied with can be found in the Corporate Governance Report on page 119.

The Directors' Report has been approved by the Board of Directors of Fresnillo plc.

Signed on behalf of the Board

Charles Jacobs
Senior Independent Director
2 March 2020

Fresnillo plc Registered Office: 21 Upper Brook Street, London, W1K 7PY, United Kingdom Company Number: 6344120

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

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

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

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

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

DIRECTORS' RESPONSIBILITY STATEMENT UNDER THE UK CORPORATE GOVERNANCE CODE

In accordance with Provision 27 of the 2018 UK Corporate Governance Code, the Directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides information to enable shareholders to assess the Company's performance, business model and strategy.

RESPONSIBILITY STATEMENT OF THE DIRECTORS IN RESPECT OF THE ANNUAL REPORT AND ACCOUNTS

Each of the Directors whose names are listed on pages 112 to 115 confirm that to the best of their knowledge:

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

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

For and on behalf of the Board

Charles Jacobs
Senior Independent Director
2 March 2020

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.

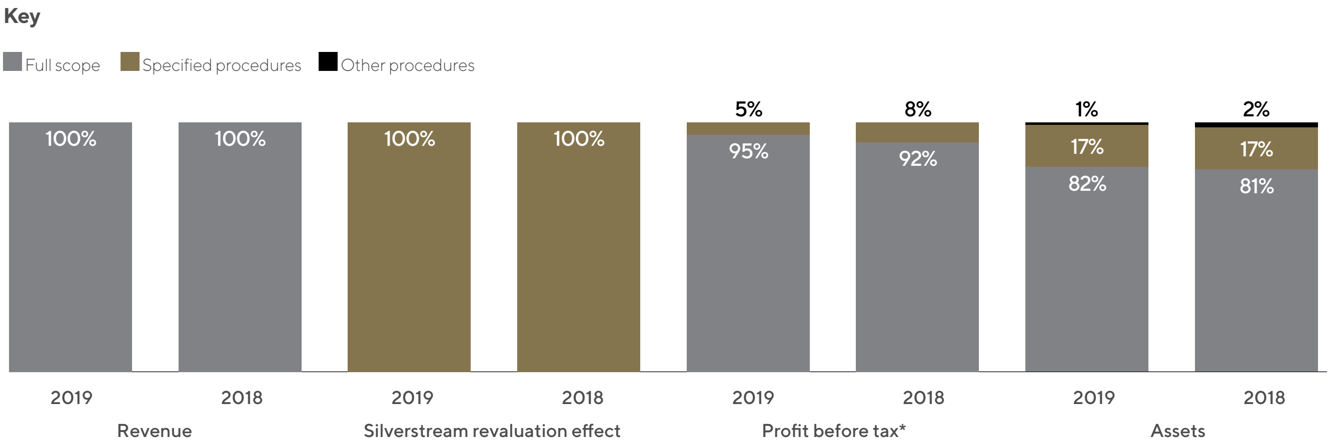
INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FRESNILLO PLC
CONTINUED

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

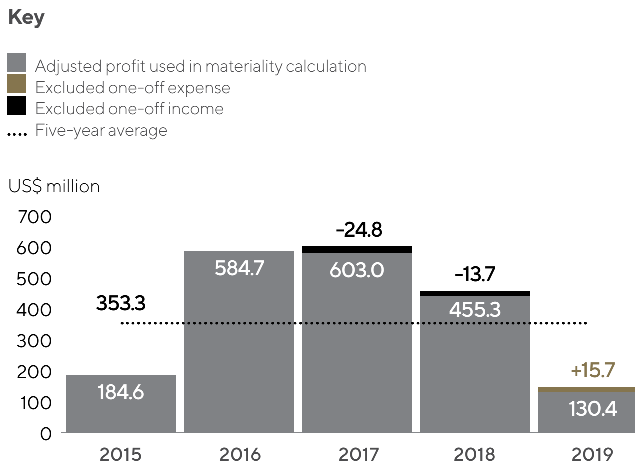
The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

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
CONTINUED

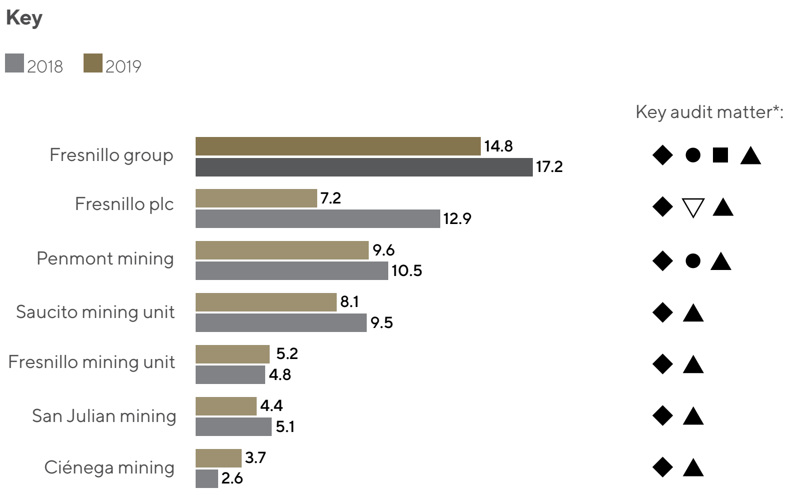
PERFORMANCE MATERIALITY

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

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

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER

	Notes	As at 31 December 2019 US$ thousands	2018 US$ thousands
ASSETS			
Non-current assets			
Property, plant and equipment	2(b),12	**2,813,417**	2,693,104
Equity instruments at FVOCI	29	**123,024**	78,219
Silverstream contract	13	**518,696**	498,274
Derivative financial instruments	29	**–**	20
Deferred tax asset	10	**110,770**	88,883
Inventories	14	**91,620**	91,620
Other receivables	15	**23,014**	–
Other assets		**3,622**	3,199
		3,684,163	3,453,319
Current assets			
Inventories	14	**272,120**	243,404
Trade and other receivables	15	**437,642**	411,157
Income tax recoverable		**57,124**	50,871
Prepayments		**18,344**	15,488
Derivative financial instruments	29	**2,623**	294
Silverstream contract	13	**22,558**	20,819
Cash and cash equivalents	16	**336,576**	560,785
		1,146,987	1,302,818
Total assets		**4,831,150**	4,756,137
EQUITY AND LIABILITIES			
Capital and reserves attributable to shareholders of the Company			
Share capital	17	**368,546**	368,546
Share premium	17	**1,153,817**	1,153,817
Capital reserve	17	**(526,910)**	(526,910)
Hedging reserve	17	**139**	(229)
Cost of hedging reserve	17	**918**	(2,374)
Fair value reserve of financial assets at FVOCI	17	**54,734**	23,370
Foreign currency translation reserve	17	**(250)**	(795)
Retained earnings	17	**2,093,666**	2,033,860
		3,144,660	3,049,285
Non-controlling interests		**134,059**	78,968
Total equity		**3,278,719**	3,128,253
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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

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.

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

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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.

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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).

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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

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

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

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

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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.

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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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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.

STRATEGIC REPORT CORPORATE GOVERNANCE FINANCIAL STATEMENTS ADDITIONAL INFORMATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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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	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

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.

PARENT COMPANY STATEMENT OF COMPREHENSIVE INCOME
YEAR ENDED 31 DECEMBER

	Notes	Year ended 31 December 2019 US$ thousands	2018 US$ thousands
Loss for the year	3	**(791,501)**	(571,022)
Other comprehensive income/(expense)			
Items that will not be reclassified to profit or loss:			
Changes in the fair value of equity investments at FVOCI		**44,805**	(46,579)
Income tax effect on items that will not be reclassified to profit or loss	4	**(13,442)**	20,328
Net other comprehensive income/(expense) that will not be reclassified to profit or loss		**31,363**	(26,251)
Other comprehensive income/(expense), net of tax		**31,363**	(26,251)
Total comprehensive expense for the year, net of tax		**(760,138)**	(597,273)

PARENT COMPANY BALANCE SHEET
AS AT 31 DECEMBER

	Notes	As at 31 December 2019 US$ thousands	2018 US$ thousands
ASSETS			
Non-current assets			
Investments in subsidiaries	5	**5,546,870**	6,415,137
Equity instruments at FVOCI	16	**123,024**	78,219
Derivative financial instruments	16	**–**	20
Deferred tax asset	4	**–**	23,012
		5,669,894	6,516,388
Current assets			
Loans to related parties	13	**1,240,385**	895,315
Income tax recoverable		**206**	259
Trade and other receivables	6	**8,454**	4,336
Derivative financial instruments	16	**2,623**	294
Cash and cash equivalents	7	**10,976**	4,560
		1,262,644	904,764
Total assets		**6,932,538**	7,421,152
EQUITY AND LIABILITIES			
Capital and reserves attributable to shareholders of the Company			
Share capital	8	**368,546**	368,546
Share premium	8	**1,153,817**	1,153,817
Merger reserve	8	**3,677,500**	4,627,260
Fair value reserve of financial assets at FVOCI	8	**47,851**	16,488
Retained earnings	8	**121,468**	105,430
Total equity		**5,369,182**	6,271,541
Non-current liabilities			
Interest-bearing loans	10	**801,239**	800,127
Deferred tax liability	4	**1,765**	–
		803,004	800,127
Current liabilities			
Trade and other payables	11	**11,694**	10,820
Derivative financial instruments	16	**1,789**	3,807
Loans from related parties	13	**746,869**	334,857
		760,352	349,484
Total liabilities		**1,563,356**	1,149,611
Total equity and liabilities		**6,932,538**	7,421,152

The loss for the Company is US$791.5 million for the year ended 31 December 2019 (2018: loss of US$571.0 million). In accordance with the exemption granted under section 408 of the Companies Act 2006 a separate income statement for the Company has not been presented.

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

PARENT COMPANY STATEMENT OF CASH FLOWS
YEAR ENDED 31 DECEMBER

	Notes	Year ended 31 December 2019 US$ thousands	2018 US$ thousands
Net cash generated from operating activities	15	**7,577**	10,606
Cash flows from investing activities			
Capital contribution to subsidiaries		**(81,493)**	(46,892)
Loans granted to related parties		**(5,090,484)**	(2,114,835)
Proceeds from repayment of loans granted to related parties		**4,746,142**	1,809,356
Interest received		**102,911**	54,717
Dividends received		**146,191**	152,616
Proceeds from the sale of debt investments		**–**	20,087
Net cash used in from investing activities		**(176,733)**	(124,951)
Cash flows from financing activities			
Loans granted by related parties		**2,768,342**	465,443
Repayment of loans granted by related parties		**(2,357,028)**	(131,415)
Dividends paid[1]		**(142,179)**	(298,068)
Interest paid		**(93,397)**	(46,981)
Net cash generated/(used in) financing activities		**175,738**	(11,021)
Net in cash and cash equivalents during the year		**6,580**	(125,366)
Effect of exchange rate on cash and equivalents		**(164)**	(3,444)
Cash and cash equivalents at 1 January		**4,560**	133,370
Cash and cash equivalents at 31 December	7	**10,976**	4,560

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

PARENT COMPANY STATEMENT OF CHANGES IN EQUITY
YEAR ENDED 31 DECEMBER

US$ thousands

	Notes	Share capital	Share premium	Merger reserve	Available-for-sale financial assets reserve	Fair value reserve of financial assets at FVOCI	Retained earnings	Total equity
Balance at 1 January 2018		368,546	1,153,817	5,353,146	46,916	–	231,455	7,153,880
Adjustments for initial application of IFRS 9		–	–	–	(46,916)	42,739	17,553	13,376
Loss for the year		–	–	–	–	–	(571,022)	(571,022)
Other comprehensive expense net of tax		–	–	–	–	(26,251)	–	(26,251)
Total comprehensive loss for the year		–	–	–	–	(26,251)	(571,022)	(597,273)
Transfer of reserves		–	–	(725,886)	–	–	725,886	–
Dividends declared and paid	9	–	–	–	–	–	(298,442)	(298,442)
Balance at 31 December 2018		**368,546**	**1,153,817**	**4,627,260**	**–**	**16,488**	**105,430**	**6,271,541**
Loss for the year		**–**	**–**	**–**	**–**	**–**	**(791,501)**	**(791,501)**
Other comprehensive income net of tax		**–**	**–**	**–**	**–**	**31,363**	**–**	**31,363**
Total comprehensive income for the year		**–**	**–**	**–**	**–**	**31,363**	**(791,501)**	**(760,138)**
Transfer of reserves		**–**	**–**	**(949,760)**	**–**	**–**	**949,760**	**–**
Dividends declared and paid	9	**–**	**–**	**–**	**–**	**–**	**(142,221)**	**(142,221)**
Balance at 31 December 2019		**368,546**	**1,153,817**	**3,677,500**	**–**	**47,851**	**121,468**	**5,369,182**

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

Fresnillo plc ('the Company') is a public limited company and registered in England and Wales with registered number 6344120 and is the holding company for the Fresnillo subsidiaries detailed in note 5. The Company is a Mexican resident for taxation purposes with tax residency in Mexico City. For further information see note 4.

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 country of incorporation of Peñoles is Mexico. Copies of Peñoles' accounts can be obtained from www.penoles.com.mx.

The primary activity of the Company is as a holding company for the Fresnillo Group of companies. See note 5.

The financial statements of the Company 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 STATEMENT OF COMPLIANCE

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union as they apply to the financial statements of the Company for the years ended 31 December 2019 and 2018, and in accordance with the provisions of the Companies Act 2006.

The financial statements of the Company have been prepared on a historical cost basis, except for certain derivative financial instruments and equity securities which have been measured at fair value.

The financial statements are presented in dollars of the United States of America (US dollars or US$) and all monetary amounts are rounded to the nearest thousand (US$000) except when otherwise indicated.

The basis of preparation and accounting policies used in preparing the financial statements are set out below. These accounting policies have been consistently applied to all the periods presented unless otherwise stated.

(B) CHANGES IN ACCOUNTING POLICIES

The accounting policies applied are consistent with those applied in the preparation of the separate financial statements for the year ended 31 December 2018, there were no significant new standards that the Company was required to adopt effective from 1 January 2019. The standards and interpretations that are effective from 1 January 2019 are disclosed below.

IFRS 16 Leases

IFRS 16 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. During the year ended 31 December 2019, the Company had no lease agreements as a lessor or as a lessee, thus the adoption of these standard had no impact in the financial position or performance of the Company.

IFRIC 23 Uncertainty over Income Tax Treatments

This Interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. The Interpretation is to be applied to the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments. Application of tax law can be complex and requires judgement to assess risk and estimate outcomes where the amount of tax payable or recoverable is uncertain. The Company 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 Company stand-alone Financial Statements.

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

(C) SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Company's 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 financial statements. These judgements and estimates are based on management's knowledge of the relevant facts and circumstances, with regard to prior experience, but actual results may differ from the amounts included in the financial statements. Information about such judgements and estimates is in the accounting policies and the notes to the financial statements.

Judgements

The area of judgement, apart from those involving estimations, that has the most significant effect on the amounts recognised in the financial statements is:

- Contingencies (note 12):
  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

The significant area of estimation uncertainty made by management in preparing the financial statements is:

- Recoverable value of investments in subsidiaries (notes 2(e) and 5):
  The Company assesses investments in subsidiaries annually to determine whether any indication of impairment exists. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs of disposal (FVLCD) and the value in use. Due to the nature of the subsidiaries, the assessment of the recoverable amount is generally determined based on the net present value of future cash flows related to the subsidiaries requiring the use of estimates and assumptions such as long-term commodity prices, reserves and resources and the associate production profiles, discount rates, future capital requirements, exploration potential and operating performance. These cash flows are discounted using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The determination of that rate requires certain judgements.

  Where an impairment charge has previously been recognised, the Company assesses at the end of each reporting period whether there is any indication that the impairment loss may no longer exist or may have decreased. If any such indication exists, the Company estimates the recoverable amount of that investment, requiring similar estimates and assumptions as those for determining an impairment charge. At 31 December 2019 the Company recognised an impairment loss of US$911.2 million (2018: US$725.9 million) to recognised a cumulative impairment relating to subsidiaries of US$2,073.5 million (2018: US$1,162.3 million).

(D) FOREIGN CURRENCY TRANSLATION

The Company's financial statements are presented in US dollars, which is the functional currency of the Company. The functional currency for the Company is determined by the currency of the primary economic environment in which it operates.

Transactions denominated in currencies other than the functional currency of the Company 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 valued is determined.

(E) INVESTMENTS IN SUBSIDIARIES

Subsidiaries are entities which the Company controls due to it being 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. Investments in subsidiaries are recognised at acquisition cost less any provision for impairment. Impairment charges and reversals, up to the value of the merger reserve, are reclassified from retained earnings to the merger reserve.

When the Company increases its capital investment in or where there is a return of share capital from its subsidiaries, such movements are recognised as an addition to, or return of the original cost recognised in investment in subsidiaries. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established.

At each reporting date, an assessment is made to determine whether there are any indicators of impairment. Where an indicator of impairment exists, an estimate of the recoverable amount of the investment in subsidiary is made, which is considered to be the higher of the fair value less costs of disposal and the value in use. The Company usually determines fair value based on the net present value of the future cash flows related to its subsidiaries. If the carrying amount of an investment exceeds the recoverable amount, a provision is recorded in the income statement to reflect the investment at the recoverable amount.

Where an impairment charge has previously been recognised, an assessment is made at the end of each reporting period whether there is any indication that the impairment loss may no longer exist or may have decreased. If any such indication exists, an estimate of the recoverable amount is made. An impairment loss is reversed to profit or loss to the extent that the increased carrying value of the investment in subsidiary does not exceed that that would have been determined had no impairment loss been recognised for the asset in prior years.

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS
CONTINUED

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(F) FINANCIAL ASSETS AND LIABILITIES

The Company 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 Company'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 Company 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 Company 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 Company commits to purchase or sell the asset.

At initial recognition, the Company 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 Company's business model for managing the asset and the cash flow characteristics of the asset.

Classification

The Company 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 Company's financial assets at amortised cost include receivables from loans granted to related parties.

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.

At transition to IFRS 9, the Company had certain financial asset that were accounted for as debt instruments at fair value through other comprehensive income; none at 31 December 2019 or 2018.

Equity instruments designated as fair value through other comprehensive income

Upon initial recognition, the Company 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 Company 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 Company 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 Company's derivative financial instruments 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 Company has transferred substantially all the risks and rewards of ownership.

Impairment of financial assets

The Company 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 loans granted to subsidiaries, the Company evaluate the expecting credit loss using a one year probability of default corresponding to the mining industry determined by a specialised financial institution and considering an appropriate severity based on the cost of capital of the Group.

For other trade receivables, the Company applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

(G) 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.

(H) SHARE CAPITAL

Ordinary shares issued by the Company are recorded at the net proceeds received, which is the fair value of the consideration received less costs that are incurred in connection with the share issue. The nominal par value of the shares issued is taken to the share capital account and any excess is recorded in the share premium account, including the costs that were incurred with the share issue.

(I) REVENUE RECOGNITION

Revenue is recognised to the extent that it is probable that economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of consideration received excluding discounts, rebates, and other sales taxes.

Trademark royalties

Trademark royalty income is recognised only at the time when it is probable that the amounts related to certain rights will be received.

(J) INCOME TAX

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 by the balance sheet date.

Deferred income tax

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

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

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of transaction, affects neither the accounting profit nor taxable profit loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- where the deferred income tax asset relating to deductible temporary differences arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS
CONTINUED

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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 equity 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.

(K) DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING

The Company enters into derivative contracts in order to manage certain market risks derived from changes in foreign exchange and commodity prices which impact the financial and business transactions of its subsidiaries. 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.

In the Group's consolidated financial statements certain of these derivative instruments are designated as cash flow hedges but for the purposes of the Company's stand-alone financial statements the related hedged items are not held by the Company, so do not qualify as cash flow hedges.

Any gains and 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 contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

(L) FAIR VALUE MEASUREMENT

The Company measures financial instruments at fair value at each balance sheet date. Fair values of financial instruments measured at amortised cost are disclosed in notes 16 and 17.

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 Company.

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

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

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

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

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

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company 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 Company 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 16.

(M) DIVIDEND DISTRIBUTION

Dividends payable to the Company's shareholders are recognised as a liability in the financial statements in the period in which the dividends are approved by the Company's shareholders.

Mexican Income Tax Law establishes a 10% withholding on earnings from 2014 and thereafter, for dividends paid to foreign residents and Mexican individuals.

Dividends paid are not subject to income tax if paid from the Net Tax Profit Account (CUFIN). Dividends paid that exceed CUFIN are subject to an income tax payable at a rate of 30%. The tax is payable by the Company and may be credited against the normal income tax payable by the Company in the year in which the dividends are paid or in the following two years. Dividends paid from earnings previously taxed are not subject to any withholding or additional tax payment.

3. SEGMENT REPORTING

Segmental information is not presented in the Company's stand-alone financial statements as this is presented in the Group's consolidated financial statements.

4. INCOME TAX

(A) INCOME TAX REPORTED IN OTHER COMPREHENSIVE INCOME

	Year ended 31 December	
	2019 US$ thousands	2018 US$ thousands
Deferred income tax credit/(charge) related to items recognised directly in other comprehensive income:		
Changes in the fair value of equity investments at FVOCI (note 2(f))	**(13,441)**	20,328
Income tax effect reported in other comprehensive income	**(13,441)**	20,328

(B) MOVEMENTS IN THE DEFERRED INCOME TAX LIABILITY AND ASSET:

	Year ended 31 December	
	2019 US$ thousands	2018 US$ thousands
Opening net asset	**23,012**	10,169
Income tax credit	**(11,336)**	(7,485)
Net (charge)/credit related to items directly charged to other comprehensive income (note 2(b))	**(13,441)**	20,328
Closing net (liability)/asset	**(1,765)**	23,012

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities.

The amounts of deferred income tax assets and liabilities before offset as at 31 December considering the nature of the temporary differences are as follows:

	Year ended 31 December	
	2019 US$ thousands	2018 US$ thousands
Prepayments and other assets	**(389)**	(579)
Accrual for expected credit losses on loans granted to subsidiaries	**374**	374
Derivative financial instruments	**(508)**	1,098
Losses carried forward	**6,837**	18,608
Equity instruments at FVOCI	**(9,236)**	3,511
Net deferred tax (liability)/asset	**(2,922)**	23,012

(C) UNRECOGNISED DEFERRED TAX ON INVESTMENTS IN SUBSIDIARIES

The Company 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).

(D) CORPORATE INCOME TAX ('IMPUESTO SOBRE LA RENTA' OR 'ISR')

The Company is a Mexican resident for taxation purposes. The rate of current corporate income tax is 30%.

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS
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5. INVESTMENTS IN SUBSIDIARIES

	Year ended 31 December	
	2019 US$ thousands	2018 US$ thousands
Opening balance	**6,415,137**	7,094,131
Impairment	**(949,760)**	(725,886)
Additions	**81,493**	46,892
Closing balance	**5,546,870**	6,415,137

Due to the interrelated nature of certain legal entities, investments in subsidiaries are tested for impairment on a mining unit level. On 1 January 2019, certain elements of the San Julián mining unit were legally spun out from the Fresnillo mining unit. To reflect this change in the investments in subsidiaries and for the purposes of testing for impairment, the Company transferred US$393.7 million from the investment in the Fresnillo mining unit to the investment in the San Julián mining unit. This transfer did not change the total amount of investments in subsidiaries.

During 2019, due certain operating issues the Company made an impairment assessment to determine whether the carrying value of each of its subsidiaries was recoverable as at 31 December 2019. As a result, a cumulative impairment loss of US$2,112.1 million is recognised with respect to certain of the Company's investment in subsidiaries (2018: US$1,162.3 million). The recoverable amount was estimated based on the Fair Value Less Cost of Disposal (FVLCD) model (2018: FVLCD).

The following tables provide relevant information in respect of each impaired subsidiary:

	Year ended 31 December 2019			
	Current year impairment loss US$ thousand	Cumulative impairment US$ thousand	Recoverable amount US$ thousands	Discount rate
Minera Fresnillo, S.A. de C.V.	**725,513**	**1,304,155**	**2,662,920**	**Post-tax 4.82%**
Minera Mexicana la Ciénega, S.A. de C.V.	**49,688**	**550,837**	**492,630**	**Post-tax 4.31%**
Minera Saucito, S.A. de C.V.	**58,847**	**58,847**	**994,912**	**Post-tax 4.40%**
Minera San Julián, S.A. de C.V.	**115,712**	**115,712**	**651,922**	**Post-tax 4.25%**
Exploraciones Mineras Parreña, S.A. de C.V.	**–**	**82,549**	**81,970**	**Post-tax 4.37%**
	949,760	**2,112,100**		

In determining FVLCD it is necessary to make a series of assumptions to estimate future cash flows including reserves and resources volumes and related production profile, price assumptions, cost estimates and discount rate. Accordingly, the fair value is categorised as Level 3 in the fair value hierarchy. The price assumptions used to calculate FVLCD are determined with reference analysts' consensus of long term prices. As at 31 December 2019, the Company used long term price assumptions of US$1,379/ounce and US$18.70/ounce for gold and silver, respectively.

	Year ended 31 December 2018			
	Current year impairment reversal US$ thousand	Cumulative impairment US$ thousand	Recoverable amount US$ thousands	Discount rate
Minera Fresnillo, S.A. de C.V.	578,642	578,642	3,982,547	Post-tax 5.77%
Minera Mexicana la Ciénega, S.A. de C.V.	140,358	501,149	496,394	Post-tax 5.49%
Exploraciones Mineras Parreña, S.A. de C.V.	6,886	82,549	139,784	Post-tax 5.38%
	725,886	1,162,340		

In determining FVLCD it is necessary to make a series of assumptions to estimate future cash flows including reserves and resources volumes and related production profile, price assumptions, cost estimates and discount rate. Accordingly, the fair value is categorised as Level 3 in the fair value hierarchy. The price assumptions used to calculate FVLCD are determined with reference analysts' consensus of long term prices. As at 31 December 2018, the Company used long term price assumptions of US$1,310 per ounce and US$19.25 per ounce for gold and silver, respectively.

SENSITIVITY ANALYSIS

As at 31 December 2019, management has performed a sensitivity analysis for those subsidiaries where cumulative impairment may be affected by a reasonably possible change in silver and gold prices. Management has considered a decrease in silver and gold of 15% and 10% respectively (2018: 15% silver, 10% gold). The sensitivity resulted in an additional impairment on Minera Fresnillo, S.A. de C.V. of US$577.5 million (2018: US$719.9 million), Minera Mexicana la Ciénega, S.A. de C.V. US$85.1 million (2018: US$102.1 million), Minera Saucito, S.A. de C.V. US$186.4 million (2018: US$134.5 million) and Minera San Julián, S.A. de C.V. US$141.9 million (2018: nil).

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 Fresnillo, S.A. de C.V. of US$137.7 million (2018: nil) and Minera San Julián, S.A. de C.V. US$45.1 million (2018: nil).

The subsidiaries in which investments are directly held as at 31 December 2019 and 2018 are as follows:

Legal company	Principal activity	Country of incorporation	Equity interest % Year ended 31 December 2019	2018
Minera Fresnillo, S.A. de C.V.	Production of lead/silver and zinc concentrates	Mexico[3]	**100**	100
Minera San Julián, S.A. de C.V.	Production of lead/silver and zinc concentrates	Mexico[3]	**100**	–
Minera Penmont, S. de R.L. de C.V.[1]	Production of doré bars (gold/silver)	Mexico[3]	**56**	56
Minera Mexicana La Ciénega, S.A. de C.V.	Production of lead and zinc concentrates and silver precipitates	Mexico[3]	**100**	100
Minera Saucito, S.A. de C.V.	Production of lead and zinc concentrates	Mexico[3]	**100**	100
Desarrollos Mineros Canelas, S.A. de C.V.	Extraction and sale of mineral ore	Mexico[3]	**100**	100
Desarrollos Mineros Fresne, S. de R.L. de C.V.[1]	Extraction and sale of mineral ore	Mexico[3]	**56**	56
Desarrollos Mineros el Aguila, S.A. de C.V.	Extraction and sale of mineral ore	Mexico[3]	**100**	100
Desarrollos Mineros Llanitos, S.A. de C.V.	Extraction and sale of mineral ore	Mexico[3]	**100**	–
Metalúrgica Reyna, S.A. de C.V.	Extraction and sale of mineral ore	Mexico[3]	**100**	100
Equipos Mineros Nazas, S.A. de C.V.	Leasing of mining equipment	Mexico[3]	**100**	100
Proveedora de Equipos Fresne, S de R.L. de C.V.[1]	Leasing of mining equipment	Mexico[3]	**56**	56
Equipos Mineros la Hacienda, S.A. de C.V.	Leasing of mining equipment	Mexico[3]	**100**	100
Proveedora de Equipos Jerez, S.A. de C.V.	Leasing of mining equipment	Mexico[3]	**100**	100
Minera Juanicipio, S.A. de C.V.	Mining project	Mexico[3]	**56**	56
Comercializadora de Metales Fresnillo, S.A. de C.V.	Holds rights over silver production from Peñoles' polymetallic Sabinas mine through the Silverstream contract	Mexico[3]	**100**	100
Exploraciones Mineras Parreña, S.A. de C.V.	Exploration services	Mexico[3]	**100**	100
Exploraciones y Desarrollos Mineros Coneto, S.A. P. I. de C.V.	Exploration services	Mexico[3]	**55**	55
Minera El Bermejal, S. de R.L. de C.V.	Mining equipment leasing	Mexico[3]	**100**	100
Compañía Minera Las Torres, S.A. de C.V.	Mine project	Mexico[3]	**100**	100
Servicios Administrativos Fresnillo, S. A. de C.V.	Administrative services	Mexico[3]	**100**	100
Operaciones Fresnillo, S.A. de C.V.	Administrative services	Mexico[3]	**100**	100
Servicios de Exploración Fresnillo, S.A. de C.V.	Administrative services	Mexico[3]	**100**	100
Prestadora de Servicios Jarillas, S.A. de C.V.	Administrative services	Mexico[3]	**100**	–
Fresnillo Management Services, Ltd	Administrative services	UK[4]	**100**	100
Fresbal Investments, Ltd	Holding company for mining Investments	Canada[5]	**100**	100
Fresnillo Peru, S.A.C.	Exploration services	Peru[6]	**100**	100
Parreña Peru, S.A.C.	Exploration services	Peru[6]	**100**	100
Fresnillo Chile, SpA	Exploration services	Chile[7]	**100**	100
Minera Capricornio, SpA	Exploration services	Chile[7]	**100**	100
Caja de Ahorros Fresnillo, S.C.[2]	Administrative services	Mexico[3]	**–**	–

The list of subsidiary undertakings presented in this note represents the full list of subsidiary undertakings, required to be submitted by Section 409 of the Companies Act 2006.

1 The remaining 44% interest in these companies are held by Comercializadora de Metales Fresnillo, S.A. de C.V. a wholly-owned subsidiary of the Company.
2 Whilst Fresnillo plc holds no direct ownership in Caja de Ahorros Fresnillo, S.C. the entire share capital of the company is held through its subsidiaries.
3 The registered address for all Mexican subsidiaries is: Calzada Saltillo 400 No. 989, Torreón, Coahuila 27250.
4 Registered address is: Second Floor, 21 Upper Brook Street, London W1.
5 Registered address is: 355 Burrard Street, Suite 1800, Vancouver, BC, V6C 2G8.
6 Registered address is: República de Colombia 643, Piso 9, Distrito San Isidro, Lima 27.
7 Registered address is: Apoquindo 4775 oficina 1002 – Las Condes, Santiago de Chile.

6. TRADE AND OTHER RECEIVABLES

	Year ended 31 December 2019 US$ thousands	2018 US$ thousands
Other receivables from related parties (note 13)	**8,444**	4,176
Prepayments	**9**	157
Other	**–**	3
	8,454	4,336

As of 31 December, for each year presented, other receivables from related parties were neither past due nor credit-impaired. In determining the recoverability of a receivable, the Company performs a risk analysis considering the type and age of the outstanding receivable and the credit worthiness of the counterparty.

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS
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7. CASH AND CASH EQUIVALENTS

	Year ended 31 December	
	2019 US$ thousands	2018 US$ thousands
Cash at bank and on hand	**106**	104
Short-term deposits	**10,870**	4,456
Cash and cash equivalents	**10,976**	4,560

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 Company, 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.

8. EQUITY
SHARE CAPITAL AND SHARE PREMIUM

	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 $0.50 each are fully paid. The rights and obligations attaching 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.

Merger reserve
The merger reserve represents the difference between the value of the net assets acquired as part of the Pre-IPO Reorganisation and the nominal value of the shares issued pursuant to the Merger Agreement. Movements in this reserve during 2019 and 2018 represent the impairment losses and reversals of the carrying value of Fresnillo's investments in subsidiaries transferred from retained earnings.

Fair value reserve of financial assets at FVOCI
The Company has elected to recognise changes in the fair value of certain investments in equity securities in OCI, as explained in note 2(f). These changes are accumulated within the FVOCI reserve within equity. The Company transfers amounts from this reserve to retained earnings when the relevant equity securities are derecognised.

Retained earnings
This reserve records the accumulated results of the Company, less any distributions and dividends paid.

9. 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.

10. INTEREST-BEARING LOANS

SENIOR NOTES

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

An analysis of the debt recognised in the balance sheet is 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 Company 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 Company 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 Company shall not pledge or allow a pledge on any property that may have a material impact on business performance (key assets). Nevertheless, the Company may pledge the aforementioned properties provided that the repayment of the Notes keeps the same level of priority as the pledge on those assets.

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS
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11. TRADE AND OTHER PAYABLES

	Year ended 31 December	
	2019 US$ thousands	2018 US$ thousands
Other payables to related parties (note 13)	**5,937**	1,592
Other taxes and contributions	**5,033**	8,490
Accrued expenses	**724**	738
	11,694	10,820

The fair value of trade and other payables approximates their book values. The Company's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 17.

12. CONTINGENCIES

As of 31 December 2019 the Company has the following contingencies:

- The Company 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 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. 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.

13. RELATED PARTY BALANCES AND TRANSACTIONS

Related parties are those entities owned or controlled by the ultimate controlling party and include the Company's subsidiaries disclosed in note 5, as well as those entities who have a minority participation in Fresnillo Group companies. Related party balances will be settled in cash. All the balances as at 31 December 2019 and 2018 and the transactions carried-out with related parties for the years then ended correspond to subsidiaries.

(A) RELATED PARTY ACCOUNTS RECEIVABLE AND PAYABLE

	Accounts receivable US$ thousands		Accounts payable US$ thousands	
	31 December 2019	31 December 2018	**31 December 2019**	31 December 2018
Loans[1]	**1,240,385**	895,315	**746,869**	334,857
Other	**8,444**	4,176	**5,937**	1,592
Total	**1,249,829**	899,491	**752,806**	336,449

1 Accounts receivable derived from loans with related parties are net of reserve for expected credit loss of US$1.5 million (2018: US$1.2 million).

Effective interest rates on loans granted to related parties in US dollar range between 3.91% to 4.33% (2018: 4.26% to 4.74%); in Mexican peso range 9.74% to 10.34% (2018: 9.98% to 10.36%).

(B) PRINCIPAL TRANSACTIONS WITH RELATED PARTIES (APART FROM DIVIDENDS, ADDITIONAL INVESTMENTS AND RETURNS OF CAPITAL) ARE AS FOLLOWS:

	Year ended 31 December	
	2019 US$ thousands	2018 US$ thousands
Income:		
Trademark royalties[1]	**–**	16,860
Interest on loans	**103,810**	54,270
Total income	**103,810**	71,130

1 During 2019, the Company decided to cancel the contract with its subsidiaries.

	Year ended 31 December	
	2019 US$ thousands	2018 US$ thousands
Expenses:		
Administrative services	**5,877**	5,168
Interest	**47,829**	1,439
Others	**–**	97
Total expenses	**53,706**	6,704

(C) COMPENSATION OF KEY MANAGEMENT PERSONNEL OF THE COMPANY

Key management personnel comprise Non-executive Directors. In 2019, their compensation was US$0.7 million (2018: US$0.7 million). This compensation paid is disclosed in the Directors' Remuneration Report.

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS
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14. AUDITOR'S REMUNERATION

The auditor's remuneration for the Company was US$1.4 million (2018: US$1.3 million) in respect of the audit of its financial statements together with a proportion of the fees in relation to Fresnillo Group audit.

Fees paid to Ernst & Young LLP and its associates for non-audit services to the Company itself are not disclosed in the stand alone financial statements because Group financial statements are prepared which include these fees on a consolidated basis.

15. NOTES TO THE STATEMENT OF CASH FLOWS

	Notes	Year ended 31 December 2019 US$ thousands	2018 US$ thousands
Reconciliation of loss for the year to net cash generated from operating activities			
Loss for the year		**(791,501)**	(571,022)
Adjustments to reconcile loss for the year to net cash inflows from operating activities:			
Impairment of investment in subsidiaries	5	**949,760**	725,886
Dividend income		**(146,191)**	(152,616)
Income tax expense		**11,335**	1,753
Net finance gain		**(13,431)**	(3,200)
Foreign exchange loss		**165**	3,444
Working capital adjustments			
(Increase)/decrease in trade and other receivables		**(3,812)**	5,293
Increase in trade and other payables		**1,265**	1,162
Cash generated from operations		**7,590**	10,700
Income tax paid		**(13)**	(94)
Net cash generated from operating activities		**7,577**	10,606

16. FINANCIAL INSTRUMENTS

(A) FAIR VALUE CATEGORY

Financial assets:	**As at 31 December 2019 US$ thousands Amortised cost**	**Fair value through OCI**	**Fair value through profit or loss**
Trade and other receivables	**8,464**	**–**	**–**
Loans to related parties	**1,240,385**	**–**	**–**
Equity instruments at FVOCI	**–**	**123,024**	**–**
Derivative financial instruments	**–**	**–**	**2,623**

Financial liabilities:	**At amortised Cost**	**Fair value through profit or loss**
Interest-bearing loans	**801,239**	**–**
Trade and other payables	**5,936**	**–**
Derivative financial instruments	**–**	**1,789**

Financial assets:	As at 31 December 2018 US$ thousands Amortised cost	Fair value through OCI	Fair value through profit or loss
Trade and other receivables	4,336	–	–
Loans to related parties	895,315	–	–
Equity instruments at FVOCI	–	78,219	–
Derivative financial instruments	–	–	314

Financial liabilities:	At amortised Cost	Fair value through profit or loss
Interest-bearing loans	800,127	–
Trade and other payables	1,592	–
Derivative financial instruments	–	3,807

(B) FAIR VALUES

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

	Carrying amount		Fair value	
As at 31 December	2019 US$ thousands	2018 US$ thousands	2019 US$ thousands	2018 US$ thousands
Financial assets:				
Trade and other receivables	**8,464**	4,336	**8,464**	4,336
Loans to related parties[1]	**1,240,385**	895,315	**1,240,385**	895,315
Financial liabilities:				
Interest-bearing loans[2]	**801,239**	800,127	**870,208**	817,936
Trade and other payable	**5,936**	1592	**5,936**	1592

1 Loans to related party are categorised in Level 3 of the fair value hierarchy. The carrying amount is a reasonable approximation of fair value due the short-term period of the receivable.
2 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:				
Derivative financial instruments:				
Option commodity contracts (note 16(c))	**–**	**2,538**	**–**	**2,538**
Option and forward foreign exchange contracts	**–**	**85**	**–**	**85**
Other financial assets:				
Equity investments	**123,024**	**–**	**–**	**123,024**
	123,024	**2,623**	**–**	**125,647**
Financial liabilities:				
Derivative financial instruments:				
Option commodity contracts (note 16(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:				
Derivative financial instruments:				
Option commodity contracts (note 16(c))	–	240	–	240
Option and forward foreign exchange contracts	–	74	–	74
Other financial assets:				
Equity investments	78,219	–	–	78,219
	78,219	314	–	78,533
Financial liabilities:				
Derivative financial instruments:				
Option commodity contracts (note 16(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.

The fair value of the financial assets and liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS
CONTINUED

16. FINANCIAL INSTRUMENTS CONTINUED

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

Option and forward foreign exchange contracts
The Company 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 Company 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.

Equity investments
The fair value of equity investments is derived from quoted market prices in active markets (Level 1).

Interest-bearing loans
Fair value of the Company's interest-bearing loan, is derived from quoted market prices in active markets (Level 1).

Loans with related parties
Fair value of the Company's loans to related parties is determined using a discounted cash flow method based on market interest rates at each reporting date.

17. FINANCIAL RISK MANAGEMENT

OVERVIEW

The Company's principal financial assets and liabilities, other than derivatives, are comprised of trade receivables, cash, available-for-sale financial assets, loans to and from related parties, interest-bearing loans and trade payables.

The Company enters into certain derivative transactions with the purpose of managing foreign exchange risk arising on the activity and transactions of its subsidiaries.

The Company has exposure to the following risks from its use of financial instruments:
- Market risk, including foreign currency, interest rate and equity price risks.
- Credit risk.
- Liquidity risk.

This note presents information about the Company's exposure to each of the above risks and the Company'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 Company risk management framework.

The Company's risk management policies have been established to identify and analyse the risks faced by the Company, 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 Company activities. The Company, 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 Company risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Company. 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, or interest rates will affect the Company 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.

Foreign currency risk

The Company is exposed to foreign currency risk on transactions and balances that are denominated in currencies other than the US dollar. Transactions in foreign currencies include the purchase of services, payment or receipt of dividends and other items. As a result, the Company has financial liabilities denominated in currencies other than functional currency, and holds cash and cash equivalents in Mexican peso.

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 Mexican peso, reflecting the impact on the Company's profit before tax with all other variables held constant. It is assumed that the same percentage change in exchange rates is applied to all applicable periods. There is no impact on the Company's equity other than the equivalent change in retained earnings.

Year ended 31 December	Strengthening/ (weakening) of US dollar	Effect on profit before tax: increase/ (decrease) (US$ thousands)
2019	**5%**	**(5)**
	(5%)	**5**
2018	10%	(399)
	(10%)	487

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, reflecting the impact on the Company's profit before tax, with all other variables held constant. It is assumed that the same percentage change in exchange rates is applied to all applicable periods. There is no impact on the Company's equity other than the equivalent change in retained earnings.

Year ended 31 December	Strengthening/ (weakening) of US dollar	Effect on profit before tax: increase/ (decrease) (US$ thousands)
2019	**10%**	**(67)**
	(10%)	**100**
2018	10%	(172)
	(10%)	258

The following table demonstrates the sensitivity of financial assets and financial liabilities to a reasonably possible change in the US dollar compared to the euro, reflecting the impact on the Company's profit before tax, with all other variables held constant. It is assumed that the same percentage change in exchange rates is applied to all applicable periods. There is no impact on the Company's equity other than the equivalent change in retained earnings.

Year ended 31 December	Strengthening/ (weakening) of US dollar	Effect on profit before tax: increase/ (decrease) (US$ thousands)
2019	**5%**	**150**
	(5%)	**(148)**
2018	10%	1,460
	(10%)	(1,453)

Commodity risk

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

The Company uses derivative instruments to hedge against precious metals commodity price exposure in its subsidiaries, see mentioned in note 16(c).

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS
CONTINUED

17. FINANCIAL RISK MANAGEMENT CONTINUED

The table below reflects the aggregate sensitivity relating to changes in the fair value of commodity derivative contracts of financial assets and liabilities, reflecting the impact on the Company's profit before tax with all other variables held constant. There is no impact on the Company's equity other than the effect on profit before tax.

	Increase/(decrease) in commodity prices				Effect on profit before tax: increase/(decrease) (US$ thousands)
Year ended 31 December	Gold	Silver	Zinc	Lead	
2019	**15%**	**20%**	**15%**	**15%**	**(2,247)**
	(10%)	**(15%)**	**(15%)**	**(15%)**	**1,855**
2018	10%	15%	25%	20%	(8,703)
	(10%)	(15%)	(20%)	(15%)	14,910

Interest rate risk

The Company 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. The Company's earnings are sensitive to changes in interest rates on any floating element of the loans with related parties and interest earned on cash balances. 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 all financial assets and financial liabilities to a reasonably possible change in interest rate applied to a full year from the balance sheet date. There is no impact on the Company'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**	**55**
	(50)	**(55)**
2018	75	34
	(75)	(34)

Equity price risk

The Company has exposure to changes in the price of equity instruments that it holds as available-for-sale financial assets.

The following table demonstrates the sensitivity of available-for-sale assets to a reasonably possible change in market price of these equity instruments, reflecting the effect on the Company'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 Company's ordinary course of business and is applicable to trade and other receivables, cash and cash equivalents, intercompany loans and derivative financial instruments.

The Company'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 Company's exposure to bad debts is not significant. The Company's exposure to credit risk is influenced mainly by the individual characteristics of each counter party. The Company's financial assets are with counterparties that the Company considers to have an appropriate credit rating. As disclosed in note 13, the counterparties to a significant proportion of these financial assets are related parties. At each balance sheet date, the Company's financial assets were neither credit-impaired nor past due. The Company's policies are aimed at minimising losses from the foreign currency and commodity hedging contracts. The Company's foreign currency and commodity derivative contracts are entered into with large financial institutions with strong credit ratings.

The Company's surplus funds are managed by Servicios Administrativos Fresnillo, S.A. de C.V., which manages cash and cash equivalents investing in a number of financial institutions. In order to minimise exposure to credit risk, the Company only deposits cash and cash equivalents with financial institutions with a credit rating of M-1 (Moody's) and mxA-1+ (Standard and Poor's) and above, and only for periods of less than four months.

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(b) for the maximum credit exposure for other financial assets, note 8 for cash and cash equivalents and note 13 for related party balances.

(C) LIQUIDITY RISK

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company monitors its risk of a shortage of funds using projected cash flows and by monitoring the maturity of both its financial assets and liabilities.

The table below summarises the maturity profile of the Company 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	**46,267**	**92,534**	**846,267**	**–**	**985,068**
Derivatives financial instruments – liabilities	**1,789**	**–**	**–**	**–**	**1,789**
Trade and other payables	**5,936**	**–**	**–**	**–**	**5,936**

					US$ thousands
	Within 1 year	2–3 years	3-5 years	> 5 years	Total
As at 31 December 2018					
Interest-bearing loans	46,267	92,534	92,534	846,267	1,077,602
Derivatives financial instruments – liabilities	4,992	14,224	–	–	19,216
Trade and other payables	2,888	–	–	–	2,888

The disclosed 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:

					NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS
	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)	–	–	(16,978)
Net	(80)	20	–	–	(60)

The above liquidity tables include expected inflows and outflows from derivative financial instruments which the Company expects are going 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 Company 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 Company'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 and losses on revaluation of cash flow hedges and equity investments at FVOCI. In order to ensure an appropriate return for shareholder's capital invested in the Company, 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 Company'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.

FRESNILLO PLC CONSOLIDATED AUDITED MINERAL RESOURCE STATEMENT[1†]

		Quantity	Grade				Contained Metal			
Resource Category	Cut-off Grade[2]	Tonnes (kt)	Au (g/t)	Ag (g/t)	Pb (%)	Zn (%)	Au (koz)	Ag (koz)	Pb (kt)	Zn (kt)
Minera Fresnillo – Fresnillo/Proaño Mine – Underground										
Measured		12,096	0.89	558	1.03	1.75	345	216,831	125	212
Indicated	136 g/t AgEq	23,411	0.85	265	1.75	3.95	641	199,683	411	924
Measured & Indicated		35,507	0.86	365	1.51	3.20	986	416,515	535	1,136
Inferred		38,100	0.64	312	1.18	2.37	780	382,719	450	901
Minera Saucito – Saucito Mine – Underground										
Measured		5,092	2.06	353	1.42	2.38	337	57,813	72	121
Indicated	164 g/t AgEq	16,932	1.25	261	1.39	2.51	679	142,004	235	426
Measured & Indicated		22,024	1.44	282	1.39	2.48	1,016	199,817	307	547
Inferred		30,133	0.77	305	1.22	2.18	747	295,710	368	656
Minera Ciénega – Ciénega Complex – Underground										
Measured		6,499	3.80	164	1.14	1.80	794	34,247	74	117
Indicated	Multiple[3]	6,639	1.62	235	0.76	1.23	345	50,070	50	82
Measured & Indicated		13,137	2.70	200	0.95	1.51	1,140	84,316	125	199
Inferred		5,028	2.16	276	0.90	1.62	349	44,663	45	81
Minera San Julián – San Julián Mine Underground: Veins										
Measured		1,376	1.89	141	–	–	84	6,250	–	–
Indicated	123 g/t AgEq	10,230	1.59	127	–	–	523	41,914	–	–
Measured & Indicated		11,606	1.63	129	–	–	607	48,164	–	–
Inferred		10,866	1.28	159	–	–	446	55,501	–	–
Minera San Julián – San Julián Mine Underground: Disseminated										
Measured		14,421	0.12	193	0.55	1.51	55	89,560	80	218
Indicated	108 g/t AgEq	2,692	0.06	72	0.39	1.47	5	6,267	11	39
Measured & Indicated		17,113	0.11	174	0.53	1.50	61	95,827	90	258
Inferred		63	0.04	36	0.08	1.85	–	74	–	1
Minera Penmont Underground: Centauro Profundo										
Measured		–	–	–	–	–	–	–	–	–
Indicated	2.0 g/t Au	10,535	5.47	–	–	–	1,853	–	–	–
Measured & Indicated		10,535	5.47		–	–	1,853	–	–	–
Inferred		1,458	7.02	–	–	–	329	–	–	–
Minera Penmont Open Pit: Mega Centauro [4, 5]										
Measured		230,017	0.80	–	–	–	5,916	–	–	–
Indicated	Multiple[6]	143,330	0.82	–	–	–	3,779	–	–	–
Measured & Indicated		373,350	0.81	–	–	–	9,695	–	–	–
Inferred		3,623	0.89	–	–	–	105	–	–	–
Minera Penmont Open Pit: Soledad-Dipolos [4, 5, 7]										
Measured		33,688	0.59	–	–	–	634	–	–	–
Indicated	0.25 g/t Au	17,220	0.53	–	–	–	293	–	–	–
Measured & Indicated		50,908	0.57	–	–	–	927	–	–	–
Inferred		32	0.35	–	–	–	–	–	–	–
Minera Penmont Open Pit: Noche Buena [4, 5]										
Measured		19,317	0.53	–	–	–	330	–	–	–
Indicated	0.25 g/t Au	9,667	0.52	–	–	–	163	–	–	–
Measured & Indicated		28,984	0.53	–	–	–	493	–	–	–
Inferred		839	0.54	–	–	–	14	–	–	–
Totals – Underground										
Measured & Indicated	Multiple	109,921	1.60	239	0.96	1.95	5,662	844,639	1,057	2,140
Inferred		85,649	0.96	283	1.01	1.91	2,653	778,667	863	1,639
Totals – Open Pit										
Measured & Indicated	Multiple	453,239	0.76	–	–	–	11,115	–	–	–
Inferred		4,494	0.83	–	–	–	120	–	–	–

1 Mineral resources are reported inclusive of ore reserves. Mineral resources are not ore reserves and do not have demonstrated economic viability. All figures rounded to reflect the relative accuracy of the estimates. Gold, silver, lead and zinc assays were capped where appropriate.

2 Mineral resources are reported at metal equivalent cut-off grades based on metal price assumptions*, variable metallurgical recovery assumptions (variable metallurgical recoveries as a function of grade and relative metal distribution), mining costs, processing costs, general and administrative (G&A) costs, and variable NSR factors (NSR factors include smelting and transportation costs). The AgEq variable cut-offs grades are calculated by dividing the applicable costs by a variable Ag net value factor which includes prices, recoveries, and playabilities.

3 The cut-off grade for Ciénega's mineral resources varies between 183 and 303 g/t AgEq.

4 The Mega Centauro, Soledad/Dipolos, and Noche Buena resources are reported within pit shells run at a US$1,250/oz Au price.

5 The Mega Centauro, Soledad/Dipolos, Noche Buena open pit mines has produced silver at an average concentration of 0.1 g/t to 2.6 g/t. Silver is not assayed for and is not estimated in the resource model. Based on past production, factored in situ silver in the open pit M&I&I resources is approximately in the range of 33 to 34 Moz.

6 Mega Centauro mineral reserves are reported at varied cut-offs dependent on material types and grade. Oxide material above 0.25 g/t Au and below 1.1 g/t Au reports to the heap leach, transitional and sulfide material above 0.30 g/t Au reports to the heap leach, oxide material above 1.05 g/t Au reports to the mill, transitional and sulfide material above 0.54 g/t Au reports to the mill.

7 The Soledad/Dipolos mine has been subject to legal action regarding surface access.

8 The Mega Centauro Resource pit is constructed with an inter-ramp angle of 47° and does not include ramps. The actual, overall mined pit angle is approximately 36°. There is low potential that the reported resources currently outside of the reserve pit will eventually convert to reserves. Sensitivity analysis shows this could be up to 2 million ounces of reported resources which may not eventually convert to open pit reserves.

* Metal price assumptions considered for the calculation of metal equivalent grades for the underground operations are: Gold (US$/oz 1,250.00), Silver (US$/oz 17.00), Lead (US$/lb 0.90) and Zinc (US$/lb 1.15).

† Note that previous audits had a year-end date of December, and this year's audit date is 31 May 2019. This is due to using an earlier data cutoff which to allow for more reporting time. Also note that the costing (cutoff and economic model inputs) information used in this audit is end of year 2018.

FRESNILLO PLC CONSOLIDATED AUDITED MINERAL RESOURCE STATEMENT OF EXPLORATION PROJECTS AND PROSPECTS[1†]

		Quantity	Grade				Contained Metal			
Deposit/Fresnillo Subsidiary	Cut-off Grade[2]	Tonnes (kt)	Au (g/t)	Ag (g/t)	Pb (%)	Zn (%)	Au (koz)	Ag (koz)	Pb (kt)	Zn (kt)
Measured Mineral Resource		–	–	–	–	–	–	–	–	–
Orisyvo – disseminated Au[4]	0.34 g/t Au	41,455	1.43	2	–	–	1,902	2,047	–	–
Candameña – disseminated Au[4]		–	–	–	–	–	–	–	–	–
Leones – breccia[4]		–	–	–	–	–	–	–	–	–
Tajitos – disseminated Au	0.25 g/t Au	37,152	0.37	–	–	–	446	–	–	–
Lucerito – breecia/mantos[4]		–	–	–	–	–	–	–	–	–
Rodeo – disseminated Au		–	–	–	–	–	–	–	–	–
Manzanillas – veins	US$58.30/t	75	6.76	130	–	–	16	316	–	–
San Juan – veins		–	–	–	–	–	–	–	–	–
Juanicipio – veins[3]		–	–	–	–	–	–	–	–	–
Guachichil – disseminated Au[4]		–	–	–	–	–	–	–	–	–
Opulencia – veins		–	–	–	–	–	–	–	–	–
Guanajuato Centro – veins		–	–	–	–	–	–	–	–	–
Guanajuato Sur – veins		–	–	–	–	–	–	–	–	–
Cebadillas – veins		–	–	–	–	–	–	–	–	–
La Yesca – veins		–	–	–	–	–	–	–	–	–
San Nicolas – veins		–	–	–	–	–	–	–	–	–
Pilarica – mantos		–	–	–	–	–	–	–	–	–
Total Measured		**78,682**	**0.93**	**1**	**–**	**–**	**2,365**	**2,363**	**–**	**–**
Indicated Mineral Resource										
Orisyvo – disseminated Au[4]	0.36 g/t Au	201,152	1.05	1	–	–	6,793	8,666	–	–
Candameña – disseminated Au[4]	0.58 g/t Au-Eq	49,708	0.75	17	0.04	0.11	1,197	27,833	19	53
Leones – breccia[4]		–	–	–	–	–	–	–	–	–
Tajitos – disseminated Au	0.25 g/t Au	7,065	0.37	–	–	–	84	–	–	–
Lucerito – breccia/mantos[4]	1.00 g/t Au-Eq	125,236	0.38	25	0.27	0.44	1,534	100,241	339	549
Rodeo – disseminated Au	0.30 g/t Au	5,180	0.58	3	–	–	96	565	–	–
Manzanillas – veins	US$58.30/t	919	3.53	69	–	–	104	2,034	–	–
San Juan – veins	US$58.30/t	3,130	1.48	159	–	–	149	16,019	–	–
Juanicipio – veins[3]	US$55.10/t	8,218	1.92	363	2.69	4.62	506	96,032	221	379
Guachichil – disseminated Au[4]		–	–	–	–	–	–	–	–	–
Opulencia – veins	2.10 g/t Au-Eq	1,950	3.70	159	–	–	236	9,968	–	–
Guanajuato Centro – veins	2.10 g/t Au-Eq	1,067	4.28	101	–	–	147	3,479	–	–
Guanajuato Sur – veins	2.10 g/t Au-Eq	558	5.26	791	–	–	94	14,185	–	–
Cebadillas – veins		–	–	–	–	–	–	–	–	–
La Yesca – veins		–	–	–	–	–	–	–	–	–
San Nicolas – veins		–	–	–	–	–	–	–	–	–
Pilarica – mantos	US$11.00/t	9,404	–	108	0.31	0.49	–	32,526	29	46
Total Indicated		**413,587**	**0.82**	**23**	**0.15**	**0.25**	**10,937**	**311,549**	**608**	**1,026**
Inferred Mineral Resource										
Orisyvo – disseminated Au[4]	0.35 g/t Au	46,682	0.61	1	–	–	914	1,625	–	–
Candameña – disseminated Au[4]	0.38 g/t Au-Eq	7,575	0.42	16	0.01	0.04	101	3,882	1	3
Leones – breccia[4]	60 g/t Ag	7,268	0.01	112	1.44	1.25	1	26,234	105	91
Tajitos – disseminated Au	0.25 g/t Au	5	0.29	–	–	–	–	–	–	–
Lucerito – breccia/mantos[4]	1.00 g/t Au-Eq	55,490	0.40	33	0.22	0.38	709	59,626	124	213
Rodeo – disseminated Au	0.30 g/t Au	72,353	0.48	5	–	–	1,118	10,900	–	–
Manzanillas – veins	US$58.30/t	317	2.03	46	–	–	21	474	–	–
San Juan – veins	US$58.30/t	8,055	1.59	135	–	–	412	34,873	–	–
Juanicipio – veins[3]	US$55.10/t	8,755	1.14	206	2.40	4.81	321	57,982	210	421
Guachichil – disseminated Au[4]	0.46 g/t Au-Eq	56,244	0.65	10	0.10	0.16	1,182	18,142	56	88
Opulencia – veins	2.10 g/t Au-Eq	1,870	2.40	121	–	–	144	7,298	–	–
Guanajuato Centro – veins	2.10 g/t Au-Eq	7,829	2.51	102	–	–	633	25,795	–	–
Guanajuato Sur – veins	2.10 g/t Au-Eq	2,613	1.73	335	–	–	145	28,157	–	–
Cebadillas – veins	2.10 g/t Au-Eq	1,980	2.59	65	–	–	165	4,109	–	–
La Yesca – veins	159 g/t Ag-Eq	1,116	0.76	141	–	–	27	5,073	–	–
San Nicolas – veins	2.10 g/t Au-Eq	2,167	1.61	225	–	–	112	15,684	–	–
Pilarica – mantos	US$34.00/t	5,265	0.65	116	1.99	1.91	110	19,661	105	101
Total Inferred		**285,586**	**0.67**	**35**	**0.21**	**0.32**	**6,117**	**319,520**	**600**	**918**

1 Mineral resources are not ore reserves and do not have demonstrated economic viability. All figures rounded to reflect the relative accuracy of the estimates. Metal assays were capped where appropriate. Mineral resources are reported at variable metal, metal equivalent or NSR cut-off grades and assuming reasonable metal recoveries. Orisyvo, Pilarica, Lucerito, Candameña, Rodeo and Guachichil mineral resources are reported inside a conceptual pit shell based on appropriate mining and processing costs and metal recoveries for oxide and sulfide material. Equivalent metal grades (and conceptual pit optimization) are based on US$1,250 per ounce of gold, US$17.00 per ounce of silver (US$1,400 per ounce of gold, US$17.50 per ounce of silver for the Orisyvo project), US$1.15 per pound of zinc and US$0.90 per pound of lead.

2 Cut-off grade calculations assume variable metallurgical recoveries.

3 Portions of the Valdecañas deposit within the Minera Juanicipio property where Fresnillo plc holds a 56% interest. Mineral resources quoted reflect Fresnillo plc's attributable 56% ownership.

4 Mineral resources statement prepared independently by SRK.

† Note that previous audits had a year-end date of December, and this year's audit date is 31 May 2019. This is due to using an earlier data cutoff which to allow for more reporting time. Also note that the costing (cutoff and economic model inputs) information used in this audit is end of year 2018.

FRESNILLO PLC AUDITED ORE RESERVE STATEMENT†

		Quantity	Grade				Contained Metal			
Deposit	Cut-off Grade [1]	Tonnes (kt)	Au (g/t)	Ag (g/t)	Pb (%)	Zn (%)	Au (koz)	Ag (koz)	Pb (kt)	Zn (kt)
Minera Fresnillo – Fresnillo/Proaño Mine – Underground [2]										
Proven		–	–	–	–	–	–	–	–	–
Probable	202 g/t AgEq	19,859	0.76	234	1.52	3.11	483	149,284	301	619
Proven & Probable		19,859	0.76	234	1.52	3.11	483	149,284	301	619
Minera Saucito – Saucito Mine – Underground [2]										
Proven		–	–	–	–	–	–	–	–	–
Probable	257 g/t AgEq	12,993	1.20	287	1.26	2.22	500	119,720	163	288
Proven & Probable		12,993	1.20	287	1.26	2.22	500	119,720	163	288
Minera Ciénega – Ciénega Complex – Underground [2]										
Proven		–	–	–	–	–	–	–	–	–
Probable	Multiple [3]	5,248	2.18	229	0.77	1.27	368	38,632	40	66
Proven & Probable		5,248	2.18	229	0.77	1.27	368	38,632	40	66
Minera San Julián – San Julián Mine Underground: Veins [2]										
Proven		–	–	–	–	–	–	–	–	–
Probable	175 g/t AgEq	4,346	1.75	160	–	–	245	22,350	–	–
Proven & Probable		4,346	1.75	160	–	–	245	22,350	–	–
Minera San Julián – San Julián Mine Underground: Disseminated [2]										
Proven		–	–	–	–	–	–	–	–	–
Probable	153 g/t AgEq	12,073	0.11	175	0.49	1.30	42	67,772	60	157
Proven & Probable		12,073	0.11	175	0.49	1.30	42	67,772	60	157
Minera Penmont Open Pit: Mega Centauro [4]										
Proven		–	–	–	–	–	–	–	–	–
Probable	Multiple [5]	267,492	0.78	–	–	–	6,679	–	–	–
Proven & Probable		267,492	0.78	–	–	–	6,679	–	–	–
Minera Penmont Open Pit: Noche Buena [4]										
Proven		–	–	–	–	–	–	–	–	–
Probable	0.25 g/t Au	28,984	0.53	–	–	–	493	–	–	–
Proven & Probable		28,984	0.53	–	–	–	493	–	–	–
Totals – Underground										
Proven		–	–	–	–	–	–	–	–	–
Probable	Multiple	54,519	0.93	227	1.04	2.07	1,638	397,757	565	1,130
Proven & Probable		54,519	0.93	227	1.04	2.07	1,638	397,757	565	1,130
Totals – Open Pit										
Proven		–		–	–	–	–	–	–	–
Probable	Multiple	296,476	0.75	–	–	–	7,173	–	–	–
Proven & Probable		296,476	0.75	–	–	–	7,173	–	–	–

1 All figures rounded to reflect the relative accuracy of the estimates. Mineral reserves are reported at metal equivalent cut-off grades based on metal price assumptions*, variable metallurgical recovery assumptions (variable metallurgical recoveries as a function of grade and relative metal distribution), mining costs, processing costs, general and administrative (G&A) costs, sustaining capital costs, and variable NSR factors (NSR factors include smelting and transportation costs). Each AgEq cut-off is calculated by dividing the appropriate cost by the corresponding Ag net value factor which includes prices, recoveries, and payabilities.

2 Reserves include planned dilution to a minimum mining width and to minable outlines. Additionally, based on mining method, floor dilution is included, and appropriate mining recovery factors are applied.

3 The cut-off grades for the Ciénega reserve vary between 183 and 409 g/t AgEq.

4 Reserves have no additional dilution added to that inherent in the Selective Mining Unit (SMU) of 15m x 15m x 8m. Reserves are converted from resources through the process of pit optimization, pit design, production schedule and supported by a Minera Penmont cash flow model.

5 Mega Centauro mineral reserves are reported at varied cut-offs dependent on material types and grade. Oxide material between 0.25 g/t and 0.96 g/t Au reports to the heap leach pad, transitional and sulfide material between 0.30 g/t and 0.49 g/t Au reports to the heap leach pad, oxide material above 0.96 g/t Au reports to the mill, transitional and sulfide material above 0.49 g/t Au reports to the mill.

* Metal price assumptions considered for the calculation of metal equivalent grades for the underground operations are: Gold (US$/oz 1,250.00), Silver (US$/oz 17.00), Lead (US$/lb 0.90) and Zinc (US$/lb 1.15).

- Most reserves were calculated based on the following metal prices: Gold (US$/oz 1,250.00), Silver (US$/oz 17.00), Lead (US$/lb 0.90) and Zinc (US$/lb 1.15). Mega Centauro reserves are based on a Gold price of US$1,300/oz, it should be noted that the production schedule prepared for these reserves does not yield a positive free cash flow under US$1,250/oz Au gold price.
- The reserves are valid as of 31 May 2019. All topography is valid as of 31 May 2019.
- The ore reserves were estimated by Fresnillo plc. Fernando Rodrigues, BS Mining, MBA, MMSAQP #01405, MAusIMM #304726 of SRK, a Qualified Person, reviewed and audited the reserve estimates. All resource material classified as measured within the mine plan have been downgraded by SRK to probable reserves due to insufficient confidence in some engineering data and lack of study items at a PFS level or higher. There is a risk that as additional study work is completed the classification of reserves may change. This includes geotechnical, hydrogeological, structural models, haulage combined with first principles costing, detailed capital cost estimates, and reconciliation. SRK has recommended for several years that Fresnillo completes the necessary engineering work items to a FS level. The open pit operations have implemented a first principle mining cost model.

† Note that previous audits had a year-end date of December, and this year's audit date is 31 May 2019. This is due to using an earlier data cutoff which to allow for more reporting time. Also note that the costing (cutoff and economic model inputs) information used in this audit is end of year 2018.

FRESNILLO ORE RESERVES STATEMENT FOR MINERA JUANICIPIO (56% OWNERSHIP BASIS)

	Quantity	Grade				Contained Metal			
Deposit	Tonnes (kt)	Au (g/t)	Ag (g/t)	Pb (%)	Zn (%)	Au (koz)	Ag (moz)	Pb (kt)	Zn (kt)
Proven (56%)	–	–	–	–	–	–	–	–	–
Probable (56%)	9,082	1.5	296	2.2	3.7	438	86	200	336
Proven & Probable	**9,082**	**1.5**	**296**	**2.2**	**3.7**	**438**	**86**	**200**	**336**

Notes:
- All figures rounded to reflect the relative accuracy of the estimates. Ore Reserves are reported at NSR cut-off value based on metal price assumptions, metallurgical recovery assumptions, mining costs, processing costs, G&A costs, sustaining capital costs, and variable smelting and transportation costs.
- JORC Code was used for reporting of Ore Reserves.
- NSR values are calculated as:
  - NSR = 25.91*Au+0.39*Ag+16.64*Pb+13.98*Zn.
  - Units gold (g/t), silver (g/t), lead (%), zinc (%).
- NSR factors are based on metal prices of $17.00/oz Ag, $1,250/oz Au, $0.90/lb Pb, and $1.15/lb Zn and estimated recoveries of 81.59% Au, 94.82% Ag, 92.80% Pb, and 89.80% Zn.
- Payable metal assumptions for Au are 95% for lead concentrates, 98% for precipitate, and 65% for zinc concentrate; for Ag: 95% for lead concentrates, 97% for precipitate, and 70% for zinc concentrate. Lead 95% payable and zinc 85% payable.
- The all-inclusive stope cut-off value is $90/tonne and the marginal stope cut-off value is $60/tonne.
- The stope hangingwall and footwall dilution (ELOS) was included in the stope optimization process. The dilution thickness for stope hangingwall and footwall are 0.7m and 0.4m respectively.
- An additional operational dilution of 10% is applied to the reserve calculation.
- Mining recovery factors range from 95% for backfilled stopes to 85% for sill pillars.
- Exchange rate of 20.5 MXP to US$1.

COMPETENT PERSON FOR THE ORE RESERVE STATEMENT FOR MINERA JUANICIPIO

Gary Methven, P.Eng., RPEQ, has verified the reserve estimations for the Minera Juanicipio Mine. Mr Methven has sufficient experience which is relevant to the style of mineralization and type of deposits under consideration and to the activities being undertaken to qualify as a Competent Person as defined in the JORC Code. Mr Methven is independent of Fresnillo.

OPERATING STATISTICS

	ORE PROCESSED (tonnes)						SILVER (grams/ tonne)					
	2014	2015	2016	2017	2018	2019	2014	2015	2016	2017	2018	2019
Fresnillo	2,625,511	2,410,033	2,373,092	2,447,394	2,443,440	**2,461,785**	258.5	220.0	226.7	229.6	213.8	**184.5**
Ciénega	1,341,569	1,329,364	1,274,939	1,302,409	1,323,908	**1,329,134**	108.5	129.0	143.5	151.5	164.4	**158.9**
Herradura	22,305,133	22,875,421	25,158,600	26,027,466	22,156,792	**22,926,542**	1.2	1.2	1.2	0.9	2.7	**3.1**
Saucito	1,534,579	2,339,096	2,635,093	2,753,876	2,792,057	**2,752,638**	338.9	327.5	302.7	279.8	257.6	**227.6**
Saucito Pyrites	–	–	–	–	131,780	**167,513**	–	–	–	–	393.4	**299.4**
Soledad-Dipolos	–	–	–	–	–	**–**	–	–	–	–	–	**–**
Noche Buena	15,607,230	17,399,931	17,431,718	17,820,817	18,195,744	**12,166,900**	0.4	0.2	0.1	0.1	0.1	**0.2**
San Julián – Veins	–	–	423,069	1,273,129	1,270,781	**1,265,030**	–	–	172.5	157.2	144.1	**115.4**
San Julián – DOB	–	–	–	945,057	2,221,433	**2,226,956**	–	–	–	180.3	154.4	**139.5**

	ZINC CONCENTRATE (tonnes)						SILVER (grams/tonne)					
	2014	2015	2016	2017	2018	2019	2014	2015	2016	2017	2018	2019
Fresnillo	29,196	36,595	50,682	57,686	59,987	**61,639**	1,221	1,036	868	816	773	**622**
Ciénega	11,850	11,694	14,265	14,108	12,472	**16,897**	1,172	1,770	1,692	2,413	2,042	**1,177**
Herradura	–	–	–	–	–	**–**	–	–	–	–	–	**–**
Saucito	20,794	42,643	50,409	41,768	60,879	**62,171**	789	788	842	889	704	**692**
Soledad-Dipolos	–	–	–	–	–	**–**	–	–	–	–	–	**–**
Noche Buena	–	–	–	–	–	**–**	–	–	–	–	–	**–**
San Julián – DOB	–	–	–	15,827	43,808	**45,979**	–	–	–	2,750	2,590	**2,188**

	LEAD CONCENTRATE (tonnes)						SILVER (grams/tonne)					
	2014	2015	2016	2017	2018	2019	2014	2015	2016	2017	2018	2019
Fresnillo	57,263	50,787	58,584	58,675	53,930	**58,679**	10,180	8,737	7,653	7,950	7,859	**6,241**
Ciénega	12,627	13,721	15,600	16,508	12,951	**13,032**	8,004	8,418	7,607	6,966	10,689	**10,797**
Herradura	–	–	–	–	–	**–**	–	–	–	–	–	**–**
Saucito	40,415	69,128	61,321	53,082	63,756	**56,844**	11,443	9,405	10,440	11,731	8,978	**8,632**
Soledad-Dipolos	–	–	–	–	–	**–**	–	–	–	–	–	**–**
Noche Buena	–	–	–	–	–	**–**	–	–	–	–	–	**–**
San Julián – DOB	–	–	–	8,634	13,434	**16,200**	–	–	–	11,524	12,847	**10,478**

	DORÉ AND OTHER PRODUCTS (tonnes)						SILVER (grams/tonne)					
	2014	2015	2016	2017	2018	2019	2014	2015	2016	2017	2018	2019
Ciénega precipitates	67.4	68.2	59.4	67.5	70.5	**56.5**	175,026	204,790	282,650	277,557	321,707	**348,315**
Ciénega Gravimetric Concentrator	–	–	–	–	–	**–**	–	–	–	–	–	**–**
Saucito Pyrites precipitates	–	–	–	–	87.3	**83.3**	–	–	–	–	348,123	**437,279**
Herradura doré	31.1	33.6	46.8	44.3	79.1	**79.7**	650,999	480,633	417,271	393,103	604,868	**606,458**
Herradura slag	716.9	779.1	807.1	669.9	773.4	**1,284.3**	1,198	578	965	738	1,174	**1,041**
Soledad-Dipolos doré	–	–	–	–	–	**–**	–	–	–	–	–	**–**
Soledad-Dipolos slag	–	–	–	–	–	**–**	–	–	–	–	–	**–**
Fresnillo Concentrates from Tailings Dam	2,277.5	1,544.2	433.9	–	–	**–**	2,872.0	2,565.5	2,573.1	–	–	**–**
Noche Buena doré	7.6	8.0	7.1	6.7	7.7	**7.8**	333,260.8	213,687.2	69,443.6	31,252.3	24,479.9	**98,118.4**
Noche Buena slag	564.2	452.1	229.0	371.2	292.5	**248.7**	1,125.6	707.2	263.4	61.2	206.3	**–**
San Julián – Vein precipitates	–	–	84.6	218.4	202.1	**155.6**	–	–	759,300	845,230	836,331	**862,812**

	METAL PRODUCED[1,2] SILVER (ounces)						GOLD (ounces)					
	2014	2015	2016	2017	2018	2019	2014	2015	2016	2017	2018	2019
Fresnillo	20,098,245	15,612,175	15,864,614	16,511,937	15,117,156	**13,007,227**	35,676	34,120	42,421	38,784	42,290	**52,259**
Ciénega	4,075,181	4,827,864	5,130,870	5,394,037	5,998,987	**5,796,190**	108,211	85,662	72,851	71,947	66,869	**65,583**
Herradura	679,073	525,757	637,775	551,476	1,523,453	**1,563,060**	265,564	398,866	520,366	473,638	474,168	**482,722**
Saucito	15,396,754	21,983,852	21,946,059	21,215,072	19,780,721	**17,159,627**	57,227	84,884	86,198	69,948	86,092	**79,539**
Saucito Piritas	–	–	–	–	977,414	**1,171,298**	–	–	–	–	3,556	**4,045**
Soledad-Dipolos	–	–	–	–	–	**–**	–	–	–	–	–	**–**
Noche Buena	102,357	72,868	32,631	31,324	51,616	**57,754**	129,242	158,179	182,280	172,282	167,208	**127,166**
San Julián – Vetas	–	–	2,065,536	5,935,507	5,433,526	**4,317,225**	–	–	31,397	82,782	79,218	**62,207**
San Julián – JM	–	–	–	4,598,421	9,196,272	**8,691,636**	–	–	–	1,750	3,125	**2,393**
Fresnillo Total	40,351,611	43,022,515	45,677,485	54,237,774	58,079,146	**51,764,018**	595,920	761,712	935,513	911,132	922,527	**875,913**

1 Including Production from Fresnillo's Tailings Dam.
2 All figures include 100% of production from the Penmont mines (Herradura, Soledad-Dipolos and Noche Buena).

GOLD (grams/ tonne)						ZINC (%)						LEAD (%)					
2014	2015	2016	2017	2018	2019	2014	2015	2016	2017	2018	2019	2014	2015	2016	2017	2018	2019
0.53	0.57	0.73	0.64	0.70	**0.89**	0.97	1.18	1.56	1.72	1.75	**1.80**	0.59	0.75	0.99	0.92	0.90	**1.01**
2.59	2.07	1.84	1.82	1.65	**1.66**	0.73	0.80	1.00	0.98	0.83	**1.13**	0.53	0.61	0.68	0.74	0.60	**0.67**
0.72	0.73	0.71	0.64	0.76	**0.80**	–	–	–	–	–	**–**	–	–	–	–	–	**–**
1.40	1.42	1.39	1.09	1.25	**1.19**	1.32	1.70	1.49	1.21	1.61	**1.57**	0.75	1.01	0.93	0.77	0.94	**0.90**
–	–	–	–	2.77	**2.32**	–	–	–	–	–		–	–	–	–	–	
–	–	–	–	–	**–**	–	–	–	–	–	**–**	–	–	–	–	–	**–**
0.51	0.50	0.51	0.51	0.52	**0.55**	–	–	–	–	–	**–**	–	–	–	–	–	**–**
–	–	2.47	2.10	2.01	**1.61**	–	–	–	–	–	**–**	–	–	–	–	–	**–**
–	–	–	0.12	0.09	**0.08**	–	–	–	1.18	1.35	**1.36**	–	–	–	0.52	0.43	**0.44**

GOLD (grams/tonne)						ZINC (%)					
2014	2015	2016	2017	2018	2019	2014	2015	2016	2017	2018	2019
3.0	2.6	2.8	2.3	2.3	**2.6**	52.1	52.0	51.1	52.0	51.8	**51.2**
11.8	11.2	10.1	13.9	13.1	**7.1**	50.6	51.1	52.2	50.0	47.2	**53.2**
–	–	–	–	–	**–**	–	–	–	–	–	**–**
3.5	3.0	3.8	3.8	2.8	**3.1**	50.5	49.3	46.6	48.7	48.5	**47.2**
–	–	–	–	–	**–**	–	–	–	–	–	**–**
–	–	–	–	–	**–**	–	–	–	–	–	**–**
–	–	–	0.9	0.8	**0.6**	–	–	–	49.6	50.3	**49.4**

GOLD (grams/tonne)						ZINC (%)						LEAD (%)					
2014	2015	2016	2017	2018	2019	2014	2015	2016	2017	2018	2019	2014	2015	2016	2017	2018	2019
17.4	18.7	20.0	18.3	21.8	**25.0**	–	–	–	–	–	**–**	24.3	32.0	36.4	35.0	36.4	**36.6**
146.9	105.0	76.5	69.5	85.4	**78.2**	–	–	–	–	–	**–**	37.5	39.5	37.7	38.3	37.1	**44.8**
–	–	–	–	–	**–**	–	–	–	–	–	**–**	–	–	–	–	–	**–**
42.3	36.3	40.6	38.0	39.3	**40.2**	–	–	–	–	–	**–**	24.7	30.0	34.1	33.4	35.5	**36.5**
–	–	–	–	–	**–**	–	–	–	–	–	**–**	–	–	–	–	–	**–**
–	–	–	–	–	**–**	–	–	–	–	–	**–**	–	–	–	–	–	**–**
–	–	–	4.6	4.5	**2.8**	–	–	–	–	–	**–**	–	–	–	41.7	45.4	**47.2**

GOLD (grams/tonne)					
2014	2015	2016	2017	2018	2019
20,327	16,008	15,660	13,252	11,504	**15,918**
–	–	–	–	–	**–**
–	–	–	–	1,267	**1,510**
247,967	369,321	351,900	344,604	196,925	**190,981**
756	541	942	647	435	**334**
–	–	–	–	–	**–**
–	–	–	–	–	**–**
10.8	10.4	14.5	–	–	**–**
465,538	533,408	611,567	602,221	509,555	**406,858**
815	506	1,225	979	324	**206**
–	–	11,542	11,788	12,193	**12,432**

ZINC (tonne)						LEAD (tonne)					
2014	2015	2016	2017	2018	2019	2014	2015	2016	2017	2018	2019
15,199	19,029	25,898	30,021	31,094	**31,530**	13,888	16,248	21,326	20,514	19,619	**21,472**
6,000	5,970	7,450	7,048	5,892	**8,986**	4,736	5,425	5,883	6,328	4,799	**5,839**
–	–	–	–	–	**–**	–	–	–	–	–	**–**
10,501	21,023	23,498	20,348	29,506	**29,365**	9,967	20,740	20,935	17,714	22,662	**20,764**
–	–	–	–	–	**–**	–	–	–	–	–	**–**
–	–	–	–	–	**–**	–	–	–	–	–	**–**
–	–	–	–	–	**–**	–	–	–	–	–	**–**
–	–	–	–	–	**–**	–	–	–	–	–	**–**
–	–	–	7,849	22,027	**22,697**	–	–	–	3,598	6,101	**7,648**
31,700	46,022	56,845	65,266	88,520	**92,578**	28,591	42,413	48,144	48,153	53,181	**55,722**

SHAREHOLDER INFORMATION

FINANCIAL CALENDAR

Preliminary Statement	3 March 2020
First Quarter Production Report	29 April 2020
Annual General Meeting	29 May 2020
Second Quarter Production Report	22 July 2020
Interim Statement	28 July 2020
Third Quarter Production Report	21 October 2020

DIVIDEND PAYMENT SCHEDULE

2019 Final Dividend Record Date	24 April 2020
2019 Final Dividend Payment Date	2 June 2020
2020 Interim Dividend Record Date	7 August 2020
2020 Interim Dividend Payment Date	4 September 2020

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25 Bank Street
London E14 5JP
United Kingdom

JOINT CORPORATE BROKER

Bank of America Securities
2 King Edward Street
London EC1A 1HQ
United Kingdom

AUDITOR

Ernst & Young LLP
1 More London Place
London SE1 2AF
United Kingdom

Travers Smith are Fresnillo plc UK legal Advisers

SHARE FRAUD WARNING

Share fraud includes scams where investors are called out of the blue and offered shares that turn out to be worthless or non-existent, or an inflated price for shares they own. These calls come from fraudsters operating in 'boiler rooms', mostly based abroad. While high profits are promised, those who buy or sell shares in this way usually lose their money. Most victims are experienced investors, losing on average £20,000.

PROTECT YOURSELF

If you are offered unsolicited investment advice, discounted shares, inflated prices for shares you own, or free company or research reports, take these steps before handing over any money:

1. Get the name of the person and organisation.
2. Check the Financial Services Register at www.fca.org.uk/register to ensure they are authorised.
3. Use the details on the Financial Services Register to contact the firm.
4. Call the FCA Consumer Helpline on 0800 111 6768 if there are no contact details on the Register or you are told they are out of date.
5. Search the list of unauthorised firms and individuals to avoid doing business with.
6. **REMEMBER: if it sounds too good to be true, it probably is!**

If you use an unauthorised firm to buy or sell shares, you will not have access to the Financial Ombudsman Service or Financial Services Compensation Scheme (FSCS) if things go wrong.

REPORT A SCAM

If you are approached about a share scam you should tell the FCA using the form at www.fca.org.uk/scams (where you can also review the latest scams) or call the Consumer Helpline on 0800 111 6768.

If you have already paid money to share fraudsters then contact Action Fraud on 0300 123 2040.

For further information, please visit our website:
www.fresnilloplc.com or contact:
Fresnillo plc
Tel: +44(0)20 7399 2470
Gabriela Mayor, Head of Investor Relations

FORWARD LOOKING STATEMENTS

This document includes statements that are, or may be deemed to be, 'forward-looking statements'. These forward-looking statements can be identified by the use of forward-looking terminology, including the terms 'believes', 'estimates', 'plans', 'projects', 'anticipates', 'expects', 'intends', 'may', 'will', or 'should' or, in each case, their negative or other variations or comparable terminology, or by discussions of strategy, plans, objectives, goals, future events or intentions. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this document and include, but are not limited to, statements regarding the Group's intentions, beliefs or current expectations concerning, among other things, the Group's results of operations, financial position, liquidity, prospects, growth, strategies and the silver and gold industries. By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances.

Forward-looking statements are not guarantees of future performance and the actual results of the Group's operations, financial position and liquidity, and the development of the markets and the industry in which the Group operates, may differ materially from those described in, or suggested by, the forward-looking statements contained in this document. In addition, even if the results of operations, financial position and liquidity, and the development of the markets and the industry in which the Group operates are consistent with the forward-looking statements contained in this document, those results or developments may not be indicative of results or developments in subsequent periods. A number of factors could cause results and developments to differ materially from those expressed or implied by the forward-looking statements including, without limitation, general economic and business conditions, industry trends, competition, commodity prices, changes in regulation, currency fluctuations (including the US dollar and Mexican peso exchange rates), the Group's ability to recover its reserves or develop new reserves, including its ability to convert its resources into reserves and its mineral potential into resources or reserves, changes in its business strategy, political and economic uncertainty.

Forward-looking statements may, and often do, differ materially from actual results. Any forward-looking statements in this document speak only as of the date of this document, reflect the Group's current view with respect to future events and are subject to risks relating to future events and other risks, uncertainties and assumptions relating to the Group's operations, results of operations, growth strategy and liquidity. Investors should specifically consider the factors identified in this document which could cause actual results to differ before making an investment decision. Subject to the requirements of the Prospectus Rules, the Disclosure and Transparency Rules and the Listing Rules or applicable law, the Group explicitly disclaims any obligation or undertaking publicly to release the result of any revisions to any forward-looking statements in this document that may occur due to any change in the Group's expectations or to reflect events or circumstances after the date of this document.

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