SUPPORTING OUR PEOPLE LIVING UP TO OUR PURPOSE

FRESNILLO PLC
ANNUAL REPORT AND ACCOUNTS 2020

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.

Covid-19 has changed the ways in which we all work and live. Throughout these dark and challenging days, the Fresnillo Purpose has come to the fore as a watchword for our behaviours and a guide to how best to navigate the pandemic. When we first articulated our Purpose, it was important to us that it was not just a set of words to shape our future, but something that sprang directly from how we have always operated as a business. By living up to our Purpose throughout the pandemic, we have been able to protect and support our people, maintain production close to the expected levels and continue to contribute to the wellbeing of our stakeholders – including shareholders, local communities, suppliers, the authorities and the environment.

For more information on our Purpose
See pages 08-09

STRATEGIC REPORT

CORPORATE GOVERNANCE

FINANCIAL STATEMENTS

ADDITIONAL INFORMATION

PERFORMANCE HIGHLIGHTS

Against a background of the significant challenges presented by Covid-19, we have put the principles of our Purpose into action, focused on the wellbeing of people and delivered a more than respectable performance.

SILVER PRODUCTION

53.1 moz
-2.9%

GOLD PRODUCTION

769.6 koz
-12.1%

TOTAL ATTRIBUTABLE SILVER RESOURCES

2,292.5 moz
+1.6%

TOTAL ATTRIBUTABLE GOLD RESOURCES

38.9 moz
-0.2%

STRATEGIC HIGHLIGHTS

- Welcomed new Chief Operating Officer Tomás Iturriaga.
- Appointed Guillermo Gastélum as Vice President of Exploration.
- Successfully restructured the Company's debt, buying back US$481.7 million from the US$800 million Senior Notes at 5.5% due in 2023 and issuing new US$850 million Senior Notes at 4.25% due in 2050.
- Registered as a supporter of the Task Force on Climate-related Financial Disclosures (TCFD).
- Reported under the climate change and water security programmes of the Carbon Disclosure Project (CDP).
- Launched a strategy to increase the participation and inclusion of women.

For more information
See pages 04-07

OPERATIONAL HIGHLIGHTS

- Attributable silver production of 53.1 moz (including Silverstream), down 2.9% vs. 2019 due to the expected lower ore grade at Saucito, mitigated by a higher ore grade at San Julián Disseminated Ore Body (DOB) and development ore from Juanicipio being processed for the first time.
- Attributable gold production of 769.6 koz decreased 12.1% vs. 2019 driven primarily by a lower volume of ore processed at Herradura and Noche Buena. Production at both mines was impacted by Covid-19 operational restrictions. At Noche Buena it was also affected by a reduction in operating areas as the mine approaches its planned closure and by a minor event in one of the pit walls.
- Continued progress on the Juanicipio processing plant, with commissioning now expected by 4Q 2021, a few months later than anticipated due to delayed infrastructure contracts, Covid-19 preventive measures and a brief stoppage in construction.
- The Pyrites Plant (phase II) at the Fresnillo district was completed on time and on budget. Start-up was deferred due to a delay in final inspections by the authorities as a result of Covid-19 restrictions on travel and other regulatory delays.
- The Fresnillo flotation plant optimisation to cope with higher content of lead and zinc was completed on time and on budget. The connection of this new circuit to the beneficiation plant was postponed until early 2021 to avoid unnecessary interruptions to normal operations.
- Silver resources up 1.6% primarily due to exploration at Saucito and Ciénega; gold resources remained stable.
- Silver reserves decreased 5.5% to 457.4 moz mainly due to depletion and higher cut-off grades at Fresnillo, and an updated mine production plan at San Julián which incorporates new geotechnical criteria, mitigated by the increase at Saucito.
- Gold reserves decreased 8.8% to 8,438 koz primarily due to more stringent geotechnical and cost considerations at Herradura and depletion at Noche Buena.
- We regret to report one fatality during 2020.

For more information
See pages 40-65

FINANCIAL HIGHLIGHTS

- Adjusted revenue[1] of US$2,608.1 million, up 14.9% over 2019 due to higher gold and silver prices, which were partially offset by the lower volumes of gold and silver sold.
- Revenue of US$2,430.1 million, up 14.6% over 2019 primarily due to increased adjusted revenue.
- Gross profit of US$879.4 million, up 90.5% due to the favourable effect of higher average realised gold and silver prices; EBITDA[2] of US$1,169.1 million, up 73.4%.
- Profit from continuing operations before net finance costs and income tax of US$649.7 million, up 278.3%.
- Capex of US$412.3 million, down 26.3%.
- Dividends of US$104.7 million paid, down 26.4%, in line with our dividend policy which includes a consideration of profits generated in the year.
- Strong balance sheet and low leverage ratio; cash and other liquid funds[3] of US$1,070.4 million, up 218.0% driven by our debt restructuring and operational performance and in spite of the pandemic, investing US$412.3 million in capex and spending US$107.3 million on exploration expenses to underpin our future growth.

For more information
See pages 66-77

ESG HIGHLIGHTS

- Participated in the Workforce Disclosure Initiative (WDI) for the first time.
- Partnered with our communities and the authorities to respond to Covid-19.
- Made encouraging progress through our 'Step-Up' Culture programme to embed ethics into our organisational culture.
- Launched a programme to prevent and address labour and sexual harassment.
- Participated for the first time in the PAR Ranking, the largest ranking in Latin America that measures gender equity performance.
- Included in the FTSE4Good Index, Ethisphere's list of the world's most ethical companies and ranked second in the Corporate Integrity Ranking in Mexico.

For more information
See pages 78-109

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 68.

2 Earnings before interest, taxes, depreciation and amortisation (EBITDA) is calculated as profit for the year from continuing operations before income tax, less finance income, plus finance costs, less foreign exchange gain/(loss), less revaluation effects of the Silverstream contract and other operating income plus other operating expenses and depreciation. The reconciliation of EBITDA to amounts determined in accordance with IFRS can be found on page 73.

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

WHERE WE OPERATE

Based in Mexico, Fresnillo draws on the country's significant geological resources and strong potential for continued growth. We benefit from Mexico's skilled workforce and solid infrastructure, and are proud to continue playing an important part in a rich mining tradition that stretches back more than 500 years. Our mining concessions extend to approximately 1.7 million hectares in Mexico, securing valuable employment for just under 20,000 people and contributing some US$1,721[1] million to the country's economy each year.

1 Economic Value Distributed. This is considered to be a social performance measure. For more detail see page 108.
2 Au:Ag ratio of 1:70.

KEY ASSETS

Asset	Type	Main metal	2020 EBITDA	Reserves (Silver)[3]	Reserves (Gold)[3]	Year[1]
OPERATING MINES						
1 Fresnillo	Underground	Silver	US$155.4m	131.0 moz	378 koz	1554
2 Saucito	Underground	Silver	US$278.0m	139.6 moz	611 koz	2011
3 San Julián	Underground	Silver	US$168.4m	65.6 moz	222 koz	2016
4 Ciénega	Underground	Gold/Silver	US$107.4m	33.7 moz	343 koz	1992
5 Herradura	Open pit	Gold	US$434.5m		6,139 koz	1997
6 Soledad-Dipolos[2]	Open pit	Gold		Excluded in 2020		2010
7 Noche Buena	Open pit	Gold	US$58.2m		326 koz	2012

1 Represents start of commercial production.
2 Operations at Soledad-Dipolos are currently suspended.
3 As of 31 May 2020.

Read more in our Review of Operations on pages 52-65

DEVELOPMENT PROJECTS		
8 Second stage of the Pyrites treatment plant (completed in 4Q 2020)	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 45
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 47

Asset	Main metal	Resources (Silver)[1]	Resources (Gold)[1]
EXPLORATION PROJECTS AND PROSPECTS			
10 Orisyvo	Gold	12.3 moz	9.6 moz
11 Guanajuato	Silver/Gold	95.7 moz	1.5 moz
12 Rodeo	Gold	13.2 moz	1.3 moz
13 Tajitos	Gold		539 koz

1 As of 31 May 2020.

For more on our exploration projects and prospects See pages 41-44

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

CHAIRMAN'S STATEMENT

INTRODUCTION

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

SUPPORTING OUR PEOPLE LIVING UP TO OUR PURPOSE

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

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

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

A positive performance in difficult circumstances

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

In spite of these difficult circumstances, the Company achieved US$2,430.1 million in total revenue and US$2,608.1 million in adjusted revenue during the year. This represented an increase of 14.6% and 14.9% respectively, primarily due to better prices for precious metals. Gross profit rose year-on-year by 90.5% to US$879.4 million, driven by a combination of higher prices and lower costs.

Cash and other liquid funds increased from US$336.6 million to US$1,070.4 million, reflecting the increased cash generated by the mines and the restructuring of the debt.

You will find further details on our financial performance on pages 66-77

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

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

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

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

Putting people and communities first

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

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

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

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

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

CHAIRMAN'S STATEMENT CONTINUED

> We always put the health of our people at the front and centre of every action."

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

Preparing the ground for further success

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

Although the Covid-19 pandemic continues to pose risks and uncertainties, silver production in the months and years ahead will grow with the start-up of the Juanicipio mine, which is on track to be operational in 4Q 2021. Ore produced during the mine development phase is currently being processed in the flotation plant at Fresnillo. Future production will also be increased when the recently-completed Pyrites Flotation Plant at Fresnillo is operational. Although we have made preparations to start-up commercial production, the inspection that is required to be carried out by the authorities in order to grant the energy permit has been delayed due to Covid-19 restrictions on travel. We anticipate that this inspection will take place in the third quarter of 2021.

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

With concern for the impacts of climate change continuing to increase, the Board took steps to review and, where possible, intensify sustainable practices in all of our operations, becoming a registered supporter of the TCFD during the year. In line with our commitment to reduce our greenhouse gas emissions, the HSECR Committee evaluated whether our Energy Strategy was sufficiently flexible to enable us to adopt a decarbonisation pathway compatible with the well below 2 °C scenario of the Paris Agreement.

Board activities

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

In my introduction to the Governance Report on pages 136–137, I describe the Board's activities in more detail, including how we worked with our Executive Committee and our colleagues elsewhere in the BAL Group to ensure that our workforce and their communities were as safe as possible. This necessitated regular engagement with employees as well as the Government, as we sought to introduce processes and purchase equipment that enabled our mines to operate safely.

During the year, an independent legal firm provided external facilitation for our 2020 Board and Committee effectiveness reviews, which this year included an assessment of how the Board performed during the pandemic. While there is always room for improvement, I was pleased that the review's findings were once again positive. We provide details of the review on page 152.

Changes to the Board

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

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

Guadalupe's presence at Board meetings further strengthens our belief that the Board has the appropriate balance of skills, experience and gender to oversee the execution and development of long-term strategy. Her appointment ensures that Fresnillo complies with the Hampton-Alexander Review requirement that at least 33% of Board members should be women. With racial inequality and ethnic diversity coming into greater focus, it was pleasing to see the Parker Review report that Fresnillo plc met the ethnicity target for FTSE 100 companies in 2020.

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

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

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

Outlook

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

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

Alberto Baillères
Chairman

OUR VALUES

Our values are embedded in our culture and support our strategy.

Trust
Makes strategic relations more resilient

Responsibility and Respect
Nurtures care and accountability

Integrity
Prevents the negative consequences of unethical actions

Loyalty
Builds long-term and reciprocal relations

For more information
See page 10

OUR PURPOSE

At Fresnillo plc, we look ahead, contributing to the wellbeing of people through the sustainable mining of silver and gold.

Precious metals play a key role in the wellbeing of people. At Fresnillo plc, we are committed to supplying precious metals in a sustainable manner. This means embedding a safe and ethical culture, implementing mining practices that are compatible with communities and the environment and sharing the benefits of mining with wider society. This underlines the importance of deeply integrating responsible business practices into our business model, and of considering factors that affect stakeholders at every critical decision-making level.

95%

OF OUR NON-UNIONISED EMPLOYEES BELIEVE THAT FRESNILLO PLC CONTRIBUTES TO THE WELLBEING OF PEOPLE THROUGH THE SUSTAINABLE MINING OF SILVER AND GOLD.

* 2020 Ethical Culture Assessment by Ethisphere.

1

WELLBEING OF PEOPLE

We contribute to the wellbeing of people through career and procurement opportunities, and through social programmes to enhance education, health, water and capacity building. Our activities are one of the main sources of revenues for governments. Silver and gold contribute to the wellbeing of people in numerous ways. Silver's high conductivity and effectiveness against bacteria has numerous applications. It is present in our computers, smart phones and TV screens. Silver and gold are used in proved and emerging technologies for water treatment, health care and the manufacture of solar panels. Silver nanoparticles are used to stop the spread of germs in food containers, sprays and cosmetics, among many other products. Gold nanoparticles are used in Rapid Diagnostic Tests (RDTs), contributing to medical screening in resource-limited countries.

2

SUSTAINABLE MINING OF SILVER AND GOLD

Wind power, innovative dual fuel trucks and on-demand mine ventilation are among the concrete steps we are already taking towards a low-carbon future. The reuse of municipal wastewater, high water efficiency and collaboration with communities strengthen our water resilience. Strong governance of our tailings storage facilities and responsible cyanide management reduces the risk of accidents. Going beyond compliance in mine reclamation is our commitment to society. A healthy and safe work environment builds trust with our people. Responsible social practices such as consultation with indigenous peoples, prevention of modern slavery and our social investment portfolio keep us ahead of the curve in social acceptability within the communities where we explore, develop and operate.

We supply silver and gold for the wellbeing of people through a solid business strategy that creates value for our stakeholders in the mining lifecycle.

1 EXPLORE

2 DEVELOP

3 OPERATE

HOW WE DO IT

- Explore: Extend and maintain a robust growth pipeline.
- Develop: Deliver profitable growth, optimise cash flow and returns.
- Operate: Maximise the potential.

BOARD'S OVERSIGHT

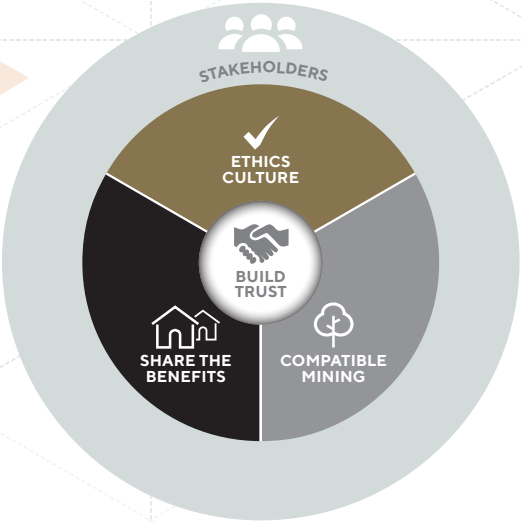
- Considering the issues that matter to our stakeholders when evaluating the strategic plan and making Principal Decisions.
- Risk Management and robust corporate governance.

See how silver and gold contribute to the UN Sustainable Development Goals.

For more information
See page 81

SUSTAINABLE DEVELOPMENT GOALS

OUR APPROACH TO SUSTAINABLE MINING



HOW WE DO IT

- Engage our people in the long term.
- 'Step-up' ethics culture and commitment to diversity.
- 'I Care, We Care' safety programme.
- Positive economic impact in the regions where we operate.
- Purposeful social investment portfolio.
- Renewable energy.
- Safe chemical and mineral waste management.
- Water stewardship.

BOARD'S OVERSIGHT

- The Health, Safety, Environment and Community Relations (HSECR) Committee monitors the performance of our key sustainability challenges.

See how silver and gold contribute to the UN Sustainable Development Goals.

For more information
See page 81

SUSTAINABLE DEVELOPMENT GOALS

OUR CULTURE

We engage our people in the long term to instil a purpose-led culture where everybody understands how we do business. The values that are embedded in our culture support our strategy, inspiring winning behaviours on ethics, safety, innovation and operational excellence.

Our values are embedded in our culture and support our strategy:

Trust: Makes strategic relations more resilient
We build trust by engaging our workforce, communities, authorities and shareholders on the issues that matter to them. Our Principal Decisions take our stakeholders into consideration.

Responsibility and Respect: Nurtures care and accountability
We manage our operations and projects responsibly. Our social acceptability relies on being accountable for our positive and negative impacts. The 'I Care, We Care' programme demonstrates our philosophy of operating safely. We recognise the inherent value of every person, value different opinions and beliefs, comply with the law and protect the environment.

Integrity: Prevents the negative consequences of unethical actions
Our behaviours and actions should always reflect our well-established ethical culture. Operating with integrity is the only way to contribute to the wellbeing of people.

Loyalty: Builds long-term and reciprocal relations
Strong relationships with our workforce, community, authorities and shareholders ensure our ability to create long-lasting value.

WINNING BEHAVIOURS

Ethics:
- Leads transformatively
- Acts ethically
- Builds trust
- Leverages diversity, equity and inclusion
- 'Step-up' against harassment and discrimination

Safety:
- Caring for our people and the environment
- Accountable and committed leadership

Innovation & Operational Excellence:
- Efficiency
- Innovation
- Open mindset

90%

OF OUR NON-UNIONISED EMPLOYEES THINK THAT FRESNILLO PLC HAS MADE DECISIONS CONSISTENT WITH ITS VALUES DURING THE COVID-19 PANDEMIC.

* 2020 Ethical Culture Assessment from Ethisphere.

IN THE PURSUIT OF A MORE INCLUSIVE CULTURE

We aspire to create an environment where welcomeness, belonging and respect allow our people to have an impact on the workplace in a meaningful way."

Octavio Alvídrez
Chief Executive Officer
Fresnillo plc

Along with ethics and safety, our culture is a driver of an innovation and operational excellence mindset that enhances productivity while reducing costs and our environmental footprint.

Understanding and discovering opportunities of our strong culture See pages 82-84

BOARD'S OVERSIGHT

- Ensuring the alignment of our Purpose, strategy, culture and workforce engagement.
- 'Monitoring the culture' and the outcomes on engagement, safety, ethics, diversity, equity and inclusion.

See the Corporate Governance section
See pages 136-186

WORKFORCE ENGAGEMENT

- Covid-19 prevention and wellbeing programme (Bienestar Siempre).
- 'I Care, We Care' programme.
- Harassment Prevention programme.
- 'Step-Up' Culture programme.
- Union relations.
- Diversity, Equity and Inclusion programme.

Covid-19 has delayed the implementation of our innovation and operational excellence initiatives as our engagement priority has been health and safety.

See the Workforce Engagement section
See pages 12-13

MONITORING OUR CULTURE

- Engagement survey: Great Place To Work.
- Safety culture surveys: 'I Care, We Care' and 'LEAL' surveys.
- Ethics, culture and diversity Surveys: 'Step-Up' Culture and Ethisphere surveys.
- Whistleblowing line KPIs.
- Diversity KPIs.
- Turnover rate.

See the Our People Section
See pages 86-87

OUTCOMES FROM MONITORING OUR CULTURE

- Robust strategies to embed diversity, ethics and the prevention of harassment, based on a sound understanding of our culture and the winning behaviours that we expect to support our strategy.
- Alignment between our values and our response to Covid-19.

UNDERSTANDING AND DISCOVERING OPPORTUNITIES

- The overall ethical culture of Fresnillo is strong. We train our non-unionised employees in our ethics 'Step-up' Culture and monitor winning behaviours across business units using a survey designed by the University of Arizona.
- In the survey, our people identified that 'Minimising unconscious bias' was the weakest area of progress within the 'Leveraging Diversity' winning behaviour. We have used this key insight to create a more effective design for our Diversity training.

WORKFORCE ENGAGEMENT

At Fresnillo plc we believe that an engaged and diverse workforce is fundamental to the effective execution of our business strategy.

Our workforce includes unionised, non-unionised employees and contractors, participating in exploration, development and operation activities. As we look to fulfil our purpose, we are dedicated to attracting and developing people committed to our aspiration of the sustainable mining of silver and gold. Our engagement mechanisms are inspired by our values of Trust, Responsibility, Respect, Integrity and Loyalty. These mechanisms support ongoing engagement and dialogue through face-to-face interactions. We consult our workforce on a regular basis through surveys and other mechanisms. Their feedback provides valuable insights to the Board and management. The protocol to prevent and address harassment in the workplace is a clear example of how these insights have directly contributed to shaping policy.

WE ENGAGE OUR WORKFORCE TO COLLECT VALUABLE INSIGHTS

- Engagement survey: Great Place To Work.
- Safety culture surveys: 'I Care, We Care' and 'LEAL' surveys.
- Ethics, culture and diversity surveys: 'Step-Up' Culture and Ethisphere surveys.
- Interviews and focus groups with our workforce to gain a deeper understanding of harassment in the workplace and our social performance in the communities.
- Whistleblowing line.
- Materiality assessment.

IN ADDITION TO SURVEYS, WE COLLECT FEEDBACK FROM:

COVID-19 AND WELLBEING

- Support the most vulnerable to stay at home.
- Raise awareness and train on preventive measures.
- Rapid testing and contact tracing.
- Daily monitoring of Covid-19 cases.
- Persuade workers to apply preventive measures at home to protect their families.

SAFETY

'I Care, We Care'.

- 'Eye on Risks' investigations.
- Learn through high Potential Incident investigations.
- Supervisor training.
- Critical Risk Management initiative.
- Senior leadership development.

TALENT DEVELOPMENT

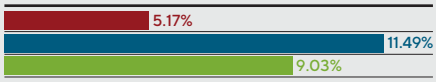
- Engineers in training.
- High potential middle managers 'Leaders with Vision' programme.
- Coaching and Executive Development.

UNION RELATIONS

- Collective bargaining.
- Capacity building.
- Safety symposium.
- Health and Safety (Union-Company) Joint Commissions to monitor workplace conditions.

OUR WORKFORCE AT A GLANCE

PERCENTAGE OF WOMEN



- Manager and Senior Executive positions
- Employees (unionised and non-unionised)
- Contractors

WORKFORCE

13,606
CONTRACTORS

4,327
UNIONISED EMPLOYEES

BOARD OVERSIGHT

Mr Arturo Fernández, our designated Non-Executive Director for workforce engagement, brings perspective on workforce related issues to the Board. The Board uses this feedback to better understand the issues that matter to the workforce when making Principal Decisions.

The Committees of the Board monitor different aspects of the engagement mechanisms and their outcomes:

- HSECR Committee: Covid-19, safety, ethics, diversity, equity and inclusion.
- Audit Committee: Ethics and prevention of harassment.

■ Employees (non-unionised)
■ Employees (unionised)
■ Contractors

PREVENTION OF HARASSMENT ■■■

- Counsellors, as first responders to help people suffering harassment.
- Labour Behaviour Commission to assess and respond to complaints.
- Commissioners to monitor resolutions and restorative actions.

ETHICS, DIVERSITY, EQUITY AND INCLUSION (DEI) ■

- 'Step-Up' Culture training.
- DEI Training.

HOW WE USE FEEDBACK

Prevention of and attention to harassment
The Honour Commission requested a comprehensive programme to prevent and address harassment in the workplace, having been convinced that a communication campaign alone would not be enough. We launched an in-depth on-site engagement initiative at a pilot operation to identify the root causes that triggered these behaviours, conducting face-to-face interviews and focus groups. Online surveys were used to learn more from a larger group across our business units. The outcome was the design of a protocol to prevent and address both labour and sexual harassment, with a restorative approach.
The protocol has four pillars:

- Train counsellors who are trusted members of the workforce.
- Create commissions to address cases.
- Raise awareness through a permanent communications campaign.
- Leverage recreational facilities in the operations and communities.

1,431
NON-UNIONISED EMPLOYEES

72.29%
LOCAL EMPLOYMENT

88.0%
OF NON-UNIONISED EMPLOYEES FEEL THE COMPANY WELCOMES FEEDBACK FROM THEM AND THEIR TEAM.

* 2020 Ethical Culture Assessment by Ethisphere.

CHIEF EXECUTIVE'S STATEMENT

INTRODUCTION

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

MANAGING THE COVID CHALLENGE, REGAINING STAKEHOLDER CONFIDENCE

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

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

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

Production highlights and price review

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

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

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

Our by-product lead and zinc production both increased year-on-year, driven by higher ore grades at Saucito.

Please find more details on production at each of our mines on pages 52-65

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

For more details on precious metals prices and how they have been influenced by market dynamics See pages 18-19

Times change, but a sound strategy endures

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

Maximising the potential of existing operations

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

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

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

As we go deeper into the earth, we have continued to work on a new, large capacity pumping station to replace a number of smaller ones and improve drainage, and also completed a new elevator that has reduced travel time for our underground teams.

In addition, we have advanced the deepening of the San Carlos Shaft. Started in June 2016, this project has extended the shaft from 550 metres down to 990 metres, and once it is fully operational in 2022, it is expected to provide access to 56% of the mine's reserves and reduce the haulage costs.

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

At Saucito, we are continuing to deepen the Jarillas shaft to 1,000 metres, helping to provide access to deeper levels of the mine where almost half of the reserves are located. Due to be completed in 2024, this will also allow us to transport ore to the surface more quickly than is possible using access ramps.

Delivering growth through development projects

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

CHIEF EXECUTIVE'S STATEMENT
CONTINUED

> Stability, consistency and a long-term perspective have always characterised Fresnillo."

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

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

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

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

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

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

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

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

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

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

Our commitment to green energy is unchanged. The project to install dual fuel engines that run on both diesel and Liquid Natural Gas (LNG) is on track, despite Covid-19 presenting the supplier with considerable challenges. However, the percentage of our energy consumption met by wind power decreased to 48%, due to a delay in the connection of the Las Mesas wind energy project. We provide more detail on these and other programmes on pages 93-99.

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

As we report on pages 132-134, one of the Company's Principal Decisions of 2020 was to evaluate the Energy Strategy with the aim of setting decarbonisation targets and assessing its resilience to the Transition Risks of Climate Change. This process involved forecasting our energy demand in the years to 2030 and took into account the impact of the LNG and wind power projects already under way. The evaluation concluded that it is technologically viable to support a decarbonisation pathway in the 2021-2030 period.

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

Looking ahead

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

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

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

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

Octavio Alvídrez
Chief Executive Officer

MARKETS REVIEW

We are impacted by global events and economic trends as well as by the business environment local to Mexico and the dynamics of the precious metals markets.

Gold is primarily an investment commodity and has been a highly sought-after precious metal for thousands of years.

Declared a pandemic by the WHO in March 2020, the outbreak of Covid-19 has had and continues to have an adverse impact on the global economy. In Mexico and the vast majority of countries affected by the virus, governments have declared a state of emergency and have implemented severe lockdown measures which have contributed to a general economic slowdown. The pandemic has had numerous effects worldwide and negatively impacted communities, supply chains and general commercial activity. It has also caused significant volatility in the financial markets, undermining consumer and investor confidence in economic and business growth, and was, in part, responsible for the multi-year high precious metals prices we experienced during the year.

Market backdrop and precious metals prices performance

Over the last ten years, the price of silver has fluctuated. From approximately 2004, it began to appreciate before reaching a high of US$48.44 per ounce on 28 March 2011. There then followed a steady decline until December 2015 when the price again started to recover. Over the course of 2020, the price of silver accelerated to reach multi-year highs, achieving around US$30 per ounce in early July – a level last seen in early 2013, representing an increase of 156% from its mid-March 2020 trough of US$12 per ounce.

Gold also recorded an impressive performance during 2020, reaching an all-time high of US$2,075 per ounce on 7 August, before retreating down to levels of around US$1,900 per ounce at year end.

The gains we saw during 2020 are the result of several factors. First and foremost, the global macroeconomic and geopolitical backdrop has turned increasingly supportive for precious metals investment. As the Covid-19 crisis persists, caution about the solidity of the stock market rally, dollar weakness and the fall in bond yields have all raised the investment appeal of silver and gold.

Looking ahead, the backdrop of negative real interest rates, persistent uncertainty and accommodative monetary policy mean that the fundamentals around gold remain strong. While the same holds true for silver, we could yet experience further upside to silver prices in the medium term due to increased industrial demand from the ongoing revolution in green technologies. This would be driven by the mainstream adoption and exponential growth of new energy vehicles and the continued investment in solar photovoltaic energy. Regarding the medium term prospects for gold, early-stage development of technologies including gold catalysts to help convert CO_2 into useful fuels and the use of gold to improve photovoltaics could facilitate the transition to a low-carbon economy.

Silver market and industry overview

Silver is both an industrial and an investment commodity. For industry, it is an essential component in many products – with limited alternatives available – because of its unique combination of characteristics. These include strength, malleability, electrical and thermal conductivity, high reflectance of light, and ability to endure extreme temperatures. Like gold, silver also has significant appeal as an investment commodity because it is viewed as a safe haven and hedge against inflation during times of economic uncertainty.

For more detailed information on the current silver industry and market information, please visit the Silver Institute's website at https://www.silverinstitute.org/

Demand

Demand for silver is driven primarily by three markets: industrial applications; investment (coins and bars); and consumer (jewellery and silverware). In 2020, industrial, investment and consumer demand represented 50.1%, 20.8% and 25.4% of total global silver demand respectively, according to the Silver Institute's Interim review[1]. Silver demand fell to a ten-year low in 2020, down 6% against 2019 driven by lockdown restrictions hitting industrial demand, with supply chains heavily disrupted, end-users adopting an increasingly cautious approach to inventory replenishment and factories facing labour supply problems. The reduction in demand from industry was mitigated to some extent by an increase in demand for silver as an investment, which hit a five-year high in 2020 off the back of increased price volatility and healthy price expectations.

Supply

Global silver supply is predominantly from two sources: mine production; and recycled scrap. In 2020, mine production contributed 81.1% of total silver supply, with scrap providing 18.8% and the balance made up by net official sector sales. Silver mine production, which has shown a moderate but slow decline since 2015, fell by a further 6.3% in 2020 compared with 2019, to 780.1 moz. This is largely due to Covid-19 lockdowns implemented by countries during the first half of the year, which required several major silver producers to temporarily halt production at their mines. Primary silver producing mines continue to produce only 28.7% of mine production[2], with the remaining 71.3% extracted as a by-product from lead, zinc, copper and gold mines.

Gold market and industry overview

Gold is primarily an investment commodity and has been a highly sought-after precious metal for thousands of years. Its continuing appeal as an investment commodity is due to its long history as a store of value. Gold also has industrial applications, primarily in dentistry and electronics. It is widely considered to be one of the most useful metals because of the diversity of its properties, which include malleability, conductivity and resistance to corrosion.

For more detailed information on the current gold industry and market information, please visit the World Gold Council website at https://www.gold.org/

Demand

Demand for gold is driven by four markets: jewellery; retail investment; industrial fabrication; and net official sector. In 2020, these markets accounted for 37.5%, 47.2%, 8.0% and 7.3% of total global demand respectively, according to the World Gold Council[3]. In 2020, total gold demand decreased by 14% compared with 2019, the lowest level of demand since 2009 driven by a combination of the global pandemic with its resultant market lockdowns and a record gold price at a time of economic slowdown. According to Metal Focus, the overall macroeconomic backdrop is set to remain supportive for gold, with numerous political and economic uncertainties likely to lead to stock market volatility and greater risk aversion.

Supply
Gold supply primarily originates from two sources: mine production; and recycled scrap. In 2020, mine production and recycled scrap accounted for 73.4% and 28.0% of total gold supply respectively. Gold mine production decreased to 4,633.1 tonnes in 2020, a five-year low, down 4.0% year-on-year. This was the second consecutive annual decline in production. It remains challenging for gold producers to discover and develop high-quality gold mines (high grade and low cost) in low-risk geographic regions.

Our operating environment
We are a leading precious metals company with operations in Mexico, which is Latin America's second largest economy and a country characterised by a mature tax and legal framework. We have significant experience and expertise in all aspects of mining, including the exploration, development, extraction and processing of ore with gold, silver, zinc and lead metal contents. While 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[4], representing 8.3%[5] of Mexico's industrial GDP while also supporting over 379,000 direct jobs and almost two million indirect jobs.

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 the global precious metals industry, as well as those specific to companies operating in Mexico.

In the context of our peers, we are the world's largest silver producer according to the Silver Institute and Mexico's largest gold producer, in each case based on 2020 production volumes. To the right, we outline what we consider to be our peer groups.

Key industry trends
The global mining industry is subject to a number of underlying trends that impact its competitiveness and viability. The key trends below are those that also affect Fresnillo, and are discussed in greater detail in 'Managing our risks and opportunities' on pages 110-129.

Increased environmental and social focus
Public concerns regarding the potential social and environmental hazards of mining operations and developments have increased, both in Mexico and worldwide. The greater negative sentiment towards mine development and operation is evidenced by increased regulatory restrictions and social activism. Our response has been, and will continue to be, active engagement with all stakeholders and through sustainable business practices, positively contributing to society at large, as articulated by our Purpose.

Strategic workforce challenges
Driven by the negative sentiment around the industry, it is becoming more challenging to attract, develop and maintain a young, dedicated and skilled workforce in the Mexican mining industry. 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. Please see pages 86-87, where we outline the Board's significant programme to enhance the contribution of women to the success of Fresnillo, which was approved during the year.

Information regarding further initiatives can be found in the 'Our People' section
See pages 86-87

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". Given that mining is an energy-intensive business and Fresnillo is a major player in the extractive industry, we recognise that we have a clear responsibility to play our part in mitigating our impact on the climate. At the same time, it is important to note that carbon emissions from gold production are significantly lower than those from most other major mined products including steel, aluminium and coal. Our goal is to improve our 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.

We provide more detail on this challenge in the 'Energy and Climate' section
See pages 93-99

Fresnillo in context
Peer group: primary silver producers, production in moz

	2020	2019	2018	2017
Fresnillo plc[6]	**53.1**	**54.6**	**61.8**	**58.7**
Hecla Mining Company	**13.5**	12.6	10.4	12.5
Hochschild Mining plc	**9.8**	16.8	19.7	19.1
Coeur Mining, Inc.	**9.7**	11.7	12.9	12.1
Silver Corp Metals Inc.	**6.3**	5.8	6.0	6.4

Peer group: global silver producers (by-product & primary), production in moz

	2020	2019	2018	2017
Fresnillo plc[6]	**53.1**	**54.6**	**61.8**	**58.7**
KGHM Polska Miedz S.A.	**43.4**	45.5	38.2	38.9
Glencore	**32.8**	32.0	34.9	37.7
Newmont Corporation	**27.8**	15.9	25.0	28.6
Polymetal International plc	**18.8**	21.6	25.3	26.8
Pan American Silver Corp.	**17.3**	25.9	24.8	25.0
South32 Limited	**11.8**	12.2	12.5	15.6
BHP Billiton	**11.5**	14.5	15.0	10.8

Peer group: medium-sized gold producers, production in koz

	2020	2019	2018	2017
Agnico Eagle Mines Limited	**1,737**	1,782	1,627	1,713
Polymetal International plc	**1,402**	1,316	1,216	1,075
Fresnillo plc	**770**	**876**	**923**	**911**
SSR Mining	**643**	N/A	N/A	N/A
Petropavlovsk plc	**548**	517	422	440
Coeur Mining Inc.	**356**	359	368	383
OceanaGold Corporation	**302**	470	533	575
Hochschild Mining plc	**175**	270	260	255

1 Refinitiv Interim Silver Market Review, 17 November 2020 – Online webinar.
2 World Silver Survey 2020, April 2020.
3 World Gold Council, Gold Demand Trends Full year and 4Q 2020, 28 January 2021.
4 https://www.sgm.gob.mx/Web/SINEM/mining/mining_companies.html
5 https://www.trade.gov/knowledge-product/mexico-m-mining-and-minerals
6 Including Silverstream.

BUSINESS MODEL

Our ability to create value is underpinned by the quality of our assets, the capability of our people, our operational performance, mitigation of risks and disciplined capital allocation.

STRATEGIC RESOURCES AND RELATIONSHIPS

PEOPLE

We have a skilled and dedicated workforce of 5,758 unionised workers and employees and 13,606 contractors who provide services along our full value chain, supported by an experienced and purpose-led 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.
- 1,716 megalitres of recycled water (efficiency of 81.66%).
- 48.4% of our electricity consumption comes from renewable sources.

RELATIONSHIPS WITH KEY STAKEHOLDERS

Our stakeholders include governments, communities, suppliers, customers, shareholders and our 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. In December 2020, Peñoles announced an organisational change programme to implement a new shared services and innovation function named 'Baluarte Minero'.

WHAT WE DO

Fresnillo is a leading precious metals mining company with a world-class portfolio of mining operations and undeveloped resources. We generate revenue by selling the metals contained in the ore we extract and process while doing so in a way that not only generates sustainable returns for our shareholders, but also a real and lasting positive contribution to our local communities.

1 EXPLORE

Continuous, sustained exploration is the engine that drives our business. We invest across price cycles, exploring for world-class gold and silver deposits in Mexico and Latin America to expand our resource base and replenish reserves such as the Rodeo and Orisyvo projects.

OUR COMPETITIVE ADVANTAGE

With a proven track record of discovering world class gold and silver mines, our team of over 90 geologists in Mexico, Peru and Chile – supported by 69 specialists in claims management, negotiation, community relations and environmental control, as well as 274 assistants drawn from local communities – has access to realistic budgets and is hugely respected across our industry.

For more information
See pages 41-44

2 DEVELOP

We assess each potential operation against a set of strict criteria including risk, potential returns, and the long-term sustainability and value to our stakeholders. Only projects with the potential to create value across precious metals price cycles are developed into operating mines. Once approved, we design and build each operation to achieve optimal long-term productivity at minimal risk.

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; and in-house teams for engineering and construction.

For more information
See pages 45-47

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.

For more information
See pages 48-65

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

WAGES AND BENEFITS TO WORKERS

US$93.2m

PAYMENTS TO SUPPLIERS (CONTRACTORS)

US$1,333.9m

PAYMENTS TO FEDERAL GOVERNMENT

US$289.8m

Certain services currently performed for the group by Peñoles have moved to the new function and there is potential for further synergies. 2021 will be a year of transition while Baluarte Minero is established. We are working closely with Peñoles to evaluate how the changes are implemented and to ensure that we continue to obtain appropriate and high quality services from Peñoles. Our Non-executive Directors continue to oversee the relationship with Peñoles and will consider any changes to that relationship in light of the change programme.

FINANCIAL STRENGTH

Having a strong balance sheet, low leverage ratio, disciplined approach to capital spending and strict cost controls allows us to invest through the cycles to generate sustained returns to shareholders.

- Total equity of US$3,614.6 million.
- Net debt to EBITDA 0.08x[1].

PROPERTY AND EQUIPMENT

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

- Net book value of property, plant and equipment of US$2,708 million.

TECHNOLOGY

We are integrating technologies through leveraging the knowledge of our employees to identify and implement innovative and effective technological solutions to support decision making, enable safe mining and meet the challenges associated with new projects, maturing mines with declining ore grades, and rising social and environmental expectations.

4 SUSTAIN

Our commitment to sustainability is founded upon an ethical culture, developing trust as a corporate leader, 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; and continually reviewing and evolving those practices in line with the most rigorous international standards.

For more information
See pages 78–109

RISK MANAGEMENT AND STRICT CORPORATE GOVERNANCE

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

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

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

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.

PUTTING OUR STAKEHOLDERS FIRST

FOR OUR WORKFORCE

We look to create an environment where people feel safe and respected, and have an opportunity to learn while being provided with the tools to reach their full potential in a company they can feel proud of.

FOR COMMUNITIES

By spending time and effort understanding the needs of local communities while building trust, we are better able to provide both financial and managerial support where it is needed most, minimising any negative health and environmental impacts.

FOR THE ENVIRONMENT

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.

FOR GOVERNMENTS

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.

For more information on the Economic Value Distributed
See page 108

PAYMENTS TO LOCAL GOVERNMENTS

US$3.8m

TOTAL ECONOMIC IMPACT

US$1,720.7m

1 Net debt (Debt at 31 December 2020 – Cash and other liquid funds at 31 December 2020) divided by the EBITDA generated in the last 12 months. This ratio measures our ability to pay off our debt.

PUTTING OUR
STAKEHOLDERS FIRST

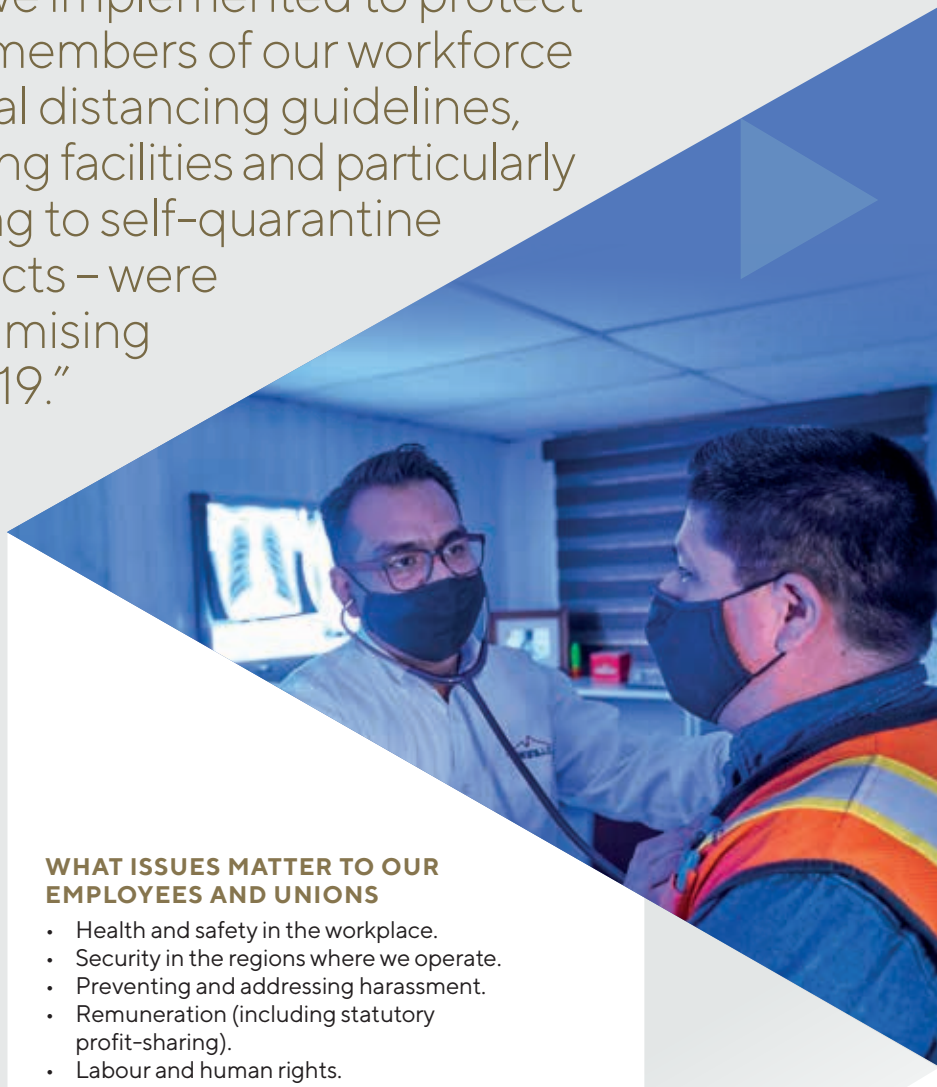
ENGAGING WITH OUR WORKFORCE

OUR PURPOSE

An experienced and committed workforce is essential to our Purpose. Engaging our people for the long term allows us to instil a long-lasting culture where everybody understands our Purpose and how we do business.

"The measures we implemented to protect the vulnerable members of our workforce – including social distancing guidelines, hygiene, sanitising facilities and particularly the use of testing to self-quarantine and trace contacts – were effective in minimising cases of Covid-19."

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



WHAT ISSUES MATTER TO OUR EMPLOYEES AND UNIONS

- Health and safety in the workplace.
- Security in the regions where we operate.
- Preventing and addressing harassment.
- Remuneration (including statutory profit-sharing).
- Labour and human rights.
- Ethics and integrity.
- Diversity, equity and inclusion.

COVID-19 ISSUES

- Effectiveness of measures to minimise the risk of Covid-19.
- Employment security throughout the crisis.

For more information
See pages 28-29

ENGAGING WITH OUR COMMUNITIES

OUR PURPOSE

Mutually beneficial relationships with our communities ensure long-lasting acceptability of our operations. Acting ethically, being accountable for our impacts and sharing the benefits of mining are essential to building trust in the communities where we operate. The Covid-19 crisis has heightened the expectations that communities have of companies' corporate citizenship activities.

"Fresnillo is an integral part of many communities – and this year, perhaps more than any other, the partnership between us has been absolutely central to the health and wellbeing of local people."

Alberto Baillères
Chairman

72.29%
LOCAL EMPLOYMENT

WHAT ISSUES MATTER TO OUR COMMUNITIES

- Their values, traditions and aspirations.
- The Company's environmental performance.
- Employment and procurement opportunities.
- Security.
- Public infrastructure and services: education, health and water.
- Land acquisitions and resettlements.

COVID-19 ISSUES

- Outbreaks of the disease.
- The preparedness and capacity of the public health sector.
- Access to Covid-19 testing.
- Employment and procurement opportunities during the crisis.
- Support to the most vulnerable members. in the community during lockdowns.
- Education while schools are closed.

For more information
See pages 28-29

US$3.48m
COMMUNITY INVESTMENT IN HEALTH

2019: 21%
2020: 38%

PERCENTAGE OF COMMUNITY INVESTMENT SUPPORTING HEALTH

ENGAGING WITH OUR CONTRACTORS

OUR PURPOSE

Capable and committed contractors increase our capacity to sustainably mine silver and gold for the wellbeing of people; their employees are valuable members of our workforce. Collaborative partnerships with contractors are key to improving productivity and safety.

"I would like to thank the entire Fresnillo workforce, including our contractors, for their hard work, understanding and expertise during these difficult months."

Octavio Alvídrez
Chief Executive Officer

13,606

CONTRACTORS

79%

OF OUR MAIN CONTRACTOR COMPANIES ATTENDED COVID-19 ONLINE WORKSHOPS

WHAT ISSUES MATTER TO OUR CONTRACTORS

- Health and safety.
- Productivity/development rates.
- Work conditions.
- Labour and human rights.
- Security.

COVID-19 ISSUES

- Maintain their contract opportunities. throughout the crisis.
- Effective measures to minimise the risk of Covid-19.

For more information
See pages 30-31

RELATIONSHIPS WITH KEY STAKEHOLDERS

We rely on strong relationships with our stakeholders to fulfil our Purpose: to contribute to the wellbeing of people, through the sustainable mining of silver and gold.

Our values, embedded in our culture, are the compass that guides our engagement efforts to foster prosperity and wellbeing. To this end, we engage purposefully with the communities in which we operate, as well as with employees, unions, contractors and suppliers. We also work closely with governments and regulators and ensure open communications with investors.

EMPLOYEES AND UNIONS

Metrics

- Fatal injuries.
- Total Recordable Injury Frequency Rate.
- Lost Time Injury Frequency Rate.
- New cases of occupational diseases.
- Turnover rate.
- Gender diversity and payment gap.

How we engage our employees and unions

What management does:

- Task Crisis Management teams with overseeing the measures to prevent Covid-19, including communicating and training on preventive measures and engagement with union representatives and contractors.
- Carry out surveys to better understand the issues that matter to our workforce. This year, ethics surveys with non-unionised employees were conducted online, while the 'LEAL' Safety and Engagement survey was conducted using online and other digital devices to better accommodate our workforce.
- Hold interviews and focus groups to gain a deeper understanding. This approach was used in 2019 to gain further insights on harassment and social performance. We postponed interviews and focus groups in 2020 to minimise Covid-19 risks, and plan for these activities to be carried out remotely in 2021 due to the ongoing pandemic.
- Undertake union engagement through collective bargaining, Health and Safety commission meetings and joint inspections of workplace conditions, including compliance with the Covid-19 preventive protocol.
- Promote the Fresnillo 'plays fair' whistleblowing line.

How the Executive Committee and Board complement the engagement efforts:

- The Chairman engaged with the workforce through a weekly letter to raise awareness of Covid-19 prevention. The letter also provided updates regarding the status of the pandemic amongst our workforce as well as our corporate citizenship initiatives to support our communities and the Mexican health authorities.
- The CEO and COO engaged with union leaders in a constructive dialogue on safety and productivity.
- The Chairman, the Deputy Chairman and Board member, Arturo Fernández periodically held meetings with the labour union in order to ensure good working relationships.
- Board members usually visit mine sites to discuss safety, productivity and diversity, although these were postponed during 2020 to minimise exposure to risk.

COMMUNITIES

Metrics

- Social and environmental incidents.
- Local employment and procurement.
- Social investment.

How we engage our communities

What management does:

- Raise awareness on the measures to prevent Covid-19.
- Engage with formal and informal leaders, local and regional authorities to understand and discuss their concerns and aspirations. Preventive measures were implemented to safely conduct interviews and to limit the number of participants in meetings.
- Operate grievance mechanisms to address community concerns and questions.
- Conduct social studies every two years to identify and evaluate issues that matter to our communities. The next round of studies may be conducted in the second half of 2021 or postponed, depending on the Covid-19 risk.
- Support our social investment portfolio with emphasis on education, health and sports, capacity building and water access. During Covid-19, some programmes were postponed and others adapted to be conducted online, while a number of new initiatives were launched.

How the Board complements the engagement efforts:

- Visits from Board members to communities to gain further insights into the Company's social projects. Visits were postponed in 2020 to mitigate the Covid-19 risks.
- Visits/appointments of the Chairman, the Deputy Chairman and other members of the Board with key Government officials, both at the federal and local level.

The Covid-19 pandemic is a public health emergency with unprecedented social and economic impacts. Along with our stakeholders, we continue to navigate uncharted territory characterised by radical uncertainty about the future. The Board has been actively involved in understanding stakeholder expectations and the outcomes of engagement. The Board's judgement has been essential in making sound decisions, ensuring the long-term success of the Company.

To reduce the risks of Covid-19, the engagement activities conducted by the Executive Committee and the Board took place through online meetings. We also adapted management's engagement activities with our stakeholders to take advantage of online meeting and training platforms. Essential engagement activities with our workforce, communities, governments and regulators which were not possible to postpone or conduct virtually, were organised with limits on the number of participants and in line with our preventive protocol.

Governance activities of the Board and Board Committees

- Mr Arturo Fernández, the Designated Non-executive Director (Designated NED), brings feedback from the workforce to the Board.
- Monitoring of the effectiveness of the measures to contain Covid-19 by the HSECR Committee and Board.
- Regular evaluation of Health and Safety programmes and their performance by the HSECR Committee and Board.
- Evaluation of the strategy to increase the participation of women by the Nominations Committee and Board.
- Evaluation and approval of the Modern Slavery Statement.
- Oversight of whistleblower arrangements and cases by the Audit Committee with further reviews by the Board every six months.

Mr Fernández's activities as Designated NED focused on:

- Closely monitoring the workforce engagement strategy for Covid-19.
- Reviewing the protocol to prevent harassment and the strategy to increase the participation of women.

Actions and Decisions
(A – Actions undertaken, D – Decisions)

- **D –** To protect the vulnerable members of the workforce by requiring them to stay at home on full pay.
- **A –** Implemented a preventive protocol to contain Covid-19:
  - Workplace social distancing, access control and sanitisation measures at our operations, accommodation and transportation facilities.
  - Rapid testing and contact tracing to enable people to self-quarantine.
  - Daily monitoring of the health condition of confirmed cases and psychological support.
  - Working from home for corporate staff.
- **D –** To continue with the training activities of the 'I Care, We Care' programme during Covid-19, implementing the appropriate preventive measures, notably the High Potential Risk Control Strategy.
- **D –** To launch the Diversity, Equity and Inclusion programme, with a five-hour online training session for managers and executives delivered by the University of Arizona (See the section on Principal Decisions).
- **A –** Enhanced collaboration with unions, with a safety survey jointly organised by the Company and the unions.
- **A –** Implemented an anti-harassment programme based on the insights from employee and contractor engagement.

Outcomes

- Reduction of the impact to operations from actions taken to reduce the spread of Covid-19.
- No strikes or conflicts affecting our capacity to operate.
- Reduction of the Total and Lost Time injury frequency rates (KPI).
- Turnover rate (KPI).
- Introduction of a protocol to prevent harassment.
- Launch of the programme to improve the participation of women.

For more information
See pages 86-91

Governance activities of the Board and Board Committees

- Gain insights into the corporate citizenship expectations of society during Covid-19.
- Monitor community engagement and social investment portfolio in order to collaborate with communities to address the impacts of Covid-19.

Actions and Decisions
(A – Actions undertaken, D – Decisions)

- **A –** Engaged our communities on preventive measures to contain Covid-19, notably the use of masks.
- **A –** Supported the most vulnerable members of the community, including supplying food so they could stay at home during lockdowns.
- **A –** Shared rapid testing of Covid-19 with the communities.
- **A –** Adapted our education and entrepreneurship programmes to be delivered online. To address the digital gap in remote communities, we launched a pilot project to test technologies and content for educational internet services.
- **A –** Partnered with INNOVEC and the Smithsonian Science Education Center to create Covid-19 training, based on science, for children and their parents.
- **D –** To increase donations of personal protection equipment and ventilators to the regional hospitals that serve our communities.

Outcomes

- No conflicts with communities affecting our ability to operate.
- Community engagement and programmes were adapted to the new dynamic of Covid-19.
- Social investment (KPI).
- Local employment (KPI).

For more information
See pages 105-109

RELATIONSHIPS WITH KEY STAKEHOLDERS

CONTINUED

GOVERNMENTS AND REGULATORS

Collaborative and respectful relations with representatives of local, state and federal government help us to address a wide range of strategic issues such as community support, environmental permitting, security and tax issues, among others. The Covid-19 crisis has demanded enhanced engagement with authorities and regulators to establish preventive measures in the workplace and ensure our continued ability to fulfil our Purpose.

Metrics

- Health, safety and environment compliance record.
- Social and environmental incidents.
- Taxes and levies paid.

Covid-19 issues

- Regulations to prevent Covid-19 in the workplace.
- Donations of personal protection equipment and ventilators.
- Collaboration to support the most vulnerable members in the community.

How we engage governments and regulators

What management does:

- Hold meetings with federal authorities and regulators on regulatory issues through our participation in organisations such as CAMIMEX (Mexican Mining Chamber), CONACAMIN (Mexican Confederation of Industrial Chambers) and CCE (Business Coordinating Council) and sustainability associations such as CESPEDES (Mexican Chapter of the World Business Council for Sustainable Development) and the CCA (Mexican Water Advisory Council).
- Engage with policymakers and federal, state and local authorities regarding Covid-19 cooperation, security, mining rights, environmental permitting and other issues in the regions where we operate.

How the Executive Committee and Board complement the engagement efforts:

- Meetings of the CEO with key municipal, state and federal authorities on Covid-19, security, mining regulations and tax issues.
- Meetings of the CFO with tax authorities.
- Meetings of the Chairman with top Mexican Government officials when appropriate.

What issues we believe matter to governments and regulators

- Prevention of corruption.
- Relations with communities and indigenous people.
- Health, safety and environmental performance and compliance.
- Regulation of outsourcing.
- Ensuring a market share for the electricity produced by the National Grid with conventional power plants.
- Reallocation of the Mining Fund to national public spending.
- State and municipal sources of revenue.

CONTRACTORS

Metrics

- Fatal injuries.
- Total Recordable Injury Frequency Rate.
- Lost Time Injury Frequency Rate.

How we engage our contractors

What management does:

- Set the tone to further recognise contractors as valuable members of our workforce.
- Engage on the preventive measures to minimise the risks of Covid-19 in the workplace, transportation and accommodation.
- Conduct safety surveys as part of the 'I Care, We Care' initiative.
- Organise focus groups to better understand the social performance of the Company in the communities.
- Carry out due diligence procedures to verify the ethical profile of new contractors and suppliers.
- Involve contract owners in accident or incident investigations.

How the Executive Committee and Board complement the engagement efforts:

- Meetings of the CEO and COO with key contractors on production and safety matters.

MINORITY SHAREHOLDERS

Trust from our shareholders is key to sustaining continuous investment.

Metrics

- Financial and operational performance.
- Dividend payments.

What issues matter to minority shareholders

- Operating and cost performance.
- Capex project execution.
- Country risk uncertainty.
- Environmental, social and governance performance.
- Production recovery of the Fresnillo mine.
- Progress of the Juanicipio project.

How we engage our minority shareholders

What management does:

- Organise conference calls and roadshows.
- Attend investment forums and conferences.
- Conduct engagement through online meetings to minimise the risks of Covid-19.

How the Executive Committee and Board complement the engagement efforts:

- Due to Covid-19 restrictions, the Company's Annual General Meeting (AGM) was not open for physical attendance by investors. The Senior Independent Director hosted the AGM by virtual means with a minimum quorum and arrangements were made for an online Q&A session open to all investors.
- CEO and CFO meet with analysts, hold conference calls after production reports and engage shareholders in roadshows.
- Direct Senior Independent Director engagement with shareholders.

Governance activities of the Board and Board Committees

- Evaluation of compliance challenges and economic implications relating to changes in tax, mining, safety, social and environmental regulations.
- Evaluation of issues where the Company deems it strategic to go beyond compliance. These include safety, cyanide management, climate change, tailings storage facilities and mine reclamation following closure.
- The Audit Committee regularly monitors the Company's relationships with the Mexican tax authorities.
- 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.

Actions and Decisions
(A – Actions undertaken, D – Decisions)

- **A –** Collaborated with Mexican regulators to develop a protocol to contain Covid-19 in the workplace.
- **D –** To engage Mexican authorities to recognise mining as an essential activity to ensure business continuity.
- **A –** Evaluated the resilience of the Energy Strategy to meet the Climate Change Transitional Risks within the technological and regulatory constraints in Mexico.
- **A –** Appointed international experts to review the safety and governance practices of our tailings storage facilities, going beyond compliance.
- **A –** Participated in health, safety and environmental certifications by the Mexican authorities.

Outcomes

- The recognition of mining as one of the essential activities in Mexico.
- A Mexican Mining industry preventive protocol to minimise the risks of Covid-19.
- Excellent compliance record on health, safety and environment recognised by national awards and certifications.
- No community conflicts.
- No environmental accidents.
- Payment of taxes and levies.

Governance activities of the Board and Board Committees

- Monitoring of the effectiveness of the measures to prevent Covid-19 by the HSECR Committee and Board.
- HSECR Committee oversight of the safety performance of contractors.
- Reviews by the Board and the Audit Committee of contractor engagement elements of the anti-bribery & corruption programme.

Actions and Decisions
(A – Actions undertaken, D – Decisions)

- **D –** To protect the vulnerable members of our contractors' workforces by requiring them to stay at home on full pay.
- **A –** Implemented the same preventive protocol for employees and contractors to prevent Covid-19 in the workplace (See the employees and union, Actions and Decisions).
- **D –** To continue with the training activities of the 'I Care, We Care' programme during Covid-19, implementing the appropriate preventive measures.
- **A –** Undertook capacity building for contractors as part of the anti-harassment programme.
- **A –** Monitored the security situation and maintained clear communications with contractors.

Outcomes

- Reduction of the impact to operations from actions taken to reduce the spread of Covid-19.
- Reduction of the Total and Lost Time injury frequency rates (KPI).
- Training of contractor companies in the implementation of the mechanism to prevent harassment.

Governance activities of the Board and Board Committees

- 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 progress at the Fresnillo mine.
- Audit Committee oversight of the Services Agreement with Peñoles and review of related party matters including the Met-Mex pricing (see page 166).
- Oversight of environmental, social and governance performance.

Actions and Decisions
(A – Actions undertaken, D – Decisions)

- **D –** To support a strategic plan that balances growth and return.
- **D –** To declare an interim dividend following a comprehensive review of the financial position and confirming the capacity of the Company to meet its current and future financial requirements, including its development and exploration projects.
- **A –** Hedging of 7% of the Company's 2021 silver production to limit downside risk while retaining significant upside exposure to future silver price increases.
- **A –** Offering of US$850 million principal amount of 4.250% Senior Notes due 2050 to fund the purchase of part of the outstanding US$800 million principal amount of 5.500% Notes due 2023 and for general corporate purposes.

Outcomes

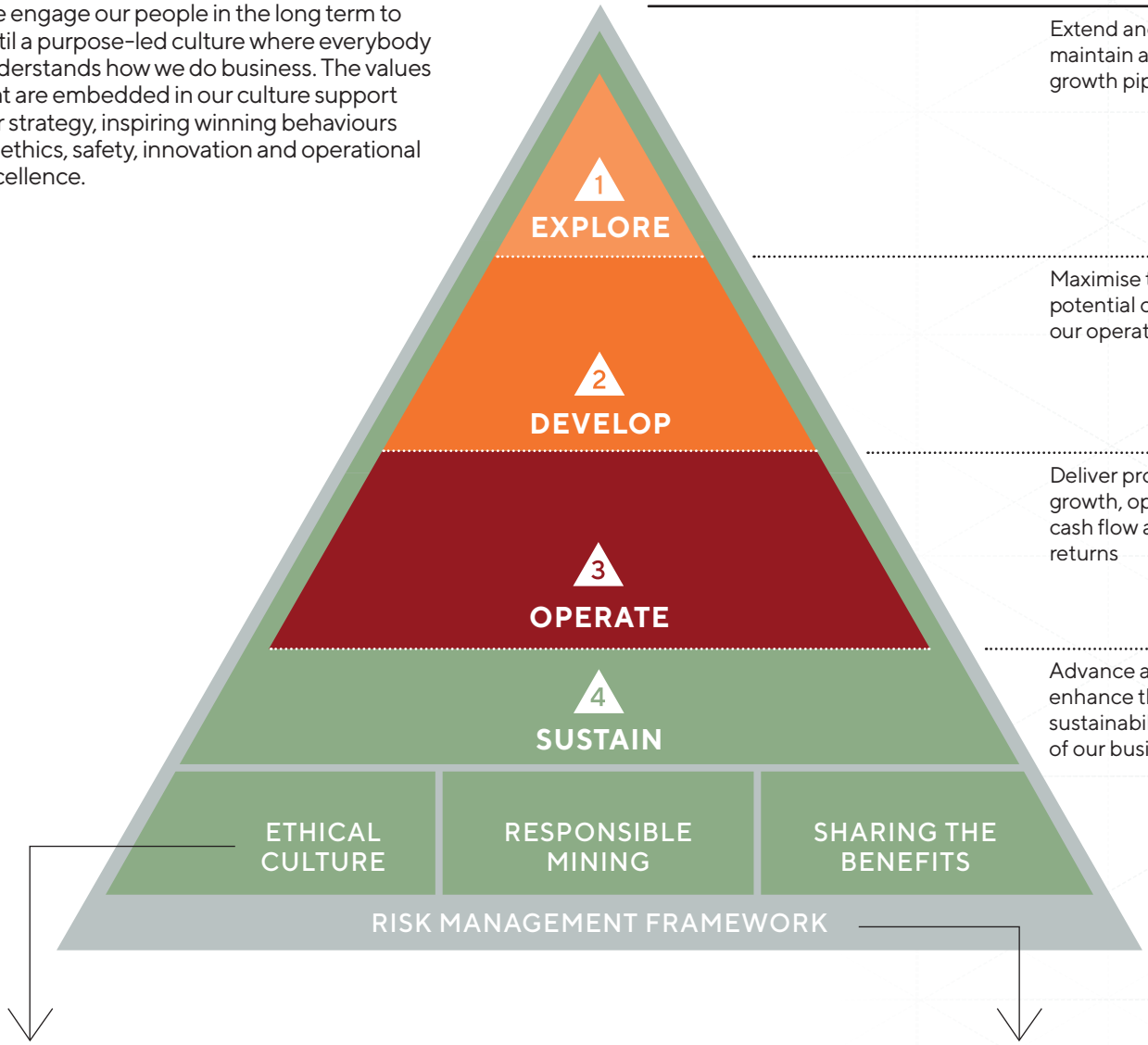
- Progress on the evaluation process towards setting climate change targets (See the Principal Decision Section).
- Enhancement of the strategy to increase the participation and inclusion of women (See the Principal Decision Section).
- Interim dividend of 2.3 US cents per share.

Note: The relationship with Industrias Peñoles, S.A.B. de C.V., the Company's significant shareholder, is discussed on pages 149, 159 and 166 of the Corporate Governance Report and Audit Committee Report.

OUR STRATEGY

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

We engage our people in the long term to instil a purpose-led culture where everybody understands how we do business. The values that are embedded in our culture support our strategy, inspiring winning behaviours on ethics, safety, innovation and operational excellence.



Extend and maintain a robust growth pipeline

Maximise the potential of our operations

Deliver profitable growth, optimise cash flow and returns

Advance and enhance the sustainability of our business

VALUES AND BEHAVIOURS

Trust, responsibility, integrity 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 78–109

PRINCIPAL RISKS

- Potential actions by the Government.
- Impact of metals prices and global macroeconomic developments.
- Security.
- Human resources (pandemic factor).
- Union relations.
- Projects (performance risk).
- Access to land.
- Cyber security.
- Tailings and environmental incidents.
- Licence to operate.
- Safety.
- Climate change.

STRATEGIC PRIORITIES FOR 2021/2022	LONG-TERM STRATEGIC PRIORITIES
• Continue to invest in our exploration pipeline, focused on brownfield exploration to maximise probability of returns. • Convert resources into reserves. • Convert reserves into the proven category. • Resume exploration at Rodeo, focusing on infill drilling to upgrade resources into the indicated category, while advancing and preparing metallurgical and engineering studies to pre-feasibility study level. • Conclude metallurgical test work at Orisyvo, updating the geological model and mineral resources, generating a new geotechnical model and updating the pre-feasibility study.	• Continue to invest in our exploration pipeline. • Increase the resource base to drive future growth. • Increase gold production to replace decreases at Noche Buena and Herradura. • Identify silver resources in the Fresnillo and San Julián Districts.
• Successfully integrate the second phase of the optimisation of the beneficiation plant at Fresnillo. • Start and ramp up production from the Pyrites Plant at Fresnillo. • Deliver the Juanicipio beneficiation plant and ramp up production to 40-50% by year end and 90-95% by the end of 2022. • Monitor infrastructure projects to make sure they are developed in accordance with the mine plans. • Advance the Rodeo project.	• Progress the Orisyvo and Guanajuato projects. • Identify two further world-class assets with the potential to complement our portfolio. • Continue advancing projects in the exploration pipeline towards development.
• Continue to unlock the full potential of the Fresnillo District. • Assess the deepening of the Herradura pit. • Continue to improve the Company's geological models as well as the reserves and resources estimates. • Monitor maturing programmes to capture efficiencies and reduce costs.	• Operate our mines efficiently and profitably. • Maintain a competitive cost profile.
• Ensure that safety remains at the heart of everything we do, preventing fatal and serious accidents. • Continue to roll out our Step Up Culture Programme across the Group. • Continue raising awareness and building trust in the attention mechanism to eradicate harassment. • Train non-unionised employees on Diversity, Equity and Inclusion as well as adopt the 'Four for Women' Framework, and report on progress in our 2021 Annual Report. • Continue to evaluate the adoption of a science-based target to help evaluate the decarbonisation pathway. • Maintain focus on tailings storage facilities and continue initiatives to align our governance practices with current best practices (see page 101). • Work towards our target of 75% of renewables in our electricity mix.	• Continue to work to improve safety, recognising its position as our top priority. • Further integrate renewable technologies to reduce our environmental impact. • Continue to engage our people to instil a purpose-led culture where everybody understands how we do business. • Attract and develop people committed to our aspiration of sustainable mining of silver and gold.

PROGRESS AGAINST OUR STRATEGY

1 EXPLORE

2020 Goals

- 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 (PEA) at Orisyvo, Tajitos, Guanajuato and Rodeo.

2020 Progress

- US$107.3 million was successfully invested in risk capital in exploration during 2020, primarily targeting areas in and around our existing operations.
- Silver resources increased 1.6% and gold resources remained stable. We expanded our dedicated resource and reserve team, which now comprises 23 engineers. Significant progress was achieved in integrating and consolidating new elements such as cost, geohydrological and geotechnical models and processes for reconciliation of reserves.
- Discovered new silver-gold bearing veins in the Fresnillo, San Julián and Guanajuato Districts; drilling confirmed significant exploration potential at projects in Peru and Chile.
- We continued our brownfield drilling campaigns to minimise variations in our geological and resource/reserve models.
- Following a positive PEA at Orisyvo, follow up work was carried out. Drilling advanced over high potential targets with good results at Guanajuato, while discussion with communities for land access and ownership continued at Rodeo and Tajitos.

2021 Targets

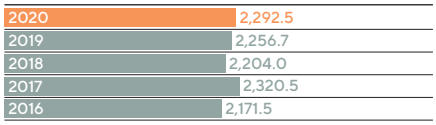
- Invest a further US$175-180 million during the year with approximately US$15 million being capitalised, maintaining a continued focus on our Fresnillo and San Julián operations, as well as on the Rodeo, Orisyvo and Guanajuato advanced projects.
- Convert resources into reserves at all our operating mines.
- Continue standardising and improving our reserves and resources estimation process.
- Improve mine plans and geotechnical and financial models to upgrade probable reserves to the proven category.
- Continue the exploration programme at Juanicipio to further confirm reserves and resources.
- Complete the metallurgical testing at Orisyvo and land access at Tajitos and Rodeo.
- Advance the drilling programmes at our projects in Chile and Peru.

2020 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)

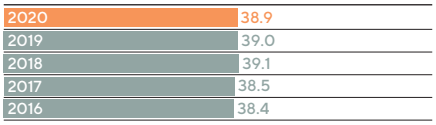
2,292.5



Silver resources increased over 2019 mainly as a result of positive exploration results at Saucito.

ATTRIBUTABLE GOLD RESOURCES[1]
(MILLIONS OF OUNCES)

38.9



Gold resources remained stable year-on-year.

1 2020 resources are presented as of 31 May 2020.

2 DEVELOP

2020 Goals

- 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).

2020 Progress

- Construction of the Pyrites Plant (phase II) was concluded although start-up was delayed. The optimisation of the beneficiation plant at Fresnillo was also commissioned, although the connection of the circuit into the Fresnillo plant was deferred to the first months of 2021 to minimise operational downtime.
- Development at Juanicipio reached 33.6km by year end and the first production stope was successfully prepared in 3Q 2020.
- Construction of the beneficiation plant at Juanicipio advanced with commissioning now not expected until 4Q 2021 due to delayed infrastructure contracts, as well as Covid-19 preventive measures.

2021 Targets

- Integrate the new flotation cells into the beneficiation plant's circuit during the first months of 2021, minimising operational impact.
- Ramp up production from phase II of the Pyrites Plant to full capacity by the end of 2021.
- Continue development of the Juanicipio mine.
- Commission the Juanicipio beneficiation plant.
- Ramp up the Juanicipio mine to 40 – 50% of nameplate capacity by year end.

2020 Group KPIs/Performance

PYRITES PLANT (PHASE II) (US$)

155m
CAPEX BUDGET

150.8m
TOTAL CAPEX TO DATE

JUANICIPIO (US$)

440m
CAPEX BUDGET

227.6m
TOTAL CAPEX TO DATE

OPTIMISATION OF THE FRESNILLO BENEFICIATION PLANT (US$)

30m
CAPEX BUDGET

30.5m
TOTAL CAPEX TO DATE

PROGRESS AGAINST OUR STRATEGY

CONTINUED

3 OPERATE

2020 Goals

- Produce between 51-56 moz of silver and 815-900 koz of gold.
- Continue to implement the FFP plan, as outlined by the CEO on pages 10-13 and the COO on pages 38-39 of the 2019 Annual Report.
- Implement the cost reduction plan.
- Increase overall equipment effectiveness at our mines.
- Continue construction of infrastructure.
- Ramp up the tailings flotation plant at the Fresnillo mine, once it is commissioned.

2020 Progress

- Produced 53.1 moz of silver (including Silverstream) in line with guidance and 769.6 koz of gold, in line with revised guidance issued in mid-2020 following operational disruption caused by Covid-19.
- Good progress was achieved in the Fresnillo District, with both the Fresnillo and Saucito mines stabilised. Please see pages 50-51 for more information.
- Cost reduction initiatives started to be implemented but at a slower pace than anticipated, due to Covid-19 constraints.
- Infrastructure projects advanced across all operations including the deepening of both the San Carlos and Jarillas shafts in the Fresnillo District, and the tailings dams at Herradura, San Julián and Ciénega.
- Construction of the Pyrites Plant was concluded, although start-up was deferred pending final inspections by the authorities as a result of Covid-19 restrictions on travel.

2021 Targets

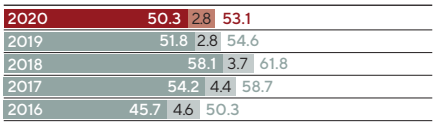
- Produce between 53.5-59.5 moz silver and 675-725 koz gold.
- Prevent fatal or serious accidents.
- Continue to monitor progress against our action plan in the Fresnillo District.
- Monitor infrastructure projects to make sure they are developed in accordance with the mine plans.
- Capture efficiencies and reduce costs.
- Ramp up the tailings flotation plant at the Fresnillo mine, once it is commissioned.
- Ramp up the Juanicipio plant once it has been commissioned.

2020 Group KPIs/Performance

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

ATTRIBUTABLE SILVER PRODUCTION
(MILLIONS OF OUNCES)

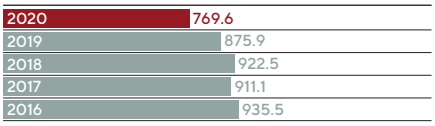
53.1



Attributable silver production of 53.1 moz (including Silverstream), down 2.9% vs. 2019 due to the expected lower ore grade at Saucito, mitigated by a higher ore grade at San Julián Disseminated Ore Body (DOB) and development ore from Juanicipio being processed for the first time.

ATTRIBUTABLE GOLD PRODUCTION
(THOUSANDS OF OUNCES)

769.6

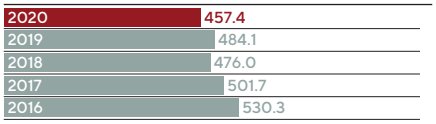


Attributable gold production of 769.6 koz decreased 12.1% vs. 2019 driven primarily by a lower volume of ore processed at Herradura and Noche Buena. Production at both mines was impacted by Covid-19 operational restrictions. At Noche Buena it was also affected by a reduction in operating areas as the mine approaches its planned closure and by a minor event in one of the pit walls.

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.

ATTRIBUTABLE SILVER RESERVES[1]
(MILLIONS OF OUNCES)

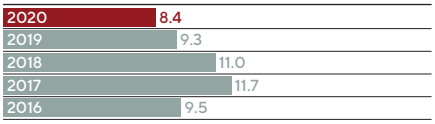
457.4



Silver reserves decreased 5.5% to 457.4 moz mainly due to depletion and higher cut-off grades at Fresnillo and an updated mine production plan at San Julián which incorporates new geotechnical criteria, mitigated by the increase at Saucito.

ATTRIBUTABLE GOLD RESERVES[1]
(MILLIONS OF OUNCES)

8.4



Gold reserves decreased 8.8% to 8,438 koz primarily due to more stringent geotechnical and cost considerations applied at Herradura, which resulted in an updated smaller pit shell, and depletion at Noche Buena.

1 2020 resources are presented as of 31 May 2020.

4 SUSTAIN

2020 Goals

- 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.

2020 Progress

- Our Purpose came to the fore as a beacon for our behaviour and a guide to how we could best navigate the pandemic.
- By living up to our Purpose and holding fast to our culture and values throughout the pandemic, we have been able to protect and support our people.
- The percentage of our energy consumption met by wind power decreased to 48%, due to a delay in the connection of a third-party wind energy project.
- Despite the challenges brought about by Covid-19, we successfully undertook our materiality assessment, please see page 80 for more information.

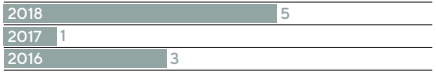
2021 Targets

- Continue to roll out our 'Step Up' Culture programme across the Group.
- Continue raising awareness and building trust in the initiative to eradicate harassment.
- Train non-unionised employees on Diversity, Equity and Inclusion as well as adopt the 'Four for Women' Framework for our Annual Report 2021.
- Continue to evaluate the adoption of a science-based target.
- Continue to maintain robust governance of tailings storage facilities (see page 101).

2020 Group KPIs/Performance

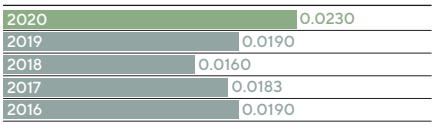
FATALITIES AND INJURIES
(NUMBER OF FATAL INJURIES TO EMPLOYEES OR CONTRACTORS)

1



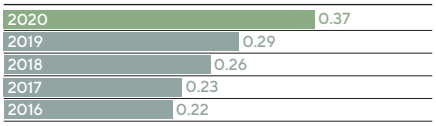
GREENHOUSE GAS INTENSITY
(TONNES OF CO_2E PER TONNE OF MINERAL PROCESSED)

0.0230



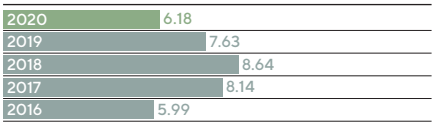
WATER INTENSITY
(M^3 PER TONNE OF MINERAL PROCESSED)

0.37



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

6.18



FINANCIAL

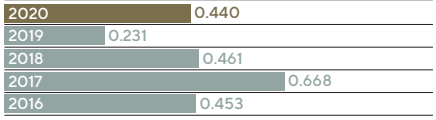
Earnings per share excluding post-tax Silverstream revaluation effects
Attributable profit available to equity shareholders, excluding the revaluation effects of the Silverstream contract divided by the weighted average number of shares in issue during the period. Monitors net profit levels generated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

EBITDA, EBITDA margin and cash flow from operating activities before changes in working capital
EBITDA is calculated as profit for the year from continuing operations before income tax, less finance income, plus finance costs, less foreign exchange gain/(loss), less revaluation effects of the Silverstream contract and other operating income plus other operating expenses and depreciation. 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)

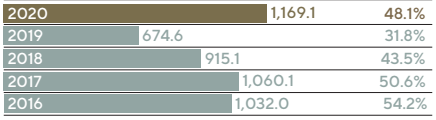
0.440



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

EBITDA AND EBITDA MARGIN
(US$ AND %)

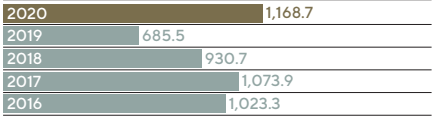
1,169.1m 48.1%



Increased vs. 2019 due to the higher gross profit and, to a lesser extent, lower exploration expenses.

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

1,168.7m



Increased vs. 2019 due to the higher profits.

HOW ARE WE SHORING UP OUR RESERVES?

"Our exploration teams have a proud and highly respected reputation in the Mexican mining industry and are ideally qualified to identify and develop new opportunities."

Octavio Alvídrez
Chief Executive Officer

Not surprisingly, the downward trend in silver reserves seen over the last few years has caused some concern amongst stakeholders. Two different challenges have driven this reduction: a fall in the quantity of reserves, due to mineral 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.

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 appointed Guillermo Gastélum as Vice President of Exploration at the end of 2020, following David Giles' retirement after leading our exploration team for over a decade. Guillermo was previously the Deputy Director of Northern Mexico and Chile Exploration and has extensive knowledge of our assets and experience in the Mexican mining sector. Guillermo has joined 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.

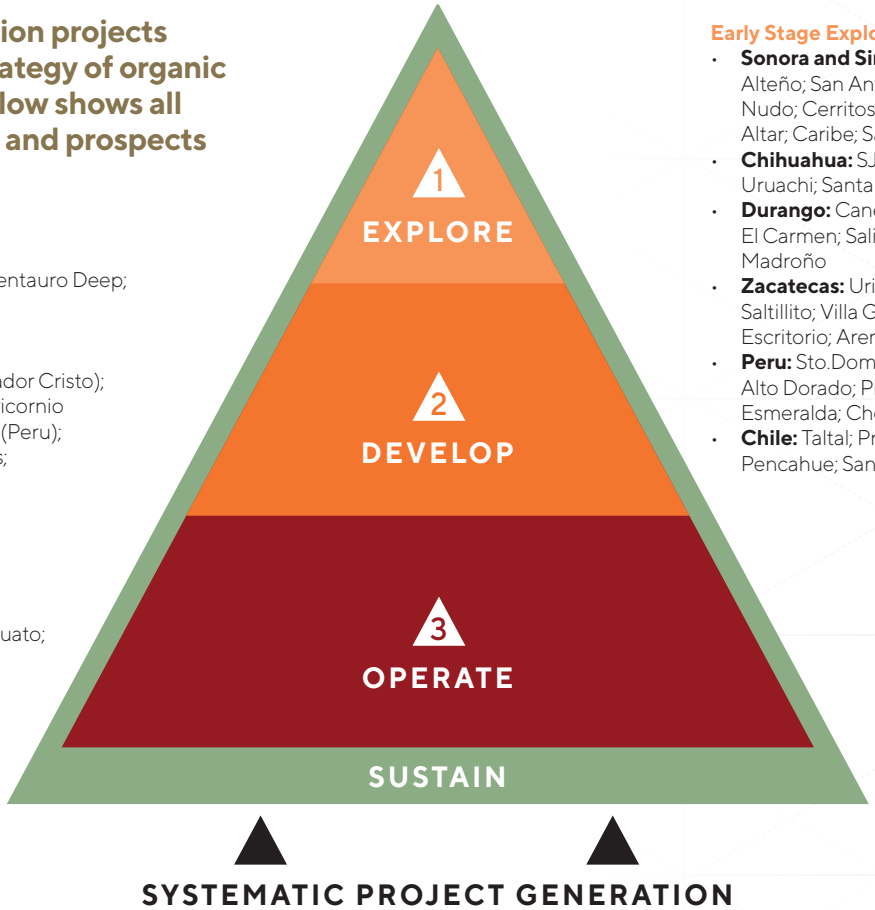
Advanced Exploration
Guachichil; Candameña; San Juan; Centauro Deep; Lucerito; Pilarica (Peru)

Prospects in drilling
Fresnillo District (Mexico Nuevo, Mirador Cristo); San Julián District (South veins); Capricornio and Condoriaco (Chile); Supaypacha (Peru); San Nicolás; Bajío; Olivos; Guazapares; Carina; San Javier

Development Projects
Pyrites Plant; Juanicipio

PEA – Feasibility
Orisyvo; Centauro expansion; Guanajuato; Rodeo; Tajitos

Mine Operations
Fresnillo; Saucito; Herradura; Noche Buena; Soledad-Dipolos*; San Julián; Ciénega

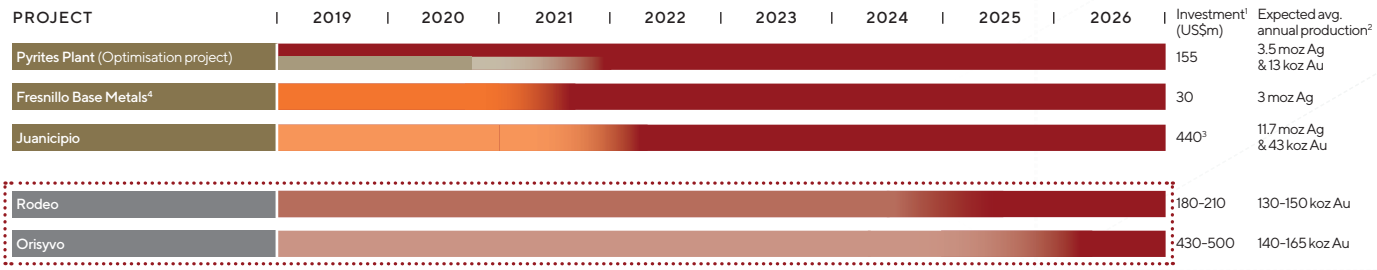


Early Stage Exploration

- **Sonora and Sinaloa:** Alteño; San Antonio; Lejano; Nudo; Cerritos; Rosario; Altar; Caribe; San Manuel
- **Chihuahua:** SJ Pinal; Lucero; Uruachi; Santa Brigida
- **Durango:** Canelas; V.Topia; El Carmen; Salitre; Duraznito; Madroño
- **Zacatecas:** Urite; Atotonilco; Saltillito; Villa García; Escritorio; Arenal
- **Peru:** Sto.Domingo; Alto Dorado; Phara; Esmeralda; Chonta
- **Chile:** Taltal; Prado; Pencahue; Santuario

* Operations at Soledad-Dipolos are currently suspended.

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; Energy supply; Production; Development and Construction; Mine development and Flotation plant construction; Infill drilling exploration, feasibility, development and construction; Final metallurgical testing, feasibility, development and construction; Approved by the Board; Subject to ongoing internal review (subject to Board approval); Subject to pre-feasibility and feasability assessment

REVIEW OF OPERATIONS – EXPLORATION

Highlights of 2020

- Invested US$115.8 million in risk capital in exploration during the year.
- Silver resources up 1.6% to 2,292.5 moz primarily due to exploration at Saucito; gold resources remained stable at 38.9 moz.
- Silver reserves decreased 5.5% to 457.4 moz mainly due to depletion and higher cut-off grades at Fresnillo and an updated mine production plan at San Julián which incorporates new geotechnical criteria, mitigated by the increase at Saucito.
- Gold reserves decreased 8.8% to 8,438 koz primarily due to more stringent geotechnical and cost considerations at Herradura, which resulted in a smaller pit shell, and depletion at Noche Buena.
- Advanced detailed engineering studies at all mines to convert reserves to proven in the future.
- Carried out preliminary economic assessments at Orisyvo, Guanajuato and Rodeo with positive outcomes.
- Discovered new silver-gold bearing veins in the Fresnillo, San Julián and Guanajuato Districts.
- In Peru, we obtained good results from initial drilling at the Supaypacha prospect and made significant advances in the permitting process at the Santo Domingo District.
- In Chile, drilling at Condoriaco showed interesting gold values and we identified new targets at Capricornio.

Priorities for 2021

- Invest a further US$175-US$180 million during the year, with a continued focus on our Fresnillo and San Julián operations, as well as on the Rodeo, Orisyvo and Guanajuato advanced projects.
- 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 2021.
- Continue the exploration programme at Juanicipio to further confirm reserves and resources.
- Complete the metallurgical testing at Orisyvo and land access at Tajitos and Rodeo.
- Advance the drilling programmes at our projects in Chile and Peru.

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 many major mining companies 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 metals 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.

For more details on community engagement
See pages 28-29

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.

Furthermore, and in line with our commitment to reduce our carbon footprint, we have started to include our most advanced exploration projects into our Energy Strategy. In 2020, we mapped and considered the potential environmental impact of the Rodeo, Orisyvo and Guanajuato projects, however, carbon pricing for these and other projects will be evaluated once their exploration programmes are more advanced.

REVIEW OF OPERATIONS – EXPLORATION

CONTINUED

2020 Performance

Reserves and resources

Our reserves and resources have been audited by SRK since the IPO, with the 2019 and 2020 reserves at Juanicipio being audited by AMC. The 2020 audit scope was more detailed and in-depth than in prior years, when estimates of reserves and resources were affected by increasing costs, and this has resulted in a higher cut-off grade. To estimate resources and reserves, we apply the 2012 edition of the JORC code. For estimates at our operations and projects, we have used a gold price of US$1,400/oz. except at Herradura where we used US$1,600/oz, and a silver price of US$17.50/oz. Reserves and resources for the operating mines were estimated from data generated in the period 31 May 2019 to 31 May 2020 to allow for a timely completion of the audit. Costs used for cut-off and economic models were based on information as at the end of 2019. The mineral resource estimate for Orisyvo is unchanged from 2019 as no additional exploration was conducted, with the year's focus being on ongoing pre-feasibility studies. Silver resources increased by 1.6% to 2,292.5 moz primarily due to the positive exploration results at Saucito and Ciénega; gold resources remained stable at 38.9 moz. Silver reserves decreased 5.5% to 457.4 moz mainly due to depletion and higher cut-off grades at Fresnillo and an updated mine production plan at San Julián which incorporates new geotechnical criteria, mitigated by an increase in reserves at Saucito. Gold reserves decreased 8.8% to 8,438 koz primarily due to more stringent geotechnical and cost considerations applied at Herradura, resulting in an updated smaller pit shell, and depletion at Noche Buena.

Our priority during 2020 was to explore in and around our existing operations. In fact, 94% of the 682,113 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 2020 as well as outlining our plan for the year ahead.

We continued standardising and improving our processes during the year, expanding our dedicated cross-functional ore reserve team from six to 23 members. This team is focusing its efforts on applying new first principles cost models, improving geotechnical modelling and initiating the engineering studies required to increase levels of confidence in the reserves and resources at our operating assets, including geotechnical evaluations as well as hydrology and hydrogeology studies. These processes and improvements will continue through 2021, and we expect to begin incorporating the outputs into our reserves and resources estimation process, as required by the auditor.

Exploration at our existing mines

Excellent exploration potential exists around our operating mines, where numerous drill targets have been outlined using geological, geochemical, geophysical and remote sensing data, analysed and interpreted by our expert team. Exploring these targets represents a good opportunity to add value to our current operations by increasing our resource and reserve base. Following this approach, a significant portion of the 2020 budget was devoted to brownfield exploration, with 505,463 metres of core drilling completed.

The objectives of the drilling campaigns at our mines are threefold: (i) replenish and augment our mineral reserves, converting inferred resources into the indicated category with infill drilling; (ii) increase the total and inferred resources drilling both at extensions of known mineralisation and testing new targets; and (iii) ensure the quality of the reserves blocks scheduled to be mined in the short term with selected additional drilling wherever deemed necessary due to grade variations. 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 budget was invested during 2020, supporting 136,016 metres of drilling in the areas of influence around the mines. In addition, we drilled 48,252 metres in greenfield targets where we are consolidating districts.

Within the mines, our focus was on infill drilling campaigns to define reserves and convert inferred resources into indicated resources, as well as to identify new resources within the mine area. In 2020, drilling in the mines totalled 505,463 metres.

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. We are following up three high-priority exploration targets located within the area of influence of the processing facilities, with positive results.

Across the district, the mines and exploration teams drilled 284,095 metres during the year.

Herradura District

We carried out a total of 99,176 metres of drilling in the Herradura District in 2020. Activities were focused within the final Centauro pit to identify additional mineralised sections and to better define reserve blocks. Beyond the pit limits, drilling was intensified in the high-grade gold veins, where mineable thickness and good grade continuity was successfully proven.

Ciénega District

56,065 metres of core drilling were completed at Ciénega during 2020, with a continued focus on the new veins discovered in the northeastern part of the District. The discovery in 2020 of the Santa Alicia vein further adds to the exploration potential of the sector, along with the extensions of the Rosario Transversal and AFT veins located in the same area. In addition, extensions of the most promising veins in the central and western sections of the mine are being drill tested along with targets in the San Ramón and Taspana satellite operations. A thorough review of the stratigraphy and mineralised areas around the main mineral zone at Ciénega revealed several underexplored exploration targets in the central and southern part of the district; additional mapping and sampling is underway to deliver an optimised drill programme for these targets.

San Julián District

An intense drill programme amounting to 202,143 metres was implemented by the mine and district exploration teams. Results were positive both in finding extensions to the veins under exploitation and in delineating new good-grade veins easily accessible from the current mine development works. A significant amount of new and indicated resources were added to the near- and medium-term mine plans.

We also initiated a drill programme to test exploration targets for new disseminated deposits. Targets were identified by the integration of a robust geological, geochemical, and geophysical database accumulated in the previous years. Interesting silver and base-metal values were discovered in favourable lithologies showing the diagnostic hydrothermal alteration of this deposit type. Information obtained was used to refine the vectoring tools and exploration models, resulting in the design of an updated drill programme that will be implemented in 2021.

Great potential exists in brownfield sites around our existing mines.

We deployed a team of geologists in San Julián to continue district-wide geological mapping and geochemical sampling. This effort has delivered an improved understanding of the stratigraphy and structural setting, as well as a number of promising exploration targets that will be followed-up with detailed work and drilling.

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)

27,899 metres of core drilling were completed during 2020 over the main NW-trending Valdecañas and subsidiary veins. While most of the results were positive, only marginal changes to the existing mineral inventory were attained, because a reappraisal of the mining cost resulted in increased cut-off grades that offset the higher metal prices used in the resources and reserves estimation. Exploration potential remains open at depth in some sections of these veins, and both along strike and at depth in the NE-trending Venadas vein. This potential will be drill-tested in 2021, along with additional NE-trending targets in the western part of the tenement.

Advanced exploration projects

Orisyvo

Following a positive PEA, we completed a multi-purpose underground drill programme consisting of 7,600 metres distributed across 34 holes. These drill holes provided additional material needed to conduct detailed metallurgical investigation on the sulphide ores; studies will also include the determination of engineering parameters for the processing facility design. Geotechnical information was also collected to produce a new rock quality model for the mineralised and barren rocks making up this world-class deposit.

Geochemical and geological information resulting from this programme was used to refine the mineralisation models and will be included in an updated resource estimation. The metallurgical, geotechnical and resource estimation studies will be completed in 2021 and will support a feasibility study.

Guanajuato

Guanajuato is a historic, world-class gold and silver mineral system, which displays numerous attractive exploration targets that have the potential to increase its already large precious-metals endowment. 21,374 metres of core drilling were completed in 2020 over priority vein zones, designed to increase both the total and the indicated resources, and to test at depth several pristine new veins discovered. Follow-up work on mineralogical anomalies determined using air-borne hyperspectral technology detected strong trace-element epithermal signatures, along with minor gold and silver showings. These pieces of information are evidence of upper level hydrothermal environments below which ore-bearing horizons have been preserved. Several of these locations are currently being drill-tested with promising results.

Rodeo

The Rodeo District contains a sizeable gold resource and a number of exploration targets in the neighbouring areas. The mineralised zone is amenable to open-pit mining and gold recovery using heap-leach technologies. We have strengthened a region-wide community relations programme and advanced negotiations with local land owners. Further exploration and development works have been delayed until an agreement is reached with the local Ejidos.

Tajitos

Exploration at Tajitos in 2020 consisted of detailed mapping and sampling of new exploration targets around the existing gold resources. Land access is currently being negotiated, and once obtained, application for environmental permits will be submitted. Drilling is expected to resume in 2H 2021.

Prospects

Mexico

2020 was a year marked by the multiple restrictions imposed to counter the spread of the Covid-19 pandemic. Mining was declared an essential activity for Mexico in April 2020 and mine operations were allowed to continue under strict health protocols. However, only limited exploration activities were completed outside of the main production centres. Assessment work required to maintain our mining claims in good standing was completed in Sonora, Zacatecas, Durango and Chihuahua states.

Peru

No drilling was completed at Pilarica in 2020. Two promising target areas with the potential to increase the resources of the project will be evaluated in 2021, with detailed geological mapping and sampling taking place. The Peru exploration budget was adjusted to allow for the initiation of drilling at Supaypacha, where drilling results validate the gold exploration potential, and to strengthen the community relations programme at Santo Domingo where significant progress has been made.

Chile

The Capricornio project, located in the Antofagasta region, displays a significant quartz vein system with interesting precious-metal values at the surface. Drilling in 2020 was limited to 800 metres in six holes, due to pandemic-related travel and logistics limitations. All the drill holes successfully identified vein continuity. The drill programme will resume in 2021.

At the Condoriaco project near La Serena, 2020 drilling amounted to 10,211 metres distributed in 34 holes testing nine of the veins occurring in the 5 x 8 kilometre vein field. Mixed results were obtained from 1 – 3 metre-thick veins at shallow depths. Drilling will continue in 2021 in the remaining unexplored veins and we will also test the existence of district-wide deeper ore-shoots.

Early stage exploration

The 2020 Company-wide exploration plan focused on brownfield sites, coupled with travel restrictions related to the pandemic, resulted in a decreased activity in greenfield areas. In Mexico, reconnaissance work was done in Sonora (Herradura Corridor), Chihuahua (Santa Brigida, Candameña), Durango (Ciénega region) and Zacatecas states, while several prospect areas remained on stand-by. In Peru and Chile, regional prospecting works were performed in the Puno and the Talca/Taltal regions, respectively. GIS-related tasks were performed by our six exploration offices – and their analysis of updated databases led to the definition of regional exploration targets which will be followed-up in 2021.

REVIEW OF OPERATIONS – EXPLORATION

CONTINUED

Project	Location	2020 Drilling (metres)	Mineral Resources (attributable)	Status
Guanajuato	Guanajuato	21,374	2020: **1,499 koz Au and 96 moz Ag** Change vs. 2019: ↑ **104 koz Au;** ↑ **7 moz Ag**	Standby
San Julián Sur	Chihuahua/ Durango	69,616	2020: **371 koz Au and 44 moz Ag** Change vs. 2019: ↑ **371 koz Au;** ↑ **44 moz Ag**	In drilling
San Juan	Durango	–	2020: **570 koz Au and 52 moz Ag** Change vs. 2019: ↑ **9 koz Au;** ↑ **1 moz Ag**	Standby[1,2]
Candameña	Chihuahua	–	2020: **1,329 koz Au and 32 moz Ag** Change vs. 2019: ↑ **31 koz Au**	Standby[1,2]
Tajitos	Sonora	–	2020: **539 koz Au** Change vs. 2019: ↑ **9 koz Au**	Land acquisition[1]
Fresnillo District	Zacatecas	38,501	Mexico Nuevo, Mirador del Cristo veins (Additional resources in drilling not estimated yet)	In drilling
Centauro Profundo	Sonora	38,867	2020: **3,070 koz Au** Change vs. 2019: ↑ **887 koz Au**	In drilling
Orisyvo	Chihuahua	7,618	2020: **9,609 koz Au and 12 moz Ag** Change vs. 2019: **nil**	Standby
Lucerito	Durango	–	2020: **2,790 koz Au and 199 moz Ag** Change vs. 2019: ↑ **547 koz Au;** ↑ **39 moz Ag**	Standby[1,2]
Rodeo	Durango	–	2020: **1,299 koz Au and 13 moz Ag** Change vs. 2019: ↑ **84 koz Au;** ↑ **2 moz Ag**	Land acquisition[1]
Juanicipio[3]	Zacatecas	27,899	2020: **817 koz Au and 161 moz Ag** Change vs. 2019: ↓ **10 koz Au;** ↑ **7 moz Ag**	In drilling
Pilarica	Peru	–	2020: **111 koz Au and 52 moz Ag** Change vs. 2019: ↑ **1 koz Au;**	Standby[1,2]
Leones	Chihuahua	–	2020: **26 moz Ag** Change vs. 2019: **nil**	Standby[2]
Manzanillas	Durango	–	2020: **143 koz Au and 3 moz Ag** Change vs. 2019: ↑ **2 koz Au**	Standby[2]
Cebadillas	Nayarit	690	2020: **171 koz Au and 4 moz Ag** Change vs. 2019: ↑ **6 koz Au**	In drilling[2]
La Yesca	Jalisco	–	2020: **32 koz Au and 6 moz Ag** Change vs. 2019: ↑ **5 koz Au;** ↑ **1 moz Ag**	In drilling[2]
San Nicolás	Guerrero	–	2020: **112 koz Au and 16 moz Ag** Change vs. 2019: **nil**	Standby[2]
Others	Mexico, Peru & Chile	18,570	–	–

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

REVIEW OF OPERATIONS – DEVELOPMENT PROJECTS

PYRITES PLANT

Ownership: **100% Fresnillo plc**

Location: **Zacatecas, Fresnillo District**

Facilities: **Leaching plant at the Saucito mine, flotation plants at the Saucito and Fresnillo mines**

Date commissioned: **2Q 2018 (phase I), 4Q 2020 (phase II)**

Commercial production: **2Q 2018 (phase I), expected in 3Q 2021 (phase II)**

Anticipated production: **Total annual average of 3.5 moz silver and 13 koz gold**

Total capex: **US$155.0 million**

BUDGETED CAPEX (US$)

155m

TOTAL CAPEX TO DATE (US$)

150.8m

PLANT COMPLETED IN

4Q 2020

Timeline:

- Construction of the flotation plant at the Fresnillo mine (phase II) was concluded on time. The plant is expected to start in 3Q 2021, as final inspections by the authorities are being delayed due to Covid-19 related disruption.

2021 Priorities:

- Ramp up production from phase II to full capacity by the end of 2021.

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, with the first phase consisting of the iron flotation circuit and pyrites leaching plant at the Saucito mine. This was commissioned mid-2018.

The second phase comprised a 14,000 tpd tailings flotation plant at the Fresnillo mine that will process the ongoing and historical tailings from the 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.

The Pyrites Plant at Saucito (phase I) produced 920 koz of silver and 3,452 ounces of gold in 2020. However, production is expected to total an average of 3.5 moz silver and 13 koz gold per year once both phases are operating at full capacity.

Key developments in the year

The construction of the flotation plant at Fresnillo was commissioned on time in 2H 2020 and in line with the budget of US$49 million. However, the start of operations has been deferred to 3Q 2021 due to a delay in final inspections by the authorities as a result of Covid-19 restrictions on travel and other regulatory delays. These inspections are required in order to provide the energy permits needed to operate the plant. Once the final inspection by the authority is carried out and electrical permits have been approved, we expect the plant to ramp up to full capacity within one quarter. Given the current Covid-19 situation in Mexico, we do not foresee inspections taking place in the first half of the year, thus pushing back the start up of the plant to 3Q 2021.

REVIEW OF OPERATIONS – DEVELOPMENT PROJECTS

CONTINUED

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, in three stages**

Commercial production: **Fully operational only once the mine is developed and prepared for expansion**

Anticipated production: **Average annual production of 3 moz silver**

Capex: **US$30 million**

BUDGETED CAPEX (US$)

30m

TOTAL CAPEX TO DATE (US$)

30.5m

About the project

The main objective of this project is to increase processing capabilities at the Fresnillo beneficiation plant in order to manage 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 consisted of the installation of additional flotation cells to increase the plant's capacity to process ore with higher lead and zinc grades, while maintaining the time the solution remains in the cells. 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 once the mine is able to sustain a consistent level of development, sufficient to maintain this higher level of processing capacity.

Key developments in the year

The installation of the flotation cells, the second stage of optimisation of the Fresnillo beneficiation plant, was commissioned on time and on budget. The connection of this new circuit was postponed to early 2021 to avoid unnecessary interruption to the normal operation of the plant.

Timeline:

- Phase I was completed in 2017 and phase II was commissioned in 4Q 2020. Phase III will only be undertaken once the mine has been sufficiently developed and prepared in order to sustain the increase in the beneficiation plant capacity to 9,000 tonnes per day.

2021 Priorities:

- Integrate the new flotation cells into the beneficiation plant's circuit in early 2021, minimising operational impact.

JUANICIPIO

Ownership: **56% Fresnillo plc, 44% MAG Silver**

Location: **Zacatecas, Fresnillo District**

Facilities: **Underground mine and flotation plant**

Commercial production: **Development ore processed from mid-2020, flotation plant operational from 4Q 2021**

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

Total budgeted capex: **US$440 million**[2] **(Fresnillo: US$246.4 million)**

BUDGETED CAPEX (US$)

440m

TOTAL CAPEX TO DATE (US$)

227.6m

2021 Priorities:

- Continue development of the mine.
- Continue to process development ore at the Fresnillo beneficiation plant at an average rate of 16,000 tonnes per month, through into 3Q 2021 on a consolidated basis.
- Commission the Juanicipio beneficiation plant by 4Q 2021.
- Ramp up the mine to 40-50% of nameplate capacity by year end.

About the project

Juanicipio is a joint 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, despite progress being slowed due to Covid-19 restrictions, reaching 33.6 kilometres by the end of the year.

Furthermore, we concluded the preparation of the project's first stope on time during 3Q 2020.

As planned, development ore began to be processed at the Fresnillo beneficiation plant in mid-2020, with 71,859 tonnes processed during the year. Attributable production was 349.2 koz of silver, 589.6 gold ounces, 107.6 tonnes of lead and 148.1 tonnes of zinc (total: 623.6 koz silver, 1,052.9 ounces of gold, 192.1 tonnes of lead and 264.4 tonnes of zinc).

Commissioning of the plant is now expected by 4Q 2021, a few months later than anticipated as a result of delayed infrastructure contracts, as well as Covid-19 preventive measures and the brief stoppage of work earlier in the year. The plant is expected to reach 40-50% nameplate capacity in 4Q 2021 and 90-95% in 2022.

By bringing forward the start-up of the underground mine to 2H 2020, we have improved cash flow as income from production is accelerated and capex spend is spread across a longer period. Furthermore, the early start-up has further de-risked the metallurgical process by increasing our knowledge of the ore and enabling us to maximise recovery rates, which are expected to contribute to a quicker and more certain ramp-up to 4,000 tonnes per day once the Juanicipio beneficiation plant is commissioned.

Silver resources[3] at Juanicipio increased 4.5% to 161 moz, while gold resources decreased by 1.2% to 817 koz. Silver reserves at the project also increased, up 2.3% at 88 moz while gold reserves decreased by 4.3% to 419 koz.

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

REVIEW OF OPERATIONS

INTRODUCTION

Following two years at Fresnillo during which he successfully initiated a raft of operational improvement measures, the opportunity to move home to Chile proved too attractive for André Sougarret, our former Chief Operating Officer (COO). Here, André and his successor Tomás Iturriaga discuss progress to date and the operational challenges facing Fresnillo.

PASSING ON THE BATON

Tomás Iturriaga (TI)
André, before we go on to explore the task ahead, I'd like to thank you for a smooth and effective handover. It's been a privilege to work alongside you over these last few months.

André Sougarret (AS)
It's been a great process. While adhering to Covid guidelines, we visited sites, reviewed work in progress and talked through the challenges and opportunities that each of the operating units faces. Our time together has also enabled us to discuss key aspects of the long-term plans and optimisation initiatives at our mines, including how they are organised, the relationships with unions and the business environment in general.

You have extensive experience in our industry – and this experience is going to prove invaluable as you tackle the challenges ahead.

TI
Yes, during my role at Goldcorp, I had the opportunity to develop a number of projects. For example, I worked on the construction of a new mine, and gained experience as a mine manager, and as Chief Operating Officer Mexico and Regional Vice President and General Manager Mexico. I also helped to close El Sauzal mine and to start-up the Los Filos and Peñasquito mines – the latter being one of the biggest mines in Mexico at the time. In addition, I've been fortunate to manage mining operations in both Canada and the United States, so I believe my experience is well-suited to the COO role at Fresnillo.

AS
As a former Director of Health, Safety, Environment and Community Relations at Peñoles, you were of course already familiar with some of the opportunities and challenges at Fresnillo. But I hope our regular meetings have really helped to put flesh on the operational bones for you. I think you now have a rounded and comprehensive view of what's been achieved so far – as well as how to address challenges down the road.

TI
My principal goal is to follow up on the plans that you've put in place – and then to complement them with new ideas developed by the team as we work together to seek out further improvements and efficiencies.

AS
The main achievements on my watch have been related to safety, stabilising the operations, sustainability and improving the long-term planning process. We've established safety concepts and metrics similar to those used by the best in our industry – and that's given us a solid knowledge base that we're using to introduce a new concept of 'high potential incidents', identifying and addressing specific events so that we can reduce the likelihood of fatal accidents.

In relation to stabilising our operations, we've addressed technical issues such as geotechnical stability at the San Julián Disseminated Ore Body. We've also improved our control of key operational variables such as dilution, mine development capacity and maintenance.

In terms of sustainability, we've paid particular attention to tailings dam management, including assessing the dams, evaluating changes to dam design and facilitating external reviews by an independent expert panel according to international standards and best industry practice.

TI
It's clear that you've worked hard to put even more resource behind an already very skilled specialist team in order to further improve the long-term planning process. I know that efforts to standardise and improve the estimation process for resources and reserves have continued. We'll be supporting the progress achieved in 2020 by carrying out additional work in 2021 to generate a more accurate picture of the life of each mine and, therefore, a more focused strategic long-term plan for the Company.

AS
Looking ahead, in general we both agree that your main challenges are around Fresnillo's drive to improve safety while maximising the potential of existing operations.

TI
Absolutely. As well as being efficient, mining can and should be carried out in a sustainable way, which means that our operations should be performing to the highest standards of safety, environmental care and social responsibility, and contributing to the wellbeing of people in line with our Purpose.

My priorities include focusing on preventing fatal and serious accidents, by implementing the High Potential Incidents programme that you initiated, which is a step up for Fresnillo following the successful Me Cuido Nos Cuidamos ('I Care, We Care') programme. The Company has a target of zero fatal accidents and I'm going to do my best to help achieve that.

I'm also going to spend a significant portion of my time monitoring infrastructure projects to make sure they're developed in accordance with the mine plans, and on maturing programmes to capture efficiencies and reduce costs. For example, we need to continue to concentrate on controlling dilution, improving maintenance indicators and managing our inventories of spare parts.

The FFP programme has already had an impact on operational performance – and we need to maintain attention on this, taking it further in search of even better performance. Other specific challenges for the coming year include assessing the deepening of the Herradura pit, and continuing to improve the Company's geological models as well as the reserves and resources estimates. The ongoing delivery of the Juanicipio project and the start-up of the Pyrites Plant at Fresnillo are also areas where my team will be bringing valuable expertise.

Furthermore, I'm conscious of my responsibility to continue improving our energy efficiency by setting and monitoring targets that will help us reduce our carbon footprint. I will ensure that the team continues to implement initiatives that will help us achieve these important goals, including the installation of dual fuel systems in our haulage trucks at Herradura and the integration of more clean energy sources into our operations.

AS
I know that the Company could not wish for a more experienced or appropriate person to take on the COO role. I wish you all the very best for the future.

TI
Thank you for laying down such solid foundations for me. As a mining professional, I'm excited by the challenge of managing the operations of the world's largest silver producer.

REVIEW OF OPERATIONS
CONTINUED

WORKING SMARTER AS WE MINE DEEPER

OUR PROGRESS A YEAR ON...

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, narrower veins, higher grade variability and greater depth have combined to stretch our teams.

Now, a year on from implementing our action plan, progress has been achieved and operations have been stabilised, albeit not to the full extent that we had hoped at the beginning of the year.

One of the key challenges we identified was our ability to control dilution. We implemented a number of affirmative actions during the year, ranging from workforce training to assigning dedicated supervisors, in addition to aligning workforce incentive schemes to reflect our teams' actual performance in areas such as dilution.

As part of our continual drive to improve our processes, we have introduced the use of additional topographic scanners and have redefined a number of key variables around dilution control. However, this has led to a higher baseline than that we originally determined and used to set our targets for 2020. The new baseline and the thinner veins we have encountered meant that we did not meet our original target for the year, although we did succeed in reducing dilution rates by 2 percentage points at Fresnillo and 10 percentage points at Saucito. We take confidence from the fact that the new baseline provides increased visibility of the task ahead while the processed ore grades have improved, a trend that we expect to continue into 2021.

Since the onset of the pandemic, we experienced a marked drop in personnel availability, driven by illness and self-isolation as well as by our insistence that older, more vulnerable members of our workforce should be protected from risk and work from home where possible. At one point, absenteeism at the Fresnillo mine reached over 21%, compared to an average of around 5% for the previous year. This lack of personnel was compounded by the fact that many of those staying at home were our more senior colleagues, leaving us short of valuable expertise and experience at the mines.

Inevitably, a reduced workforce on site brought challenges in several areas of our operations and impacted a number of the year's targets, including drilling, development, maintenance and downtime.

Nevertheless, our introduction of a reliability-focused maintenance system enabled us to reduce the average time between mechanical failures as well as the time between planned maintenance, both helping to ensure production continuity. Furthermore, from an operational perspective the systems we introduced to better monitor in-mine production and identify areas of opportunity started to bear fruit. For example, although Covid-19 meant that the anticipated increase in productivity from new working arrangements at Fresnillo did not transpire, we do expect the number of tonnes processed on Sundays to begin to increase in 2021, while our continued introduction of semi-automatic drilling into the operation is starting to have an impact.

Alongside our drive to improve the efficiency of our operations, we continued our infill drilling programmes and these have significantly increased our knowledge of the veins. We drilled 91,239 metres (infill drilling 35,608 metres and new resources 55,632 metres) and 126,455 metres (36,692 metres infill drilling and new resources 89,753 metres) at Fresnillo and Saucito, respectively. We continue working to increase the confidence in the accuracy and reliability of our geological model through our infill drilling programme, by standardising our processes and by carrying out additional engineering studies. These initiatives, together with our efforts to control dilution, are expected to further stabilise ore grades at these mines.

Development rates continue to be very important for our operations. Increased rates lead to greater operational flexibility of the mines, and this is a key factor in enabling mines to function consistently. While we saw an increase of 3.1% year-on-year at Fresnillo, Saucito's development rate was marginally lower. These were achieved in spite of the adverse impact of Covid-19.

Development rates at the Fresnillo mine were further improved by the ramp-up of the tunnel boring machine (TBM), one of many important infrastructure projects that have been introduced. Although we failed to achieve our initial target of developing at least 300 metres per month, the TBM nevertheless advanced over 1,300 metres during the year and has opened up a key haulage level within the mine, improving our access to 1,190,000 tonnes of the mine's reserves. At the same time, the deepening of the San Carlos shaft advanced well and once fully operational in 2022, will transport material from this new area, amongst others, directly to the surface – reducing haulage costs and supporting our drive to reduce our environmental footprint by further moving our energy mix away from diesel. In addition, the Alimak hoist, the largest of its kind in Mexico, is now operational and reducing transport time for our teams.

While we have been unable to make the degree of progress we had hoped for in all areas, the last 12 months have demonstrated great resilience and determination across the business. Despite the adverse impacts that Covid-19 had on our operations during the year, we have nevertheless managed to stabilise our operations, while positioning ourselves to maximise the potential of these assets in the future.

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

The additional knowledge gained through the implementation of the FFP programme at the Fresnillo District has played an important role in shaping our plans at the nearby Juanicipio development project. The mineralisation at Juanicipio is similar to that found at Fresnillo and Saucito, featuring wider veins with high silver ore grade in the upper levels, with width decreasing and base metal content increasing as the veins go deeper. Our new level of knowledge will underpin our preparations and enable us to adapt to the challenges and opportunities that we will encounter in different areas at Juanicipio.

We will continue to implement our High Potential Incidents programme at the Fresnillo mine and also roll it out across the rest of our operations in 2021. This initiative aims to prevent fatalities and serious injuries through the systematic and methodological identification of high potential risks and the development of specific control protocols for each of those risks. The programme incorporates dedicated reporting tools and incident investigation methodologies. Over the next 18 months, we will focus on addressing the top five risks at each of our mines.

Action	Fresnillo Objective	Fresnillo Progress	Saucito Objective	Saucito Progress
Improve dilution control:	Reduce to 34% by 2020 and 31% in 2021.	41% in 2019 to 39% in 2020.	Reduce to 37% by 2020 and 34% in 2021.	53% in 2019 to 43% in 2020.
Continue drilling programme:	85-90 thousand metres in 2020.	91,239m, 39% focused on infill.	110-120 thousand metres in 2020.	126,455m, 29% focused on infill.
Increase accuracy of samples:	85% of samples below 20% of variability.	Systematic sampling carried out as part of the process; determined variability was not of concern.	85% of samples below 20% of variability.	Systematic sampling carried out as part of the process; determined variability was not of concern.
Reduce downtime:	Increase effective work time by 30 minutes.	Covid measures and protocols limited our ability to reduce downtime.	N/A	Covid measures and protocols limited our ability to reduce downtime.
Improve maintenance reliability:	Mean time before failure: 12 hours.	Average of whole fleet: 15 hours. We will measure this in a more detailed way by type of equipment.	N/A	
	Mean time to repair: 8 hours.	Average of whole fleet: 4.8 hours. We will measure this in a more detailed way by type of equipment.	N/A	

REVIEW OF OPERATIONS – MINES IN OPERATION

FRESNILLO

2020 Objectives

- Continue the infill drilling programme.
- Monitor progress against the action plan (see pages 50-51), 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.

2020 Performance

- We met our drilling objectives for the year with over 91 kilometres drilled, 39% of which was focused on increasing the geological certainty of the model.
- Progress on dilution with rates decreasing by two percentage points, adoption of systematic sampling underway.
- Development rates averaged 3,130 metres per month, higher than 2019 though lower than expected due to Covid-19-related personnel issues. While the tunnel boring machine continued to ramp up, it did not reach full capacity.
- Productivity decreased year-on-year driven by Covid-19-related personnel issues impacting our ability to process higher volumes of ore.
- Mining works for the deepening of the San Carlos shaft were concluded during the year, while engineering works continued in order to bring the shaft into operation.
- The construction of the Pyrites Plant (phase II) was concluded at the end of the year. Commercial production has been deferred due to a delay in final inspections by the authorities as a result of Covid-19 restrictions on travel.
- Construction of the flotation cells was concluded during the year and were integrated into the beneficiation circuit in the first months of 2021.

2021 Objectives

- Continue to monitor progress against our action plan targets, as set out in December 2019, with special emphasis on dilution control.
- Increase the development rate to an average of between 3,300–3,500 metres per month for the year.
- Increase equipment availability.
- Continue to monitor progress against our action plan targets, as set out in December 2019.
- Receive electrical permit approval and ramp up the tailings flotation plant.
- Improve the use of automatic drilling technology.

One of the world's oldest continuously operated mines, Fresnillo produced 24.6% of the Group's total silver in 2020 and generated 16.3% of total adjusted revenue.

Ownership: **100% Fresnillo plc**	Location: **Zacatecas**
In operation since: **1554**	Mine life (years): **6.6 at 6,976 tpd (2,376k tpy),** (2019: 8.1)
Facilities: **Underground mine and flotation plant**	
Milling capacity (2020): **8,000 tpd/2,640,000 tpy**	
Workforce: **1,253 employees, 2,315 contractors**	

	2020	2019	% change
MINE PRODUCTION[1]			
Ore milled (kt)	**2,337**	2,462	(5.1)
Silver (koz)	**13,055**	13,007	0.4
Gold (oz)	**38,388**	52,259	(26.5)
Lead (t)	**21,319**	21,472	(0.7)
Zinc (t)	**34,116**	31,530	8.2
Silver ore grade (g/t)	**194**	185	4.9
TOTAL RESERVES[2]			
Silver (moz)	**131.0**	149.3	(12.2)
Gold (koz)	**378**	483	(21.7)
AVG ORE GRADE IN RESERVES			
Silver (g/t)	**265**	234	13.2
Gold (g/t)	**0.76**	0.76	0.0
Cut-off grade (g/t AgEq)	**239**	202	18.3
TOTAL RESOURCES[3]			
Silver (moz)	**717.0**	799.2	(10.3)
Gold (moz)	**1.66**	1.77	(6.2)
AVG ORE GRADE IN RESOURCES			
Silver (g/t)	**332**	338	(1.8)
Gold (g/t)	**0.77**	0.75	2.7
Cut-off grade (g/t AgEq)	**147**	136	8.1

1 Fresnillo mine production excludes ore processed and production from the Juanicipio development project.
2 2020 reserves as of 31 May 2020.
3 2020 resources as of 31 May 2020.

Key developments in the year

Silver production remained at similar levels to 2019. This was driven by the expected higher ore grade resulting from incremental improvements following the implementation of our performance improvement initiatives, offset by lower volume of ore milled as a result of a reduced number of personnel on site following Covid-19 preventive measures. The higher absenteeism also impacted maintenance and the development rate, further limiting the short-term operational flexibility of the mine. The average ore throughput in 2020 was 6,976 tpd (2019: 7,349 tpd).

The average development rate increased to 3,130 metres per month (2019: 3,037 metres per month), an increase of 3.1%. Despite the positive impact of the full integration of the new contractor hired at the end of 2019 and the addition of the tunnel boring machine during the year, the adverse impact of personnel issues due to our Covid-19 measures prevented us reaching our target for the year. Our plan to rationalise our contractor base in the future is continuing. Our goal is to work with four contractor companies, each developing 1,000 metres per month.

Productivity, calculated as tonnes of ore milled per person, decreased compared to 2019. This was driven by Covid-19-related issues which led to a marked reduction in the number of personnel available, which in turn impacted our ability to process higher volumes of ore. This adverse impact was further compounded by our insistence that older, more vulnerable, and often more experienced members of our workforce should be protected from risk and remain at or work from home where possible.

While our improvement initiatives made progress, further work is required to help control dilution, particularly on the narrower veins. During the year, we redefined a number of key variables around dilution control, and this has led to a higher baseline than originally determined. Despite this, we take confidence in the fact that the new baseline provides increased visibility of the task ahead. Our drilling programme, focused on increasing resources and improving the certainty of the geological model, met its objectives for the year and this will continue into 2021, further improving our knowledge and understanding of the geology and thereby the certainty of our mine planning.

Reserves and resources

Silver reserves and resources both decreased. This was driven by higher cut-off grades due to higher costs modelled in deeper zones of the mine that are richer in base metals, leading to the exclusion of lower grade areas from the calculations.

Capital expenditures

Total capex spend in 2020 was US$92.6 million, which included sustaining capex, mine development, the construction of the second phase of the Pyrites Plant (see page 45), the optimisation of the beneficiation plant, the deepening of the San Carlos shaft and investments in technologies and equipment that look to enhance the mine's efficiency and productivity.

2021 outlook

For 2021, the silver ore grade is expected to be in the range of 190-210 g/t, with the gold ore grade around 0.55-0.70 g/t.

The majority of our investment in the year ahead will focus on sustaining capex and mine development. Furthermore, in 2021 and the following two years, we will continue to invest in our IT projects, including wireless telecommunication systems in new production areas, remote controlled drilling equipment, Track Plus, Ventilation Plus, Mine Ops and software required for the stochastic modelling of the mines resources.

Financial performance[4]

Financial highlights	2020	2019	% change
Adjusted revenue (US$m)	**407.2**	361.7	12.6
Adjusted production costs (US$m)	**162.0**	154.4	4.9
Segment profit (US$m)	**191.0**	164.6	16.0
Capital expenditure (US$m)	**92.6**	172.8	(46.4)
Exploration (US$m)	**9.2**	13.3	(30.8)
Cost per tonne (US$)	**69.9**	62.7	11.5
Cash cost (US$/oz silver)	**5.9**	2.3	156.5
Margin (US$/oz)[5]	**15.4**	13.8	11.6
Margin (expressed as % of silver price)	**72.3**	85.7	
All-in sustaining cost (US$)	**12.9**	13.5	(4.4)

Adjusted revenue, excluding inter-segment sales, increased by 12.6% to US$407.2 million, principally due to the 32.3% increase in the silver price.

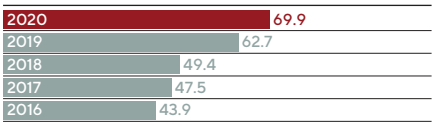
Cost per tonne increased 11.5% to US$69.9 in 2020, mainly due to an increase in development costs. Additionally, cost deflation for this mine was 4.5% mainly due to the favourable effect of the devaluation of the Mexican peso vs. US dollar on contractors and labour.

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

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

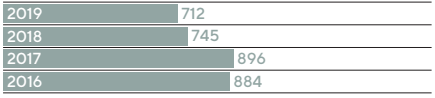
FRESNILLO
(US$/TONNE MILLED)

69.9



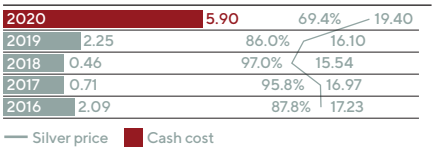
FRESNILLO ORE MILLED PER PERSON
(TONNES)

655



FRESNILLO CASH COST
(SILVER US$/OUNCE)

5.90



% Figures represent margin between cash cost and silver price.

4 Financial figures for Fresnillo exclude ore sales from Juanicipio.
5 Margin defined as average realised price less cash cost per ounce.

REVIEW OF OPERATIONS – MINES IN OPERATION

CONTINUED

SAUCITO

One of our most important assets, Saucito contributed 29.3% to total silver production in 2020 and generated 22.8% of total adjusted revenue.

Ownership: **100% Fresnillo plc**	Location: **Zacatecas**
In operation since: **2011**	Mine life (years): **5.2** (2019: 4.7)
Facilities: **Underground mine and flotation plant**	
Milling capacity (2020): **7,800 tpd/2,600,000 tpy**	
Workforce: **882 employees, 2,345 contractors**	

2020 Objectives

- Continue infill drilling to convert resources into reserves.
- Monitor progress against the action plan (see table on pages 50–51), 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.

2020 Performance

- We met our drilling objectives for the year with over 126 kilometres drilled, 29% of which was infill drilling, helping to increase reserves by 17% and improving the geological certainty of the model.
- Progress was made against the action plan, with dilution rates decreasing by 9 percentage points, the adoption of systematic sampling is underway.
- Development rates averaged 3,208 metres a month, below our expectations, in part due to Covid-19-related personnel issues.
- Productivity increased, driven by our ability to maintain processing volumes year-on-year with fewer contractors.
- The deepening of the Jarillas shaft advanced in line with our plan.

2021 Objectives

- Increase the development rate to 3,200–3,500 metres per month by the end of 2021.
- Continue to monitor progress against the action plan, including dilution control, sample variability and equipment availability.
- Implement a strategy to reduce personnel turnover.
- Continue to deepen the Jarillas shaft to 987 metres.

	2020	2019	% change
MINE PRODUCTION			
Ore milled (kt)	**2,767**	2,753	0.5
Silver (koz)	**15,532**	17,160	(9.5)
Gold (oz)	**84,878**	79,539	6.7
Lead (t)	**28,592**	20,764	37.7
Zinc (t)	**42,774**	29,365	45.7
Silver ore grade (g/t)	**206**	228	(9.7)
Gold ore grade (g/t)	**1.24**	1.19	4.2
TOTAL RESERVES[1]			
Silver (moz)	**139.6**	119.7	16.6
Gold (koz)	**611**	500	22.2
AVG ORE GRADE IN RESERVES			
Silver (g/t)	**303**	287	5.6
Gold (g/t)	**1.3**	1.2	8.3
Cut-off grade (g/t AgEq)	**243**	257	(5.4)
TOTAL RESOURCES[2]			
Silver (moz)	**565.4**	495.5	14.1
Gold (moz)	**2.3**	1.8	27.8
AVG ORE GRADE IN RESOURCES			
Silver (g/t)	**280**	296	(5.4)
Gold (g/t)	**1.13**	1.05	7.6
Cut-off grade (g/t AgEq)	**162**	164	(1.2)
PYRITES PLANT PRODUCTION			
Ore processed (t)	**172,233**	167,513	2.8
Silver (koz)	**920**	1,171	(21.4)
Gold (oz)	**3,452**	4,045	(14.7)
Silver ore grade (g/t)	**220**	299	(26.4)
Gold ore grade (g/t)	**1.9**	2.3	(17.4)

Key developments in the year

As expected and in accordance with the mine plan, annual silver production was lower year-on-year, mainly due to the decrease in ore grade as a result of the gradual depletion of higher grade areas and increased dilution as the Jarillas vein narrows. Ore throughput remained broadly stable year-on-year at 8,208 tpd, above nominal capacity of 7,800 tpd, as a result of ongoing initiatives to optimise our processes. While progress has been achieved on our improvement initiatives, further work is required to help control dilution, particularly on the narrower veins. During the year, we redefined a number of key variables around dilution control, and this has led to a higher baseline than originally determined.

During the year, our drilling campaign further bolstered the certainty of the mine's geological model and helped to increase silver reserves and resources. Inevitably, a workforce reduced in numbers due to the safety initiatives implemented as a result of the Covid-19 pandemic, together with heightened security measures to counteract the increased insecurity in the area (See Risk section on page 116) limited the daily average workforce on site. This brought challenges in several areas of the operation and impacted a number of the year's targets including our development rate. Year-on-year, development decreased 1.6%, below our target due to our focus on production.

Annual gold production increased 6.7% due to the higher ore grade and improved recovery rate.

Productivity increased compared to 2019 mainly because we were able to maintain the volume of ore processed with a smaller workforce. This was in spite of our insistence that older, more vulnerable, and often experienced members of our workforce should be protected from risk and remain at or work from home where possible. These measures had less impact on productivity at Saucito than at Fresnillo, due to the relatively young average age of our personnel at this mine, which meant that fewer employees and contractors were required to stay at home.

The Pyrites Plant at Saucito produced just under 1 moz of silver and 3.5 koz gold during the year. We expect production from this plant, excluding the expected production from the Fresnillo Pyrites Plant, to remain unchanged year-on-year.

The project to deepen the Jarillas shaft from 630 metres to 1,000 metres continued, reaching 930 metres by the end of 2020. We continue to expect this project, which will provide access to the deeper reserves of the Jarillas vein, to be completed by the end of 2023.

Reserves and resources

The infill drilling programme continued during the year and further drills will be carried out in 2021 to improve the model's certainty. Silver reserves increased 16.6%, helped by the decrease in the cut-off grade and silver resources also increased, up 14.1% year-on-year as a result of exploration in the area of influence.

Capital expenditures

Capital expenditures in 2020 totalled US$73.4 million, mainly allocated to in-mine development, sustaining capex and the project to deepen the Jarillas shaft.

2021 outlook

Following the operational setbacks driven by the adverse impact of Covid-19, we are again looking to develop between 3,200-3,500 metres a month by the end of 2021, as we rationalise our roster of contractor companies and review their incentive schemes and mine preparation services.

The gradual decline in the ore grade seen over the past few years is expected to reverse going into 2021, with the grade expected to average towards the higher end of the 200-220 g/t range. The grade improvement is in part due to the lower dilution and improved blasting and drilling patterns, part of the action plan implemented at the end of 2019. The gold ore grade is expected to be around 1.1 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 consolidating Track plus following the mine's growth, real time tracking of equipment for production and maintenance purposes, big data analysis (SmartOps) to focus on productivity initiatives and predictive maintenance as well as software required for the stochastic modelling of the mine's resources.

Financial performance

Financial highlights	2020	2019	% change
Adjusted revenue (US$m)	**593.6**	493.4	20.3
Adjusted production costs (US$m)	**199.2**	197.9	0.7
Segment profit (US$m)	**325.1**	238.1	36.5
Capital expenditure (US$m)	**73.4**	126.4	(41.9)
Exploration (US$m)	**13.9**	33.4	(58.4)
Cost per tonne (US$)	**72.0**	67.8	6.2
Cash cost (US$/oz silver)	**0.8**	2.3	(65.2)
Margin (US$/oz)	**20.5**	13.8	48.6
Margin (expressed as % of silver price)	**96.2**	85.7	
All-in sustaining cost (US$)	**6.9**	11.0	(37.3)

Adjusted revenue at Saucito increased 20.3%, mainly as a result of higher precious metal prices, partially offset by the lower volumes of silver sold. The mine's contribution to total adjusted silver revenue decreased to 33.2% in 2020 (2019: 36.0%). Despite this, Saucito remained the main contributor to total adjusted silver revenues. Gold contributed 23.9% to Saucito's adjusted revenue (2019: 22.0%), representing 10.7% of the Group's total adjusted gold revenue.

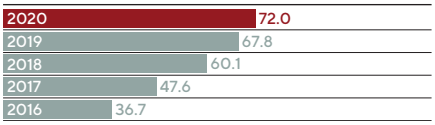
Cost per tonne increased 6.2% to US$72.0, mainly due to an increase in development cost, mitigated by the favourable effect of the devaluation of the Mexican peso and the decrease in consumption of operating materials at the Pyrites Plant; cost deflation for this mine was 4.3% primarily due to contractors,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

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

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

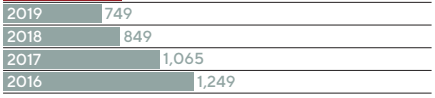
SAUCITO
(US$/TONNE MILLED)

72.0



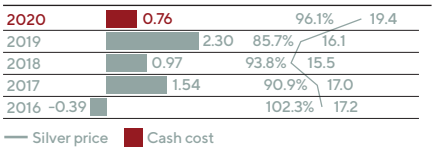
SAUCITO ORE MILLED PER PERSON
(TONNES)

858



SAUCITO CASH COST
(SILVER US$/OUNCE)

0.76



% Figures represent margin between cash cost and silver price.

1 2020 reserves as of 31 May 2020.
2 2020 resources as of 31 May 2020.

REVIEW OF OPERATIONS – MINES IN OPERATION

CONTINUED

SAN JULIÁN

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 three and four at the tailings dam.
- Continue process to achieve International Cyanide Management Code Certification.

2020 Performance

- Productivity decreased by 8.8% year-on-year, due to the greater dispersion and remoteness of production stopes requiring an increased number of personnel to manage operations.
- Cost per unit remained unchanged, while sustaining capex was in line with our expectations for the year.
- Our exploration programme advanced according to plan, focusing on converting resources to reserves.
- We met our drilling target for the year, and dilution is under control.
- Construction of phase three of the tailings dam advanced and phase four has been postponed.
- The International Cyanide Management Code Certification process is still ongoing.

2021 Objectives

- Convert probable reserves into the proven category.
- Ramp up the use of semi-autonomous drilling machines.
- Advance the construction of the third phase of the tailings dam, due to be completed in 2022.
- Advance the process to achieve the International Cyanide Management Code Certification.
- Continue to maintain operational continuity without geotechnical issues.
- Continue to implement cost control initiatives, targeting a 5% improvement year-on-year.

The San Julián silver-gold mine started operations in 2016. In 2020, it contributed 25.1% to total silver production and generated 15.7% 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): **2.8 (Veins)** (2019: 3.4), **3.6 (Disseminated Ore Body)** (2019: 5.4)
Facilities: **Underground mine, flotation plant and a dynamic leaching plant**	
Workforce: **382 employees, 1,829 contractors**	

Key developments in the year

Silver production at San Julián veins decreased by 6.7% compared with 2019, while gold production remained stable year-on-year. The lower silver production was driven by the expected lower ore grade due to the depletion of higher ore grade areas at the San Julián and Shalom areas. The infill drilling programme initiated in 2019 continued into 2020, increasing the certainty and accuracy of the geological model.

The programme to control dilution at the veins made good progress, averaging 23% for the year, a rate that we consider to be acceptable for the conditions of the mine.

Silver production increased by 6.7% at San Julián Disseminated Ore Body (DOB) against 2019, due to a higher ore grade as we regained access to higher ore grade areas following the resequencing of the mine in 2019 to maintain the geotechnical stability of some high grade stopes. We maintained the operational continuity of the operation, with no geotechnical issues during the year.

Given San Julián's remote geographical location, Covid-19 preventive measures have been effective to date in limiting the pandemic's impact on operations. This has been achieved in part by ensuring limited social interaction with people outside the workforce and local community, in conjunction with quick tests and other preventative measures.

Ore throughput remained stable year-on-year at both plants in accordance with the mine plan, while remaining above their nominal capacities. At the end of December, the lead circuit housing at the DOB suffered some minor structural damage that only affected the conditioning tank, resulting in a short production outage. Though production was ramped back up within 20 days following rapid remedial work, the plant is now expected to operate at circa 6,000 tonnes per day (down from the previous 6,600 per day) while permanent repair work is completed.

Productivity at San Julián decreased due to the greater number of personnel required to operate and maintain equipment across more dispersed production stopes, as well as increased hauling distances.

The construction of the third stage for the expansion of the tailings dam continued into 2021 as a result of a strategic decision to build the dam in sequential phases, while planning for the fourth stage is expected to continue in 2021. Once constructed, these projects will ensure capacity for a further five years and the mine's operational continuity.

Reserves and resources

Silver reserves at San Julián veins slightly increased year-on-year as a result of a successful exploration programme in the southern areas of the district, albeit with an increase in the cut-off grade. Gold reserves on

	2020	2019	% change
MINE PRODUCTION			
Total production			
Gold (oz)	**64,925**	64,600	0.5
Silver (koz)	**13,306**	13,009	2.3
PRODUCTION SAN JULIÁN VEINS			
Ore milled (kt)	**1,255**	1,265	(0.8)
Silver (koz)	**4,030**	4,317	(6.7)
Gold (oz)	**61,790**	62,207	(0.7)
Silver ore grade (g/t)	**109**	115	(5.2)
Gold ore grade (g/t)	**1.6**	1.6	0.0
PRODUCTION SAN JULIÁN DOB			
Ore milled (kt)	**2,230**	2,227	0.1
Silver (koz)	**9,276**	8,692	6.7
Gold (oz)	**3,134**	2,393	31.0
Lead (t)	**7,112**	7,648	(7.0)
Zinc (t)	**20,492**	22,697	(9.7)
Silver ore grade (g/t)	**150.3**	139.5	7.7
Gold ore grade (g/t)	**0.09**	0.08	12.5
Lead ore grade (%)	**0.41**	0.44	(6.8)
Zinc ore grade (%)	**1.19**	1.36	(12.5)
RESERVES SAN JULIÁN VEINS [1]			
Silver (moz)	**22.8**	22.4	1.8
Gold (koz)	**199**	245	(18.8)
AVG ORE GRADE IN RESERVES SAN JULIÁN VEINS			
Silver (g/t)	**204**	160	27.5
Gold (g/t)	**1.77**	1.75	1.1
Cut-off grade (g/t AgEq)	**196**	175	12.0
RESERVES SAN JULIÁN DOB[1]			
Silver (moz)	**42.8**	67.8	(36.9)
Gold (koz)	**23**	42	(45.2)
AVG ORE GRADE IN RESERVES SAN JULIÁN DOB			
Silver (g/t)	**167**	175	(4.6)
Gold (g/t)	**0.1**	0.1	0.0
Cut-off grade (g/t AgEq)	**133**	153	13.1
RESOURCES SAN JULIÁN VEINS [2]			
Silver (moz)	**110.2**	103.7	6.3
Gold (koz)	**1,016**	1,053	(3.5)
AVG ORE GRADE IN RESOURCES SAN JULIÁN VEINS			
Silver (g/t)	**154**	143	7.7
Gold (g/t)	**1.42**	1.46	(2.7)
Cut-off grade (g/t AgEq)	**137**	123	11.4
RESOURCES SAN JULIÁN DOB[2]			
Silver (moz)	**76.3**	95.9	(20.4)
Gold (koz)	**44.4**	60.7	(26.9)
AVG ORE GRADE IN RESOURCES SAN JULIÁN DOB			
Silver (g/t)	**158**	174	(9.2)
Gold (g/t)	**0.1**	0.1	0.0
Cut-off grade (g/t AgEq)	**104**	108	(3.7)

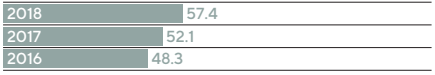
the other hand decreased as a result of depletion and expected lower grades. A similar picture was evident for resources, with silver resources increasing 7.7% year-on-year in spite of an 11.4% increase in the cut-off grade, while gold resources decreased 2.7%.

Silver and gold resources at San Julián DOB decreased due to depletion of the ore body in addition to expected lower ore grades. Silver reserves decreased mostly due to an updated mine production plan, which incorporates new geotechnical criteria. The reserve tonnage shows a 34.1% decrease over 2019 as a result of depletion and the removal of reserve in several areas where significant ground instability occurred in 2018 and 2019. The mineralisation around these rockfall areas has been sterilised and removed from the reserve base.

1 2020 reserves as of 31 May 2020.
2 2020 resources as of 31 May 2020.

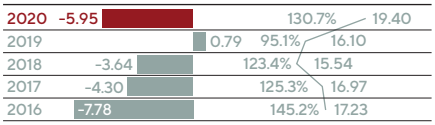
SAN JULIÁN (VEINS)
(US$/TONNE MILLED)

71.8



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

-5.95

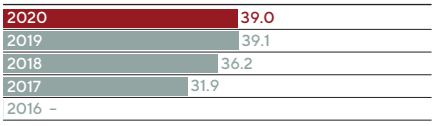


Silver price Cash cost

% Figures represent margin between cash cost and silver price.

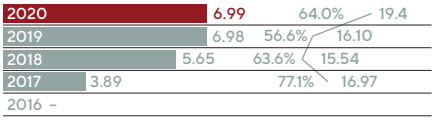
SAN JULIÁN (DOB)
(US$/TONNE MILLED)

39.0



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

6.99

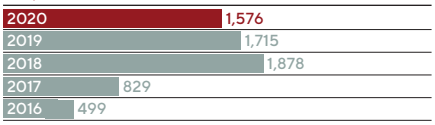


Silver price Cash cost

% Figures represent margin between cash cost and silver price.

SAN JULIÁN (VEINS AND DOB) ORE MILLED PER PERSON
(TONNES)

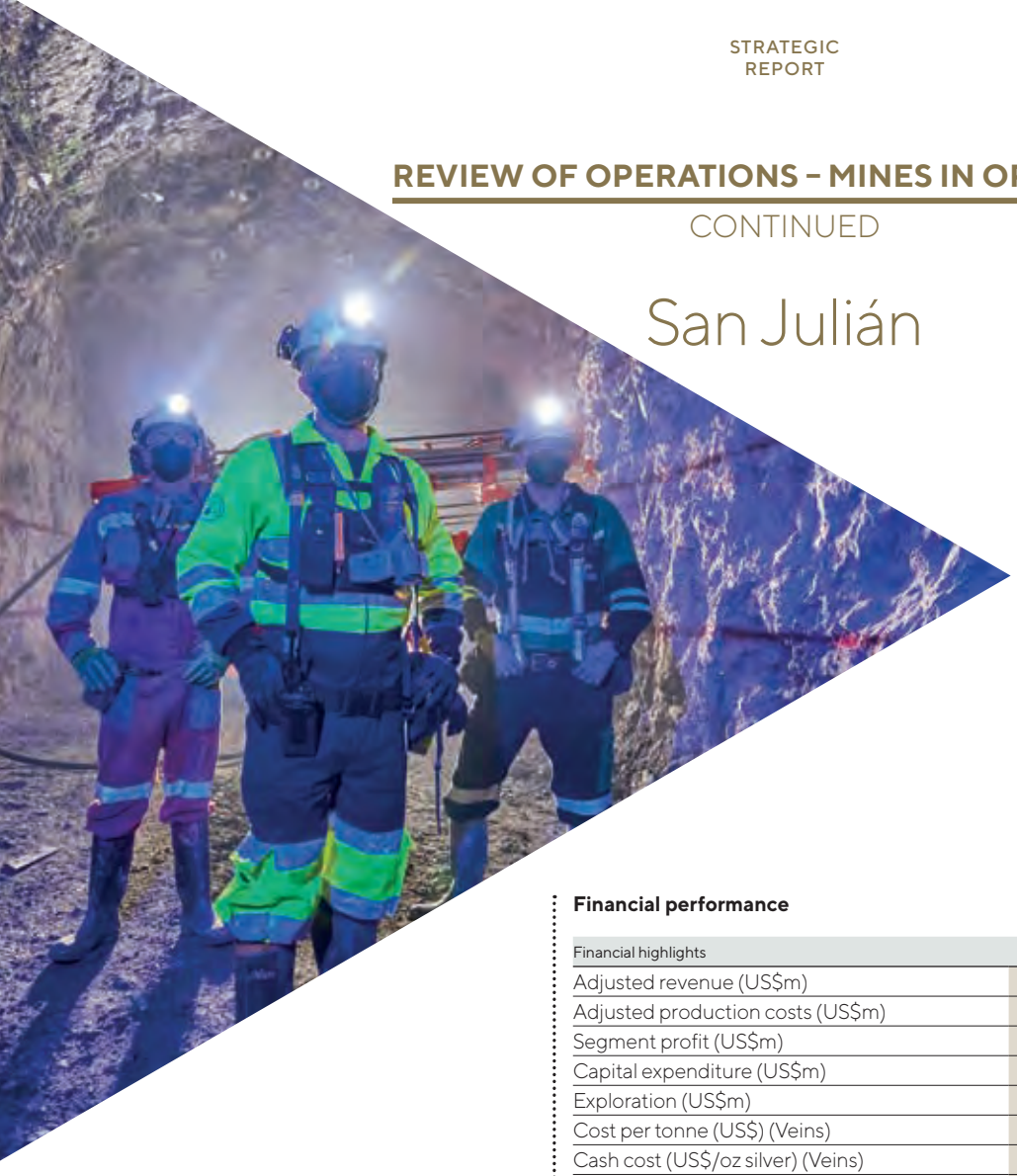
1,576



REVIEW OF OPERATIONS – MINES IN OPERATION

CONTINUED

San Julián



Financial performance

Financial highlights	2020	2019	% change
Adjusted revenue (US$m)	**409.3**	339.8	20.5
Adjusted production costs (US$m)	**177.1**	178.3	(0.7)
Segment profit (US$m)	**211.7**	128.2	65.1
Capital expenditure (US$m)	**36.3**	65.3	(44.4)
Exploration (US$m)	**20.6**	15.0	37.3
Cost per tonne (US$) (Veins)	**71.8**	72.0	(0.3)
Cash cost (US$/oz silver) (Veins)	**(6.0)**	0.8	N/A
Margin (US$/oz) (Veins)	**27.3**	15.3	78.4
Margin (expressed as % silver price) (Veins)	**128.2**	95.0	
All-in sustaining cost (US$) (Veins)	**5.04**	14.8	(65.9)
Cost per tonne (US$) (DOB)	**39.0**	39.1	(0.3)
Cash cost (US$/oz silver) (DOB)	**7.0**	7.0	0.0
Margin (US$/oz) (DOB)	**14.3**	9.1	57.1
Margin (expressed as % silver price) (DOB)	**67.1**	56.5	
All-in sustaining cost (US$) (DOB)	**8.9**	10.8	(17.6)

Adjusted revenue increased primarily as a result of the higher precious metal prices.

At San Julián Veins, cost per tonne remained stable at US$71.8, mainly due to the increase in development costs, offset by the favourable effect of the devaluation of the Mexican peso vs. US dollar. Cash cost decreased mainly due to higher gold by-product credits, partly offset by the lower silver grade and increased special mining rights. Margin per ounce increased to US$27.3 (2019: US$15.3), while margin expressed as a percentage of the silver price increased from 95.0% in 2019 to 128.2% in 2020.

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

At San Julián DOB, cost per tonne remained stable at US$39.0, mainly due to the increase in development costs, offset by the positive effect of the devaluation of the Mexican peso vs. the US dollar. Cash cost remained at US$7.0 per ounce as the lower cost per tonne and higher silver ore grade were offset by the lower by-product credits.

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

Capital expenditures

Capex spend in 2020 was US$36.3 million, mainly allocated to mining works, sustaining capex and the implementation of the IT initiatives: Track Plus, ProxAlarm, Ventilation Plus and Mine Optimiser systems.

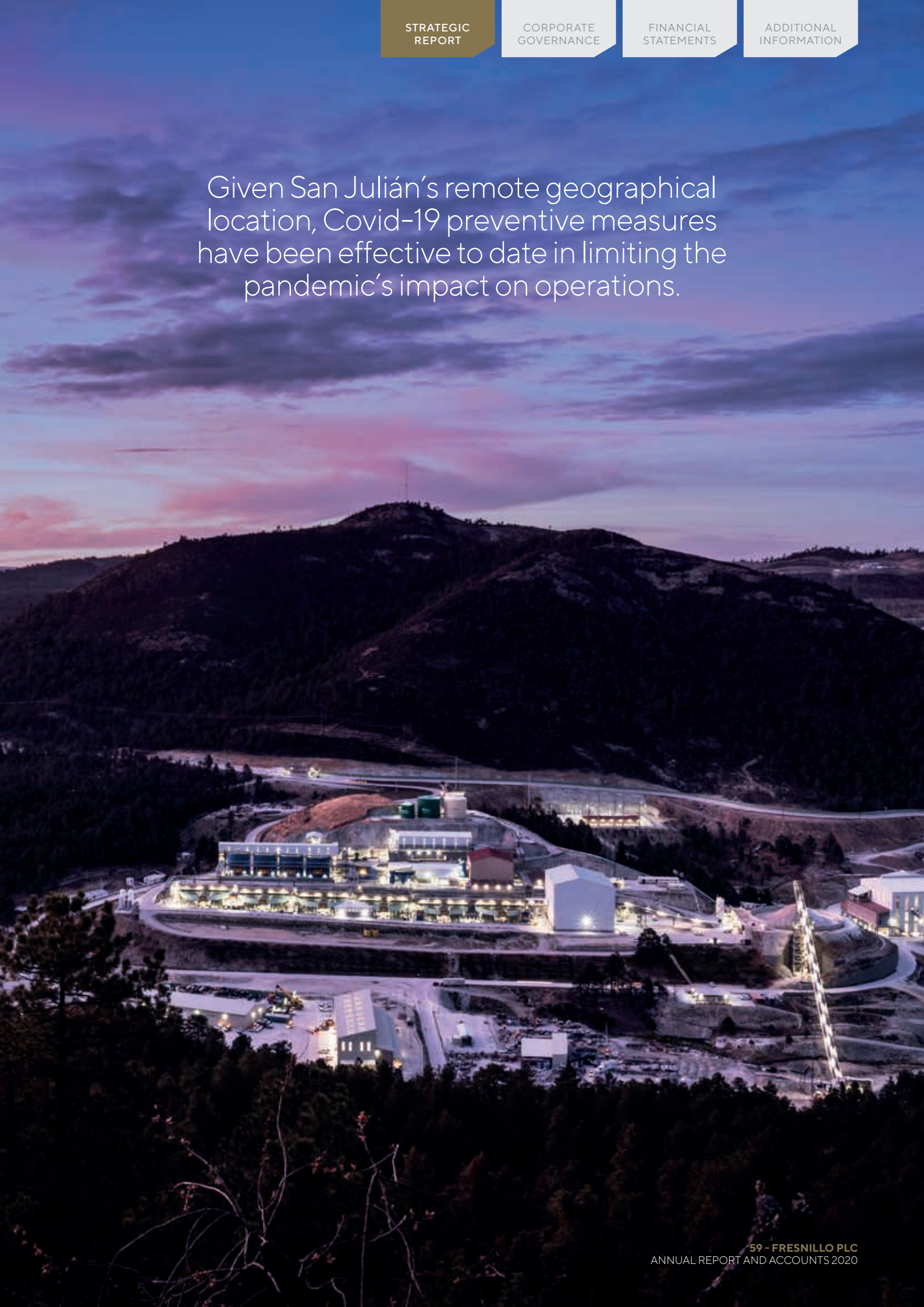
2021 outlook

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 1.3–1.5 g/t.

For the San Julián DOB, silver ore grade for 2021 is forecast to be in the range of 160–170 g/t, with the gold ore grade averaging around 0.08 g/t.

Budgeted capex for 2021 will be allocated to mining works, sustaining capex, the commissioning of the third phase of the tailings dam and commencement of construction of the fourth phase of the tailings dam. In addition, budgeted capex will also aim to improve the mine's operational performance though investment in remote controlled drilling equipment, software required for the stochastic modelling of the mine's resources and big data analysis (SmartOps) to focus on productivity initiatives and predictive maintenance.

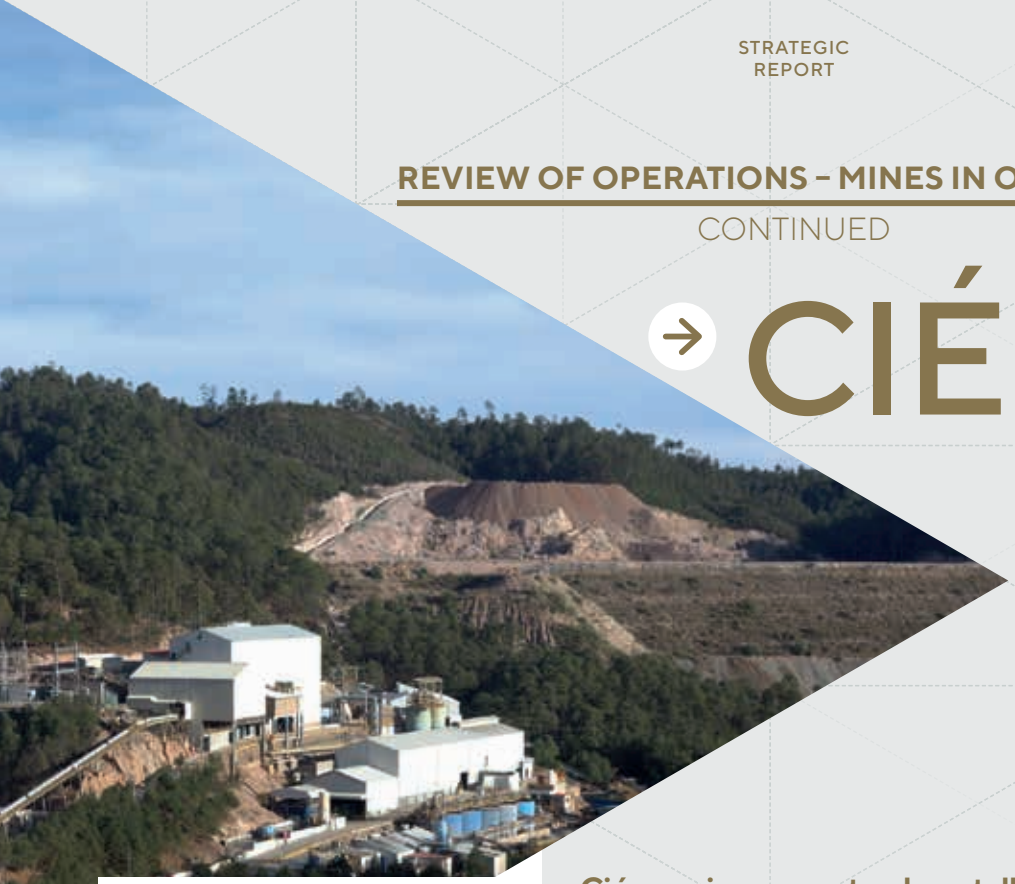
Given San Julián's remote geographical location, Covid-19 preventive measures have been effective to date in limiting the pandemic's impact on operations.



REVIEW OF OPERATIONS – MINES IN OPERATION

CONTINUED

CIÉNEGA



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.

2020 Performance

- Sustaining capex reduced against last year, in line with our expectations. Cost control initiatives were implemented and showed some positive results.
- The exploration programme in and around the Rosario Transversal fault was concluded during the year, showing unfavourable results.
- Exploration geology began at the Minitas area, generating some interesting results.
- Construction of the third tailings dam was concluded during the year.
- Volumes processed from San Ramón decreased as it approached closure.

2021 Objectives

- Continue strict cost control.
- Continue the exploration programme in the district, increasing resources and reserves.
- Begin construction of the fourth tailings dam.

Ciénega is our most polymetallic mine, contributing 8.3% to total gold production and 10.9% to total silver production. The mine generated 9.5% of total adjusted revenue during 2020.

Ownership: **100% Fresnillo plc**	Location: **Durango**
In operation since: **1992**	Mine life (years): **3.4** (2019: 3.9)
Facilities: **Underground mine, flotation and leaching plant**	
Milling capacity (2020): **4,000 tpd/1,340,000 tpy**	
Workforce: **527 employees, 937 contractors**	

	2020	2019	% change
MINE PRODUCTION			
Ore milled (kt)	**1,318**	1,329	(0.8)
Silver (koz)	**5,762**	5,796	(0.6)
Gold (oz)	**64,101**	65,583	(2.3)
Lead (t)	**6,112**	5,839	4.7
Zinc (t)	**9,263**	8,986	3.1
Silver ore grade (g/t)	**159**	159	0.0
Gold ore grade (g/t)	**1.63**	1.66	(2.1)
TOTAL RESERVES [1]			
Silver (moz)	**33.7**	38.6	(12.7)
Gold (koz)	**343**	368	(6.8)
AVG ORE GRADE IN RESERVES			
Silver (g/t)	**232**	229	1.3
Gold (g/t)	**2.36**	2.18	8.3
Cut-off grade (g/t AgEq)	**Multiple**	Multiple	
TOTAL RESOURCES [2]			
Silver (moz)	**152**	129	17.8
Gold (moz)	**1.8**	1.5	19.0
AVG ORE GRADE IN RESOURCES			
Silver (g/t)	**211**	221	(4.5)
Gold (g/t)	**2.45**	2.55	(3.9)
Cut-off grade (g/t AgEq)	**Multiple**	Multiple	

1 2020 reserves as of 31 May 2020.
2 2020 resources as of 31 May 2020.

Key developments in the year

Annual gold production marginally decreased year-on-year, in line with our expectations and reflecting the natural depletion of the high grade areas at Las Casas and East Taspana. Silver production remained at similar levels against 2019.

Similar to San Julián, Ciénega's remote geographical location has been effective at limiting social interactions outside the workforce and communities, thereby mitigating the risk of contagion. This in conjunction with quick tests and other preventive measures has enabled the operational performance to remain stable year-on-year.

Productivity increased as there were fewer contractors to manage operations following the significantly reduced activity at the San Ramón satellite mine as it approached closure. This resulted in a more concentrated operation with shorter haulage distances.

Construction of stage one of the third tailings dam was concluded during the year as expected. Construction of stage two is expected to conclude early in 2021.

Further progress was made on other smaller district-related projects including the completion of the high compaction thickener to further improve our water consumption metrics at the mine. We also made good progress on a high-tension electricity cable to the district's satellite operations, due for completion in the first half of 2021.

Our exploration programme continued throughout 2020, identifying additional mineralisation at the main Ciénega mine though exploration results from the Rosario Transversal fault fell short of expectations. We are concentrating on converting resources into reserves to the west and east of Ciénega as we look to further de-risk the potential 2,000 tonnes per day expansion of the beneficiation plant at Ciénega, thereby improving the economic viability of the project.

Reserves and resources

Silver and gold reserves decreased 12.7% and 6.8% year-on-year respectively due to the depletion of some veins of the Ciénega mine and the closure of the San Ramón satellite mine. Silver and gold resources both increased, up 17.8% and 19.0% respectively following positive exploration results which will improve the Ciénega silver and gold grade profile over the next few years.

Capital expenditures

Capex in 2020 totalled US$35.1 million and was allocated primarily to mine development and sustaining capex.

2021 outlook

In 2021, the average gold ore grade is expected to be between 1.30-1.40 g/t, with the silver ore grade expected to average 150-160 g/t.

2020 was the final year of production from San Ramón. This satellite mine will be in care and maintenance until a number of drills are completed and definitive closure is determined, at which point remedial work on the tailings dam as well as the dismantling of surface facilities will commence. For 2021, we expect the resulting spare capacity to be taken up by additional mineralisation from Ciénega stopes. This is expected to lower haulage costs due to the shorter haulage distances involved.

Budgeted capex for 2021 will continue to be primarily focused on mining works and sustaining capex. Other smaller capital investments in the year will support various IT initiatives as they near completion, the MineOps Optimiser and software required for the stochastic modelling of the mine's resources.

Financial performance

Financial highlights	2020	2019	% change
Adjusted revenue (US$m)	**248.3**	204.7	21.3
Adjusted production costs (US$m)	**101.2**	104.0	(2.7)
Segment profit (US$m)	**129.5**	84.9	52.5
Capital expenditure (US$m)	**35.1**	58.2	(39.7)
Exploration (US$m)	**6.5**	17.1	(62.0)
Cost per tonne (US$)	**76.7**	78.3	(2.0)
Cash cost (US$/oz gold)	**(276.2)**	(0.23)	N/A
Margin (US$/oz)	**2,068.6**	1,418.2	45.9
Margin (expressed as % of gold price)	**115.4**	100.0	
All-in sustaining cost (US$)	**618.3**	1,212.1	(49.0)

Adjusted revenue increased 21.3% over 2019, 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 56.3% in 2020 (2019: 57.2%).

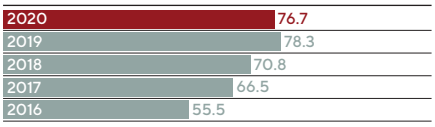
Cost per tonne at Ciénega decreased 2.0% to US$76.7 mainly due to the positive effect of the devaluation of the Mexican peso vs. US dollar partly offset by increased consumption of electricity and spare parts for maintenance.

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

The US$593.8 per ounce decrease in all-in sustaining cost was primarily driven by the lower capitalised development, decreased sustaining capital expenditure per ounce and lower cash cost.

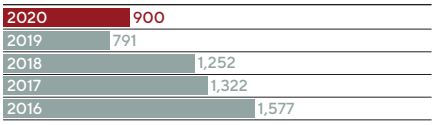
CIÉNEGA
(US$/TONNE MILLED)

76.7



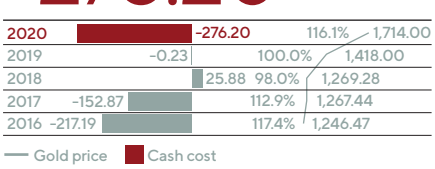
CIÉNEGA ORE MILLED PER PERSON
(TONNES)

900



CIÉNEGA CASH COST
(GOLD US$/OUNCE)

-276.20



% Figures represent margin between cash cost and gold price.

REVIEW OF OPERATIONS – MINES IN OPERATION

CONTINUED

HERRADURA

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.

2020 Performance

- A further review was undertaken, focusing on potential options for the future mine plan, with exploration drilling set to continue.
- In line with expectations, we made good progress in converting haulage equipment to the dual fuel system, with all of the 785 fleet now converted and the 793 haulage trucks due to be converted in the near future.
- The Carbon in Column project advanced and is due for completion in the second half of 2021.
- Vibrating screens were installed at the first dynamic leaching plant in 4Q 2020.
- Completed the construction of phase three of the tailings dam.

2021 Objectives

- Conclude the Carbon in Column project.
- Advance the construction of the 14th leaching pad.
- Improve dust suppression at the loading areas.
- Hire additional personnel to increase utilisation rate of our haulage fleet.
- Maintain comparative costs.
- Reduce maintenance times.

One of Mexico's largest open pit gold mines, Herradura produced 55.3% of the Group's total gold in 2020 and generated 29.9% of total adjusted revenue.

Ownership: **Minera Penmont (100% Fresnillo plc)**	Location: **Sonora**
In operation since: **1997**	Mine life (years): **12.6** (2019: 11.7)
Facilities: **Open pit mine, heap leach and Merrill Crowe plants; two dynamic leaching plants (DLP)**	
Workforce: **1,629 employees, 1,129 contractors**	

	2020	2019	% change
MINE PRODUCTION			
Ore deposited (kt)	**19,797**	22,926	(13.6)
Total volume hauled (kt)	**109,014**	124,486	(12.4)
Gold (oz)	**425,288**	482,722	(11.9)
Silver (koz)	**1,306**	1,563	(16.5)
Gold ore grade (g/t)	**0.77**	0.80	(3.8)
TOTAL RESERVES [1]			
Gold (moz)	**6.1**	6.7	(9.0)
AVG ORE GRADE IN RESERVES			
Gold (g/t)	**0.76**	0.78	(2.6)
Cut-off grade (g/t Au)	**Multiple**	Multiple	
TOTAL RESOURCES [2]			
Gold (moz)	**8.2**	9.8	(16.3)
AVG ORE GRADE IN RESOURCES			
Gold (g/t)	**0.78**	0.82	(4.9)
Cut-off grade (g/t Au)	**Multiple**	Multiple	

Key developments in the year

Annual gold production decreased compared to 2019, primarily due to a lower volume of ore deposited during the Covid-19 operational restrictions that occurred during the first half of the year. This had a knock-on effect on the kinetic recovery cycle at the leaching pads and impacted the number of ounces recovered during the year. Furthermore, the safety initiatives implemented as a result of the Covid-19 pandemic resulted in a decreased number of personnel on site, thus affecting the preparation of the mine which limited access to deeper areas of the pit and thereby impacted the mine plan for the year. These adverse effects were mitigated by our ability to continue processing inventories from the leaching pads and stockpile at the dynamic leaching plants during the operational restrictions.

1 2020 reserves as of 31 of May 2020.
2 2020 resources as of 31 of May 2020.

In addition, we benefitted from the improved overall speed of recovery at the lower ore depositing levels on the 13th leaching pad, following its commissioning in mid-2019.

Productivity decreased compared to 2019 due to the strict safety protocols which limited the number of personnel on site at any one time as well as during transportation to and from the mine. As a consequence, the number of shifts per day was changed from three to four. The reduction in personnel at the mine also impacted haulage fleet productivity.

Following the analysis conducted during 2018 as a result of the construction of an access road through a number of old leaching pads, the mine has continued carrying out assays to refine the grade and recovery of the ore in inventories. As a result of the information obtained, the mine updated its estimate of the recoverable remaining gold content in the inventories at the old leaching pads, resulting in an increase of 119.3 thousand ounces of gold as at 1 January 2020.

During the year, we commenced construction of the Carbon in Column project to increase gold recovery from the old leaching pads. However, progress was slowed due to Covid restrictions and then halted, following a high potential incident.

In 2019, we began rolling out the dual fuel systems into our haulage fleet. This programme involves the installation of engines which are able to automatically switch between powering the trucks by diesel and by liquefied natural gas (LNG), depending on the terrain. By the end of 2020, all of the 785 haulage fleet had been converted in addition to 40% of the larger 793 haulage fleet. Going forward, we expect to convert the remaining trucks, lowering our operating costs while at the same time reducing our carbon footprint.

Vibrating screens were installed at the dynamic leaching plant (phase I) in 4Q 2020, increasing milling capacity from 8,700 tpd to 9,200 tpd.

Reserves and resources

Gold reserves and resources decreased mostly due to the application of more stringent geotechnical and cost considerations, resulting in an updated pit design which excluded some benches that were previously included in the estimates. Some of the ounces lost from the pit were incorporated into the resources of the underground Centauro project. In addition to good exploration results obtained from drill holes targeting high-grade gold veins below the pit limits, these additional ounces led to a 17.5% increase in gold resources at Centauro Deep.

Capital expenditures

Capital expenditures in 2020 totalled US$30.2 million, which was focused primarily on sustaining capex, mine preparation, the construction of the 13th and 14th leaching pads and construction of the activated carbon project. 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.

2021 outlook

Gold ore grades in 2021 are expected to be in the range of 0.70–0.75 g/t.

Capex for 2021 will continue to focus primarily on sustaining capex, mining works, the construction of the 14th leaching pad and the implementation of the activated carbon process to increase gold recovery. Minor investments scheduled for 2021 also include big data analysis (SmartOps) to focus on productivity initiatives and predictive maintenance, autonomous equipment, slope monitoring equipment for pit walls and the tailings dam.

Financial performance

Financial highlights	2020	2019	% change
Adjusted revenue (US$m)	**778.9**	693.9	12.2
Adjusted production costs (US$m)	**361.4**	415.0	(12.9)
Segment profit (US$m)	**400.5**	218.7	83.1
Capital expenditure (US$m)	**30.2**	37.5	(19.5)
Exploration (US$m)	**17.6**	28.1	(37.4)
Cost per tonne (US$)	**18.3**	18.1	1.0
Cost per tonne hauled (US$)	**3.3**	3.3	0.0
Cash cost (US$/oz gold)	**727.9**	818.6	(11.1)
Margin (US$/oz)	**1,064.5**	599.4	77.6
Margin (expressed as % of gold price)	**59.4**	42.3	
All-in sustaining cost (US$)	**881.9**	963.0	(8.4)

Adjusted revenue increased 12.2% due to the higher gold and silver metal prices, offset by the lower volumes of gold sold.

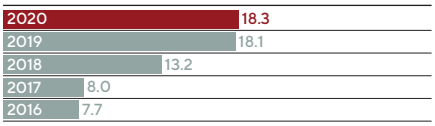
Cost per tonne of ore deposited remained stable at US$18.3, primarily due to an increase in the stripping ration and inefficiencies caused by lower economies of scale as a result of the decrease in volume of ore processed and waste material hauled related to the Covid-19 disruptions, offset by the devaluation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

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

All-in sustaining cost decreased by US$81.1 per ounce mainly due to the lower cash cost and a lower capitalised stripping.

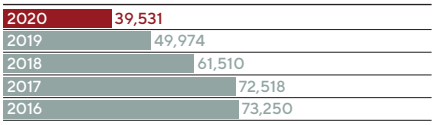
HERRADURA
(US$/TONNE DEPOSITED)

18.3



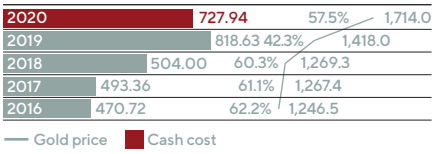
HERRADURA ORE/WASTE MOVED PER PERSON
(TONNES)

39,531



HERRADURA CASH COST
(GOLD US$/OUNCE)

727.94



% Figures represent margin between cash cost and gold price.

REVIEW OF OPERATIONS – MINES IN OPERATION

CONTINUED

NOCHE BUENA

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.

2020 Performance

- Production was impacted by the lower volume of ore deposited following the Covid-19 operational restrictions.
- The Carbon in Column plant continued processing ore, although it was impacted by the lower volume deposited on the pads.
- Cost per tonne increased year-on-year, driven by the lower volumes of ore processed.
- A minor land slip in one of the pit walls impacted the mining sequence in 2020 and has delayed mine closure by an additional four to six months in 2022.

2021 Objectives

- Maintain comparative cash cost profile.
- Adjust fixed costs to reflect smaller operations as the mine nears closure.
- Commence implementation of the mine closure plan, while continuing to operate the Carbon in Column plant.

Noche Buena is located in the Herradura district, 23 kilometres from the Herradura mine. Noche Buena produced 11.4% of the Group's total gold in 2020 and generated 6.2% of total adjusted revenue.

Ownership: **Minera Penmont (100% Fresnillo plc)**	Location: **Sonora**
In operation since: **2012**	Mine life (years): **3.1** (2019: 2.4)
Facilities: **Open pit mine, heap leach, Merrill Crowe plant and Carbon in Column process**	
Workforce: **482 employees, 322 contractors**	

	2020	2019	% change
MINE PRODUCTION			
Ore deposited (kt)	**6,683**	12,167	(45.1)
Total volume hauled (kt)	**34,914**	47,807	(27.0)
Gold (oz)	**87,998**	127,166	(30.8)
Silver (koz)	**39**	58	(32.0)
Gold ore grade (g/t)	**0.52**	0.55	(5.7)
TOTAL RESERVES [1]			
Gold (koz)	**326**	493	(33.9)
AVG ORE GRADE IN RESERVES			
Gold (g/t)	**0.51**	0.53	(3.8)
Cut-off grade (g/t Au)	**0.25**	0.25	0.0
TOTAL RESOURCES [2]			
Gold (koz)	**571**	507	12.6
AVG ORE GRADE IN RESOURCES			
Gold (g/t)	**0.50**	0.53	(5.7)
Cut-off grade (g/t Au)	**0.25**	0.25	0.0

1 2020 reserves as of 31 of May 2020.
2 2020 resources as of 31 of May 2020.

Key developments in the year

Annual gold production decreased 30.8% against 2019, driven in part by the lower volume of ore deposited during the Covid-19 operational restrictions that occurred during the first half of the year. This had a knock-on effect on the kinetic recovery cycle at the leaching pads and impacted the number of ounces recovered during the year. Furthermore, the safety initiatives implemented as a result of the Covid-19 pandemic resulted in a decreased number of personnel on site, thus affecting the preparation of the mine. In conjunction with this, increased waste material was hauled during the year following a minor land slip in one of the pit walls which impacted the mining sequence. The change in the mine plan is therefore expected to extend the mine life for an additional four to six months in 2022. These factors were mitigated by the higher speed of recovery due to increased irrigation on the pads and the installation of the carbon columns in 2019.

The focus remained on improving gold recovery and reducing costs by processing ore through the Carbon in Column process, which started operations in the first quarter of 2020 and replaced the Merrill Crowe plant. As we approach the end of mine life, we will began implementing our mine closure plan.

Productivity decreased compared to 2019 due to the strict safety protocols which limited the number of personnel on site at any one time as well as during transportation to and from the mine, limiting the volume of material hauled.

Reserves and resources

Gold reserves continued to decrease as a result of the depletion of the ore body while gold resources increased by 12.4% due to a higher gold price used in the estimation.

Capital expenditures

Capital expenditures in 2020 totalled US$19.7 million, focused on sustaining capex, including the final construction of leaching pads and the implementation of the activated carbon process.

2021 outlook

In 2021, the average ore grade is expected to be in the range of 0.40–0.50 g/t.

Expenditure in 2021 will again primarily be for sustaining capex.

Financial performance

Financial highlights	2020	2019	% change
Adjusted revenue (US$m)	**152.6**	176.7	(13.6)
Adjusted production costs (US$m)	**72.0**	119.2	(39.6)
Segment profit (US$m)	**53.7**	58.3	(7.9)
Capital expenditure (US$m)	**19.7**	5.7	245.6
Exploration (US$m)	**1.6**	1.1	45.4
Cost per tonne (US$)	**10.8**	9.8	10.2
Cost per tonne hauled (US$)	**3.3**	2.5	32.0
Cash cost (US$/oz gold)	**1,158.5**	847.8	36.6
Margin (US$/oz)	**633.9**	570.2	11.2
Margin (expressed as % of gold price)	**35.4**	40.2	
All-in sustaining cost (US$)	**1,502.9**	922.9	62.8

Adjusted revenue at Noche Buena decreased 13.6% to US$152.6 million as a result of the lower volumes of gold sold, mitigated by the higher gold prices.

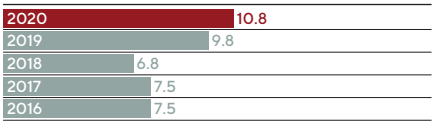
Cost per tonne at this mine increased 10.2% to US$10.8 in 2020, primarily as a result of the lower economies of scale achieved from the decrease in volume of ore processed and waste material hauled as a result of Covid-19 disruptions and the expected lower production as the mine approaches closure, mitigated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

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

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

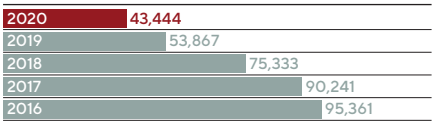
NOCHE BUENA
(US$/TONNE DEPOSITED)

10.8



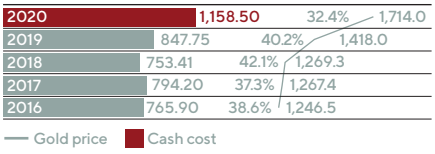
NOCHE BUENA ORE/WASTE MOVED PER PERSON
(TONNES)

43,444



NOCHE BUENA CASH COST
(GOLD US$/OUNCE)

1,158.50



% Figures represent margin between cash cost and gold price.

FINANCIAL REVIEW

The consolidated financial statements of Fresnillo plc are prepared in accordance with International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. This Financial Review is intended to convey the main factors affecting performance and to provide a detailed analysis of the financial results in order to enhance understanding of the Group's financial statements. All comparisons refer to 2020 figures compared to 2019, unless otherwise noted. The financial information and year-on-year variations are presented in US dollars, except where indicated. The full financial statements and their accompanying notes can be found on pages 198-242.

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

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

Commentary on financial performance

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

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

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

Income statement

	2020 US$ million	2019 US$ million	Amount US$ million	% change
Adjusted revenue[3]	**2,608.1**	2,270.2	337.9	14.9
Total revenue	**2,430.1**	2,119.6	310.5	14.6
Cost of sales	**(1,550.7)**	(1,657.9)	107.2	(6.5)
Gross profit	**879.4**	461.7	417.7	90.5
Exploration expenses	**107.3**	157.9	(50.6)	(32.0)
Operating profit	**649.7**	171.7	478.0	278.3
EBITDA[4]	**1,169.1**	674.0	495.1	73.4
Income tax expense including special mining rights	**175.6**	(27.1)	202.7	N/A
Profit for the year	**375.6**	205.8	169.8	82.5
Profit for the year, excluding post-tax Silverstream effects	**325.9**	172.0	153.9	89.5
Basic and diluted earnings per share (US$/share)[5]	**0.508**	0.277	0.231	83.4
Basic and diluted earnings per share, excluding post-tax Silverstream effects (US$/share)	**0.440**	0.231	0.209	90.5

1 Cash and other liquid funds are disclosed in Note 30(c) to the consolidated financial statements.
2 Adjusted production costs are calculated as cost of sales less depreciation, profit sharing, hedging, change in inventories and unproductive costs. The Company considers this a useful additional measure to help understand underlying factors driving production costs in terms of the different stages involved in the mining and plant processes, including efficiencies and inefficiencies as the case may be and other factors outside the Company's control such as cost inflation or changes in accounting criteria.
3 Adjusted revenue is revenue as disclosed in the income statement adjusted to exclude treatment and refining charges and gold, lead and zinc hedging.
4 Earnings before interest, taxes, depreciation and amortisation (EBITDA) is calculated as profit for the year from continuing operations before income tax, less finance income, plus finance costs, less foreign exchange gain/(loss), less revaluation effects of the Silverstream contract and other operating income plus other operating expenses and depreciation.
5 The weighted average number of Ordinary Shares was 736,893,589 for 2020 and 2019. See Note 17 to the consolidated financial statements.

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

Precious metals prices
During the year, the average realised silver price increased by 32.3%, from US$16.1 per ounce in 2019 to US$21.3 per ounce in 2020, while the average realised gold price rose 26.4% from US$1,418.0 per ounce in 2019 to US$1,792.4 per ounce in 2020. (For more detailed information, see the Markets review on pages 18-19). In contrast, the average realised lead and zinc by-product prices decreased 7.9% and 7.8% year-on-year, to US$0.82 and US$1.06 per pound, respectively.

However, the Group benefitted from a favourable but relatively minor effect as a result of a series of financial derivatives entered into in 2019 to hedge a portion of lead production, as described in the Hedging section on page 70.

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

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

Cost deflation
In 2020, cost deflation was 5.5%. The main components of our cost inflation basket are listed below:

Labour
Unionised employees received on average a 6.5% increase in wages in Mexican pesos, while administrative employees did not receive an increase as a measure to preserve cash during the onset of Covid-19; when converted to US dollars, this resulted in a weighted average labour deflation of 6.0%.

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

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

Operating materials

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

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

Contractors
Agreements are signed individually with each contractor company and include specific terms and conditions that cover not only labour, but also operating materials, equipment and maintenance, amongst others. Contractor costs are mainly denominated in Mexican pesos and are an important component of our total production costs. In 2020, increases per unit (i.e. per metre developed/per tonne hauled) granted to contractors, whose agreements were due for review during the period, resulted in a weighted average decrease of 6.0% in US dollars, after considering the devaluation of the Mexican peso vs. US dollar.

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

FINANCIAL REVIEW
CONTINUED

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

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

Revenue
Consolidated revenue[1]

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

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

Adjusted revenue[1] by metal

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

The increase in gold and silver prices, partially offset by the lower lead and zinc prices, resulted in a positive effect on adjusted revenue of US$510.1 million. This was partially offset by the US$172.2 million adverse effect of the lower volumes of silver and gold sold, mitigated by the higher lead and zinc sales volumes. Gold volumes sold were impacted by the lower production at our open pit operations due to the temporary suspension and subsequent mitigating actions implemented in response to the Covid-19 pandemic, while the volumes of silver sold were primarily affected by the expected lower silver grade from the Saucito mine (See Review of Operations on pages 52-65).

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

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

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

Adjusted revenue[1] by mine

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

Volumes of metal sold

	2020	% participation of each mine	2019	% participation of each mine	% change
Silver (koz)					
Saucito	**14,133**	**31.0**	15,923	33.6	(11.2)
Fresnillo	**11,664**	**25.5**	11,778	24.8	(1.0)
San Julián (Veins)	**3,907**	**8.6**	4,215	8.9	(7.3)
San Julián (DOB)	**7,594**	**16.7**	7,368	15.5	3.1
Ciénega	**5,246**	**11.5**	5,330	11.2	(1.6)
Herradura	**1,300**	**2.8**	1,573	3.3	(17.4)
Juanicipio	**794**	**1.7**	–	–	–
Noche Buena	**25**	**0.1**	23	0.0	8.7
Pyrites Plant at Saucito	**944**	**2.1**	1,212	2.6	(22.1)
Total silver (koz)	**45,607**	**100**	**47,422**	**100**	**(3.8)**
Gold (koz)					
Herradura	**429**	**57.9**	496	58.5	(13.5)
Noche Buena	**78**	**10.5**	105	12.4	(25.7)
San Julián (Veins)	**61**	**8.2**	62	7.3	(1.6)
Saucito	**75**	**10.1**	72	8.5	4.2
Ciénega	**60**	**8.1**	62	7.3	(3.2)
Fresnillo	**32**	**4.3**	46	5.4	(30.4)
San Julián (DOB)	**1**	**0.1**	1	0.1	0.0
Juanicipio	**2**	**0.3**	–	–	–
Pyrites Plant at Saucito	**3**	**0.4**	4	0.5	(25.0)
Total gold (koz)	**741**	**100**	**848**	**100**	**(12.6)**
Lead (t)					
Fresnillo	**19,375**	**33.5**	19,544	39.8	0.3
Saucito	**26,093**	**45.1**	19,719	40.2	32.3
Ciénega	**5,634**	**9.7**	4,385	8.9	28.5
San Julián (DOB)	**6,464**	**11.2**	5,405	11.0	19.6
Juanicipio	**234**	**0.4**	–	–	–
Total lead (t)	**57,801**	**100**	**49,053**	**100**	**17.8**
Zinc (t)					
Fresnillo	**28,038**	**31.9**	26,350	33.5	8.1
Saucito	**34,654**	**39.4**	25,622	32.6	35.3
San Julián (DOB)	**17,028**	**19.3**	19,034	24.2	(10.5)
Ciénega	**7,832**	**8.9**	7,590	9.7	3.2
Juanicipio	**444**	**0.5**	–	–	–
Total zinc (t)	**87,996**	**100**	**78,596**	**100**	**(11.2)**

FINANCIAL REVIEW
CONTINUED

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

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

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

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

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

Cost of sales

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

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

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

- A decrease in adjusted production costs (-US$93.9 million). This was primarily due to: i) a lower volume of ore processed at Herradura and Noche Buena due to Covid-19 operational restrictions (-US$79.4 million) which can further be broken down into two factors: a) variable costs that were not incurred (-US$71.1 million), and b) fixed costs that were incurred and reclassified as unproductive costs[3] (-US$8.3 million); and ii) the favourable effect of the devaluation of the Mexican peso vs. US dollar (-US$66.6 million). These positive effects were partly offset by increased development works and maintenance, mainly at Fresnillo, Saucito and San Julián (Veins and DOB) (+US$49.4 million).
- The variation in the change in work in progress had a positive effect of US$55.2 million year-on-year. This resulted mainly from the reassessment of the gold content on the leaching pads at Herradura (see notes 2(c) and 5 to the financial statements). This was partially offset by the net effect of the reduction of inventories at Noche Buena resulting from processing gold inventories during the operational restrictions at the onset of the pandemic, without being able to deposit on the leaching pads.
- Mexican peso/US dollar hedging (-US$4.1 million). As part of our programme to manage our exposure to foreign exchange risk associated with costs incurred in Mexican pesos, during the first quarter of the year we entered into a combination of put and call options structured at zero cost (collars). These derivatives were used to hedge US$150.1 million of costs denominated in Mexican pesos with average floor and cap exchange rates of US$22.33 and US$32.82 per US dollar respectively, which have generated a positive result of US$4.1 million. The total outstanding position using collar structures as of 31 December 2020 was US$37.53 million with monthly maturities until March 2021, with average floor and cap exchange rates of US$22.33 and US$32.82 per US dollar respectively. These instruments guarantee a minimum exchange rate should the market fall below the floor exchange rate.

3 Unproductive costs primarily include unabsorbed production costs such as fixed costs incurred in Minera Penmont during the temporary suspension of mining activities at the beginning of the Covid-19 pandemic and other costs related to the subsequent ramp-up of operations and the underutilisation of production capacity once mining activity was resumed. Unproductive costs are recognised within cost of sales but excluded from adjusted production costs.

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

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

Cost per tonne, cash cost per ounce and all-in sustaining cost (AISC)

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

Cost per tonne		**2020**	2019	% change
Fresnillo	US$/tonne milled	**69.9**	62.7	11.5
Saucito	US$/tonne milled	**72.0**	67.8	6.2
Ciénega	US$/tonne milled	**76.7**	78.3	(2.0)
San Julián (Veins)	US$/tonne milled	**71.8**	72.0	(0.3)
San Julián (DOB)	US$/tonne milled	**39.0**	39.1	(0.3)
Herradura	US$/tonne deposited	**18.3**	18.1	1.0
Herradura	US$/tonne hauled	**3.3**	3.3	0.0
Noche Buena	US$/tonne deposited	**10.8**	9.8	10.0
Noche Buena	US$/tonne hauled	**3.3**	2.5	32.0

Explanations regarding changes in cost per tonne by mine are covered in the Review of Operations section, on pages 52-65.

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

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

Explanations regarding changes in cash cost per ounce by mine are covered in the Review of Operations section, on pages 52-65.

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

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

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

FINANCIAL REVIEW
CONTINUED

All-in sustaining cost (AISC)

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

Explanations regarding changes in AISC by mine are covered in the Review of Operations section, on pages 52-65.

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

Total gross profit, including hedging gains and losses, increased by 90.5% from US$461.7 million in 2019 to US$879.4 million in 2020.

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

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

Contribution by mine to consolidated gross profit, excluding hedging gains and losses

	2020		2019		Change	
	US$ million	**%**	US$ million	%	US$ million	%
Herradura	**372.3**	**43.4**	183.2	38.9	189.1	102.9
Saucito	**200.2**	**23.4**	131.2	27.9	69.0	52.6
Fresnillo	**109.1**	**12.7**	88.7	18.9	20.4	40.2
San Julián	**71.9**	**8.4**	(7.3)	(1.5)	79.2	N/A
Ciénega	**64.4**	**7.5**	34.5	7.3	29.5	86.7
Noche Buena	**39.0**	**4.6**	40.2	8.5	(1.2)	(3.0)
Total for operating mines	**856.9**	**100**	**470.5**	**100**	**386.4**	**82.1**
Metal hedging and other subsidiaries	**22.5**		(8.8)		31.3	N/A
Total Fresnillo plc	**879.4**		**461.7**		**417.7**	**90.5**

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

Exploration expenses

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

Exploration expenses decreased by 32.0% from US$157.9 million in 2019 to US$107.3 million in 2020, in line with the strategy to focus exploration on specific targets, including our current operating districts and advanced exploration projects (see pages 40-44). The decrease of US$50.6 million seen year-on-year was in part a response in order to improve the financial stability of the Group during heightened financial uncertainty early in the year resulting from the Covid-19 pandemic. In addition, we suspended exploration activities for a period of time to mitigate any adverse impact from the pandemic. An additional US$8.5 million was capitalised, mainly relating to exploration expenses at the Juanicipio project and Centauro Deep. As a result, risk capital invested in exploration totalled US$115.8 million in 2020, while in 2019 US$12.2 million was capitalised, totalling US$170.1 million in risk capital invested in exploration, a 31.9% decrease over 2019. In 2021, total invested in exploration is expected to be within the range of US$175-US$180 million, of which approximately US$15 million is expected to be capitalised.

EBITDA

	2020 US$ million	2019 US$ million	Amount US$ million	% change
Profit from continuing operations before income tax	**551.3**	178.7	372.6	108.5
– Finance income	**(12.2)**	(24.2)	12.0	49.6
+ Finance costs	**141.3**	70.7	70.6	99.9
– Revaluation effects of Silverstream contract	**(71.0)**	(48.4)	22.6	46.7
– Foreign exchange gain/(loss), net	**40.3**	(5.1)	45.4	N/A
– Other operating income	**(10.0)**	(9.8)	(0.2)	2.0
+ Other operating expense	**14.8**	22.6	(7.8)	(34.5)
+ Depreciation	**505.4**	489.5	15.9	3.2
+ Depreciation in unproductive costs	**9.2**	0	9.2	100
EBITDA	**1,169.1**	674.0	495.1	73.4
EBITDA margin	**48.1**	31.8		

EBITDA is a gauge of the Group's financial performance and a key indicator to measure debt capacity. It is calculated as profit for the year from continuing operations before income tax, less finance income, plus finance costs, less foreign exchange gain/(loss), less revaluation effects of the Silverstream contract and other operating income plus other operating expenses and depreciation. In 2020, EBITDA increased 73.4% to US$1,169.1 million primarily driven by the higher gross profit and, to a lesser extent, lower exploration expenses. As a result, EBITDA margin expressed as a percentage of revenue increased, from 31.8% in 2019 to 48.1% in 2020.

Other operating income and expense

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

FINANCIAL REVIEW
CONTINUED

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

Since the IPO, cumulative cash received has been US$687.3 million vs. US$350 million initially paid. The Group expects that further unrealised gains or losses will be taken to the income statement in accordance with silver price cyclicality or changes in the variables considered in valuing this contract. Further information related to the Silverstream contract is provided in the balance sheet section on page 77 and in notes 13 and 29 to the consolidated financial statements.

Finance costs
Net finance costs of US$129.1 million compared unfavourably to the US$46.5 million recorded in 2019. The US$82.6 million increase was primarily driven by the one-off restructuring of the Company's debt in October 2020. The 2020 net finance costs mainly reflected: i) the US$60.8 million premium paid on early redemption of 60.2% of the existing US$800 million principal Senior Notes due 2023; ii) the interest on the US$800 million principal amount of 5.5% Senior Notes, net of interest received and capitalised, together with the accrued interest payable as a result of the issuance of US$850 million principal amount of 4.250% Senior Notes due 2050, all of which totalled US$43.7 million; iii) US$24.9 million in interest and surcharges, which resulted from the 2020 tax amendment agreed with the Mexican Tax Administration Service (Servicio de Administración Tributaria 'SAT') covering the period from 2013 to 2019. Detailed information is provided in Note 9 to the consolidated financial statements. A portion of the interest from the Senior Notes is capitalised, hence not included in finance costs. During the year ended 31 December 2020, the Group capitalised US$8.8 million of borrowing costs (2019: US$6.1 million).

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

The Group also enters into certain exchange rate derivative instruments as part of a programme to manage its exposure to foreign exchange risk associated with the purchase of equipment denominated in euro (EUR) and Swedish krona (SEK) which have generated a marginal result in the year of -US$0.15 million.

Taxation
Income tax expense for the period was US$140.6 million, which compared unfavourably vs. (US$8.0) million (tax credit) in 2019. The effective tax rate, excluding the special mining rights, was 25.5%, which was below the 30% statutory tax rate. This was mainly due to: i) the border zone tax benefit which benefitted the Herradura and Noche Buena operations (-US$35.8 million); ii) the inflation rate which impacted the inflationary uplift of the tax base for assets and liabilities (-US$23.0 million); iii) taxable/deductable foreign exchange effects for Mexican tax purposes (-US$16.9 million); and iv) special mining right taxable for corporate income tax (-US$10.5 million). These factors were partially offset by: i) the devaluation of the Mexican peso which had an important impact on the tax value of assets and liabilities (US$55.1 million); and ii) deferred tax assets not recognised (US$4.9 million).

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

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

Profit for the year
Profit for the year increased from US$205.8 million in 2019 to US$375.6 million in 2020, a 82.5% increase year-on-year as a result of the factors described above.

Excluding the effects of the Silverstream contract, profit for the year increased from US$172.0 million to US$325.9 million, a 89.5% increase.

Cash flow

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

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

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

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

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

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

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

FINANCIAL REVIEW
CONTINUED

Main uses of funds were:

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

Purchase of property, plant and equipment

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

ii) Dividends paid to shareholders of the Group in 2020 totalled US$104.7 million, a 26.4% decrease over 2019, in line with our dividend policy which includes a consideration of profits generated in the year (see page 05). The 2020 payment included the final 2019 dividend of US$87.7 million paid in June and the 2020 interim dividend paid in September of US$16.9 million.

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

iv) Financial expenses and foreign exchange effects of US$44.1 million increased US$11.3 million year-on-year, mainly reflecting: i) the interest paid in relation to the US$800 million Senior Notes due 2023 before the tender offer in October 2020, ii) the interest paid on the remaining US$317.9 million of outstanding debt following the tender offer.

The sources and uses of funds described above resulted in an increase in net cash of US$733.8 million (net increase in cash and other liquid assets), which combined with the US$336.6 million balance at the beginning of the year resulted in cash and other liquid assets of US$1,070.4 million at the end of 2020.

Balance sheet

Fresnillo plc improved its already solid financial position during the year with cash and other liquid funds[1] of US$1,070.4 million as of 31 December 2020, increasing 218.0% vs. December 2019, as explained above. Taking into account the cash and other liquid funds of US$1,070.4 million and the US$1,167.8 million amortised cost of the Senior Notes, Fresnillo plc's net debt was US$97.4 million as at 31 December 2020. This compares to the net debt position of US$463.4 million as at 31 December 2019. Considering these variations, the balance sheet as at 31 December 2020 remains strong, with a net debt/EBITDA ratio of 0.08x[2].

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

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

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

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

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

Dividends

Based on the Group's 2020 performance, the Directors have recommended a final dividend of 23.5 US cents per Ordinary Share, which will be paid on 1 June 2021 to shareholders on the register on 23 April 2021. The dividend will be paid in UK pounds sterling unless shareholders elect to be paid in US dollars. This is in addition to the interim dividend of 2.3 US cents per share amounting to US$16.9 million. This final dividend is higher than the previous year due to the higher profit in 2020, and remains in line with the Group's dividend policy (see page 05).

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

Historically, the Company has been making dividend payments out of retained earnings generated before the tax reform came into force and no withholding tax has therefore been applicable. We expect that dividend payments relating to 2020 and future years will attract the withholding obligation. However, foreign shareholders may be able to recover such tax depending on their tax residence and the existence of double taxation agreements.

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

LETTER FROM THE CHAIRMAN OF THE HSECR COMMITTEE

Dear shareholder,

The Health, Safety, Environment and Community Relations (HSECR) Committee ensures, on behalf of the Board, that the Company's HSECR approach is consistent with its Purpose: *"Contribute to the wellbeing of people through the sustainable mining of silver and gold"*.

The Covid-19 pandemic brought unparalleled challenges. Since the onset of the pandemic, we have ensured that our workforce and neighbouring communities remain our number one priority. The Committee monitored the effectiveness of the Company's engagement and collaboration with our workforce, neighbouring communities and authorities. While we recognised and prioritised the relevance of Covid-19, we also ensured that the Company made sound progress on safety and tailings storage facility management, while increasing our involvement in the governance of the Climate Change strategy. As Chairman of the HSECR Committee, I am pleased to present the activities that the Committee undertook during the year.

Maintaining a safe and healthy workplace is our top priority. We therefore monitored the performance of the preventive protocols introduced to mitigate the risks of Covid-19 in the workplace. Meaningful engagement with the authorities was key in order to ensure that mining was recognised as an essential activity, and also guided our implementation of preventive protocols based on international health recommendations and best practice. The measures we implemented to protect the vulnerable members of our workforce – including social distancing guidelines, hygiene, sanitising facilities and particularly the use of testing to self-quarantine and trace contacts – were effective in minimising cases of Covid-19.

We adapted our community support programmes in numerous ways to combat the pandemic. For example, we donated ventilators and protective equipment to local hospitals, adapted educational and entrepreneurial programmes for online formats, donated and raised awareness of masks and provided food supplies to the most vulnerable members of our neighbouring communities.

Despite the sustained improvement in Total and Lost Time injury frequency rates, the regrettable loss of one of our colleagues in 2020 serves as a sobering reminder that we have not succeeded in completely eliminating fatal injuries. We are firmly committed to achieving zero fatalities and to this end, the Committee has continued to monitor the 'I Care, We Care' programme, focusing on evaluating safety performance and the progress of the High Potential Incidents and Critical Risk Control programmes.

The Company is also committed to the responsible management of its Tailings Storage Facilities (TSFs) by its operating subsidiaries. The design, operation and governance of TSFs is supported by qualified engineering firms. The key elements of our TSF governance processes are TSF Committees, which include the CEO and COO, together with an Independent Tailings Review Panel (ITRP), in line with international best practice. In recognition of the importance of this strategic issue, TSFs were elevated to a principal risk in 2020 and TSF Management was on the agenda of all our HSECR meetings in 2020.

Climate change is one of the biggest challenges of our time. Recognising its relevance, the Committee evaluated the

flexibility of the Energy Strategy to adapt a decarbonisation pathway compatible with the well below 2 °C scenario of the Paris Agreement (see the Principal Decisions section on pages 132-134). We took energy mix, technological opportunities and regulatory risks into consideration to assess and better understand the transitional risks and opportunities we face. Wherever practical, renewable energy sources are implemented by our operating subsidiaries, with a view to increasing their role in our overall energy portfolio. However, current governmental energy policies in Mexico present challenges to the development of clean energies. In 2021, the Committee will monitor the Company's progress in the implementation of the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

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.

HSECR Committee membership
- Mr Arturo Fernández (Chairman), Dame Judith Macgregor, Mr Fernando Ruiz and Mrs Georgina Kessel.
- Key contributors: Chief Executive Officer, Chief Sustainability Officer, Sustainability and Community Relations Officer, Head of Legal, Compliance Officer, 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. We were also listed among the world's most ethical companies by Ethisphere, and were placed second in the Corporate Integrity Ranking in Mexico. The Company reported under the climate change and water security programmes of the Carbon Disclosure Project (CDP), and for the first time participated in the Workforce Disclosure Initiative (WDI).

Creating a sustainable business is a continuous journey, and we continue to be fully committed to making further improvements on the ESG issues that are significant to the Company and its stakeholders.

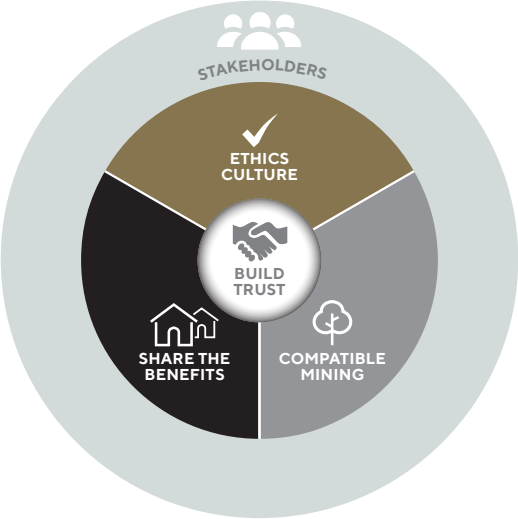
Yours faithfully,

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

SUSTAINABILITY AT THE CORE OF OUR PURPOSE

We believe that mining must be compatible with high stakeholder expectations in terms of ethical, social and environmental performance. This underlines the importance of deeply integrating responsible business practices into our business model, and considering factors that affect stakeholders at every critical decision-making level. The effectiveness of our response to Covid-19 has demonstrated that stakeholder trust is our most valuable intangible asset.

OUR APPROACH TO SUSTAINABLE MINING



The year saw many examples of our commitment to contribute to 'the wellbeing of people, through the sustainable mining of silver and gold'. For example, throughout our response to Covid-19 we made sure that our people and communities were always our number one priority. In addition, our initiative to achieve excellence in the safety and governance of our TSFs is enhancing our resilience and maintaining the trust of our stakeholders.

Our initiatives regarding renewable energy, intelligent mine ventilation and innovative dual fuel trucks also give us the flexibility to transition to a low-carbon economy, while reducing operating costs. Furthermore, our closed-circuit processes, reuse of municipal wastewater, and collaboration with authorities and communities strengthen our water stewardship strategy. Last but not least, we have adapted our community engagement and social investment portfolio to support our communities during the Covid-19 emergency.

SUSTAINABILITY AT THE CORE OF OUR PURPOSE

CONTINUED

We engage our stakeholders in order to better understand the issues that matter to them and are material to the business.

Our priorities

We engage our stakeholders in order to better understand the issues that matter to them and are material to the business.

This process, known as materiality assessment, helps us focus our Sustainability Strategy and reporting. Because society and our industry are dynamic, and expectations shift over time, we conduct in-depth materiality assessments every few years. Covid-19 brought unprecedented challenges, and became the most relevant issue with implications on our main stakeholders. In this Annual Report, we focus on the issues that are currently or expected to be significantly relevant. We group issues into four categories – Our People, Ethics & Integrity, Communities and Environmental Stewardship.

The graphic below shows the method we use to assess materiality of non-financial issues:

STAKEHOLDER IDENTIFICATION

- Our stakeholders are identified based on their influence and impact.

ISSUE IDENTIFICATION

- We identify issues relevant to our industry from international trends, regulations and ESG questionnaires.

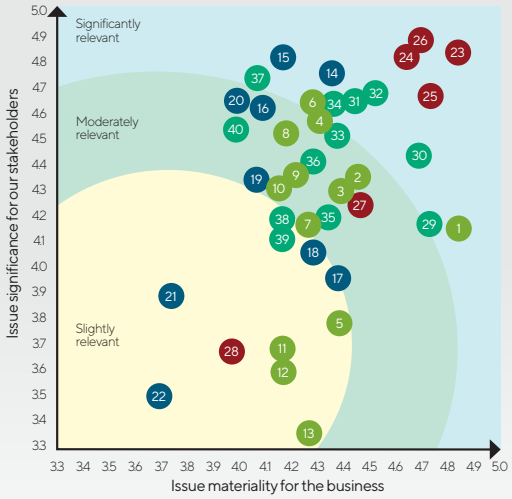
STAKEHOLDER ENGAGEMENT

- We engage our internal and external stakeholders to assess the current relevance of issues and the expected relevance in ten years.

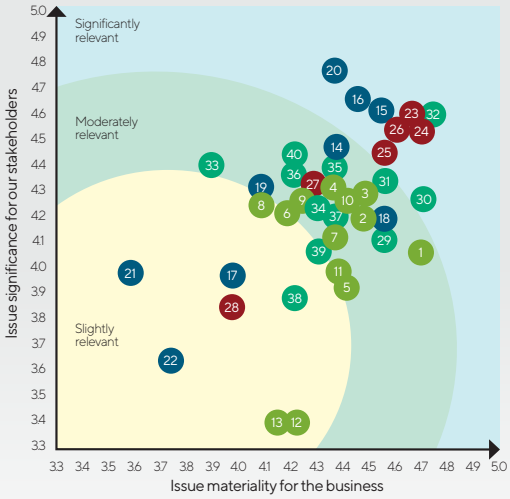
REVIEW

- The outcomes of the materiality assessment are reviewed and considered for our sustainability strategy and reporting.

MATERIALITY 2020



MATERIALITY 2030



OUR PEOPLE
1 Safety
2 Health
3 Workforce wellbeing
4 Human rights in the workplace
5 Work-life balance
6 Gender payment gap
7 Fair remuneration
8 Forced labour
9 Diversity, Equity and Inclusion
10 Compliance with international labour standards
11 Recruitment, development and retention of talent
12 Daily working hours
13 Union relations

COMMUNITIES
14 Respect the culture and traditions of communities
15 Human rights of communities
16 Human rights of indigenous people
17 Local employment
18 Land acquisition and resettlement
19 Community health
20 Engage and inform communities about new projects
21 Local suppliers
22 Effectiveness of the mining fund

ETHICS & INTEGRITY
23 Ethics and integrity
24 Community relations
25 Transparency and accountability
26 Bribery and corruption
27 Transparency of government payments
28 Government relations and lobbying

ENVIRONMENTAL STEWARDSHIP
29 Safe cyanide management
30 Responsible mineral waste management
31 Soil pollution
32 Water stewardship
33 Conservation of natural resources
34 Acid Mine Drainage
35 Non-mineral waste management
36 Biodiversity
37 Mine closure
38 Air emissions
39 Energy
40 Climate change

Material issues in grey

The Sustainable Development Goals (SDGs)

We are committed to supporting the SDGs and map the linkages between them and our business model. Following an extensive internal mapping exercise, we have defined our contribution as described below:

Key contribution of silver and gold to the UN SDGs

Makes your water safer

Protects your health from infections and are used in rapid testing

Is used in technologies to generate clean energy

It is present in innovative electronics that make life easier

Awards

FTSE4Good

During 2020, we were part of the FTSE4Good Index, named as one of the world's most ethical companies by Ethisphere and ranked second in the Corporate Integrity Ranking in Mexico. We were also recognised by a number of other bodies during the 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).

SUSTAINABILITY AT THE CORE OF OUR PURPOSE

CONTINUED

Ethics and integrity

Ethics culture

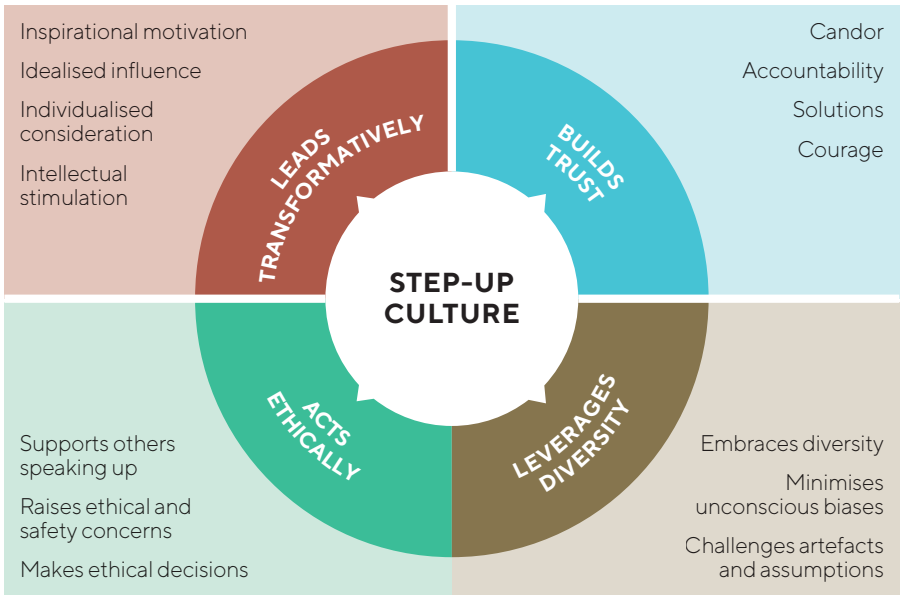
We aspire to a well-established ethics culture demonstrated by our behaviours and actions.

Our behaviours and actions should always reflect our well-established ethics culture. Our 'Step-Up' Culture aligns winning behaviours to our strategy. We engage our people to embed ethics and monitor our progress. In 2020, we launched an online training course about our 'Step-Up' Culture, which reached 80% of our non-unionised employees. We use Ethisphere's 'Ethics Quotient' survey to monitor our ethics culture and the progress made through the 'Step-Up' Culture programme in the 2016-2020 period.

We are members of the Center for Leadership Ethics of the University of Arizona, which supports initiatives such as the International Collegiate Ethics Case Competition that engages future leaders on ethical decision-making. This event attracts teams from Universities of the United States, Mexico, Canada and Europe (https://eller.arizona.edu/cecc). We are also members of the Business Ethics Leadership Alliance (BELA) and founding members of the Mexican Chapter.

Relevance and risk in the lifecycle of mining

'Step-Up' Culture framework



We engage our people to embed ethics and monitor our progress.

Evaluate, train and support our people to embed the 'Step-Up' Culture

EVALUATION:
We benchmark our ethics and compliance practices with Ethisphere's Ethics Quotient, monitor our culture through Ethisphere's Ethical Culture and 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, 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, 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, and raising awareness of key elements of our Code of Conduct through e-learning.

ETHISPHERE WORLD'S MOST ETHICAL COMPANIES 2020-2021

Monitoring our ethics culture
With strong support from our Board of Directors, in 2013 we began a journey to embed ethics into our organisational culture. Our aspiration was *"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.

We monitored the progress of our 'Step-Up' Culture with Ethisphere's 'Ethics Quotient', with encouraging signs of the progress made in this journey.

90.6
2020 FRESNILLO CULTURE QUOTIENT

86.6
2016 FRESNILLO CULTURE QUOTIENT

84.5
BENCHMARK CULTURE QUOTIENT

+6.1pts
Above benchmark

Preventing workplace harassment
At Fresnillo plc we believe that a healthy work environment improves the wellbeing of our workforce and has a direct impact on productivity. Encouraged by this deep-seated belief, and convinced that a communication campaign alone would not be enough, our Honour Commission requested a comprehensive programme to prevent and address harassment in the workplace. In June 2019, we carried out a diagnosis to identify the root causes that triggered these behaviours at an operation. This diagnosis was composed of direct observations of work dynamics and social interactions, face-to-face interviews, psychological workshops for all the workforce and perception surveys. The model was tested in San Julián and Fresnillo mines and modified to create a protocol to prevent and address labour and sexual harassment in a reliable, accessible, efficient and fair way for all our employees and non-unionised employees.

The protocol has three focus areas:
- Prevention: address the internal and external conditions of workers and raise awareness.
- Care: address instances of harassment with trained personnel.
- Restoration: train staff involved in harassment situations, improve our processes and introduce initiatives to prevent these situations developing.

Due to the Covid-19 pandemic, the protocol was implemented digitally. This comprised:
- Training counsellors and commissioners on how to address harassment cases.
- Creating Labour Behaviour Commissions in all mines.
- Raising awareness through a permanent communication campaign.

We also engaged with our contractors. 79% of the main contractor companies were invited to attend online workshops to align them with the protocol's principles of action and to help them create their own protocol to address harassment.

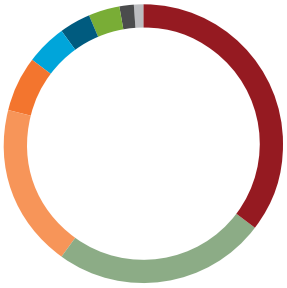
In 2021, we will continue raising awareness and building trust in the protocols in order to eliminate harassment.

SUSTAINABILITY AT THE CORE OF OUR PURPOSE

CONTINUED

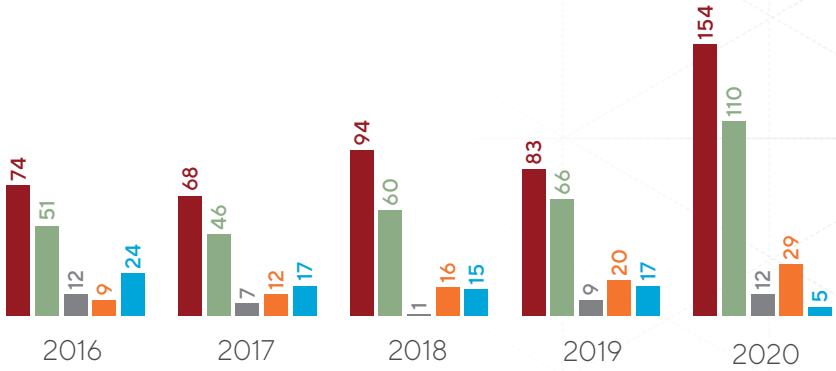
Ethics and integrity

CASES 2020



Type	2020	2019
Harassment	**39**	21
Inappropriate arrangement with suppliers	**27**	10
Abuse of authority	**21**	12
Professional negligence	**7**	2
Conflict of interest	**5**	5
Inappropriate behaviour at work	**4**	–
Other	**4**	12
Theft	**2**	3
Fraud	**1**	1
Total	**110**	66

ETHICAL CONDUCT KPIs



- Whistleblowing – Number of reports
- Whistleblowing – Number of cases
- Tone from the top – Number of reports related to managers
- Discipline – Number of disciplinary actions
- Discipline – Number of control reinforcement

Note: The number of reports and cases increased due to the launch of our programme to prevent and address harassment in the workplace.

Government payment transparency

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).

Relevance and risk in the lifecycle of mining

EXPLORATION	DEVELOPMENT	OPERATION	CLOSURE

Risk: High Medium Low

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 and accountability

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.

Relevance and risk in the lifecycle of mining

EXPLORATION | DEVELOPMENT | OPERATION | CLOSURE

Risk: High Medium Low

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.

Bribery and corruption

We are all expected to not participate in bribery and corruption, and to avoid any perception of being involved in these activities.

Neither a Fresnillo plc employee nor anyone who represents or is related to the Company may engage in bribery or corruption and must strive to avoid any perception of being involved in such activities. Disciplinary measures for persons who engage directly or indirectly through a third party in bribery and corruption include: in case of Fresnillo plc employees, up to the termination of their employment contract and in case of a third party, up to the termination of the business relationships with Fresnillo plc. The above are in addition to any measures following legal action.

Relevance and risk in the lifecycle of mining

EXPLORATION | DEVELOPMENT | OPERATION | CLOSURE

Risk: High Medium Low

How we will win

Anti-corruption and anti-bribery (ABAC) programme

Key activities:

- Code of Conduct.
- Code of Conduct for third parties.
- Third party due diligence.
- Training on the Code of Conduct and key policies (Donations and Political Contributions, Promotional expenses and Government relations).

SUSTAINABILITY AT THE CORE OF OUR PURPOSE

CONTINUED

Our people

Our workforce is the strategic stakeholder that makes possible our contribution to the wellbeing of people through the sustainable mining of silver and gold. We have made the health of our people our number one priority, implementing a comprehensive strategy to protect our people from the impacts of Covid-19.

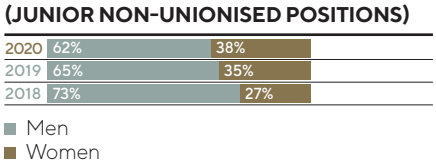
We seek to attract, develop and retain the best people, and engage them over the long term. We continue to work hard to develop an organisational culture based on ethics and caring for our people. We respect labour rights and engage union representatives constructively. We conduct employee engagement 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. During 2020 short-term internships were completely online, with training on mining, geology, safety and communication being delivered to 433 students (167 women and 266 men). 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)



During 2020, we assessed 50% of our non-unionised employees to identify high potential employees. Our performance assessment mechanism aligns training for every employee. Best performers with high potential enter the Institutional Development programme; 14% of these employees were women (50 out of 347 non-unionised employees). We also introduced succession plans focused on key positions and intend to identify at least 60 high potential employees to cover these positions over the long term. 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 two training programmes organised by the Autonomous Technological Institute of Mexico (ITAM), a leading business school.

Union relations

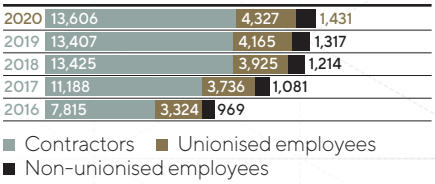
Unions are our strategic partners and key players in our drive to foster productivity and develop a safety culture. We believe that fair and respectful relations with unions build trust and mutual accountability. We respect the rights of employees to freedom of expression, association and collective bargaining. We engage unions to build trust through continuous dialogue, leadership development programmes, wellbeing activities (sports, culture, etc.) and continuous improvement projects.

The CEO and the Head of Human Resources engage with union senior leadership while our business units regularly engage with local union committees and their delegates. These close relationships enable collaboration on capacity building of newly elected union committees. Win-win relations are the foundation for fair collective bargaining. During 2020, we did not experience any work stoppages or industrial action because of labour disputes.

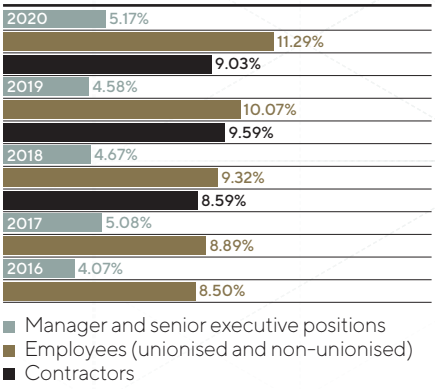
The unions and the Company collaborate in an annual symposium on Safety. The forum presents best practices, with meaningful dialogue helping to identify the challenges and opportunities. Safety regulators also contribute to the symposium. In addition, the Company and unions jointly implement the 'LEAL' (Loyal) survey on work behaviours and wellbeing. These insights are used to improve our workforce engagement strategy.

	Men	Women	Total
Senior managers	165	9	**174**
Employees (unionised and non-unionised)	4,943	641	**5,584**
Contractors	12,377	1,229	**13,606**
Total workforce			**19,364**

WORKFORCE

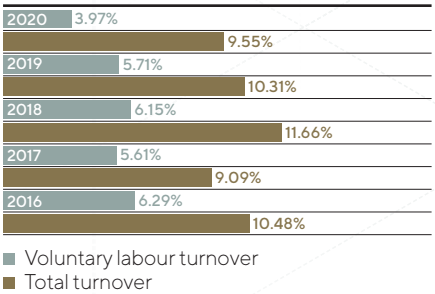


PERCENTAGE OF WOMEN

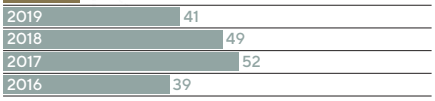


Note: This is the first year we are including statistics on women contractors. We traced data for 2018 and 2019.

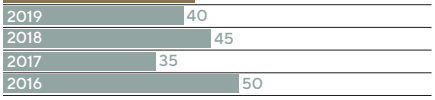
LABOUR TURNOVER



AVERAGE NON-HSECR TRAINING HOURS



AVERAGE HSECR TRAINING HOURS



Diversity, equity and inclusion

We aspire to develop an inclusive culture where our people value diverse backgrounds, feel respected and are inspired to contribute to their fullest potential. Equity and inclusion can lead to improvements in attraction, retention and development of talent, as well as innovation and creativity.

Our approach is inspired by the principle of equality and recognises the importance of treating people appropriately and providing equal access to opportunities. Our aim is to foster an inclusive workplace where openness, belonging, and respect allow people to have an impact on the workplace in a meaningful way.

Increasing the participation and inclusion of women is the first step in the journey to make diversity a competitive edge. We have two strategic objectives:

1. Enhance the contribution of women to the success of the Company.
2. Have a positive impact on female employees.

Our goal is to increase the overall representation of women from 10% to 12% by 2025 and to challenge the glass ceiling at the operating manager and superintendent level, raising the percentage of women in these roles from 2% to 8% by 2025.

In 2020 our programme focused on:

- Training the Executive Committee, senior executives, managers, superintendents and high potential talent to raise awareness of the strategic importance of diversity, equity and inclusion, and develop the necessary skills to manage a diverse workforce (see case study).
- Benchmarking our practices in the PAR Ranking and the Workforce Disclosure Initiative (WDI).
- Engaging our neighbouring communities in STEM careers.

We participated for the first time in the PAR Ranking, the largest ranking system in Latin America to measure gender equality performance. In 2019, we adhered to the Women's Empowerment Principles established by the UN Global Compact and UN Women.

Promoting greater diversity, equity and inclusion

In partnership with the University of Arizona, we developed a five-hour online training module on Diversity, Equity and Inclusion for our executives, managers and high potential talent.

Around 300 leaders participated in this training, which covered the following topics: defining and addressing Fresnillo's strategy for diversity, equity and inclusion; understanding unconscious bias and different types of diversity; identifying the types of microaggressions; recognising toxic masculinity; and reviewing stereotypes, prejudice and discrimination. The online training included a variety of exercises, case studies and discussions.

"We aspire to create an environment where welcomeness, belonging and respect allow our people to have an impact on the workplace in a meaningful way."

Octavio Alvídrez
CEO, Fresnillo plc

What we did in 2020

- Participated at the Women in Mining (WIM) chapters in the Mexican states of Zacatecas and Sonora.
- Participated in PAR Ranking.
- Increased the percentage of women recruited through our Engineers in Training programme from 35% to 38%.
- Monitored diversity as part of the ethics culture perception survey.
- Trained executives and senior level employees in diversity, equity and inclusion (see case study).
- Saw the representation of women on our Board rise to 33%.
- Set a diversity target.

What's next

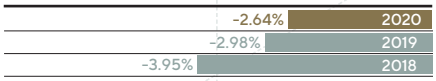
- Change how we communicate to showcase more diverse role models.
- Develop coaching and mentoring programmes.
- Review our human resources practices (such as recruitment, development, performance appraisal and promotion) to reduce the risk of implicit and explicit bias.
- Introduce a broader set of KPIs to understand patterns, plan interventions and monitor their effectiveness.
- Train non-unionised employees on Diversity, Equity and Inclusion.
- Adopt the 'Four For Women' framework from Wharton Business School for our Annual Report 2021.

Gender pay gap

Based on salary scales, we have policies in place to mitigate the gender pay gap. In 2020, the gender pay gap for non-unionised, non-executive employees was 2.64% compared to 2.98% in 2019. 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'	(0.22)%	(5.85)%	(14.78)%	(1.45)%	(9.92)%	(5.73)%
Second level 'Junior Engineer'	(0.34)%	(2.43)%	(2.32)%	12.66%	1.29%	0.13%
Third level 'Assistant'	14.25%	(14.68)%	(28.29)%	(6.59)%	14.31%	(4.93)%
					Overall average gap 2020	(2.64)%
					Overall average gap 2019	(2.98)%
					Overall average gap 2018	(3.95)%

SUSTAINABILITY AT THE CORE OF OUR PURPOSE

CONTINUED

Compatible mining

Safety

Safety is not only one of our values – we believe it is also a way of life. Therefore, we are committed to work relentlessly to improve our performance, instilling a preventive culture, raising awareness of the risks associated with our activities and implementing controls and mechanisms to eliminate fatalities.

Relevance and risk in the lifecycle of mining

EXPLORATION	DEVELOPMENT	OPERATION	CLOSURE

Risk: High Medium Low

Our strategic priorities

- Continue to implement the 'I Care, We Care' programme with its five strategic pillars.
- Strengthen safety objectives by monitoring preventive KPIs in order to improve our ability to anticipate incidents.
- Reinforce our approach of holding our people accountable for safety performance.
- Launch the 'Eye on Risk' programme to foster risk management competencies, teamwork and coaching with the involvement of mine managers and superintendents.
- Increase focus on reporting, investigating and learning from high potential incidents related to critical risks.
- Mature our approach to 'Critical Risk Controls.'

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, and emergency preparedness.

An essential aspect 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.

Leadership: Values-driven leadership

- Senior leadership education courses.
- Supervisor education courses.
- Coaching our people.

Accountability: Integration of safety and operational management systems

- 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

- 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

- Internal documents aligned with ISO standards.
- Critical Risk Control protocols and organisational deployment.

Learning environment: Reduce risks through engineering, systems, behaviours and lessons learnt

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

Reducing vehicle incidents

Installed in our haulage fleet at our Penmont mine, a high-tech system reduces accidents by identifying driver fatigue and distractions. The Driver Safety System from CATERPILLAR monitors cab activity and sends alerts to a control centre. Once the issue is classified and confirmed, the appropriate intervention is applied.

Our mining fleet also benefits from SAFEmine CAS, a GPS-based anti-collision system that monitors the proximity of other vehicles and uses loud alarms to warn operators of any potential collision. The system gathers data including the position, speed and direction of the vehicle and transmits it to other vehicles within 800 meters.

Creating a safer organisation

Training and education about critical control risk management and emergency response is crucial to operational excellence.

We have recently completed a learning and training centre at the San Julián mine, constructed from reused shipping containers. The centre is focused on training, assessing and certifying our workforce in critical control management to prevent fatal and catastrophic events. The centre currently delivers seven modules with a further two related to vehicle control in development

1. De-energisation and lockout, using electricity boards.
2. Ground control, where trainees can practice different techniques to avoid rockfalls such as manual scaling with aluminium bars or reading geomechanical lights.
3. Explosive management, which delivers learnings on how to transport, store and handle explosives.
4. Working at heights, where trainees can improve their understanding of equipment used for working at heights.
5. Material lifting, which focuses on different types of hoists and provides training on the correct way to lift materials.
6. Safety guards, where trainees learn to use guards in transportation bands or other transmission elements.
7. Hazardous materials, enabling trainees to identify and handle harmful substances.

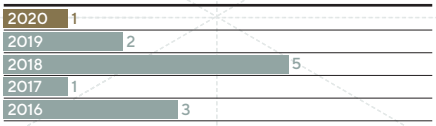
Certifications

	Fresnillo	Saucito	Ciénega	Penmont	San Julián	Juanicipio
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	In process

Performance

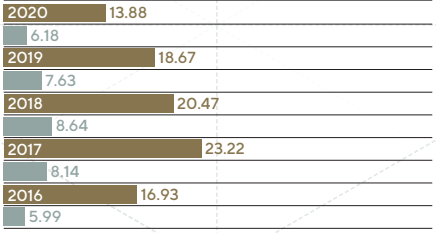
Although we have made progress in reducing injury frequency rates, we regret that we have to report one fatality in 2020. Maturing our safety programme in Juanicipio has been our priority throughout the year and will remain a priority in 2021.

FATALITIES



Number of fatal injuries to employees and contractors.

INJURY FREQUENCY RATE FOR EVERY 1,000,000 HOURS

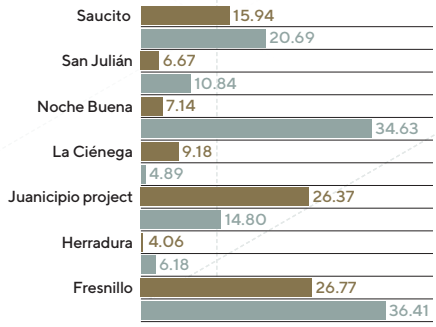


■ Total Recordable Injury Frequency Rates (TRIFR)
■ Lost Time Injury Frequency Rates (LTIFR)

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

Lost Time Injuries: The number of lost-time injuries per 1,000,000 hours worked.

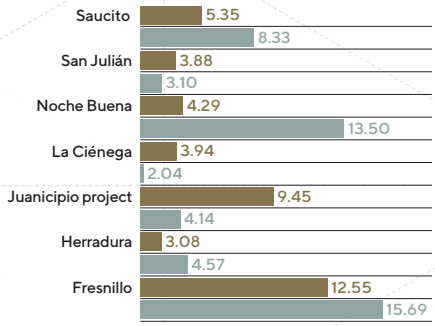
TOTAL RECORDABLE INJURY FREQUENCY RATE (TRIFR) FOR EVERY 1,000,000 HOURS



■ 2020 ■ 2019

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

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



■ 2020 ■ 2019

Lost Time Injuries: The number of lost-time injuries per 1,000,000 hours worked.

Identifying and preventing high potential incidents

Building on the success of the 'I Care, We Care' programme, we have launched a new High Potential Incidents Management (HPIM) system to help us identify the incidents with the greatest potential to harm our people and then implement measures to prevent them.

The programme focuses on three key areas:

1. Leadership and critical conduct management: Defining roles, responsibilities and accountability. The main critical conduct is to stop working if the critical controls are not being followed.
2. Critical control management: Defining the critical controls per business unit, identifying preventive and mitigating controls, developing verification tools for critical controls and performance standards, and training the workforce.
3. Management of high potential incidents (HPIs): Classifying HPIs, defining KPIs, investigating high potential accidents and verifying corrective actions.

In 2020, all our mines identified and reported their HPIs. During the last quarter of the year, the HPIM strategy was implemented in the San Julián mine and the Juanicipio project, with the collaboration of managers, supervisors, operators and contractors.

SUSTAINABILITY AT THE CORE OF OUR PURPOSE

CONTINUED

Compatible mining

Health

We strive to keep our people healthy and to prevent occupational diseases. The Covid-19 pandemic brought unprecedented challenges to Fresnillo. However, we continued to ensure that the health of our people remained our number one priority – implementing a comprehensive strategy to protect employees and contractors in our mining operations from the pandemic's impacts.

Relevance and risk in the lifecycle of mining

EXPLORATION	DEVELOPMENT	OPERATION	CLOSURE

Risk: High Medium Low

Covid-19

At the beginning of the Covid-19 outbreak, we engaged with the Mexican authorities and our industry peers to develop a preventive protocol based on international best practice. Throughout the pandemic, we have learned from others while sharing our own best practices. Our efforts have been recognised by our regulator, the Mexican Social Security Institute (IMSS), which honoured us with the Covid-19 Health Safety Award.

Embedding Covid-19 prevention into our culture

During the year, we regularly engaged with our people to combat misinformation and drive greater awareness of preventive protocols in the workplace as well as how they could protect themselves and their families. For example, we worked hard to raise awareness of the importance of identifying the early symptoms of Covid-19 and asking for help promptly, in some cases using creative approaches such as plays and mimes. In addition, we organised webinars on the importance of protecting mental health and wellbeing while we all spend more time at home, using instant messaging apps to share testimonials and interviews.

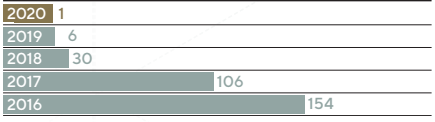
We also communicated the benefits and correct usage of masks at work – and this activity extended into our neighbouring communities, where our people played their part in supporting campaigns to donate and promote the use of face masks. The effective collaboration we maintain with the union was a key factor in building trust of Covid-19 tests.

How we will win

Key activities:

1. *Crisis committees:* We created a corporate crisis committee, led by the CEO, to coordinate crisis committees across all our operations, development projects and explorations. Covid-19 coordinators were designated to monitor compliance with the preventive protocol.
2. *Protecting the vulnerable workforce:* We identified vulnerable members of our workforce based on their age, whether they had existing chronic diseases (such as diabetes or high blood pressure) and whether they were pregnant or breastfeeding. To better protect their health, we offered all these employees the option to stay at home on full pay.
3. *Raising awareness and education:* We launched a creative communication campaign to educate our people about preventive measures, raise awareness and combat misinformation. Our CEO participated actively in communication campaigns, setting the tone from the top.
4. *Social distancing in the workplace:* We adopted social distancing measures and appropriate protective equipment at all our facilities, including accommodation and personnel transportation. In common areas such as entrances, dining rooms, dressing rooms, shaft, boardrooms and meeting rooms, we used floor markings to facilitate compliance. To support effective social distancing, we have reduced the number of passengers travelling together, the size of teams working together and the number of people in a training room.

NEW CASES OF OCCUPATIONAL DISEASES



5. *Hygiene and sanitation:* We mandated the use of masks and hygiene measures, notably handwashing and the use of anti-bacterial gel. In addition, we implemented a daily sanitisation programme for work areas, accommodation and transportation.
6. *Access control:* We established checkpoints to monitor body temperature and enquire about symptoms or contacts with people suspected to have the disease. For those working in remote locations, monitoring takes place both before transportation and on arrival at the mine site.
7. *Testing, monitoring and contagion traceability:* We were early adopters of Covid-19 tests and contagion traceability. We monitor the progress of our workforce in self-quarantine on a daily basis, and also offer psychological care and emotional support.

Occupational health

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. To mitigate Covid-19 risks, we have temporarily reduced the number of regular check-ups, postponed non-essential spirometry tests and stopped testing for alcohol abuse.

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	Under Way
Smoke-Free Company A prerequisite for Healthy Company certification.	Certified	Certified	Certified	Certified	Certified

Working safely and protecting our colleagues

All our people undertook mandatory online training provided by the Mexican Social Security Institute (IMSS) on how to work safely and protect their families at home. Our mine managers and senior medical staff were trained to lead on Covid-19 prevention in the workplace (Monitores para el retorno saludable) by IMSS and the Labour Ministry. Following an audit of the preventive measures, we were awarded a government certificate. Our contractors also undertook this training, ensuring full compliance with regulations.

Our doctors, nurses, paramedics and staff at the access control points were trained on measures to protect themselves and to support our people in self-quarantine, in particular how to identify when a person should go to the hospital. We have increased the size of our health teams and introduced enhanced collaboration with contractors. Our senior medical staff supervised the implementation of the same protective measures among the health teams of our contractors, notably the use of rapid testing and contact tracing.

SUSTAINABILITY AT THE CORE OF OUR PURPOSE

CONTINUED

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.

2020 Certifications and awards

							Penmont	
Certification/Award	Exploration	Juanicipio	San Julián	Fresnillo	Saucito	Ciénega	Herradura	Noche Buena
ISO 14001 Framework and criteria for an effective environmental management system.	Certified	In process	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.	–	Certified Level 1	Certified Level 1	Certified Level 1	Certified Level 2	Certified Level 1	Certified Level 2	Certified Level 1
International Cyanide Management Code Sets criteria for the global gold mining industry on cyanide management practices.	–	–	–	–	–	–	Certified	Certified

Climate change

Scientific evidence of anthropogenic climate change is unequivocal. The impact on the environment is already observable, with average temperatures on both land and in the oceans increasing. Sea levels have risen while ice sheets have shrunk, and glaciers have retreated. Extreme events such as high temperatures and exceptional rainfall have intensified, while the acidification of the oceans is irrefutably the result of human activity creating more carbon dioxide.

Relevance and risk in the lifecycle of mining

EXPLORATION | DEVELOPMENT | OPERATION | CLOSURE

Risk: High Medium Low

These changes to the planet's climate have far-reaching impacts on ecosystems, economies and on society at large. As the average global temperature has increased, so too has society's investment in initiatives to mitigate further impacts. Preventing the worst results of climate change requires global cooperation. Together, we need to work to hold the increase in temperature to well below 2 °C. At the same time, we should pursue efforts to limit the increase to 1.5 °C, which could limit the costs associated with adapting to climate change, compared to the 2 °C scenario. The fight against climate change also brings opportunities, due to an increase in the demand for silver for manufacturing solar photovoltaic cells.

Our stakeholders expect us to take action and report transparently. We are committed to reducing our GHG emissions (SDG 13), improving our energy efficiency and integrating clean energy (SDG 7) sources into our electricity mix. We recognise the importance of integrating the physical and transitional risks into our planning and decision-making processes, to ensure that our business continues to thrive.

We have prepared this section in light of the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). The table below shows our progress in implementing TCFD reporting:

TCFD Element	Progress	What is next
Governance	Board level discussion with Committee oversight to support the decision-making process, notably in relation to a principal decision addressing transition risks. In addition, management delivered a presentation on its role and responsibilities around TCFD and how it reports to the Committee and Board.	Committee evaluation of the progress of TCFD disclosure and briefings on the physical risks of climate change.
Strategy	We have established a more comprehensive process to identify physical and transition risks and opportunities, together with their impact on the Company. We have also introduced new sources of information to support the identification of impacts of climate change. These include industry reports and guides, energy scenarios, and Global Circulation Models (GCM) under several Representative Concentration Pathways (RCP). We have used a well below 2 °C decarbonisation pathway to evaluate the flexibility of the Energy Strategy.	Physical risks: Collaborate with the scientific community to conduct additional regional and site-level climate and hydrologic modelling. The aim is to produce actionable information to better understand the risks, vulnerabilities and adaptation measures. Transition risks: Formalise the use of carbon pricing to guide climate change impacts, risks and opportunities.
Risk Management	Climate change is part of the Enterprise Management System and in 2020 it was elevated from an emerging to a principal risk. Due to its complexity, the Sustainability team has refined the identification and assessment of climate-related physical and transition risks through further analysis and engagement with internal and external stakeholders. The flexibility and the risks of our Energy Strategy were evaluated by the Committee and Board.	Enhance the link between climate change opportunities and financial impacts. Increase engagement activities on climate change with our partners in the value chain. Assess the policy landscape on renewables in Mexico to evaluate the feasibility of a science-based target.
Metrics and targets	In addition to our energy and Scope 1 and 2 emissions reporting, we started reporting our Scope 3 emissions.	Increase our visibility and reporting of Scope 3 emissions.

SUSTAINABILITY AT THE CORE OF OUR PURPOSE

CONTINUED

Environment

Governance

Board oversight on climate change

The Board considers climate change during its discussions and when making decisions regarding the Group's strategy, risk management, investments and stakeholders. A key development in 2020 was the decision to "Evaluate the Energy Strategy with the aim of setting decarbonisation targets and assessing its resilience to the Transition Risks of Climate Change" (see the Principal Decisions section on pages 132-133). The progress of this evaluation was discussed by the full Board in the 2Q 2020 meeting, confirming the importance that Fresnillo places on this topic.

On behalf of the Board, the Board's HSECR Committee evaluates climate-related performance, risks and opportunities. In 2020, climate change was part of the agenda at all HSECR Committee meetings. For example, the Committee analysed the regulatory risks and technological opportunities of the Energy Strategy. The Committee was briefed on the progress of TCFD in the February 2021 meeting.

HSECR Committee knowledge and training

The Directors of the HSECR Committee have relevant experience and knowledge in relation to climate change. The Chairman of the Committee, Mr Arturo Fernández, has extensive expertise in Mexican public policy and a solid academic background in macroeconomics. Ms Georgina Kessel has significant experience on matters relating to energy and climate change, serving served as Minister of Energy from 2006 to 2011. Dame Judith Macgregor has wide-ranging diplomatic experience and contributes valuable international perspectives on climate change. Mr Fernando Ruiz brings his considerable experience on Mexican taxation to the Committee, as well as a valuable perspective on the landscape of carbon pricing legislation.

During 2020, the HSECR Committee undertook training on the basic principles of science-based targets. This training has been useful in discussing target-setting and evaluating the decarbonisation pathway. In 2021, additional training on the physical risks of climate change will be delivered.

Management oversight on climate change

Our CEO, COO and Head of Sustainability report quarterly to the HSECR Committee. The energy and climate change performance are reviewed against our environmental goals.

The strategic vision of our CEO is key to making the connection between business strategy and climate-related risks and opportunities. The CEO's words and actions have an enormous impact, and his personal leadership is essential for setting and communicating goals and holding the organisation to account. Our COO has responsibilities related to the energy efficiency of current operations and our objectives regarding future performance. Our COO plays a key role in setting annual energy efficiency targets and holding mine managers accountable. Our CFO and COO collaborate to identify energy efficiency opportunities. The Head of Sustainability supports the Executive Committee in assessing the carbon footprint of the Strategic Plan, measuring the quarterly performance and analysing scenarios to identify impacts, risks and opportunities.

Our mine managers engage with our people to find opportunities to improve energy efficiency. In a key development of 2020, mine managers and superintendents worked together to support the Executive Committee in forecasting energy demand for the Strategic Plan and assessing the impact of the energy efficiency initiatives on the operations for which they are responsible.

Strategy

Identifying risks and opportunities

Considerations regarding climate change are integrated within our Enterprise Risk Management system. In the current risk reassessment cycle, climate change was elevated from emerging to principal risk status following feedback from our internal stakeholders. Climate change in turn has multiple implications, necessitating further refinement in the identification of the risks and opportunities. The Sustainability team reviews industry association guides, government and international scientific reports, global energy scenarios and the climate change reports of our peers to identify transition and physical risks of climate change. In addition, the Sustainability team engages internal stakeholders from our operations on energy matters, and also engages with government representatives, environmental and legal teams, industry bodies and our peers to gain a better understanding of emerging regulations and developments in technology. The risks and opportunities are reviewed annually by the Head of Sustainability.

We evaluate the materiality of risks and opportunities using qualitative and quantitative judgements regarding the science, economics, politics and policy. We consider as material those risks that could give rise to a financial impact or disrupt the operations of the Company in the short, medium and long term.

Impacts on and by the business

Due to climate change, we expect our operations and projects to face acute physical risks from extreme events such as high temperatures, droughts and extreme rainfall from more frequent and intense hurricanes in the Pacific. These natural disasters may affect the health and safety of our people, damage access roads and mine infrastructure, disrupt operations and impact our neighbouring communities.

In addition, the rise in temperatures may increase our water demand while the decrease in annual rainfall exacerbates water stress in the regions where we operate. These chronic risks may intensify the competition to access water resources, increasing risks to our social licence to operate. Society's responses to the need to transition to a low-carbon economy include more stringent regulations to reduce emissions, a transformation of the global energy system, changes in behaviour and consumption choices and emerging technologies. Adaptation measures are necessary to build sufficient flexibility to respond to physical and transitional changes.

We recognise the importance of maturing the way in which we integrate physical climate change risks and adaptation into our financial planning and decision-making processes. We are committed to enhancing our understanding of the site level impacts and vulnerabilities in order to refine our adaptation measures. In 2020, we have integrated transition risks and adaptation into our assessment of the Energy Strategy and Strategic Plan.

Physical risks

Scientists agree that global climate change has already led to observable effects. The climate patterns that shaped our day-to-day mining operations are changing, and we need a better understanding of climate risk to design resilient operations that can adapt to changes in climate. In the short term, the adaptation to extreme climate and weather events, such as excessive rainfall and drought, relies on an understanding of present and expected changes in their probability and magnitude. However, the attribution of a single extreme weather event to anthropogenic climate change remains challenging due to the underlying natural variability of climate and limited site specific historical records (i.e. 30 years of data). In the long term, the effects of climate change remain uncertain as they depend on the complex interrelation between rising emissions, environmental and social impacts and the global response to mitigate climate change.

To identify the physical impacts of climate change, we use guides produced by industry associations such as ICMM, international scientific reports, for example the IPCC, reports from industry peers and reports by the Mexican Government. To improve our general understanding of the issues, we rely on the outcomes of scenarios built by the Mexican reports based on the Global Circulation Models (GCMs) using different Representative Concentration Pathways (RCPs). In addition, we use Aqueduct, a tool developed by the World Resources Institute (WRI), to better understand water stress under different climate change scenarios in the 2020-2030 period.

Chronic risks can further impact the regions where we operate, specifically: a reduction in precipitation; and an increase in maximum and minimum temperatures. The reduction in annual precipitation is expected to increase water stress in the river basins, while higher temperatures may increase our water demand, for example to compensate for losses through evaporation. Among the acute physical risks, the frequency and magnitude of extreme events, such as rainfall, droughts and heat waves are expected to increase in the regions where we operate.

While they are useful to aid understanding of global and regional trends, global models must be translated into localised impacts in order to better understand site-level risks. We are committed to working closely with the scientific community to conduct additional regional and site-level climate and hydrologic modelling. This will help identify actionable information that will help us plan adaptation measures in our operations and projects.

(See the Physical risks table on the next page).

Transition risks and opportunities
Mitigating the impacts of climate change, in line with the objectives of the Paris Agreement, requires a major transformation of the global energy system. To identify the risks and opportunities, we explore the implications of two specific scenarios developed by the International Energy Agency (IEA): the Stated Policies Scenario (STEPS); and the Sustainable Development Scenario (SDS). In a well below 2 °C scenario, the energy system relies less on fuel combustion and increases the participation of renewable energy in the energy mix, notably solar energy. The energy system takes advantage of the huge potential for energy efficiency, electrification, energy storage and hydrogen technology.

In addition to these global scenarios, we explore the market and technological trends in the mining industry as well as the regulatory landscape for energy and climate change in Mexico.

(See the Transition risks and opportunities table on pages 97-98).

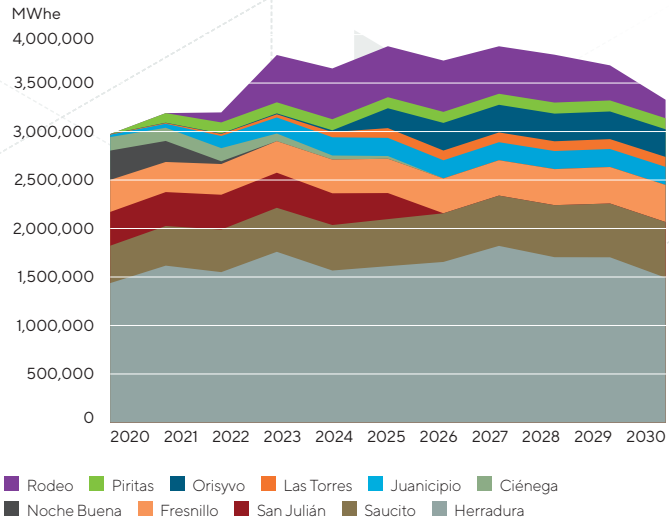
Business resilience to climate-related risks and opportunities
Our identification of physical climate-related risks is based on the outcomes of global models for Mexico. A better understanding at the regional and site level is necessary to assess vulnerabilities, set priorities and evaluate adaptation measures.

To evaluate our resilience to transitional risks, we have assessed the flexibility of our Energy Strategy to provide decarbonisation opportunities in the 2021-2030 period. Assuming that emerging policies and stakeholder expectations will transition to a low-carbon economy, we have used for comparison purposes the Absolute Contraction (straight line) Method of the Science-Based Targets Initiative, considering a well below 2 °C scenario. We have considered the energy requirements of our Strategic Plan which includes our mining operations and the Juanicipio project. The operating energy demand of our high potential advanced exploration activities were taken into consideration in order to provide a more conservative estimation of the energy demand.

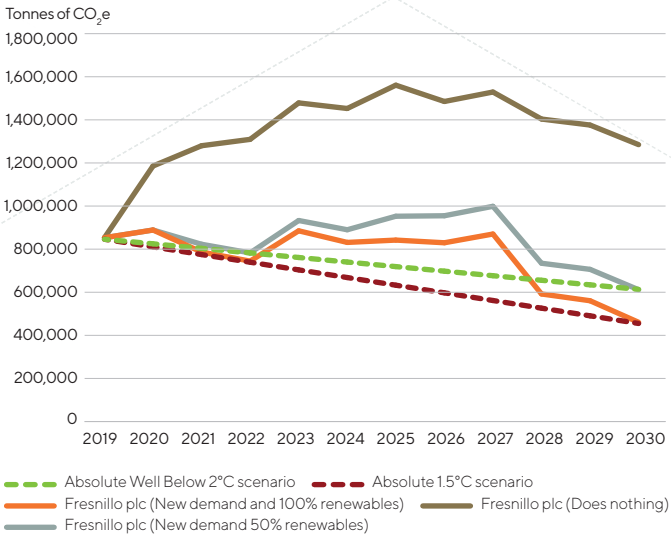
This evaluation assessment has allowed us to identify the requirements of renewable energy over time. Renewable energy, such as fuel replacement in the fleet at Herradura (dual diesel-LNG trucks) are the most important levers to decarbonise in the 2021-2030 period.

We have further evaluated the risks of sourcing more renewable energy under the current government efforts to secure a market share for the conventional power plants of the national electricity company. New technologies, such as hydrogen and electrification, were explored qualitatively to reflect on the pathway to carbon neutrality beyond 2030. The outcomes of this assessment have been presented as a Principal Decision this year (pages 132-134).

ENERGY DEMAND FORECAST



DECARBONISATION PATHWAYS



SUSTAINABILITY AT THE CORE OF OUR PURPOSE

CONTINUED

Environment

Risk management

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 (See Managing Our Risks and Opportunities on pages 110-129). Climate change was identified as an emerging risk in 2019 and elevated to a principal risk in 2020. The pervasive and complex nature of climate change means that it can act as an amplifier of other risks such as environmental incidents, access to water, health and safety of our people, government regulations, and social licence to operate. The Head of Sustainability supports the process to refine the identification and risk assessment of physical and transitional risks.

The risk assessment of transition risks has been conducted considering a well below 2 °C scenario decarbonisation pathway. The Head of Sustainability is responsible for monitoring risks and opportunities, mitigation and performance monitoring of transition risks. We are committed to maturing how we evaluate physical risks and mitigation measures. This will be based on collaborating with the scientific community on regional and site-specific climate modelling to support the identification of vulnerabilities and adaptation measures.

Risk identification, assessment and management

Physical risks

Category	Type	Description	Impacts	Management approach
Acute	**Risk**	**Changes in extreme climate and weather events such as rainfall, droughts and heatwaves affecting our operations and neighbouring communities** **Likelihood:** Very likely. **Timeframe:** Medium and long term. **Impact:** Loss of revenue and increase in operating and insurance costs caused by droughts and floods.	An increase in the frequency and intensity of floods could affect the health and safety of our people and the continuity of our operations and construction projects in multiple ways: damaging mine infrastructure and access roads; disrupting transportation and supply chains; damaging energy infrastructure; discharging untreated water into surrounding areas; and reducing slope and tailings storage stability. Extreme weather events have a negative impact on our neighbouring communities.	We rely on emergency response plans to protect our people and facilities. Our mining infrastructure takes into consideration measures and capacity to handle excess water. For example, our tailings ponds incorporate infrastructure to prevent runoff water from entering the impoundments. Nonetheless, additional regional and site level climate modelling is necessary to increase our understanding of vulnerabilities and the appropriate adaptation measures. We collaborate with our communities to respond and recover from natural disasters.
			Droughts could lead to reductions in revenue from decreased throughput. Droughts have a negative impact on the livelihood of our neighbouring communities.	Our sources of resilience to droughts and chronic water stress are similar and are presented as chronic risks.
			Heatwaves represent a health and safety risk for our workforce in the form of heat-related illnesses and inhibited decision-making capacities, increasing the risk of accidents. Increased energy demand during heatwaves can increase our own demand and the national demand for energy and strain the national grid's transmission capacity.	Our response to more frequent heatwaves relies on our health and safety programmes that evaluate hazards and monitor temperature conditions. Operations already implement energy efficiency measures to reduce electricity demand in peak hours, in order to reduce costs. This is the most common approach to managing the risk of strained capacity in the grid.
Chronic	**Risk**	**Increase in temperatures, reduction in precipitation and associated water stress** **Likelihood:** Very likely. **Timeframe:** Medium and long term. **Impact:** Increase in operating costs.	Higher temperatures increase loss by evaporation and therefore drive an increase in the demand for water. Water stress may lead to reduced amounts of water being available for mining and other agricultural and industrial activities, therefore increasing competition for water resources in the areas where we operate. A chronic increase in maximum and minimum temperatures will drive our demand for energy for cooling purposes.	Most of our water demand is supplied from groundwater which is more resilient to droughts. The use of reused municipal water reduces our exposure in the Fresnillo District and is an option in operations such as Penmont and in projects located close to medium-sized communities. In addition, we have constructed a water reservoir at the San Julián mine to increase resilience to droughts. We cooperate with communities to increase water access as well as water resilience.

Transition risks and opportunities

Category	Type	Description	Impacts	Management approach
Regulatory	**Risk**	**Emerging regulations such as carbon taxes and cap and trade systems** **Likelihood:** Very likely. **Timeframe:** Medium to long term. **Impact:** Rise in operating costs.	Mexico's current pilot (non-binding) Emissions Trading System (ETS) programme excludes direct emissions from haulage and indirect emissions from electricity. However, an increase in ambition to curb climate change may drive a change in regulations of the ETS to increase the emissions sources regulated and their thresholds. Other carbon pricing mechanisms such as national carbon taxes on fuels may also rise.	A resilient Energy Strategy supported by renewables and cost-effective energy efficiency projects. We engage constructively with regulators and law makers on energy and climate change regulations, directly or through the Sustainable Development Commission for the Mexican Private Sector (CESPEDES).
		Changes in the regulatory framework of renewables **Likelihood:** Likely. **Timeframe:** Short to medium term. **Impact:** Rise in operating costs.	The growth of renewables relies on a regulatory framework that provides certainty in the long term. Changes to the Mexican electricity industry to curtail renewables may reduce the options for decarbonisation and increase the cost of energy.	
Market	**Opportunity**	**Increase in demand of silver for solar panel manufacturing** **Likelihood:** Very likely. **Timeframe:** Medium term. **Impact:** Increase in revenues.	Silver is used in the manufacturing of solar photovoltaic (PV) cells. Solar energy is expected to increase its role in the global energy mix as decarbonisation ambitions rise globally. PV manufacturing is expected to be one of the drivers of greater silver demand.	We monitor the progress of this opportunity through the Silver Institute and specialised reports.
Technology	**Opportunity**	**Increase of renewables in the global energy mix** **Likelihood:** Very likely. **Timeframe:** Short to medium term. **Impact:** Savings in operating costs.	Renewables offer cost-effective decarbonisation opportunities and build resilience in our carbon strategy.	We have seized technological opportunities to reduce both our carbon footprint and costs. Examples include the ventilation on demand systems, optimisation systems in processing plants and fleet management and the introduction of dual (diesel-LNG) systems for trucks at Herradura open pit mine. 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.
		Energy efficiency and fossil fuel switching **Likelihood:** Very likely. **Timeframe:** Short to medium term. **Impact:** Savings in operating costs.	Energy efficiency helps reduce energy demand, create savings in operating costs and reduce carbon footprint. Data science and Internet of Things applications have increased the potential for energy efficiency.	
		Electrification, high penetration renewables, storage in microgrids and hydrogen **Likelihood:** Likely. **Timeframe:** Long term. **Impact:** Savings in operating costs.	Electrification could transform mining equipment and truck fleets in underground mines. Microgrids (off the grid) supported by renewables and energy storage offer opportunities for remote mining operations. Green hydrogen (hydrolysis with renewable energy) represents an opportunity to decarbonise truck fleets in open pit mines.	

SUSTAINABILITY AT THE CORE OF OUR PURPOSE

CONTINUED

Environment

Transition risks and opportunities				
Reputation	**Neutral**	**Positive or negative perception among our stakeholders of our response to climate change** **Likelihood:** Likely. **Timeframe:** Medium to long term. **Impact:** Savings in operating costs.	An improving or declining reputation, depending on our climate change accountability to our stakeholders.	We are committed to reporting our carbon performance and communicating our efforts to reduce the carbon footprint of our operations to our stakeholders. In 2021 we will continue to evaluate the adoption of a science-based target.

	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
La 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

Engagement with stakeholders

Through the Silver Institute, we participate in an industry-wide initiative on silver and the low-carbon economy. The objective is to produce more carbon footprint information for industry stakeholders, showcase carbon abatement best practices and further study the role of silver as a climate-smart metal. We also participate in the 'Energy & Mines' community, a leading group that shares best practices on renewables, energy efficiency and promising technologies for off-grid mines and hydrogen. In addition, we collaborate with our peers in the Colorado Mining Cleantech Challenge to promote innovative solutions for energy efficiency and other environmental challenges.

Our engagement initiatives extend to groups in other industries. For example, we take part in the World Environment Center (WEC), which enables us to learn best practices on climate change strategy from leading international companies. In Mexico, we are part of CESPEDES (Mexican Chapter of the WBCSD) which shares best practices and engages with governments and society at large. In 2020, Fresnillo plc became a registered supporter of the TCFD. We disclose our performance in the CDP and GEI Mexico, a voluntary disclosure programme with the Mexican regulators. We discuss our climate change strategy in interviews with shareholders.

Integration with current risk process

In the past, climate change was considered to be solely a sustainability issue. The all-encompassing business implications of climate change led to its inclusion as one of the emerging risks, as part of provision 28 of the 2018 UK Corporate Governance Code. Climate change is now considered an integral part of the overall risk management process.

Metrics and targets

Climate-related metrics

Global GHG emissions for the period 1 January 2020 to 31 December 2020						
	GHG emissions (tonnes of CO_2e)			Energy (MWhe)		
	Reporting year	Previous year	Comparison year	**Reporting year**	Previous year	Comparison year
	2020	2019	2012	**2020**	2019	2012
Scope 1 (direct emissions): Combustion of fuel (mobile and stationary sources).	**468,109**	531,218	375,121	**1,739,577**	1,971,162	1,385,448
Scope 2 (indirect emissions): Electricity purchased from the Mexican National Grid (CFE), WindForce of Coahuila (EDC) and Thermoelectric Peñoles (TEP).	**373,410**	330,508	329,245	**1,070,498**	1,046,824	420,615
Intensity measurement: Emissions and energy reported above per tonne of mineral processed.	**0.023**	0.019	0.013	**0.078**	0.067	0.034

Methodology: We have reported on all of the emission sources required under the Streamlined Energy & Carbon Reporting. 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.

* The emissions and energy consumed in the United Kingdom and offshore area are insignificant.

Scope 3 emissions

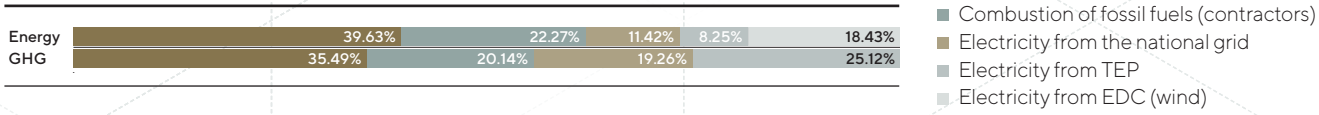
We have taken the first steps to assess Scope 3 emissions, which are the emissions of our partners in the value chain that are outside our operating boundary. We are committed to collaborating with internal and external stakeholders to increase our visibility of additional Scope 3 categories and refine our understanding of the emissions related to downstream processing of our product.

Category	Description	GHG emissions (tonnes of CO_2e)
Purchased goods and services	Our most relevant supplies are blasting agents (explosives), steel balls for milling, lube oil, shell liners for mills, tires, steel for drilling and sodium cyanide. In this Scope 3 category we provide an estimate of emissions for blasting agents (explosives), steel balls for milling and lube oil.	196,000
Processing of sold products	The products sold by Fresnillo are intermediate products that require further processing (smelting and refining).	490,000
Downstream transportation and distribution	Products sold are transported to the metallurgical complex.	17,000
Investments	Emissions from the Silverstream contract.	64,000

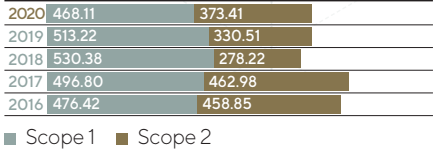
Performance and climate-related targets

During the year, our GHG emissions decreased by 2.35%. This was driven by a decrease of 12.78% in fuel consumption due to the mandatory lockdown of operations in Penmont. Our supply of wind energy decreased 11.6% while our consumption from the national grid increased 50.38%, driven by the delay in the connection of the 'Las Mesas' wind energy project. Wind energy represents 48.38% of our electricity supply (55.97% in 2018). We maintain the ambition highlighted in our Strategic Plan – to reach 75% renewables in our electricity mix.

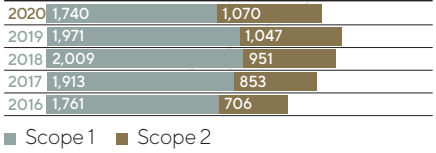
ENERGY – GHG PROFILE – 2020



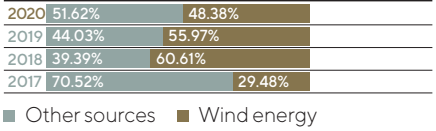
GHG EMISSIONS (KT OF CO_2E)



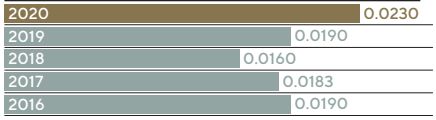
ENERGY USE (GWHE)



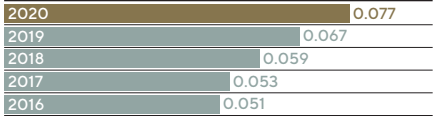
ELECTRICITY SUPPLY



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



ENERGY INTENSITY (MWHE PER TONNE OF MINERAL PROCESSED)



SUSTAINABILITY AT THE CORE OF OUR PURPOSE

CONTINUED

Cyanide management

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

Relevance and risk in the lifecycle of mining

EXPLORATION	DEVELOPMENT	OPERATION	CLOSURE

Risk: High Medium Low

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 2020, there were no incidents related to cyanide management.

	2020	2019	2018	2017	2016
Sodium cyanide (NaCN) (tonne)	**13,549**	14,692	13,497	11,653	10,117

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. Tailings storage facilities (TSFs) were elevated to a principal risk in 2020.

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 (i.e. ICMM. ICOLD, CDA and MAC) with the support of qualified engineering firms.
- Obtain permits to build and operate TSFs.
- Operate TSFs with robust governance systems. The key elements of our TSF governance processes are TSF Committees, which include the CEO and COO, together with an Independent Tailings Review Panel (ITRP).
- 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.

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	**2020**	2019	2018	2017	2016
Mine waste	Waste rock	Tonne	**119,233,877**	141,717,898	164,490,105	164,431,521	161,143,531
Processing waste from flotation-concentration	Tailings	Tonne	**8,969,146**	9,370,672	8,795,869	8,062,207	6,030,362
Metallurgical waste from heap and dynamic leaching facilities	Tailings	Tonne	**5,909,107**	6,137,482	3,560,486	3,049,216	2,969,759
	Heaps	Tonne	**20,570,573**	34,422,898	39,912,814	42,448,200	39,570,603

SUSTAINABILITY AT THE CORE OF OUR PURPOSE

CONTINUED

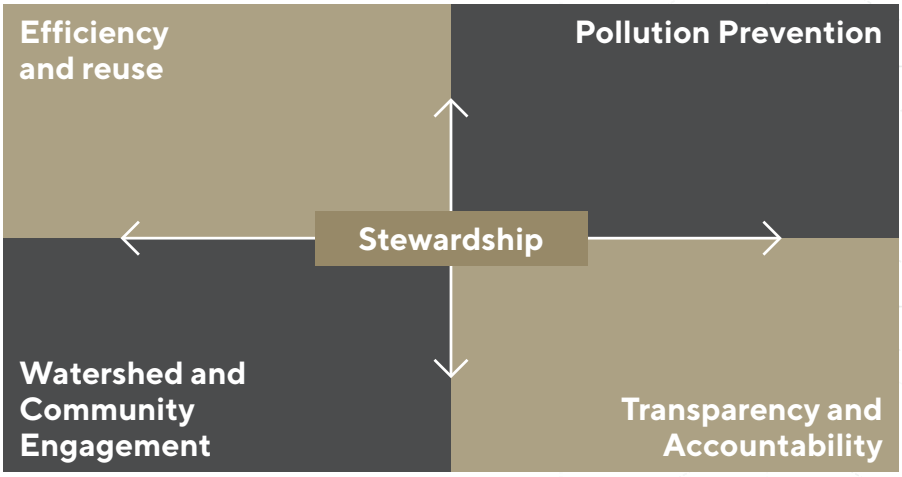
Water stewardship

Our goals are to secure water access, minimise our water footprint and co-operate with our stakeholders.

Relevance and risk in the lifecycle of mining

Mining and processing ore require 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.



How we will win

Efficiency and reuse

Key activities:

- Implement efficient closed water circuits, eliminating the need to discharge processed water into water streams.
- 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.
- Ensuring 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 relations section).
- 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 and 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 2020 to 31 December 2020

Category	Element	Sub element	2020	2019
Input	Surface water	Rivers and creeks	**201**	0
	Groundwater	Mine Water	**5,573**	6,304
		Bore fields	**5,822**	5,658
		Ore Entrainment	**383**	381
	Third party	Waste water	**1,599**	843
		Total water inputs	**13,578**	**13,186**
Output	Surface water	Discharges	**27**	26
	Other	Water entrained in concentrates	**38**	34
		Total water outputs	**65**	**60**

1 megalitre = 1,000 m³

Water deviations in megalitres

For the period 1 January 2020 to 31 December 2020

Category	Element	Sub element	2020	2019
Input	Surface water	Rivers and creeks	**–**	–
	Groundwater	Aquifer Interception (Dewatering)	**7,495**	7,695
		Total water inputs	**7,495**	**7,695**
Output	Surface water	Discharges	**7,467**	7,571
		Supply to third party (Donation)	**28**	124
		Loss (evaporation, infiltration, etc.)	**–**	–
		Total water outputs	**7,495**	**7,695**

1 megalitre = 1,000 m³

Statement of operational efficiency

Efficiency for the period 1 January 2020 to 31 December 2020

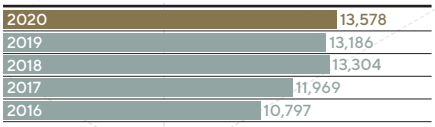
	2020	2019
Total volume to tasks	**73,510**	74,286
Total volume of reused water	**60,027**	59,347
Efficiency of reuse	**81.66%**	79.89%
Total volume of recycled water	**1,716**	982

1 megalitre = 1,000 m³

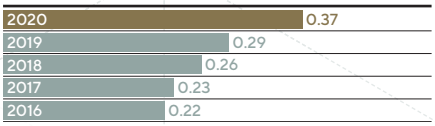
* To enhance transparency, we followed the International Council of Mining and Metals (ICMM) water reporting guidance and the Mineral Council of Australia's Water Accounting Framework.

	Unit	2020	2019	2018	2017	2016
Reuse efficiency	%	**81.66%**	79.89%	80.16%	83.13%	80.92%
Total volume of recycled water	megalitre	**1,716**	982	1,327	2,039	1,891

WATER WITHDRAWAL (MEGALITRE)

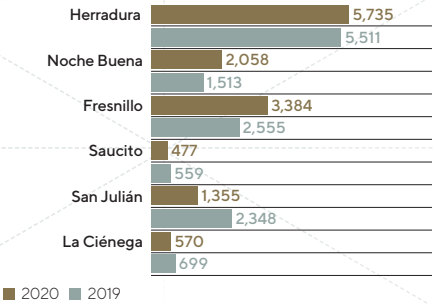


WATER INTENSITY (M³/TONNE OF MINERAL PROCESSED)



* The increase in intensity is due to the decrease in the tonnes of mineral processed and the increase in water withdrawal in Noche Buena.

WATER INPUT (MEGALITRES)



SUSTAINABILITY AT THE CORE OF OUR PURPOSE

CONTINUED

Conservation of natural resources

Our goal is to manage biodiversity and natural resources responsibly.

Relevance and risk in the lifecycle of mining

EXPLORATION	DEVELOPMENT	OPERATION	CLOSURE

Risk: High Medium Low

The loss of natural capital together with climate change pose significant threats to the welfare of people, the health of ecosystems and economic prosperity. Our Environmental Impact Assessments enable us to manage biodiversity responsibly by identifying avoidance, mitigation and compensation measures. We identify protected species, relocate plant species, capture and release wildlife and carry out soil conservation work and plant material cordoning. At our operations and projects, we use nursery plants to reforest areas of land. We do not operate in Natural World Heritage sites.

We partner with the Sonoran state government to protect the Sonoran Pronghorn, an endangered species, near our Penmont operations. Ciénega has set aside a 1,200-hectare conservation area encompassing land reclaimed from its operations as well as areas rehabilitated following deforestation. We support the NGO Naturalia as part of our WildCorp commitment.

Soil pollution

Our goal is to prevent soil contamination by managing our operations responsibly, thereby protecting the environment and the health of local communities.

Relevance and risk in the lifecycle of mining

EXPLORATION	DEVELOPMENT	OPERATION	CLOSURE

Risk: High Medium Low

Mining operations require the use of engine oils, fuels and chemical compounds as well as the management of tailings that may contaminate the soil if accidentally spilled. Soil can also be polluted by air-blown dust from tailings storage facilities. Our management system has procedures in place to prevent soil contamination.

Acid mine drainage

Our goal is to prevent and manage AMD responsibly, thereby protecting the environment and the health of local communities.

Relevance and risk in the lifecycle of mining

EXPLORATION	DEVELOPMENT	OPERATION	CLOSURE

Risk: High Medium Low

Acid mine drainage (AMD) is a major environmental challenge for the mining industry. Uncontrolled AMD represents a risk to surface and groundwater resources during mine operation as well as a legacy issue after closure. We analyse minerals and conduct geochemical tests to identify the AMD potential of ore mineral and waste rock. In our operations with AMD risk, notably the San Ramón satellite mine, we implement site-specific management strategies such as capping waste rock piles with a dry cover (to reduce the ingress of oxygen and water) and collecting and treating acid water.

Communities

The communities where we operate are strategic stakeholders (see page 132 – section 172) and we are committed to supporting them by implementing sustainable practices for mining silver and gold.

The Covid-19 pandemic has led to unparalleled social and economic impacts. Our response has been to adapt our engagement strategy to raise awareness, support the most vulnerable and collaborate with health authorities serving the communities where our people and their families live and work. We worked with our communities in new and creative ways during the pandemic, enhancing and improving our social projects. We continued to support innovation and provide access to digital education by partnering with different NGOs.

Partnering with our communities to respond to the Covid-19 pandemic

Our response to the challenges presented by Covid-19 focused on:

- Communicating preventive measures.
- Donating and raising awareness of the use of masks.
- Collaborating with the state, municipal and health authorities through strategic donations.
- Supporting the most vulnerable with food supplies during the lockdowns.
- Sharing our Covid-19 tests with communities in remote locations.
- Adapting our educational and entrepreneurial programmes to support distance learning and capacity building.

Engaging communities effectively in the lifecycle of mining

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.

Key activities:

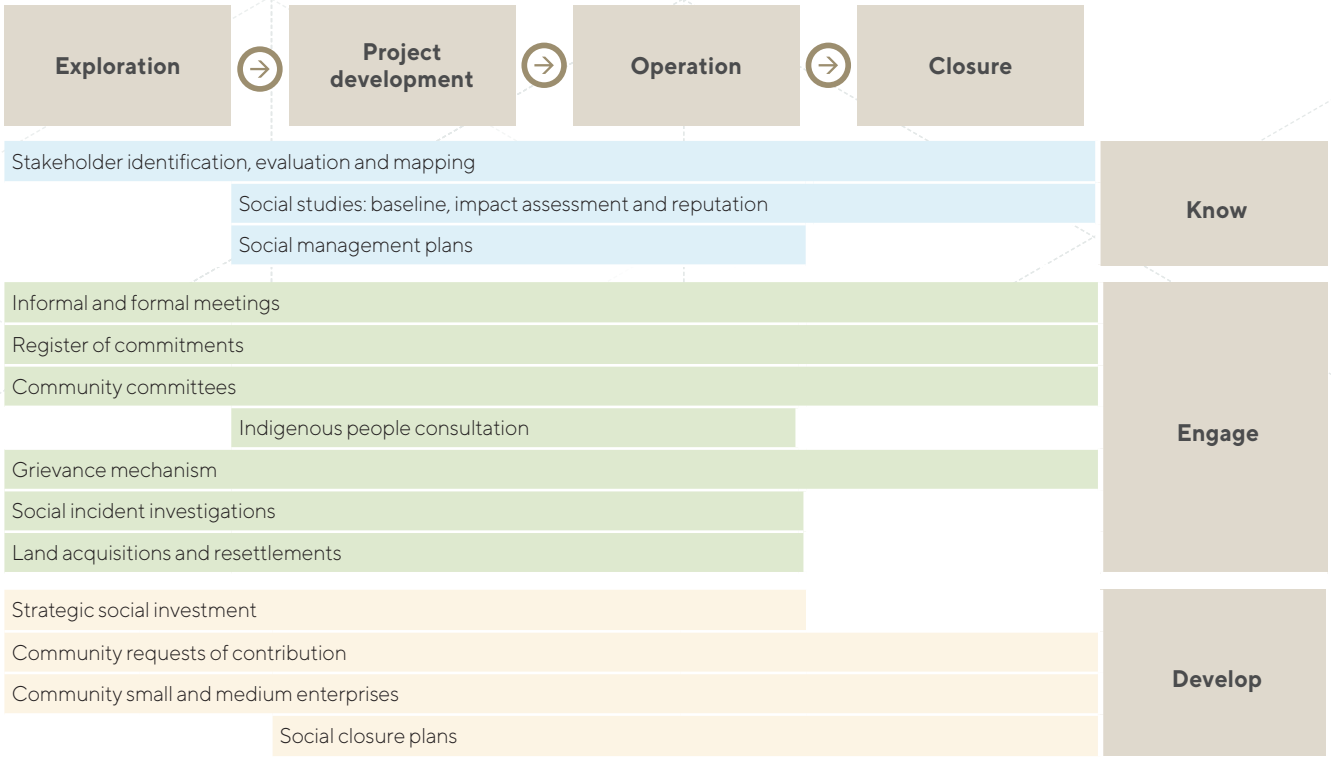
- **Exploration:** Our exploration teams are the first to establish contact with a local community. We identify the relevant stakeholders and focus our engagement efforts on obtaining temporary land access to explore and assess social risks.
- **Development:** Our stakeholder relationships deepen in 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



SUSTAINABILITY AT THE CORE OF OUR PURPOSE

CONTINUED

Communities

Indigenous peoples

Fostering meaningful engagement with indigenous peoples, respecting their right to free, prior and informed consent.

We are committed to ensuring that every interaction with indigenous peoples respects their values, culture and traditions. We recognise that consultation is a fundamental right of indigenous communities and a mechanism to build trust. Good faith, transparency and accountability are the key values that guide our consultation approach.

Consultation allows us to understand their perspectives on our projects and address their concerns. Before the consultation phase, we assess the potential impacts and benefits of our projects and develop the capacities of the communities to fully exercise their right to consultation. During consultation, we consider their preferred method of engagement, present information in a culturally appropriate manner and reach agreements on shared benefits. In 2018, our commitment to constructive dialogue and inclusive participation was fundamental to obtaining the free, prior and informed consent of the Raramuri Indigenous People to build and operate a water reservoir for our San Julián mine. There were no indigenous consultations in 2020.

How we will win

Key activities:

- Identify indigenous communities, proactively conducting due diligence of our exploration concessions.
- Engage respectfully in a culturally appropriate manner that recognises their culture, values and aspirations.
- Implement best practices regarding the Free, Prior and Informed Consent of Indigenous Peoples.

Land acquisitions and resettlements

Our goal is to manage resettlement responsibly, respecting local laws and following international best practices.

Relevance and risk in the lifecycle of mining

EXPLORATION	DEVELOPMENT	OPERATION	CLOSURE

Risk: High Medium Low

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 competencies 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

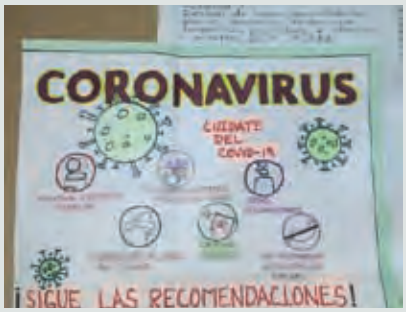
No community resettlements occurred at our operations or development projects during 2020.

Helping communities combat the pandemic

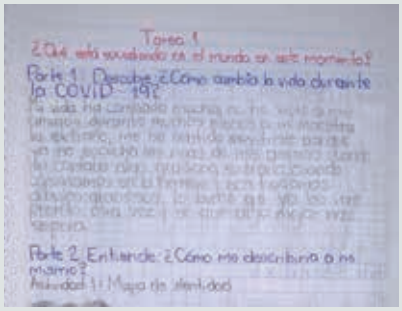
We trained 300 parents and teachers from communities near our operations – raising awareness of how they could protect themselves, their families and their communities from Covid-19.

Our educational module was designed by the Smithsonian Science Education Center and adapted to Mexico by INNOVEC.

"We shared with new generations the importance of adopting preventive measures to face the pandemic and of understanding how their daily habits impact the prevention of contagion" said Juan Carlos, INNOVEC teacher.



Artwork created by parents to promote measures to combat Covid-19.



Children's homework to reinforce lessons learned.

The project partners have now made the module contents available on video, with the help of one of Mexico's leading science content producers for children. We are now engaging with the Education Authorities in Mexico to ensure that our local communities who pioneered the programme benefit from this initiative.

Visit us online at:
https://cosip.tv/episodio-1

Building capacity in local communities

During the year, we launched two separate programmes to build capacity in our communities and support local people through the pandemic.

Sewing masks

We organised sewing workshops in communities close to our operations at Juanicipio and San Julián. In total, 16 women used their skills to create more than 90,000 fabric masks, which were delivered to our workforce, health institutions, governments and communities.

"We thank San Julián Mine for the sewing workshop. It was a great opportunity to support women, with nine of us manufacturing the masks. This creation of jobs helped us manage the economic impact of the pandemic" said Neria Ayala, the leader of the sewing workshop in San Julián.

"We started the workshop eager to learn a new skill. We never imagined that it would become a business opportunity for us," said Margarita Pitones from the Juanicipio project.

Yerbitas Community in San Julián.

El Obligado community, Juanicipio.

Training entrepreneurs

In alliance with ProEmpleo Foundation, we provided entrepreneurial training to 56 people from communities across our business. The 'Let's be entrepreneurs' programme promotes entrepreneurship and supports SMEs, with training focused on how business can adapt to the new normal.

"We learnt to identify the needs of our business. The training was very motivational, we need to stop limiting ourselves. I'm blind and still took the online workshop"

Carlos Leal, course participant

El Obligado community, Juanicipio.

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.

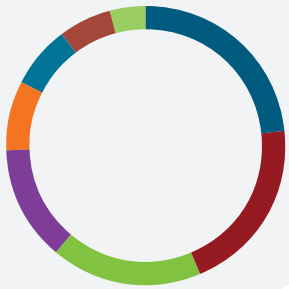
Economic impact

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. We consider our community investment to be an indirect economic impact of our activities and therefore present it separately from the Economic Value Distributed measure.

ECONOMIC VALUE DISTRIBUTED

- Wages and benefits to workers 5.41%
- Payments to suppliers (contractors) 77.52%
- Payments to local governments 0.22%
- Payments to Federal Government 16.84%

ECONOMIC VALUE DISTRIBUTED BY STATE



- Sonora 23%
- Mexico City 20%
- Coahuila 17%
- Zacatecas 13%
- Chihuahua 8%
- Durango 7%
- Guanajuato 6%
- Estado de México 4%

Mining fund

In 2014, Mexico introduced a special tax to create a fund for the sustainable development of mining regions. This fund was intended to support communities close to mining operations. However, the Congress has reallocated the Mining Fund to national public spending. 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.

The Fresnillo plc contribution to the Fund for Sustainable Development of Mining States and Municipalities was US$33.64 million in 2020.

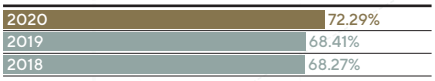
	2020 US$ million	2019 US$ million
	33.64	10.97

* 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 72.29%. 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 is considered to be a social performance measure.

	2020 US$ million	2019 US$ million
Wages and benefits to workers	**93.15**	100.7
Payments to suppliers (contractors)	**1,333.88**	1,518.0
Payments to local governments	**3.84**	9.3
Payments to Federal Government	**289.84**	123.7
Total economic impact	**1,720.71**	1,751.7

Social investment

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

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

6 CLEAN WATER AND SANITATION — WATER
Work with communities to increase access to safe water

8 DECENT WORK AND ECONOMIC GROWTH — CAPACITY BUILDING
Develop community entrepreneurs and regional procurement

Education

The Covid-19 pandemic led to the closure of all schools. Our response was to migrate our education programmes to digital platforms. Our goal is support inclusive and quality education as a key lever to reduce poverty and inequality.

Key activities:

- Our reading programme 'Picando Letras', developed in partnership with IBBY Mexico, launched a YouTube channel to help families with reading, writing, as well as cultural activities (https://www.youtube.com/c/picandoletras). We are continuing to train mediators (educators and parents) through short videos, supported by instant messaging apps.
- Our STEM education activities have continued, with an online programme supported by INNOVEC: 'How to protect yourself and others from Covid-19?' (see case study on page 106).
- Our robotics teams 'Jeunes d'argent' and 'Cabots' helped communities to produce masks which were provided to hospitals.
- All students with scholarships continued their classes digitally.
- In alliance with Larousse, we donated 41,000 books through the 'Imagine, create and transform' and 'Reading is growing, so let's grow together' campaigns, which were supported by all our operations.
- We transmitted a live Christmas Concert via YouTube as part of the 'Flute without borders' programme provided by Elena Durán, a globally renowned flute player.
- We carried out a pilot project to assess educational technology for communities with little access to the internet. The results will be used to design social investment projects.

Health

Our goal is to ensure healthy lives and promote the wellbeing of local people.

Key activities:

- We shared our measures and recommendations to reduce Covid-19 spreading with our communities.
- We donated personal protection equipment and ventilators to the health sector.
- We organised campaigns to donate 550,000 N95, surgical and artisanal masks to the communities near our operations, and also raise awareness on their usage.
- We applied rapid tests which facilitated prompt detection of Covid-19 in our communities.
- We lent a piece of land to the authorities in the Fresnillo municipality, increasing local capacity to address Covid-19.
- We donated food to vulnerable people in the communities near our operations and projects.
- In alliance with municipal authorities, we sanitised public areas in local communities.

Water

Our goal is to reduce our fresh water footprint and ensure that our communities have access to safe water.

Key activities:

- We identified 300 rainwater collection systems, providing recommendations to users and planning future interventions.
- We sent water trucks to communities in Sonora, ensuring the availability of water for handwashing and therefore helping to prevent the spread of Covid-19.

Capacity building

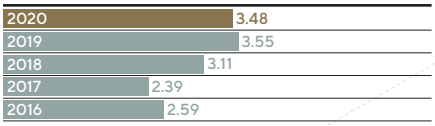
Our goal is to generate skills in local communities to help facilitate the diversification of the local economy and enable an effective economic transition after mine closure.

Key activities:

- Our 'Let's be entrepreneurs' programme migrated to a digital platform (see case study on page 107).
- 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. The clusters are also an effective mechanism to maintain relationships with key stakeholders such as state governments.

Performance

COMMUNITY INVESTMENT IN (US$ MILLIONS)



COMMUNITY INVESTMENT BY STRATEGIC LEVER

Health	38%
Education	28%
Water	9%
Capacity building	4%
Other	21%

MANAGING OUR RISKS AND OPPORTUNITIES

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

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

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

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

Risk management system

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

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

The Company's risk profile has been developed based on the most significant risks in our business profiles. All of our principal risks were reviewed at least twice during the year, including through Key Risk Indicators, which were developed last year to help embed the risk appetite framework in the business and enhance the monitoring and mitigation of risks.

The global Covid-19 pandemic posed new challenges for the Risk Department and the Executive Committee in 2020. Due to the uncertainty around the pandemic, all strategic decisions of the Company were analysed using risk scenarios modelling their potential impacts. In addition, from the beginning of the pandemic, five new processes were implemented: (i) a weekly procedure for evaluating and mitigating principal risks; (ii) a process to identify and analyse the impact of the pandemic in all the Company's risks including projects, with a main focus on the health and safety of employees and identification of new risks; (iii) dashboards were constructed for each business unit to monitor mitigation actions and risk level; (iv) impact and probability scenarios were conducted for risks related to the supply chain of critical inputs for operations and projects; and (v) collaboration with governments, the sector, health experts and communities to ensure leading practices were followed.

Risk governance basis

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

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

THE BOARD
- Reviews and approves risk management and internal control systems.
- Determines the nature and extent of principal risks and emerging 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.

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

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

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

Emerging risks

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

This requirement has been adopted and embedded within the Company's risk management reporting process and, in parallel with the day-to-day management of risk, within each business unit and project. The risk control and assessment processes in mines, exploration offices and projects were adapted to pay particular attention to emerging risks. At each location, SSMARC's risk-responsible staff monitor local information and analyses related to Fresnillo plc's emerging risks. This monitoring process involves building scenarios for three, five and ten years for each emerging risk and quarterly performance indicators that assess probability and impact.

Fresnillo plc defines an emerging risk as a new manifestation of risk that cannot yet be fully assessed, a risk that is known to some degree but is not likely to materialise or have an impact for several years or a risk that the Company is not aware of but that could, due to emerging macro trends in the mid or long-term future, have significant implications for the achievement of the organisation's Strategic Plan. Furthermore, Fresnillo plc considers emerging risks in the context of longer-term impact and shorter-term risk velocity. The Company has therefore defined emerging risks as those risks captured on a risk register that: (i) are likely to be of significant scale beyond a three-year timeframe; or (ii) have the velocity to significantly increase in severity within the three-year period.

To strengthen our emerging risks management framework, during 2020 we carried out activities to: (i) identify new emerging risks in light of Covid-19; (ii) reassess emerging risks identified in 2019; (iii) deploy effective monitoring mechanisms; (iv) carry out horizon scanning to consider disruptive scenarios; and (v) implement mitigating control actions and enhance our risk awareness culture. This process involved workshops, surveys and meetings with the Executive Committee, business unit leaders, support and corporate areas, as well as suppliers, contractors and customers. We also consulted third-party information from global risk reports, academic publications, risk consulting experts and industry benchmarks.

Our risk management standards promote communication of up-to-date information on the Company and industry risks, trends and emerging risks. The events early in 2020 relating to the Covid-19 pandemic resulted in a reassessment of our emerging risks and their impact on our operations. This year's emerging risk assessment determined the two most exposed emerging risks to be: 'Water crisis' and 'Technological disruption' and identified a new emerging risk: 'Extreme heatwaves'. Most importantly, the assessment indicated that 'Climate change' had moved from an emerging risk to a principal risk. Relevant emerging risks are discussed below:

	Emerging risk	Description	Impact	Controls	Time scale
1	Water crisis	Lack of sufficient water resources to meet water consumption demands in a region.	Water is critical to mining processes. Without this natural resource, we cannot extract gold and silver.	Strict control and monitoring of water concessions is maintained and actions are envisaged to ensure water for the following years.	>3 years
2	Technological disruption	Failure to identify, invest in, or adopt technological and operational productivity innovations that significantly replace or optimise a process through new systems with recognisably superior attributes.	Obsolete or outdated mining processes impact productivity and efficiency levels and impact sales and profits.	Technological advances in the mining industry are constantly monitored (particularly in mine operations) in order to adopt the most appropriate best practices and new technology.	>3 years
3	Risk of narco states	Countries whose government institutions are significantly influenced by the power and wealth of drug trafficking, and whose leaders simultaneously hold positions as government officials and members of the illegal narcotic drug trafficking networks, protected by their legal powers.	The safety of employees, contractors and communities near mines is threatened by the presence of drug cartels that increase high-impact crimes.	We maintain constant communication with government authorities and the National Guard to coordinate security and citizenship protection operations.	<3 years
4	Pandemic	The regional or global spread of a new disease (bacteria or virus) against which most people do not have immunity.	Another virus such as SARS-CoV-2 coronavirus (Covid-19) may arrive that affects the health of employees and stops the Company's activities.	Much was learned from the Covid-19 pandemic about providing care for employee health and health prevention measures.	<3 years
5	Extreme heatwaves	A heatwave, or heatwave, is a period of excessively hot weather, which may be accompanied by high humidity, especially in oceanic climate countries. A heatwave is considered extreme weather that can be a natural disaster, and a danger because heat and sunlight may overheat the human body.	Extreme heat can cause cramps, swelling and fainting. Heatwaves kill more people than other natural disasters such as floods, lightning, tornadoes and hurricanes. Extreme heatwaves could stop operations at open pit mines due to the impact both on the workers and equipment (e.g. tyres of trucks).	Temperatures in the regions where we operate are constantly reviewed and safety protocols have been implemented in the face of intense heatwaves, especially in Sonora and Chihuahua.	<3 years
6	Radical changes in economic and political structures	Unexpected transformations of the economic, political or social structure, through radical changes involving fundamental structural imbalances of the mainly productive and distributive apparatus (e.g. operations and transport infrastructure).	The scope of projects may be affected. Disruptions in the supply chain of basic inputs for mining processes could lead to increased operating costs and lack of labour.	Asset insurance and investment, credit and liability prevention policies are available and in force.	>3 years

MANAGING OUR RISKS AND OPPORTUNITIES

CONTINUED

2020 Risk assessment

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

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

Due to the effects caused by the global Covid-19 pandemic, it was necessary to re-evaluate the principal and emerging risks, rethink the order of their relative importance, probability and impact, and reassess the corresponding mitigation actions.

As a result of this analysis, we recognised the effects of Covid-19 on Fresnillo's 12 principal risks rather than incorporate a new risk.

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

Overview of the 2020 risk assessment exercise:

WORKSHOPS	RISK IDENTIFIED AND ASSESSED	TREND COMPARISON AND REVIEW	ADDED VALUE
16 **BUSINESS WORKSHOPS** (DIRECTOR & MANAGER LEVEL)	+300 **COLLEAGUES** IN THE AREAS OF OPERATION, EXPLORATION PROJECTS, CORPORATE AND SUPPORT AREAS OF PEÑOLES INCLUDING INTERNAL AUDIT	10 **INTERNATIONAL INSTITUTIONS** SPECIALISING IN RISKS WERE CONSULTED	350 **COLLEAGUES WERE TRAINED** IN BASIC RISK TOPICS
25 **INTERVIEWS WITH THE RISK OWNERS** (MANAGERS & LEADER UNITS)		7 **RISK SCENARIOS** WERE BUILT BY MINING INDUSTRY RISK SPECIALISTS	60 **COLLEAGUES WERE TRAINED** IN ADVANCED RISK TOPICS
6 **WORKSHOPS** (SSMARC TEAM)		20 **GOLD AND SILVER MINES** (15 IN MEXICO AND 5 IN THE WORLD) WERE CONSULTED REGARDING THEIR RISKS	5 **NEW PROCESSES** OF IDENTIFICATION OF RISKS WERE INCLUDED BY THE COVID-19 PANDEMIC
		6 **CONSULTING FIRMS RISK REPORTS** (INCLUDING EY, PWC AND DELOITTE) WERE REVIEWED	2 **NEW TOPICS** WERE INCLUDED IN THE RISK ANALYSIS: COMPLIANCE AND CLIMATE CHANGE
			3 **RELEVANT TOPICS** FOCUSING ON: EMERGING RISKS, CYBER SECURITY AND FRAUD

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

- The risk of **'Potential actions by the Government'** is assessed as the main risk for the Company, exacerbated by recent decisions of the current government such as: (a) the dissolution of the Undersecretariat of Mines of the Secretariat of the Economy; (b) the implementation of policies that support the emission of coal into the atmosphere and reduce the development of renewable energies; (c) the restriction on the granting of new mining concessions; (d) the elimination of outsourcing of labour law; and (e) the beginning of the United States-Mexico-Canada Agreement (USMCA or TMEC) with new labour dispositions.
- While the price of gold and silver has remained strong despite the Covid-19 pandemic, the economic crisis in the world, and especially in Mexico, is a high risk that could have an impact on the supply chain of critical inputs for operation, increased operating costs and the availability of contractors. For this reason, the risk of **'Impact of metal prices and global macroeconomic developments'** remains within the principal risks.
- The risk of **'Security'**, resulting from increased high-impact crimes (homicide, kidnapping and extortion) in the regions where we have operations, mainly Zacatecas, Guanajuato and Sonora, and threats of theft of minerals and assets.

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

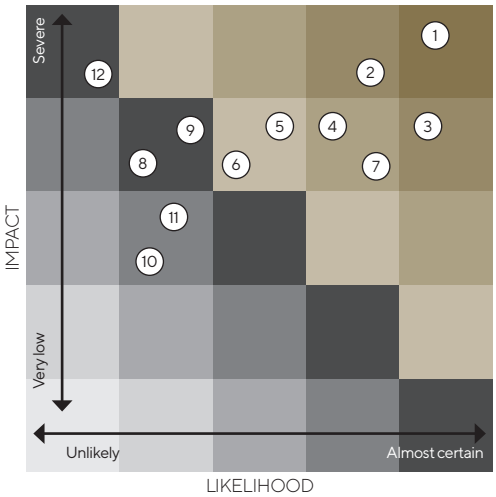
- As extreme weather events make global headlines and scientists warn about a shifting climate, more investors are thinking about environmental risks and how they might affect their portfolios. Climate change has formed part of our strategic thinking and investment decisions. For this reason, the **'Climate Change'** risk has moved from an emerging risk to a principal risk.
- To be consistent with the principal risks of the mining industry and to fully monitor the Company's risks in relation to the **'Licence to operate'**, we have integrated public perception against mining and relations with the communities close to the mines and projects, into a single principal risk.
- Due to the importance of the management of tailings dams to our Company and the resulting mitigation actions that were carried out during 2020, the words 'environmental incidents risk' were included with the word tailings, so that this principal risk remains as **'Tailings and environmental incidents'**.

Our risk matrix

A consistent assessment of the probability and impact of risk occurrence is fundamental to establishing, prioritising and managing the risk profile of the Company. In common with many organisations and reflecting good practice, Fresnillo plc uses a probability and impact matrix for this purpose.

Heat map

(X) 2020



Relative position

2020	2019	Risk*	Risk appetite	2020 vs. 2019	Impact by Covid-19	
1	2	**Potential actions by the Government**	Low	Increasing	Severe	(v)
2	1	**Impact of metal prices and global macroeconomic developments**	High	Increasing	High	(v)
3	4	**Security**	Low	Increasing	Medium	
4	12	**Human resources**	Medium	Increasing	Severe	(v)
5	6	**Union relations**	Low	Increasing	Medium	
6	8	**Projects (performance risk)**	Medium	Increasing	High	
7	3	Access to land	Medium	Decreasing	Low	(v)
8	10	**Cyber security**	Low	Increasing	High	
9	11	**Tailings and environmental incidents**	Low	Increasing	Low	(v)
10	New	License to operate	Low	New	Medium	
11	5	Safety	Low	Decreasing	Very low	
12	New	Climate change	Low	New	Low	

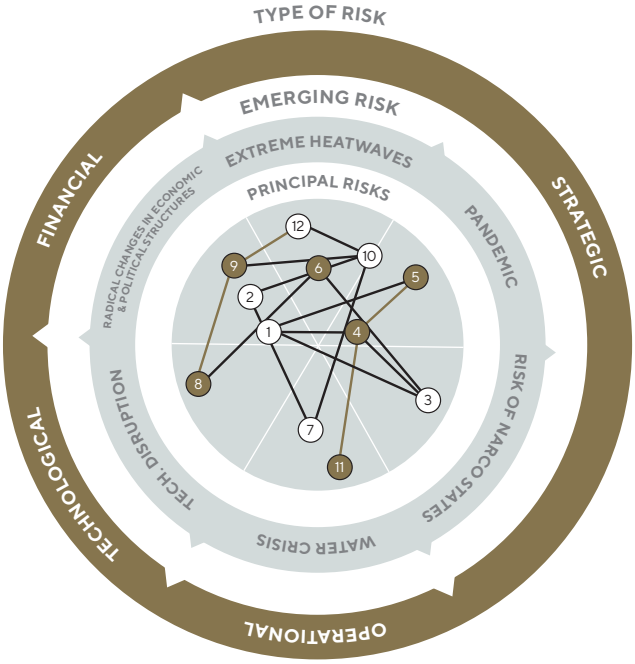
* Bold text indicates risks that changed order in 2020.
(v) Risk that was considered for the viability assessment.

Our principal risks and interdependencies

We continue to consider risks both individually and collectively in order to fully understand our risk landscape. By analysing the correlation between principal and emerging risks, we can identify those that have the potential to cause, impact, or increase another risk and ensure that these are weighted appropriately.

In performing this exercise, we have considered Covid-19 which could lead to a long-term global recession and other operating constraints that may have a knock-on effect on several of our principal risks.

Our analysis highlights the strong relationship between Cyber security and Technological disruption, Climate change and Extreme heatwaves as well as Security and Risk of narco states.



1	Potential actions by the Government
2	Impact of metal prices and global macroeconomic developments
3	Security
4	Human resources (pandemic factor)
5	Union relations
6	Projects (performance risk)
7	Access to land
8	Cyber security
9	Tailings and environmental incidents
10	License to operate
11	Safety
12	Climate change

External
Internal
Unidirectional
Bidirectional

MANAGING OUR RISKS
RESPONSE/MITIGATION TO OUR RISKS

1 – Potential actions by the Government, e.g. implementation of more stringent regulations for obtaining permits

RISK DESCRIPTION

Regulatory actions can have an adverse impact on the Company. These could include stricter environmental regulations, forms of procurement or explosives, more challenging permit processes, more onerous tax compliance obligations for us and our contractors, as well as more frequent reviews by tax authorities.

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

The Federal Government wants to discourage the generation of energy based on clean sources, and encourage that from fuel, oil and coal.

We paid special attention to the following aspects:

- Government actions that negatively impact the mining industry.
- Regulatory changes to mining rights and adverse fiscal changes.
- Increase in the frequency of the reviews by the tax authorities with special focus on the mining industry.
- Inability to obtain necessary water concessions because of government control or private interests.
- Failures/delays in obtaining the required environmental permits.

FACTORS CONTRIBUTING TO RISK

- An effective strategy by health authorities for the implementation of the Covid-19 vaccine may not be implemented.
- In September, the position of Undersecretary of Mining at the Ministry of Economy was cancelled due to austerity measures by the Government of Mexico. This government decision will complicate communication and on-the-go procedures such as permits, licences, concessions, etc.
- The Federal Government reported that the delivery of concessions to mining companies would be reviewed and that no more concessions would be granted during this six-year term (ending in 2024).
- The Secretary of Labour is promoting an initiative that aims to significantly reduce outsourcing.
- The Federal Government promotes investment in coal rather than renewable or clean energy. This has led to increased difficulty in operating on clean energy.
- A Federal Government initiative aims to discontinue the Mining Fund (financial support that the Government provides to communities near the mine for social development). This would have an impact on mining development in the country.
- The beginning of the United States-Mexico-Canada Agreement (USMCA or TMEC) with new labour dispositions.
- In addition, Mexico's corruption perception remains high. The country's score in International Transparency 2020 Corruption Perception Index was relatively unchanged, despite a higher ranking. As a result, delay in obtaining permits for certain operations and/or projects remains a risk.

CONTROLS, MITIGATING ACTIONS AND OUTLOOK

Commitment and constant communication with all levels of government.

Increased monitoring of the processes being implemented at the Ministry of Economy.

Follow-up and timely compliance with all suggestions of the health authorities.

For more details see Occupational Health on pages 90-91

We remain attentive to the changes proposed by the authorities, including mining tax initiatives, so that we can respond in a timely and relevant manner.

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

We continue to comply with all applicable environmental regulations and are fully committed to operating sustainably.

For more details see Environment on pages 92-105

We are committed to maintaining community dialogue throughout the life of a mining project, from the first exploration to the eventual closure, with the aim of creating long-term relationships and value, while ensuring operational continuity.

For more details see Communities on pages 106-109

We seek to maintain full compliance with the requirements of the tax authority.

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

COVID-19 PANDEMIC IMPACT

The Federal Government or state government orders another total or partial stoppage of operations in mining units for a wave of mass contagions, mainly in Sonora and Zacatecas.

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 details about the media itself, such as the speaker profile and political alignment.

LINK TO STRATEGY

1 2 3 4

RISK APPETITE

Low

CHANGE IN HEAT MAP

Increasing

RISK RATING (RELATIVE POSITION)

2020: Very high (1)

2019: Very high (2)

2 – Impact of metals prices and global macroeconomic developments

RISK DESCRIPTION

With the Covid-19 pandemic, economies across the world, including in Mexico, were negatively impacted by the confinement and disruptions to supply chains. Globally, economies almost stopped completely for more than five months.

This situation could create an adverse impact on our operations, costs, sales and profits, and potentially on the economic viability of projects, including as a result of:

- A possible decrease in precious metals prices, which is the main driver of risk. The average price of gold increased year-on-year (+26.4% compared to 2019), while the average price of silver increased by 31.6%.
- Revaluation of the Mexican peso. In March 2020, the US dollar exchange rate exceeded 25 pesos, due to the socioeconomic impact of the Covid-19 pandemic and the US presidential election. At the end of the year the US dollar exchange rate was 19 pesos.
- General inflation in Mexico. This was 3.15% in terms of Mexican peso for 2020. The specific inflation for the Company was 5.49% in US dollars.
- A decrease in the price of our by-products. In 2020, the average prices for lead and zinc decreased by 7.9% and 7.8%, respectively, compared to the previous year.

FACTORS CONTRIBUTING TO RISK

- Severe economic crisis in Mexico in 2020: reduction in economic growth of -18.7%, 833,100 jobs lost and 3.15% inflation.
- Of the G20 nations, Mexico has the second lowest investment in fiscal programmes to mitigate the impact of the pandemic.
- In terms of inflation, we experienced an increase in two of our main energy inputs compared to the previous year, with diesel (US percentage per litre) increasing by 18% and kWh (US percentage per kWh) by 4.7%.
- A severe international economic slowdown, including negative economic growth forecasts for Mexico.
- Reappearance of Covid-19 cases in Europe and the Americas. Some countries have reintroduced lockdown measures and there is a possibility that Mexico will follow suit.
- Disruptions in the value chain of critical inputs for our operations such as cement, spare parts, fuels and cyanide.
- Uncertainty about the impact of the elections of governors in the states of Zacatecas, Chihuahua and Sonora in 2021.

CONTROLS, MITIGATING ACTIONS AND OUTLOOK

We monitor price movements and market dynamics using primarily third-party analysis and forecasts in order to support our financial projections and cash management strategies. Prices will continue to influence budget considerations in areas such as exploration and the timing of certain capital expenditures.

For more details see Market Review on pages 18-19

We have hedging policies for exchange rate risk, including those associated with project-related capex and a hedging policy for precious metals.

We focus on cost, efficiencies and capital discipline to deliver competitive all-in sustaining cost.

For more details see Note 29 to the consolidated financial statements on page 238

Maintain long-term optionality by ensuring our pipeline of opportunities is continuously replenished.

Improve debt profile and reduce annual interest bill.

For more details see Financial Review on pages 66-77

Execute operational excellence initiatives to counter inflation and improve margins. Enhance cost competitiveness by improving the quality of the portfolio.

In order to maximise the extension of the average life of our debt profile, on 29 September 2020 Fresnillo plc successfully priced a US$850 million 30-year bond (Coupon 4.25%) in the international market, coupled with an 'Any and All tender offer' for Fresnillo's 5.50% Senior Unsecured US$ Notes due 2023, which was tendered by US$481.7 million (~60%), significantly reducing the short-term refinancing risks and improving the liquidity and solvency capabilities of the Company.

For more details see Financial Review on pages 66-77

COVID-19 PANDEMIC IMPACT

The price of gold and silver rose rapidly as investors took refuge in these metals.

Unfortunately, the supply chains of our mining operations suffered disruptions and delays in supplying critical inputs such as cement, cyanide and spare parts.

KEY RISK INDICATORS

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

LINK TO STRATEGY

1 2 3

RISK APPETITE

High for metal prices

Medium for all macroeconomic developments

CHANGE IN HEAT MAP

Decreasing

RISK RATING (RELATIVE POSITION)

2020: Very high (2)

2019: Very high (1)

MANAGING OUR RISKS
RESPONSE/MITIGATION TO OUR RISKS
CONTINUED

3 – Security

RISK DESCRIPTION

Our employees, contractors and suppliers face the risk of theft, kidnapping, extortion or damage due to insecurity in some of the regions where we operate.

The influence and dispute of territories by drug cartels, other criminal elements and general anarchy in some of the regions where we operate, combined with our exploration activities and projects in certain areas of drug deposit, transfer or cultivation, makes working in these areas a particular risk to us.

The Federal Government created the Secretariat of Citizen Security and Protection as part of the comprehensive strategy to reduce insecurity. It also created the National Guard, mostly comprising military personnel, with the aim of combating organised crime and drug cartels. Unfortunately, state or local police in most states are unprepared and ill-equipped to combat organised crime, have low wages and are sometimes infiltrated by crime.

According to information from the Secretariat of Security and Citizen Protection, the National Guard and the Attorney General's Office of the Republic, the presence of organised crime and high-impact crimes (homicide, kidnapping and extortion) increased in 2020, in the states where our business units and projects are located, such as Zacatecas, Guanajuato, Sonora, Chihuahua and Durango.

The main risks we face are:

- High-impact robberies.
- Theft of assets such as minerals, equipment, instruments, inputs, etc.
- Homicide.
- Kidnappings.
- Extortions.
- Vandalism.

FACTORS CONTRIBUTING TO RISK

- Increased presence of organised crime in the vicinity of the mining units.
- Increase in the number of high impact crimes (homicide, kidnapping, extortion) in the regions of the mining units.
- Consumption and sale of drugs at the mining units.
- Roadblocks or blockages on the roads and/or highways near the mining units.
- The Mexican State of Sonora is notorious for being under constant attack from organised crime gangs. Several attacks have taken place recently jeopardising the continuity of mining operations and the physical integrity of workers employed by Minera Penmont.
- On 23 March, two armoured trucks operated by SEPSA, a money-in-transit carrier, transporting 60 kilograms of gold and 398 kilograms of silver worth US$2.73 million from Minera Penmont was attacked by an armed group and the precious metals were stolen.
- Lead concentrates were stolen from the Ciénega mine on 22 and 23 May. The transport was intercepted on the way out of the mine by heavily armed members of organised crime gangs.

CONTROLS, MITIGATING ACTIONS AND OUTLOOK

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

- We maintain close relations with authorities at the federal, state and local levels, including army camps located near most of our operations. We also communicate with the newly created National Guard.
- We continue to implement greater technological and physical security at our operations, such as the use of a remote monitoring process in Herradura, Noche Buena and San Julián. In the Saucito and Fresnillo mines, in addition to the remote monitoring service, we have also built new local operating and command centres for each business unit. At the Juanicipio development project, we have the necessary infrastructure to provide security services during the mine construction process. Juanicipio also benefits from a local command and operation centre, as well as the remote monitoring service.
- We have maintained our logistics controls in order to reduce the potential for mineral concentrate theft. These controls include: the use of real-time tracking technology; surveillance cameras; tests to identify alterations in the transported material; on-call services; control checkpoints in a safe broker; and fewer authorised stops in order to optimise delivery times and minimise the exposure of convoys.
- We continue to invest in community programmes, infrastructure improvements and government initiatives to support the development of legal local communities and discourage criminal acts.
- We have increased the number of anti-doping tests conducted at the start of the day in the mining units.
- Frequent inspections are carried out inside the mines to verify that drugs are not consumed and sold.
- Drug consumption prevention campaigns are carried out, focused on employees.

Management is fully committed to protecting our workforce.

COVID-19 PANDEMIC IMPACT

The Covid-19 pandemic has had a negative impact on the security risk. High-impact crimes did not decrease – in fact they increased in some regions such as Guanajuato and Zacatecas.

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 safety issues affecting the mining industry where we operate.

LINK TO STRATEGY

1 2 3 4

RISK APPETITE

Low

CHANGE IN HEAT MAP

Increasing

RISK RATING (RELATIVE POSITION)

2020: Very high (3)

2019: Very high (4)

4 – Human resources

RISK DESCRIPTION

Fresnillo plc's most valuable asset is its workforce.

The Covid-19 pandemic has several health risks for employees. The way that mining works (especially underground), where there are several workers in one place, further increases the possibility of contagion. Due to the complex nature of mining operations and the remote locations in which they are often located, it is difficult to implement health measures and carry medical prevention equipment.

Close working conditions at mine sites are placing workers on the frontline in terms of health and safety risks, prompting us to quarantine workers when national lockdown regulations did not force us to do so.

Faced with the risk of contagion from the Covid-19 pandemic threat, we implemented several strategies to protect and preserve the health of employees and contractors in all business units. The close cooperation between our human resources function and our medical team has been fundamental to the application of timely tests and the care of infected personnel.

However, the risk of contagion continues and increased in the months of September to December, mainly in the Fresnillo District, where the highest number of cases of contagion across the Company has been detected. This situation is likely to be exacerbated when the new strains of the virus reach Mexico.

Until such a time that the vaccine is broadly available, and the population becomes immune to Covid-19, this will remain a very high risk to the Fresnillo plc workforce and in general to all humanity.

Our people are critical to meeting our goals. We face multiple risks in the processes of selection, recruitment, training and retention of talented people with technical skills and experience.

Obtaining qualified labour in the mining sector has become a major risk. More and more people trained and experienced in mining processes are required. Unfortunately, there are not enough candidates with the required profiles.

Digital and technological innovation has the potential to generate substantial improvements in the productivity, safety and environmental management of the Company. However, to achieve this, in addition to demanding significant investment, different skillsets will be required in the workforce. There is a risk that our workforce will either be unable to transform as needed or will be resistant to change and unwilling to accept the impact of automation or to acquire new technological skills.

The lack of reliable contractors with sufficient infrastructure, machinery, performance history and trained people is also a risk that could affect our ability to develop and build mining works.

FACTORS CONTRIBUTING TO RISK

- A resurgence of cases in the months of September to December in Mexico maintained the level of risk as very high.
- Unfortunately, the population does not follow the measures to prevent Covid-19 and that increases the risk of contagion.
  - Workers in the mining sector have been particularly affected by the pandemic, given the employment architecture of the industry, which can feature remote fly in–fly out or drive in–drive out operations, congested underground working conditions, and workers residing in mine-site compounds or neighbouring communities. These conditions make some Covid-19 preventive measures difficult to implement, which makes mineworkers vulnerable to both acquiring and spreading the virus.
- At some mines we have a lack of specialised personnel to cover working hours.
- In certain regions where we operate there are not enough candidates with the necessary skills to operate the mining equipment.
- The Secretary of Labour is suggesting changes to the law aimed at eliminating the outsourcing of personnel. Should this legislation be passed it would complicate our relationship with the contractors who support our mining operations and projects.

CONTROLS, MITIGATING ACTIONS AND OUTLOOK

Our Employee Performance Management System is designed to attract and retain key employees by creating suitable reward and remuneration structures and providing personal development opportunities. We have a talent management system to identify and develop internal candidates for key management positions, as well as identify suitable external candidates where appropriate.

Recruitment: We have evaluated our recruitment requirements for key positions by 2021, and our goal is to meet them through internal training and promotion, and recruitment through:

- Our close relationships with universities that offer earth science programmes. We have programmes dedicated to identifying potential performance-based candidates who can be hired as trainees and/or employees at graduation. We welcomed seven professionals and 18 engineers to our coaching programme during the year.
- CETEF (Fresnillo Center for Technical Studies), which teaches specific mining operational skills. The five graduates hired in 2020 joined as full-time employees.
- CETLAR (Centre for Technical Studies of Peñoles), which trains mechanical and electrical technicians. The 12 graduates hired in 2020 joined as full-time employees.

Our focus is continuous improvement, powered by opportunities for training, development and personal growth; in brief, we focus on fair recruitment, fair remuneration and benefits, and gender equality. In the trusted staff structure, 15.29% of the population are women, of the new income staff 17% were women, and 17% of the female population were promoted.

In partnership with the University of Arizona, we developed a five-hour online training module on Diversity, Equity and Inclusion for our executives, managers and high potential talent. Around 300 leaders participated in this training, which covered the following topics: defining and addressing Fresnillo's strategy for diversity, equity and inclusion; understanding unconscious bias and different types of diversity; identifying the types of microaggressions; recognising toxic masculinity; and reviewing stereotypes, prejudice and discrimination. The online training included a variety of exercises, case studies and discussions.

In order to keep our staff up to date and trained, 86% of employees and 98% of unionised staff have been trained this year. Staff with participation in institutional development programmes increased from 37.3% to 46.8%. 80.4% of the organisation's leaders have participated in leadership-focused institutional development programmes.

MANAGING OUR RISKS
RESPONSE/MITIGATION TO OUR RISKS

CONTINUED

4 – Human Resources

CONTROLS, MITIGATING ACTIONS AND OUTLOOK

Retention: Our goal is to be the employer of choice, and we recognise that to be a profitable and sustainable Company, we need to generate value for our employees and their families. We do this by providing a healthy, safe, productive and team-oriented work environment that not only encourages our people to reach their potential, but also supports process improvements.

Our focus is continuous improvement, driven by opportunities for training, development and personal growth; in short, we focus on fair recruitment, fair remuneration and benefits, and gender equality.

Performance: As a result of the current situation, this year the internships were 100% virtual, and in conjunction with Peñoles courses were taught in mining, geology, metallurgy, topography security and communication. In total there were 433 students (61.43% men and 38.57% women).

We have continued our performance assessment process, reinforcing formal feedback. We promote the certification of key technical skills for operational personnel and have implemented a programme to develop administrative and leadership skills for the required positions. We develop our high-potential intermediate managers through the Leaders with Vision programme.

For more details see Our People
on pages 86-87

Pandemic: The safety of our workforce is protected with sanitary protocols in each mining unit in accordance with the recommendations of the Sanitary Authority.

A series of security measures have been applied:

- Constant health monitoring of employees.
- Temperature control.
- Social distancing.
- Strict hygiene.
- Home working.
- Selective Covid-19 tests.

Support for employees' mental health: 24-hour helpline for all employees, access to psychological help, support for families and available medical advice.

For more details see Occupational Health
on pages 90-91

COVID-19 PANDEMIC IMPACT

Undoubtedly the Covid-19 pandemic is one of the biggest threats facing our people. Employee health and wellbeing has been affected by this pandemic and has led to changes in staff management.

Homeworking and isolation at the mines and projects have changed traditional work dynamics across the business.

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.
- Number of rapid, suspicious and PCR tests per business unit.
- Evolution of confirmed cases in hospital and at home.

LINK TO STRATEGY

1 2 3 4

RISK APPETITE

Medium

CHANGE IN HEAT MAP

Increasing

RISK RATING (RELATIVE POSITION)

2020: High (4)

2019: Low (12)

5 – Union relations

RISK DESCRIPTION

Potential emergence of a union outside the Company that seeks to destabilise the current union.

Domestic trade union policy could adversely affect us, as could pressure from other mining unions that wanted to take over Fresnillo's employment contracts.

FACTORS CONTRIBUTING TO RISK

- The Labour Reform published in May 2019 allows the existence of several unions within a company and gives the employee the freedom of choice. This has led to a complex, rarefied work environment at the Fresnillo mine, with violent clashes between the union and a group of workers seeking to register a new independent union.
- The risk is that the fighting will continue and worsen and eventually the voluntary turnover at the mine will increase. There is also a risk that this conflict could spread to other mines.
- In addition, the TMEC (new trade agreement between Mexico, Canada and the United States replacing NAFTA) commenced in July, with new labour and trade union provisions.

CONTROLS, MITIGATING ACTIONS AND OUTLOOK

Increased communication with trade union leaders in mining units to monitor the working climate.

Meetings have been held with groups of workers who want to introduce new unions to the Company.

A specialist group in the area of labour relations was formed to meet the demands of dissident workers.

Our strategy is to integrate unionised personnel into each team in the business unit. We achieve this by clearly assigning responsibilities and through programmes aimed at maintaining close relations with trade unions in mines and at the national level.

We maintain close communication with trade union leaders at various levels of the organisation in order to: raise awareness of the economic situation facing the industry; share our production results; and encourage union participation in our security initiatives and other operational improvements.

These initiatives include the Security Guardians programmes, certification partnerships, integration of high productivity equipment and family activities.

We are proactive in our interactions with the union. When appropriate, we hire experienced legal advisors to support us on labour issues. We remain attentive to any developments in labour or trade union issues.

We started 2020 by conducting three Regional Labour Update Forums with company leaders and unions in Sonora, Coahuila and Zacatecas with 219 participants.

From February to the end of the year, we carried out a job training programme for operational leaders of companies at the level of middle management, with the participation of 659 leaders.

We conducted a review of the contractual benefits for union members in our mines.

Our executive leadership and the Executive Committee recognise the importance of trade union relations and follow any developments with interest.

For more details see Our People on pages 86-87

COVID-19 PANDEMIC IMPACT

Although the pandemic did not severely affect this risk, it did slightly complicate the negotiations and delayed some agreements, but with no significant impact. Faced with the pandemic, the union requested the Company to take care of all the sanitary measures recommended by the health authority so that the workers could return to the mining units. Today, the union continues to support the safety measures that we adopted.

KEY RISK INDICATORS

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

LINK TO STRATEGY

2 3

RISK APPETITE

Low

CHANGE IN HEAT MAP

Increasing

RISK RATING (RELATIVE POSITION)

2020: High (5)

2019: Medium high (6)

MANAGING OUR RISKS
RESPONSE/MITIGATION TO OUR RISKS

CONTINUED

6 – Projects (Performance risk)

RISK DESCRIPTION

Pursuing advanced exploration and project development opportunities is essential to achieving our strategic goals. However, this carries certain risks:

- **Economic viability:** the impact of the cost of capital to develop and maintain the mine; future metals prices; and operating costs throughout the mine's life cycle.
- **Access to land:** a significant failure or delay in land acquisition has a very high impact on our projects.
- **Uncertainties associated with the development and operation of new mines and expansion projects:** includes fluctuations in the degree of ore and recovery; unforeseen complexities in the mining process; poor quality of the ore; unexpected presence of groundwater or lack of water; lack of community support; and inability or difficulty in obtaining and maintaining the required building and operating permits.
- **Delivery risk:** projects can exceed the budget in terms of cost and time; they cannot be built according to the required specifications or there may be a delay during construction; and major mining teams cannot be delivered on time.

Other important risks:

- Failure to effectively manage our development projects could result in delays to the start of production and cost overruns.
- Projects that cannot be delivered on time, on budget and according to specifications planned.
- Geotechnical conditions of the ore body/poor rock quality.
- High costs making it difficult to justify the project.

The following risks relate specifically to the Juanicipio project:

- Regularising electricity consumption with CFE.
- Delays in the design and obtaining permits related to the tailings dams.
- Obtaining building permits with CONAGUA.
- Lack of qualified labour.
- Low contractor productivity.

For Orisyvo, the following risks have been identified:

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

FACTORS CONTRIBUTING TO RISK

- The paperwork and permits stopped for a few months because government offices were closed due to the pandemic.
- Contractor productivity may be lower than anticipated, causing delays in the programme.
- Increase in the number of high impact crimes (homicide, kidnapping, extortion) in the regions of the projects.
- We have identified the following threats to project development:
  - Insufficient resources for project execution.
  - Change in operational priorities that can affect projects.
  - Inadequate management structure for project supervision.
  - Lack of efficient and effective contractors.
  - Delays in obtaining necessary permits for construction and operation.
  - Lengthy procedures for land acquisition, electricity supply and water.

CONTROLS, MITIGATING ACTIONS AND OUTLOOK

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

- Technical: we evaluate and confirm the resource estimate; conduct metallurgical research of mineral bodies to optimise the recovery of economic elements; calculate and determine the investment required for the overall infrastructure (including roads, energy, water, general services, housing) and the infrastructure required for the mine and plant.
- Financial: we analyse the risk in relation to the return on the proposed capital investments; set the expected internal rates of return (IRR) per project as thresholds for approving the allocation of capital based on the current value of expected cash flows of invested capital; and perform stochastic and probabilistic analyses.
- Qualitative: we consider the alignment of investment with our Strategic Plan and business model; identify synergies with other investments and operating assets; and consider the implications for safety and the environment, the safety of facilities, people, resources and community relations.

The management of our projects is based on the PMBOK standard of the Institute of Project Management (PMI). It allows us to closely monitor project controls to ensure the delivery of approved projects on time, within budget and in accordance with defined specifications.

The executive management team and the Board of Directors are regularly updated on progress. Each advanced exploration project and major capital development project has a risk record containing the project-specific identified and assessed risks.

The project development process in 2020 included:

- Continuing the construction of the tailings flotation plant (Pyrites Plant project).
- Continuing to ensure the ability of the second stage of the Fresnillo flotation plant, to manage a higher base metal content.
- Continuing the construction of the Juanicipio project.
- Continuing the construction of the third tailings dam at La Ciénega.
- Constructing stage four of the tailings dam at San Julián.
- Constructing the 14th leaching pads at Herradura.
- Constructing the Carbon-in-Column process at Herradura.

For more details see Development Projects on pages 45-47

COVID-19 PANDEMIC IMPACT

Covid-19 affected project development and delays to getting approvals, for example at the Pyrites Plant.

Activities were suspended for three months, causing delays to priority projects. The contractors failed to meet commitments, leading to disruptions in the supply of critical inputs such as cement, fuels and spare parts.

KEY RISK INDICATORS

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

LINK TO STRATEGY

2

RISK APPETITE

Medium

CHANGE IN HEAT MAP

Increasing

RISK RATING (RELATIVE POSITION)

2020: High (6)

2019: High (8)

MANAGING OUR RISKS
RESPONSE/MITIGATION TO OUR RISKS

CONTINUED

7 – Access to land

RISK DESCRIPTION

Significant failure or delay in accessing surface land above our mining concessions and other lands of interest is a permanent risk to our strategy and has a potentially high impact on our objectives.

The biggest risk is failing to gain full control of the lands where we explore or operate.

Possible barriers to access to land include:

- Increasing landowner expectations.
- Refusal to comply with the terms of previous land acquisitions and conditions regarding local communities.
- Influence of multiple special interests in land negotiations.
- Conflicts regarding land boundaries, and a subsequent resolution process.
- Succession problems among landowners resulting in a lack of clarity about the legal right to own and sell land.
- Risk of litigation, such as increased activism by agrarian communities and/or judicial authorities.
- Presence of indigenous communities in proximity to lands of interest, where prior and informed consultation and consent of such communities are required.
- Operations in Soledad-Dipolos remain suspended, as the problem with the Ejido El Bajío remains unresolved.

FACTORS CONTRIBUTING TO RISK

- The Federal Government may continue its policy of not granting new mining concessions. However, this could be mitigated by carefully negotiating concessions with mining geological interest already granted to us.
- Social insecurity prevailing in the regions where our mining interests are located may not allow work to be carried out necessary to demonstrate the minimum investments required by law, leading to the possible cancellation of the concession.

CONTROLS, MITIGATING ACTIONS AND OUTLOOK

Successful access to land plays a key role in managing our mining rights, focusing on areas of strategic interest or value.

At the end of 2020, after disinvesting certain areas of mining interest, we maintained 1,446,287 hectares of mining concessions granted. A further 234,403 hectares is in the process of being granted. In total, we have 1,680 million hectares, representing a year-on-year decrease of 28,000 hectares.

Other initiatives include:

- Meticulous analysis of exploration objectives and construction project designs to minimise land requirements.
- Judicious use of lease or occupation contracts with purchase options, in compliance with legal and regulatory requirements.
- Early participation of our community relations teams during the negotiation and acquisition of socially challenging objectives.
- Strategic use of our social investment projects to build trust.
- Close collaboration with our land negotiation teams, which include specialists hired directly by Fresnillo and also provided by Peñoles as part of the service agreement.

As part of an ongoing review of the legal status of our land rights, we identify certain areas of opportunity and continue to implement measures to manage this risk on a case-by-case basis. Such measures include, wherever possible, negotiations with agricultural communities for the direct purchase of land.

We use mechanisms provided for in agricultural law and also use other legal mechanisms under mining legislation that provide greater protection for land occupation. These activities are part of our ongoing drive to reduce risk exposure to surface land.

COVID-19 PANDEMIC IMPACT

During 2020, insecurity problems in our exploration and operations areas have increased. In addition, the Government suspended activities, which caused delays to the land-regularisation processes.

KEY RISK INDICATORS

- Percentage of land required for advanced exploration projects that are under occupation or agreements other than total ownership (generally and per project).
- Total US dollars and percentage of project budget spent on HSECR activities, including community relations (on exploration projects and sites).

LINK TO STRATEGY

1 2 3

RISK APPETITE

Medium

CHANGE IN HEAT MAP

Decreasing

RISK RATING (RELATIVE POSITION)

2020: High (7)

2019: Very high (3)

8 – Cyber security

RISK DESCRIPTION

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

As a mining company, we can be under threat of cyber attacks from a broad set of groups of attackers, from 'hacktivists' and hostile regimes, to organised criminals. Their objectives include a desire to take advantage of mining's role in regional and global supply chains, as well as in national economies.

Some groups may also attempt to exploit vulnerabilities created by the industry's heavy reliance on automated operating systems.

The following are the top eight cyber security and privacy risks that have been identified through workshops with business units, operations and IT. These risks comprise Peñoles/Fresnillo overall cyber security and privacy risk profile:

1. Corruption of data – Critical data where any modification can have adverse impacts.
2. Unauthorised access – Cyber security and privacy incidents due to unauthorised people or incorrect access permissions.
3. Breach and data theft – Disclosure of critical and sensitive Company data by an internal or external source.
4. Business disruption – Disrupting key applications or systems for a period of time.
5. Lack of cyber security ownership – Failure to take responsibility for implementing and adopting cyber security practices on a daily basis.
6. Non-compliance – Cyber security and privacy incidents resulting in non-compliance with applicable regulations, including privacy.
7. Health and safety incidents – Breach of availability, integrity or confidentiality of data which impacts health and safety.
8. Halt or loss of operations – Cyber security and privacy incidents which result in loss of operating licence or cause delay to operations.

FACTORS CONTRIBUTING TO RISK

- Cyber risks have increased significantly in recent years owing in part to the Covid-19 pandemic and the proliferation of new digital technologies, the increasing degree of connectivity and a material increase in monetisation of cybercrime.
- Theft of information through social engineering and 'phishing' campaigns (fraudulent attempts to obtain sensitive information or data, such as usernames or passwords, by appearing to be a trustworthy entity in an electronic communication).
- Using non-secure means of communication with the Company's networks can lead to viruses, data leakage, information theft, malware and ransomware.

CONTROLS, MITIGATING ACTIONS AND OUTLOOK

Our information security management model is designed with defensive structural controls to prevent and mitigate the effects of computer risks. It employs a set of rules and procedures, including a Disaster Recovery Plan, to restore critical IT functions in the event of an attack.

Our systems are regularly audited to identify any potential threats to the operations and additional systems have been put in place to protect our assets and data.

We have implemented a training and awareness programme, which is designed to increase awareness of cyber risk and ensure that employees take the appropriate actions.

We have invested in global IT security platforms in order to proactively monitor and manage our cyber risks. We conduct routine third-party penetration test to independently confirm the security of our IT systems and we seek to enhance the monitoring of our operational technology platforms.

During 2020, we introduced a set of new initiatives to improve our cyber security programme, supported by external advisors. The main objective of the programme is to identify and manage cyber security risks and align them with our business mission and strategy.

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

- The US National Institute of Standards and Technology Cybersecurity Framework (NIST CSF) that describes how companies can assess and improve their ability to prevent, detect and respond to cyber attacks.
- Information Control Objectives and Technologies to Others (COBIT), which was created by ISACA, the international professional association for IT management and governance, to provide an implementable set of IT-related controls, processes and facilitators.

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

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

Our plan for 2021 is to focus our efforts on risk mitigation projects designed to protect key information and assets, in accordance with the risk appetite established by management.

COVID-19 PANDEMIC IMPACT

With the Covid-19 pandemic, this risk has increased mainly due to 'phishing' attacks and the increase in home working.

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

Increasing

RISK RATING (RELATIVE POSITION)

2020: Medium (8)

2019: Medium (10)

MANAGING OUR RISKS
RESPONSE/MITIGATION TO OUR RISKS
CONTINUED

9 – Tailings and environmental incidents

RISK DESCRIPTION

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

We continue to be alert to the following risks:

- Cyanide management risk.
- Implications of future regulations for our tailings management.
- Ensuring the stability of our tailings storage facilities (TSFs) during their entire lifecycles is central to our operations. A failure or collapse of any of our TSFs could result in fatalities, damage to the environment, regulatory violations, reputational damage and the disruption of the quality of life of neighbouring communities as well as our operations.
- Impact on the environment in the area of influence through erosion/deforestation/forest loss or disturbance of biodiversity as a result of the operations of the business unit or project activities.
- An event involving a leak or spill of cyanide or SO_2, which due to its chemical properties could generate an event of major consequence on the premises of the business unit and/or in the nearby area.

FACTORS CONTRIBUTING TO RISK

- Design, construction and operation of current tailings dams under local and national controls, which do not comply with recommended best practices.
- Historic tailings dams with little or no operation construction design.
- Little known conditions of the state of some tailings dams, both current and historical.
- Some historical tailings dams located in rural areas are now surrounded by facilities or residential areas, increasing the consequences of failure.

CONTROLS, MITIGATING ACTIONS AND OUTLOOK

Based on the level of perceived risk due to recent serious and catastrophic developments in the industry, the Board decided to increase the severity of this risk in 2018 and maintained the same level in 2020.

Our operations are inherently hazardous. We seek to achieve operational excellence to ensure that our employees and contractors go home safe and healthy, and that there are no adverse impacts on the communities and the environment where we operate.

Our environmental management system ensures compliance with national and international regulations and best practices, provides transparency and supports initiatives that reduce our environmental footprint. We are a company responsible for its activities and the fulfilment of the environmental commitments made.

Our environmental management system, together with our investment in preventive measures and training, are key factors that reduce the risk of large environmental incidents.

Herradura, Saucito, Fresnillo and Noche Buena each have an integrated certificate of management. The first two have ISO 9001, 14001 and 4500; Herradura and Noche Buena have SIG ISO 14001 and 45000; and Ciénega and San Julián have worked this year to achieve certification (ISO 14001 and 45000). Due to the pandemic, it has not been possible to schedule the audits necessary to define progress in Ciénega and San Julián. Juanicipio is in the process of being certified.

In addition, Ciénega, Herradura, Noche Buena, Saucito, San Julián, Juanicipio and Fresnillo are certified according to the standards of the Clean Industry; the first two achieved the badge of environmental excellence issued by the Environmental Protection Attorney's Office (PROFEPA). Our Herradura and Noche Buena leaching operations comply with the Cyanide Code issued by the International Cyanide Code Institute with the respective certification.

The Executive Committee is well aware of the risks associated with tailings dams. Therefore, before we construct a reservoir, we carry out a series of studies to confirm the suitability of the area. These studies include geotechnical, geological, geophysical, hydrological and seismic analyses.

Before construction begins, the Ministry of Environment and Natural Resources (SEMARNAT), through the Federal Office for Environmental Protection (PROFEPA), conducts several assessment studies and then continues to periodically review deposits in relation to the works.

For more details see Environment
on pages 92-105

Environmental protection and safety are critical for cyanide leaching systems. We comply with international best practices as promoted by the International Cyanide Management Institute (ICMI) and the Mexican standard NOM-155SEMARNAT-2007, which establishes environmental requirements for gold and silver leaching systems.

For more details see Cyanide Management
on page 100

Safe management of our tailings facilities has always been a priority. With increased focus on the issue of tailings dam safety across the global mining industry, we have taken the opportunity to renew and increase this focus.

In 2020, we launched a number of initiatives to align our governance practices with current best practices. These initiatives included:

- Updating the inventory of the TSFs and validating the data log.
- Initiating a third-party review programme of dam safety inspections for all TSFs.
- Establishing an Independent Queue Review Panel (ITRP) comprising renowned international experts.
- Accelerating a review programme by independent experts for all sites.
- Reviewing the ITRP and prioritising recommendations arising from inspections.

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

COVID-19 PANDEMIC IMPACT

The construction programmes for new tailings dams and the expansion of existing ones were adjusted, due to the increased complexity caused by the pandemic, such as the required health and safety protocols.

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

Increasing

Considering the importance of the tailings dams complex for the Company, we decided to include this topic in the name of the risk.

RISK RATING (RELATIVE POSITION)

2020: Medium (9)

2019: Medium (11)

MANAGING OUR RISKS
RESPONSE/MITIGATION TO OUR RISKS
CONTINUED

10 – Licence to operate

RISK DESCRIPTION

Across the world, public opinion is wary of the potential adverse social and environmental consequences of mining operations. This sentiment can manifest in the form of opposition of communities to mining operations and increased regulatory obligations for mining companies. Media coverage negative to mining, or specifically to Fresnillo, could impact the granting and maintenance of our social licence in the regions where we have a presence.

We monitor the following risks:

- Loss of/threats to our social licence to operate.
- Failure to identify and manage local concerns and expectations could negatively impact Fresnillo plc.
- Relations with local communities and stakeholders affect our reputation and our social licence to operate and grow.
- Neighbouring communities may not provide their support or hinder operations, affecting our social licence. This could include complaints from communities regarding operations such as dust, blasting vibrations, noise, pollution and water use.
- Social behaviours or actions by a group of people attempting to promote anti-mining sentiment in the area of influence of the business unit.

FACTORS CONTRIBUTING TO RISK

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

CONTROLS, MITIGATING ACTIONS AND OUTLOOK

- **Covid-19 response:** We have implemented measures to mitigate the health risks to our workforce, engage authorities constructively and support our communities. Our communication campaigns in the media have emphasised our corporate citizenship activities.
- **Community engagement:** We earn and maintain the trust of communities through effective engagement and by being accountable for our impacts. Our community strategy, which embraces all phases of the mining lifecycle, aims to build mutual understanding between our operations and local communities, ensuring that we engage, develop and grow together. Key monitoring and engagement activities include:
  - Monitoring public opinion within local and international media.
  - Holding continuous dialogue with our key local stakeholders through formal and informal meetings.
  - Carrying out social baseline, human rights and perception studies to better understand our positive and negative impacts.
  - Operating a grievance mechanism to address stakeholder concerns.
  - Collaborating with peers in the international and Mexican mining community to promote the benefits of the mining industry and responsible mining practices.
  - Communicating our best practices regarding social and environmental responsibility.
- **Environmental performance:** Optimising our use of resources, curbing any negative impact of our activities and being transparent and accountable regarding our environmental footprint are crucial elements of sustainable mining and help us to be positively perceived by communities and regulators.
- **Health and safety performance:** Our goal is to instil a safety culture focused on 'caring for our people', based on shared values across the organisation, driven by senior management and focused on high potential incidents. Our approach to health aims to pre-emptively identify and manage the risks to which our workforce is exposed.
- **Sharing the benefits of mining:** In addition to effective stakeholder engagement, sharing the benefits of mining plays an important role in the wellbeing of people. We create value in the regions where we operate in the form of employment, procurement, talent development, strategic community investment and the payment of our fair share of taxes:
  - Maintaining a Social Investment Portfolio to create long-term value, aligned with the UN SDGs. 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).

For more details see Communities on pages 106-109

COVID-19 PANDEMIC IMPACT

- The Covid-19 pandemic increased the risk to our social licence to operate in some regions, mainly as a result of nearby communities being worried about contracting the virus from contractors and suppliers visiting the area.
- Covid-19 has increased the social expectations regarding the corporate citizenship of companies. The response of the mining industry to Covid-19 will shape the relationships with stakeholders and the perception of the industry over the next years.

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

The 'Public perception against mining' and 'Community Relations' risks were integrated into this new risk in order to manage risk globally, in the context of community relations and public perception. The aim is to improve the ways in which we implement better mitigation and control actions.

RISK RATING (RELATIVE POSITION)

2020: Medium (10)

MANAGING OUR RISKS
RESPONSE/MITIGATION TO OUR RISKS

CONTINUED

11 – Safety

RISK DESCRIPTION

It is an inherent risk in our industry that incidents due to unsafe acts or conditions could lead to injuries or fatalities.

Our workforce faces risks such as fire, explosion, electrocution and carbon monoxide poisoning, as well as risks specific to each mine site and development project.

These include rockfalls caused by geological conditions, cyanide contamination, explosion, becoming trapped, electrocution, insect bites, falls, heavy or light equipment collisions involving machinery or personnel and accidents occurring while personnel are being transported.

FACTORS CONTRIBUTING TO RISK

During 2020, there was an increase in the rate of accidents related to:

- Rockfall/terrain failure.
- Loss of vehicle/equipment control.
- Team-vehicle-person interaction.
- Transport of staff.
- Contact with electric power.
- Fire.
- Becoming trapped.
- Contact with hazardous substances.

Frequent transportation of our people to remote business units is an ongoing feature of our operations. In many cases, these units have poor accessibility by road. Failure to comply with safety programmes, measures and audits or with the findings of inspections, continues to be a safety risk.

CONTROLS, MITIGATING ACTIONS AND OUTLOOK

Unfortunately, we suffered a fatal accident during the second half of this year, which means that even with the extraordinary efforts we are making, we have failed to achieve our goal of zero fatalities. Additionally, we recorded 276 high potential incidents (13% more than 2019).

For more details see Safety
on pages 88-89

At Fresnillo plc, the safety of our staff is an essential value and a way of life. We tirelessly seek to improve our performance, strengthening our preventive culture, raising awareness of the risks generated by our operational activities and establishing controls and mechanisms to eliminate fatalities.

During the year, we continued to implement support measures to strengthen, address and prevent the causes of accidents, injuries and fatalities. These include:

- Strengthening safety objectives, including establishing proactive performance indicators that allow us to anticipate events.
- Continuing the implementation of the 'I Care, We Care' programme in all our operations, including strengthening the programme's five lines of action.
- Encouraging managers to own security risks to operations, so that this is a fundamental part of daily activities and that management can be held accountable according to performance and results.
- In 2020, we developed the 'Eye on Risk' programme. Created through teamwork, this aims to develop risk competencies by educating leaders and supervisors. It also encourages coaching and immediate feedback, as well as a comprehensive process of continuous review and improvement.
- During the last quarter of 2020, the Chief Executive Officer launched a strategy to intensify the 'I Care, We Care' programme. This strategy focuses on critical risks, controls and processes preventing high potential accidents.
- Assigning Critical Risk Control protocols to an owner for follow-up in line with their area of influence.
- Strengthening incident investigations with a special focus on high potential ones.
- Increasing the focus on high potential incidents.
- Strengthening the cross-functional communication of lessons learnt, in order to reduce the reoccurrence of similar accidents.
- Enhancing hazard identification and risk assessment.
- Confirming the continuous monitoring of security management as the highest priority of the SSMARC committee. The committee oversees all accident investigations, ensuring appropriate measures are taken to improve safety systems and practices.

COVID-19 PANDEMIC IMPACT

- The Covid-19 pandemic did not significantly affect this risk.

KEY RISK INDICATORS

- Accident rate
- Days lost rate
- Accident frequency

LINK TO STRATEGY

4

RISK APPETITE

Low

CHANGE IN HEAT MAP

Decreasing

RISK RATING (RELATIVE POSITION)

2020: Medium (11)

2019: Very High (5)

12 – Climate change

RISK DESCRIPTION

The mining industry is highly exposed and sensitive to climate change risk.

Climate change is a systemic challenge and will require coordinated actions between nations, between industries and by society at large. It demands a long-term perspective to address both physical climate change and low-carbon transition risks and uncertainties.

Due to climate change, our operations and projects are expected to face acute physical risks from extreme events such as high temperatures, droughts and extreme rainfall from more frequent and intense hurricanes in the Pacific.

These natural disasters may affect the health and safety of our people, damage access roads and mine infrastructure, disrupt operations and affect our neighbouring communities. In addition, the rise in temperatures may increase our water demand while the decrease in annual precipitation exacerbates water stress in the regions where we operate.

These chronic risks may intensify the competition to access water resources, increasing risks to the social licence to operate. The societal responses to transition to a low-carbon economy include more stringent regulations to reduce emissions, a transformation of the global energy system, changes in behaviour and consumption choices and emerging technologies.

Adaptation measures are necessary to build the flexibility to respond to physical and transitional changes.

FACTORS CONTRIBUTING TO RISK

- Current and emerging climate regulations have the potential to result in increased cost, to change supply and demand dynamics for our products and create legal compliance issues and litigation, all of which could impact the Group's financial performance and reputation. Our operations also face risk due to the physical impacts of climate change, including extreme weather.
- Warming temperatures will increase water scarcity in some locations, inhibiting water-dependent operations, complicating site rehabilitation and bringing companies into direct competition with communities for water resources.
- The supply of critical inputs to mining processes, such as water and energy, is likely to face greater constraints.
- Employee health and safety will be put at risk by increases in communicable diseases, exposure to heat-related illnesses and the likelihood of accidents related to rising temperatures.
- Obtaining and maintaining a social licence to operate will become more difficult in communities where climate change exacerbates existing vulnerabilities and increases direct competition between the Company and the community for resources.
- Increased physical and non-physical risks will make project financing more difficult to secure.

CONTROLS, MITIGATING ACTIONS AND OUTLOOK

- Climate change has formed part of our strategic thinking and investment decisions for over two decades.
- We are considering the recommendations of the TCFD regarding: Governance, Strategy, Risk Management and Metrics and targets.
- We recognise the importance of maturing our approach to integrating physical climate change risks and adaptation into financial planning and decision-making processes. We are committed to enhancing our understanding of the site-level impacts and vulnerabilities to refine our adaptation measures.
- The pervasive and complex nature of climate change means that it can act as an amplifier of other risks such as environmental incidents, access to water, health and safety of our people, government regulations and social licence to operate. The Head of Sustainability and the Head of Risks support the process to refine the identification and risk assessment of physical and transitional risks.

For more details see Climate Change on pages 93-99

- We use the guides from industry associations (i.e. ICMM), international scientific reports (i.e. IPCC), reports from industry peers and reports of the Mexican Government to identify the physical impacts of climate change.
- To gain a general understanding, we use the outcomes of scenarios built by the Mexican Government reports using the Global Circulation Models (GCMs) and different Representative Concentration Pathways (RCPs).
- In addition, we use Aqueduct, a tool developed by the World Resources Institute (WRI), to better understand water stress under different climate change scenarios in the 2020-2030 period.
- We are implementing a series of controls to manage the threat of extreme weather, including structural integrity programmes across all critical assets, emergency response plans and flood management plans. These controls keep our people safe and help our operations return to normal capacity as quickly as possible.
- We are increasing the supply of the materials essential to building a low-carbon economy.
- We are setting targets to reduce our emissions (on an absolute and intensity basis) over the short, medium and long term.

For more details see Energy and Climate on pages 93-99 and Water Stewardship on pages 102-103

COVID-19 PANDEMIC IMPACT

- The Covid-19 crisis and climate change demonstrate that we live in an interconnected world. We are faced with global challenges that need coordinated responses where each actor takes on their role. No country can deal with these issues alone.

KEY RISK INDICATORS

- Energy demand/value added
- CO_2/energy consumption
- Zero-carbon fuel share

LINK TO STRATEGY

1 2 3 4

RISK APPETITE

Low

CHANGE IN HEAT MAP

Elevated from Emerging Risk

RISK RATING (RELATIVE POSITION)

2020: Medium (12)

2020 VIABILITY STATEMENT

In accordance with provision 31 section 4 of the 2018 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 the suitability of a five-year period to December 2025. This period aligns with the mining industry's typical planning cycle and with 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 and emerging 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. These consultations also enabled the Directors to identify 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 and emerging risks, the following have the greatest potential impact:

i. 'Potential actions by the Government', which could include a delay in obtaining permits and/or new restrictive regulations.
ii. 'Impact of metals prices and global macroeconomic developments', specifically volatility in the prices of gold and silver.
iii. 'Human resources', specifically the total stoppage of operations for three months for the Covid-19 pandemic.
iv. 'Access to land'.
v. 'Tailings and environmental incidents'.

Furthermore, the potential effects of the Covid-19 pandemic on the Company were also considered. This led to a change to last year's scenario five. Instead of modelling the stoppage of operations at one mine following the theft of explosives, we decided to model the stoppage of all our operations resulting from a national lockdown introduced to combat the pandemic.

This year, we also considered the effects of climate change on the viability scenarios, especially the impact of heavy rains, a water crisis or extreme heat. Our conclusion was that scenarios are not at this stage materially impacted.

Having determined that none of the individual risks would in isolation compromise the Group's viability, the Directors went on to group together 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 2021 fall to US$1,492 per ounce and US$16.9 per ounce respectively. We further assume that precious metals prices remain at a low level for the following four years of the viability period, varying between US$1,942 – US$1,676 per gold ounce. and US$23.4 – US$21.9 per silver ounce.

To create an impartial projection for a future low metals prices environment, the Directors used an average of the three lowest forecasts for each year of the assessment, based on consensus estimates published by institutional financial analysts. This 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 damage caused. The investigation into the causes of the event is drawn out and further time is required before all environmental permits are 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, leading to water entering the mine in excess of pumping capacity, thereby halting production at one of the mine's main areas. The ramp-up to pre-event production levels commences once management determines that it is safe to do so. (Singular event)

Scenario 5: Covid-19 pandemic. Due to the rapid increase in cases of Covid-19 infection, the Federal Health Authority orders an urgent mandatory quarantine throughout the country. All economic activities, including mining, are suspended for three months. Fresnillo immediately ceases all of its operations, maintaining only the necessary levels of preventative maintenance. The union and contractors remove their staff from the Company's mines and projects. Payment of fixed costs such as labour, insurance and critical maintenance inputs continues. (Principal risk)

Scenario 6: Access to land at a mine. Conflicts with local communities arise and result 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. 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.

The successfully restructured Company's debt, buying back US$482.1 million from the US$800 million Senior Notes at 5.5% due in 2023 and issuing new US$850 million Senior Notes at 4.25% due in 2050, helped reduce liquidity risk and ensure that viability scenarios did not have serious consequences. It's important to note that all the scenarios assume that the outstanding portion of the 2023 Notes (US$317.8 million) are paid when they fall due.

All scenarios were first evaluated using metals prices based on average analyst consensus. No mitigations were necessary and 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 re-modelled, none led to an extremely low or negative cash balance because the strong cash and other liquid funds balance at the end of 2020 (US$1,070.4 million) positions Fresnillo plc in a healthy financial situation. In addition, metals prices contribute to the preservation of a positive cash balance position through the scenarios assessed.

The lowest cash balance level was identified in scenario number three, in combination with the low metals prices scenario. However, even in this scenario a positive cash balance would be maintained throughout the viability period, with a minimum level of US$628 million during the fourth year (2024), meaning that mitigating actions would not be required.

Risk management and internal control systems are in place throughout the Group. The internal control systems enable the Directors to monitor key variables that have the ability to impact the liquidity and solvency of the Group. We are confident that management is able to sufficiently mitigate any situations as they might occur.

Our risk mitigation and control measures include a Crisis Committee, while the Board would also be briefed and convened as necessary, in order to respond to events as they develop. At each level of our organisation, we have appointed dedicated personnel responsible for media management and engaging with authorities and other stakeholders, 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 above in the Strategic Review on pages 01-135. The financial position of the Group, its cash flows and liquidity position are described in the Financial Review in pages 66-77. In addition, Note 30 to the 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 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 2022 (being the going concern assessment period). The Directors have also considered the cash position as at 31 December 2020 (US$1,070.4 million) and the restructuring of debt during the period, as described in the Financial Review. In addition, they reviewed a more conservative cash flow scenario with reduced silver and gold prices of US$18.70 and US$1,725 respectively throughout this period, whilst maintaining current budgeted expenditure and only considering projects approved by the Executive Committee. This resulted in our current cash and cash equivalents balances reducing over time but maintaining sufficient liquidity throughout the period.

As a reverse stress test to assess the Group's resilience to commodity price decreases. The Directors have further calculated prices (US$14.30 and US$1,141 for silver and gold respectively), which should they prevail to the end of 2022 would result in cash and cash equivalents balances decreasing to minimal levels required to enable operations to continue without a strain on creditor payments during the going concern assessment period, without applying mitigations.

Should metals prices remain below these prices for an extended period, management have identified specific elements of capital and exploration expenditures which could be deferred without adversely affecting production profiles throughout the period. Management could also 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.

Additionally, in the current period the Directors reviewed scenarios that incorporated an estimated potential impact of severe but plausible Covid-19 restrictions consistent with scenario five of our viability assessment (Covid Overlay).

Based on what we know today, we consider the risk of a government-imposed full stoppage across all our operations to be low. To date, only the Penmont mines were subject to temporary, state-imposed restrictions in April and May. Mining was subsequently declared an essential activity by the Federal Government, all restrictions were lifted and there have been no further stoppages at any of our mines. Furthermore, we have implemented additional health and safety measures at each of our mines coupled with extensive targeted and random testing. This has allowed us to keep infection rates significantly below the Mexican average. We are therefore confident that we are well prepared to manage any localised outbreaks at our mines and maintain operations at planned or near-to-planned levels.

Nonetheless, taking into account risk implications of Covid-19 set out in the principal risks section, we assessed the impact on our operations should the Government impose temporary restrictions like those we saw in April and May at Penmont in response to a deteriorating health situation.

The key judgement applied is the likely time period of restrictions on operations and the time it would take for the subsequent recovery once those restrictions are lifted. The base Covid Overlay scenario assumes that mining operations throughout the Group are suspended for three months, maintaining only the necessary levels of preventative maintenance. Payment of fixed costs such as labour, insurance and critical maintenance inputs continues.

After reviewing all of the above considerations, the Directors have a reasonable expectation that management have 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 2020:

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 22-31 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 148-149.

The Board's Principal Decisions in 2020 were:

i. Maintain operations as close to normal as possible, implementing preventive measures to prevent Covid-19;
ii. Review the Strategic Plan and Annual Budget;
iii. Implement a strategy to increase the participation and inclusion of women; and
iv. Evaluate the Energy Strategy with the aim of setting decarbonisation targets and assessing its resilience to the Transition Risks of Climate Change.

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 this report. When preparing Board meetings a proforma template identifying the relevant stakeholder considerations has been developed for inclusion in the Board papers which accompany any discussions, which due to their strategic nature, should include specific documented consideration of Section 172 stakeholder interests when they are discussed.

Approved by the Board of Directors on 1 March 2021.

Examples of Principal Decisions

Decision:	**Maintain operations as close to normal as possible, implementing preventive measures to prevent Covid-19.**	
Context	Covid-19 started as a public health challenge but rapidly turned into an unprecedented social and economic crisis. The depth and duration of the crisis were extremely uncertain and depended on the effectiveness of governments to protect the health of their population and the economy. Consequently, the decision to maintain operations required weighing and balancing a broad range of stakeholder considerations.	
Stakeholder considerations	Employees, unions and contractors	The Company committed to make the health and safety of its workforce its number one priority. Preserving jobs was essential to mitigate the social hardship of the economic crisis in the regions where the Company operates. Moreover, preserving the workforce ensures the capacity to execute the business strategy. Therefore, work arrangements required an effective response to the different levels of exposure (contact with people) and vulnerability (age and pre-existing conditions) of the workforce. Union leadership and contractors were identified as key partners to effectively adopt preventive measures to protect the workplace. Working in remote locations may increase the risks of spreading Covid-19 in communities that are often underserved by public health authorities. Raising awareness and training our workforce on the preventive protocol was essential to minimise the risks in remote communities.
	Community	The Company recognised that the Covid-19 crisis would raise the social expectations on corporate citizenship and community engagement. In addition, the Company was aware of its significant role in the regional economies, most notably in remote communities. Workforce and community factors are interrelated as three-quarters of the workforce come from the regions where the Company operates. Furthermore, communities participate in the value chain through service and procurement opportunities. It was critical to preserve the ability to co-create value with our communities. Remote communities could perceive the Company's workforce as a source of risk of Covid-19. Engagement on the preventive measures implemented by the Company and cooperation with communities were essential to develop effective partnerships in communities.
	Government and regulators	Constructive engagement with the Mexican Government was crucial to recognise mining and its value chain as essential activities. Collaboration was necessary to agree with regulators an effective preventive protocol to prevent Covid-19 in the workplace. There was low public access to Covid-19 testing in Mexico and scarce contact tracing, which meant the Company would need to implement its own testing and contact tracing system. Cooperation and support to the public health sector was strategic to improve service in the communities where the Company operates.

Strategic actions supported by the Board	The Board decided to approach these stakeholder implications with a focus on: • Making decisions consistent with our Purpose, prioritising the wellbeing of our people and communities. • Ensuring the resilience of the Company to create value for its stakeholders over time. The strategic actions supported by the Board to generate value for stakeholders are: • Covid-19 measures were reviewed at each meeting of the Health, Safety, Environment and Community Relations (HSECR) Committee in 2020. • A dedicated crisis management team for our business units, reporting to a corporate crisis management team led by the CEO. • Support to enable the vulnerable members of the workforce to stay at home, ensuring their remuneration and minimising risks to their health. The age profile, chronic diseases (diabetes, heart diseases, etc.) and pregnancy were among the risk criteria used to identify the vulnerable workforce. • Campaigns to raise awareness and educate our workforce and communities on the preventive measures. • Access Control, rapid testing and contagion traceability. • Social distancing in the workplace and transportation. • Hygiene and sanitation of the workplace, transport and accommodation facilities. • Daily monitoring of Covid-19 cases and psychological support. • Supporting the communities and the public health authorities.
Outcomes	By implementing these strategic actions, the Company achieved the following outcomes: • Mining and its value chain were recognised amongst the essential industries in Mexico. • A prevention protocol was agreed with regulators to prevent Covid-19 in the workplace. This protocol became the national standard for the mining industry. • Recognition from the regulator, Mexican Social Security Institute (IMSS), with the Covid-19 Health Safety Award. • Preservation of our workforce (2020: 19,364 vs. 2019: 18,889 unionised employees, non-unionised employees and contractors). • Substantially fewer cases of Covid-19 in the workplace compared to the general population in Mexico. • Early detection and attention of Covid-19 cases through rapid testing and contact testing. • Social investment to support education, raise awareness, support with food pantries for the most vulnerable and donations to the public health authorities (investments in health as a percentage of total social investment increased from 21% in 2019 to 38% in 2020). • No labour or community conflicts during the Covid-19 crisis.
Decision:	**Review of the Strategic Plan and Annual Budget** **(See how stakeholder consideration are integrated into Board's decision-making process in our ARA 2019)**
Decision:	**Implement a strategy to increase the participation and inclusion of women**
Context	Organisations with a diverse workforce benefit from varied perspectives, which can lead to better decision making. Equity means treating people differently in a way that makes sense to provide equal access to opportunities. Inclusion creates an environment where openness, belonging, and respect allow people to have an impact on the workplace in a meaningful way. Equity and Inclusion can lead to improvements in attraction, retention and development of talent, as well as innovation and creativity. Increasing the participation and inclusion of women is the first step in the journey to make diversity a competitive edge.
Stakeholder considerations	Employees, unions, contractors and the community: Women in the Mexican mining industry may face bias and barriers that must be addressed to provide equal access to opportunities. The culture of the Mexican mining industry includes historically lower levels of inclusion compared to other mining countries. Work-life balance is harder in a country where family responsibilities are unevenly distributed between men and women. Unconscious bias and stereotypes have an impact on their careers (how they are hired, developed, promoted, etc.). Women have less access to the mentors, sponsors and networks that are crucial to furthering their careers. (See our People Section on pages 86-87). Regulators, NGO's and investors: Society expects that companies reflect the diversity of the communities where they operate. NGOs, regulators, business associations and investors actively engage companies to increase the participation of women and ethnic minorities. Diversity, equity and inclusion (DEI) is seen by society as a measure of fairness and social progress. Moreover, DEI is recognised as a sound business opportunity and seen as fundamental to creating value in the long term.
Strategic actions supported by the Board	The Board decided to approach these stakeholder implications with a focus on: • Enhancing the contribution of women to the success of the Company. • Having a positive impact on the women the Company employs. The strategic actions supported by the Board to generate value for stakeholders are: • Educating and raising awareness on Diversity, Equity and Inclusion. • Training, empowerment and development of leadership by women. • Formal mentor/sponsorship and networking. • Inclusive communications and women role models. • Engaging the communities where we operate in STEM careers.

BOARD'S APPROACH TO STAKEHOLDER ENGAGEMENT

CONTINUED

Expected outcomes	By implementing these strategic actions, the Company aims to achieve the following outcomes: • Increase the overall participation of women in the workforce from 10% to 12% by 2025. • Challenge the glass ceiling at the 'Superintendent' and 'Operations Manager' levels to increase the participation of women from 2% to 8% by 2025. • Increase the participation of women in senior positions. • Smarter HR processes. • Holistic reporting of the positive impacts on women. • Monitoring of behaviours, for instance unconscious bias.	
Decision:	**Evaluate the Energy Strategy with the aim of setting decarbonisation targets and assessing its resilience to the Transition Risks of Climate Change**	
Context	The TCFD classifies climate change risks in two main categories: physical risks and transitional risks. The physical risks are related to the rise of temperature, rainfall patterns and extreme events (hurricanes, floods, droughts, etc.). Transitional risks are expected to occur when moving towards a low-carbon economy. In 2020, the HSECR Committee decided to evaluate the Company's resilience to transitional risks, hence dedicating resources to assess the robustness of the Energy Strategy with the aim being to set targets. Physical risks will be further explored by the HSECR Committee in 2021. A resilient Energy Strategy is necessary to manage more stringent climate change policies or heightened social expectations to accelerate the deployment of clean technologies. Without a robust strategy, energy-intensive assets could lose value due to transitional risks. The resilience of the Energy Strategy was evaluated as if government policies were to change in line with the Paris Agreement (2 °C and 1.5 °C scenarios). The energy demand was forecasted from 2021 to 2030 considering the expected production of the operations and projects under the Strategic Plan. The carbon footprint was evaluated considering the decarbonisation opportunities underway; namely, wind electricity and dual (diesel–LNG) trucks in the open pit mine of Herradura.	
Stakeholder considerations	Society	Public concern about climate change has increased significantly and is expected to continue growing over time. Recent natural disasters around the world have raised awareness of the physical impacts of climate change and the urgency to act. Although there is a lag between awareness and response, it is expected that society will demand more action from governments, companies and investors.
	Government regulators	Mexico has made pledges to mitigate and adapt to climate change under the Paris Agreement. The current energy policy in Mexico, however, aims to ensure a market share for the historical power plants of the National Electric Company.
	Investor initiatives and not-for-profit organisations	Investors are interested in mitigating their exposure to climate change risks in order to ensure sustained returns. Investors, organised through networks, have launched initiatives to engage companies on curbing emissions, implementing robust governance and maturing climate-related financial disclosures. Not-for-profit organisations are actively engaging companies on science-based targets and Carbon Neutrality in line with the objectives of the Paris Agreement.
Strategic actions supported by the Board	The Board decided to approach these stakeholder implications with a focus on: • Mitigating the impacts of climate change as part of our commitment to the sustainable mining of silver and gold. • Ensuring the ability to execute the business strategy under more stringent carbon policies and heightened stakeholder expectations. The evaluation of the Energy Strategy shows that it is technologically viable to support a decarbonisation pathway in the 2021-2030 period. The strategy relies on proven technologies, notably wind energy, intelligent ventilation systems in underground mines and dual fuel engines (diesel–LNG) for the truck fleet of the Herradura mine, which reduce emissions and operating costs. However, the regulatory uncertainty on renewables in Mexico makes it impractical to set a specific decarbonisation target at this point. The strategic actions supported by the Board are: • Take full advantage of the current decarbonisation initiatives. • Explore energy efficiency opportunities. • Engage constructively with regulators through industry associations. • Carry out an annual review of the Energy Strategy. • Evaluate the regulatory landscape in Mexico for renewables during 2021.	
Outcomes	By undertaking this evaluation, the Company achieved the following outcomes: • Better understanding of the transition risks. • Forecast of demand and decarbonisation pathways. • Better integration of the business, energy and climate change strategies. • More mature governance of climate change in line to our commitment to be TCFD compliant in 2021.	

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 92-105	• Tailings and environmental incidents. • Climate change	• 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 86-87. • Safety section, pages 88-89. • Organisational Culture section, pages 82-85. • Occupational Health section, pages 90-91.	• Security. • Safety. • Union relations.	• Labour turnover. • Training hours. • Injury frequency rates. • Cases of occupational diseases.
Social matters		• How we report sustainability, materiality assessment section, pages 80-81. • Communities section, pages 106-109.	• 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]. • Harassment Prevention protocol[3].	• Diversity and inclusion section, on pages 86-87. • Operating labour Commissions in each business unit. More information on page 83.	• 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[1]. • Promotional expenses (including gifts policy)[1]. • Third party due diligence[1]. • Government relations[3].	• Governance activities during 2020 included reviews of elements of the ABAC programme, which were presented periodically to the Board and to the Audit Committee. See pages 148 and 164. • During 2020 we continued performing our third-party due diligence process (430 analyses, obtaining nine high risk, 52 medium risk, 357 low risk and two third parties non-recommended thus rejected). • Corporate Integrity 500 & World's Most Ethical Companies by Ethisphere rankings. See pages 82-83. • Ethics Culture section, pages 82-85.	• 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 162. • Ethical conduct. See pages 82-85.

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 2020

The validity of our Purpose statement was tested by the onset of the Covid-19 pandemic in March 2020 and I firmly believe that our actions throughout the pandemic have demonstrated the truth of that statement in practice.

CONTRIBUTING TO THE WELLBEING OF OUR PEOPLE

Dear shareholder,

For many people in Mexico and the UK, 2020 has been an unprecedented year where resilience and resolve have been put to the test. In my introductory letter to the 2020 Annual Report on pages 04 to 07, I comment on Fresnillo's overall business performance during the past 12 months. In this letter, I would like to comment briefly on the work of the Board and its Committees.

At the end of 2019, the Board approved our statement of Purpose: *Our Purpose is to contribute to the wellbeing of people through the sustainable mining of silver and gold*. The validity of our Purpose statement was tested by the onset of the Covid-19 pandemic in March 2020 and I firmly believe that our actions throughout the pandemic have demonstrated the truth of that statement in practice. In this Governance Report, we describe how our governance approach moved to a more tactical and operational focus during the first weeks and months of the pandemic, led by our Executive Committee alongside myself, our Deputy Chairman and my colleagues within the BAL Group, as we sought to ensure that our workforce could continue to work healthily and safely and the communities in which we operate were protected and supported. My colleagues and I made sure that we communicated regularly with our workforce and we were active in discussions with government over the importance of keeping Mexican mining safely operational as an essential industry. Our independent Non-executive Directors were hugely supportive of these efforts even to the extent of joining in with the Chairman's proposal to reduce his fees in solidarity during the early stages of the pandemic. All of these efforts, combined with favourable metals prices, have enabled us to record a relatively strong financial performance in 2020 whilst remaining true to the culture and values which support our Purpose.

On a personal level, I was deeply shocked and saddened by the passing of Luis Robles, one of our independent Non-executive Directors, in November 2020. Luis had been a member of the Board and our Audit and Remuneration Committees since the 2019 AGM and we had benefitted from his wisdom and counsel greatly during that period. That he should have been taken from us so suddenly is a tragic loss. His family continue to remain in our thoughts.

In February 2020, Jaime Lomelín retired as a Director, having served on the Board since the IPO, initially as our Chief Executive Officer and, since 2012, as a Non-executive Director. Jaime's deep knowledge of Mexican mining has been a valuable asset in our Boardroom and I am delighted that he will continue to be available to advise me and the Board.

On a more positive note, I was delighted to welcome Guadalupe de la Vega to the Board as an independent Non-executive Director following our 2020 AGM. In line with our policy, Guadalupe's appointment was firmly decided on the basis of merit. Guadalupe brings a huge amount of Mexican business and commercial experience to the Board as well as a significant commitment to community activities that will further add to the Board's ability to focus on our Purpose. Guadalupe's appointment brings the number of female members on the Board to four, thus representing more than 33% of the Board membership.

Whilst the gender diversity of the Board is important, we remain conscious of the importance of promoting gender diversity throughout the Fresnillo business. We devoted time at our April meeting to this topic and we have now approved a significant programme of activity (which is described in more detail on pages 86 to 87) to enhance the contribution of women to the success of Fresnillo while having a positive impact on the women we employ. To give more focus on this initiative, I am delighted that Georgina Kessel, one of our independent Non-executive Directors, has joined our HSECR Committee as a diversity champion.

With the Board's support, we were able to approve some sound financial decisions during the year as a result of which, we are entering 2021 in a strong cash position having improved our long-term debt position through the successful US$850 million Senior Notes Offering in October 2020 whilst maintaining our dividend policy during the year. We believe that such proactivity has contributed to the long-term sustainability of our finances.

Towards the end of 2020, Lintstock LLP provided external facilitation for our 2020 Board and Committee effectiveness reviews. Questionnaires were completed by all of the Directors and these were followed up with one-to-one interviews conducted by the Lintstock team. As part of this exercise, we considered how we as a Board have performed during the Covid-19 pandemic as well as reviewing our performance in the usual areas of Board and Committee governance. I am pleased that the overall findings from the review were firmly positive although, as ever, we are keen to learn and improve as a Board. Further details of this exercise are set out on page 152 of this report.

We were disappointed that UK restrictions on gatherings of more than two people resulted in the 2020 AGM being held as a closed meeting. We hope that we will be able to resume our usual format for the 2021 AGM although the situation currently remains unclear. Irrespective of whether or not that will be possible, my colleagues and I continue to welcome engagement with shareholders on our corporate governance arrangements and colleagues in our London office continue to be available to facilitate such dialogue (contact details are set out on page 270).

Yours faithfully

Mr Alberto Baillères
Chairman of the Board
1 March 2021

OUR APPROACH TO GOVERNANCE

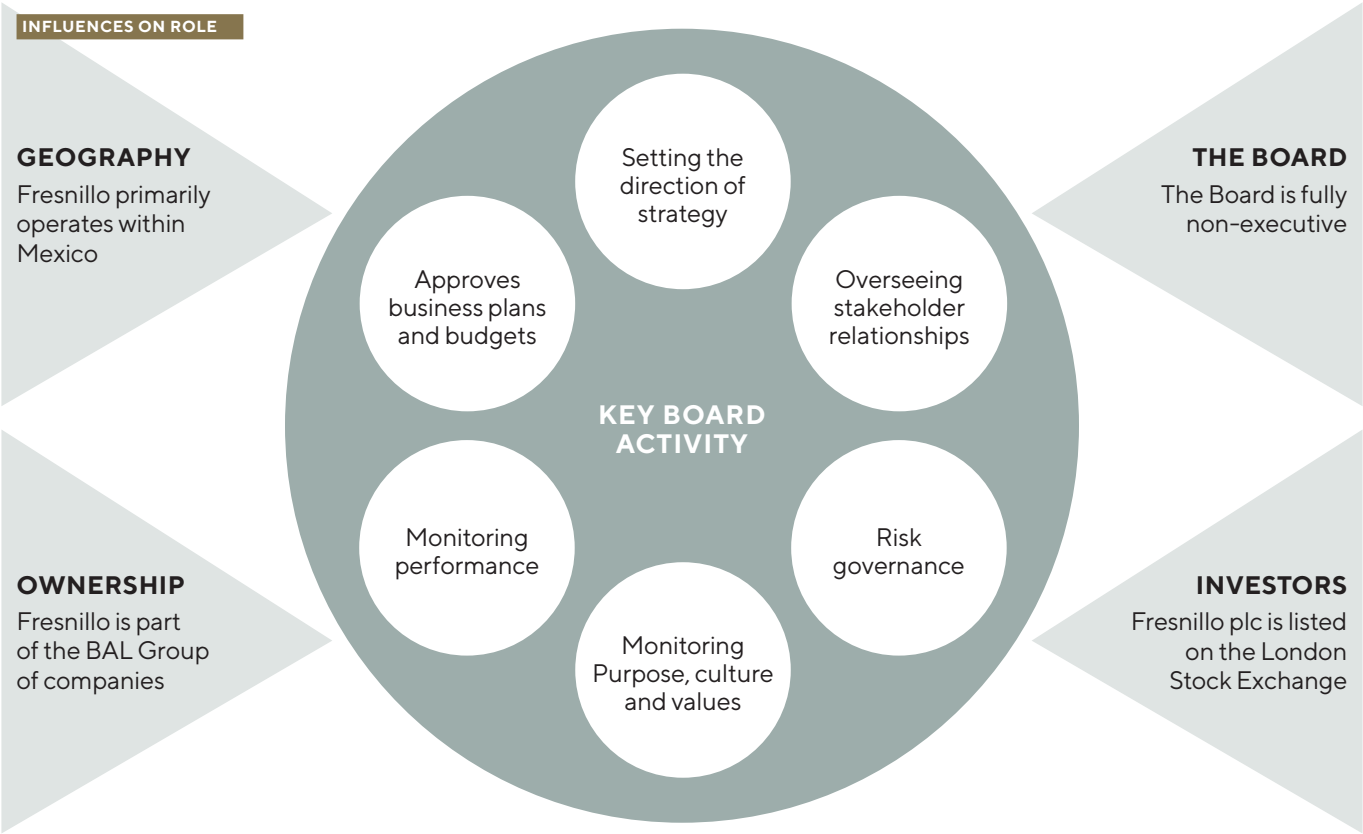
The Board's leadership role

Whilst Fresnillo's approach to governance reflects many of the usual characteristics of a FTSE 100 company, it is also particularly influenced by four key factors:

- **Geography:** It primarily operates within Mexico.
- **Ownership:** It benefits from the common umbrella and shared resources with other companies within the BAL Group of companies.
- **Board:** Its fully non-executive Board of Directors supported by the executive team.
- **Investors:** Its listing on the Main Market of the London Stock Exchange.

As a result of these contextual factors, the leadership provided to Fresnillo plc by the Board is essentially strategic and supervisory in nature.

The leadership role of Fresnillo plc Board



The leadership and management of the Company's day-to-day operations is the responsibility of the Executive Committee (comprising the Chief Executive Officer, Chief Financial Officer, Vice President of Exploration and the Chief Operating Officer). The non-independent non-executive members of the Board (Peñoles-appointed Directors) maintain regular contact with the Executive Committee to challenge and/or support as appropriate.

This creates two levels of oversight for the senior management team, initially from the non-independent Non-executive Directors, and then from the Board as a whole, including the independent Non-executive Directors.

The Board sets the corporate values underpinning the culture by which the Group will continue to operate. The Board also supervises the management of the Group's activities, including the implementation of both the Group's long-term plans and commercial strategy. It also provides the governance framework within which the Executive Committee operates. The Board has a formal schedule of matters reserved for its approval which includes major expenditure, investments and key policies.

The key elements of the Board's programme of activity are therefore:

- Monitoring the alignment of the Company's activity with its Purpose, culture and values.
- Setting the direction of strategy.
- Approval of business plans, budgets and major capex decisions.
- Oversight of stakeholder relationships.
- Monitoring operational and financial performance.
- The governance of risk.

The Audit, Nominations, HSECR and Remuneration Committees, each chaired by a Board member, support the Board by providing more detailed reviews of elements of the programme where additional time and attention is appropriate.

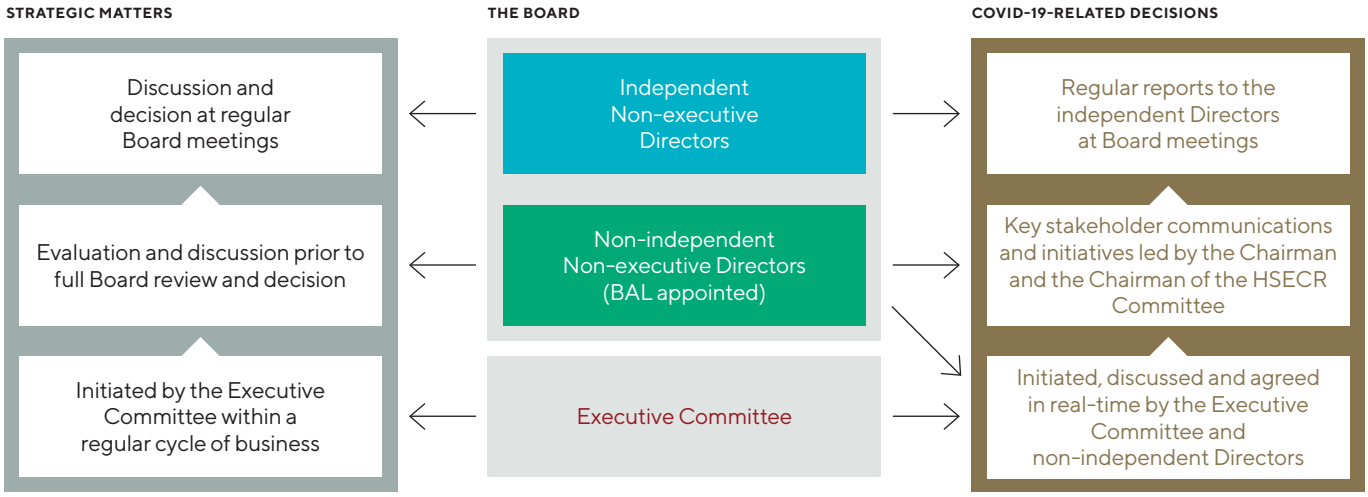
THE BOARD IN 2020

The Board and Covid-19

Following the onset of the Covid-19 pandemic in March 2020, a number of decisions were taken to ensure that necessary actions were implemented speedily in order to ensure that Fresnillo's workforce could continue to work in a healthy environment and the communities in which it operates were protected and supported. Such initiatives and decisions were tactical in nature and did not need the formal approval of the Board; however, it was important for the Board to demonstrate its leadership of the Company during this period. Consequently, a number of the Non-executive Directors in Mexico were more involved than they might ordinarily have been in tactical and operational matters during the first weeks and months of the pandemic. In particular, the senior executives of the Company were supported by the Chairman, Deputy Chairman and Mr Arturo Fernández, in his capacity as Chairman of the HSECR Committee and the Non-executive Director responsible for workforce engagement, along other Directors and executives within the BAL Group in a number of specific areas (as set out in the following section of this report).

The independent Non-executive Directors were kept informed of these initiatives and progress was monitored through the Chief Executive Officer's spoken updates at the regular Board meetings held during this year, as well as updates from members of the Executive Committee at Audit Committee and HSECR Committee meetings. In addition, the Chairman further updated the Directors by email outlining details of the Company's response to the pandemic. The Board's usual programme of formal meetings remained unchanged during the pandemic but meetings were conducted via a video-conferencing format.

Board governance in action during 2020



Key discussion topics during 2020

The following key topics were discussed by the Board during 2020 (in addition to the more administrative matters approved by the Board each year).

Strategy and planning
- Review and approval of revised Business Plan and 2020 Budget.
- Company Strategy Plan 2020-2024.
- Approval of 2021 Business Plan and Budget.

Stakeholder issues
- Gender and Diversity Strategy.
- Sustainability Strategy.
  - Climate change.
  - Tailing storage facilities.

Operational matters
- Juanicipio update.
- Exploration Strategy.
- Review of issues highlighted by SRK in relation to the downgrade of reserves and steps taken by management in response.

Financial
- Approval of a definition of emerging risks.
- Approval of the repurchase of the November 2023 5.5% bonds and issue of new 30-year bond.
- Review of the Gold and Silver Hedging Policy and amendment to allow opportunistic/selective hedging of up to 20% of production.
- SAT Agreement on tax treatment of certain investments in mining.

Governance
- 2020 Board and Committee externally-facilitated effectiveness reviews.

For more information on the Board's Section 172 Statement
See pages 132 to 134

The Board's key pandemic-related discussions and decisions

A number of matters arising directly from the pandemic and its impact on the Company were discussed by the Board during 2020. At its meeting in April, the Board received updates on the crisis management steps and health and safety measures taken by management in response to the pandemic. Financial contingency plans were also discussed. In July, the Board received an update on Fresnillo's response to community needs. A number of decisions and actions were taken by the Board, either directly or under the overview of the HSECR Committee, during the year directly as a result of the pandemic. These are summarised as follows:

Shareholders
- Decision to change the AGM meeting to a closed format meeting but provide opportunities for shareholders to submit questions to the Board by email.
- Investor roadshows were moved to web-based meetings.

Government
- Leading industry-wide discussions with the Federal Government over the importance of keeping Mexican mining safely operational as an essential industry.

Workforce
- Weekly communications to employees from the Chairman.
- Introduction of testing and contact tracing measures.

Communities
- Engagement with the health authorities in the regions where Fresnillo operates to facilitate access to healthcare for our communities.
- Donation of hospital equipment and medical supplies to community health facilities and food deliveries for vulnerable members of the communities.

Financial
- Assessment of Viability and Going Concern.
- Review of dividend policy and decision to continue paying dividends.
- Decision to temporarily reduce Directors fees by 30% during the height of the pandemic.

ABOUT THE BOARD COMMITTEES

Board attendance

Directors:	Attendance	Meetings in 2020	Other contributors
Alberto Baillères (Chair)[1]	5/6	February	Chief Executive Officer
Alejandro Baillères	6/6	April	Chief Financial Officer
Juan Bordes	6/6	July	Chief Operating Officer
Arturo Fernández	6/6	August	Vice President of Exploration
Jaime Lomelín (until 26 February 2020)	1/1	October	Head of Legal
Fernando Ruiz	6/6	December	Company Secretary
Charles Jacobs	6/6		Assistant Secretary
Bárbara Garza Lagüera	6/6		
Georgina Kessel	6/6		
Judith Macgregor	6/6		
Alberto Tiburcio	6/6		
Luis Robles[2]	4/5		
Guadalupe de la Vega (from 29 May 2020)	4/4		

Notes:
1 Mr Alberto Baillères was unable to attend the Board meeting in August 2020 as a result of being requested to attend a high-level government meeting at short notice.
2 Mr Robles was unable to attend the Board meeting in October 2020 due to illness and passed away on 19 November 2020.

About the Board Committees

Covid-19

Board Committees' Membership and meetings

All of the Board Committees continued their regular programmes of activity during the year. However, due to restrictions on travel during the Covid-19 pandemic, meetings of all of the Committees were conducted via video conference from March 2020 onwards. Given the increased scope of its remit and the particular requirements of its workload during the pandemic, the HSECR Committee increased the frequency of its meeting so as to meet quarterly.

Audit Committee

Members as at 31 December 2020	Attendance	Meetings in 2020	Other contributors
Alberto Tiburcio (Chair)	5/5	February	Chief Financial Officer
Charles Jacobs	5/5	April	Internal Audit
		July	Risk Manager
		October	Company Secretary
		December	Assistant Secretary
			External Auditor

The members of the Audit Committee are independent Non-executive Directors thus complying with the requirements of the 2018 UK Corporate Governance Code. Mr Robles was unable to attend the October 2020 meeting of the Audit Committee for medical reasons and passed away on 19 November 2020.

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 director of a financial services group, Investec.	An adviser to several UK natural resources companies and boards.

Georgina Kessel was appointed a member of the Audit Committee on 1 March 2021. Ms Kessel has served on the Audit and Risk Committees of major companies in Mexico and Spain and has public finance experience from her career in government.

For more information about the work of the Audit Committee during 2020
See pages 156 to 166 in the Audit Committee Report

Nominations Committee

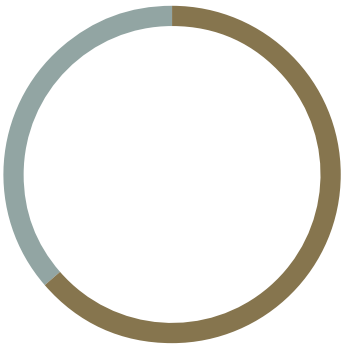
Members as at 31 December 2020	Attendance	Meetings in 2020	Other contributors
Alberto Baillères (Chair)	3/3	February	Chief Executive Officer
Bárbara Garza Lagüera	3/3	November	Company Secretary
Alberto Tiburcio	3/3	December	Assistant Secretary

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 2018 UK Corporate Governance Code.

For more information about the work of the Nominations Committee during 2020
See pages 153 to 155 in the Nominations Committee Report

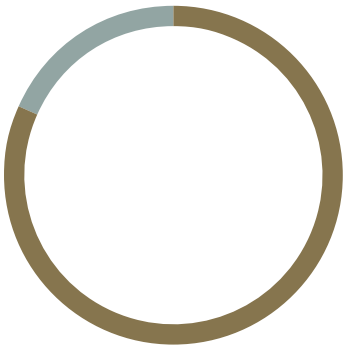
Board composition 2020

Gender split[1]



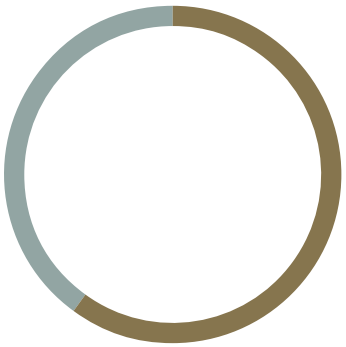
- Male – 7 (2019: 9)
- Female – 4 (2019: 3)

Ethnic origin[1]



- Latin America – 9 (2019: 10)
- Europe – 2 (2019: 2)

Independence (including the Chairman)[1 2]



- Independent – 6 (2019: 6)
- Non-independent – 5 (2019: 6)

1 As at 31 December 2020, there were 11 Directors on the Board following the passing of Luis Robles on 19 November 2020.
2 Excluding the Chairman, there were six independent and four non-independent Directors at the end of the year. There were seven independent Directors prior to Luis Robles passing away.

Remuneration Committee

Members as at 31 December 2020	Attendance	Meetings in 2020	Other contributors
Charles Jacobs (Chair)	3/3	February	Chief Executive Officer
Alberto Baillères	3/3	April	Remuneration Consultants
		October	Company Secretary
			Assistant Secretary

Mr Robles was unable to attend the October 2020 meeting of the Remuneration Committee for medical reasons and passed away on 19 November 2020. Guadalupe de la Vega was appointed a member of the Remuneration Committee on 1 March 2021.

The 2018 UK Corporate Governance Code states that the Remuneration Committee should be made up of independent Non-executive Directors. 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 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 2018 UK Corporate Governance Code), the Board has determined 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.

For more information about the work of the Remuneration Committee during 2020
See pages 168 to 182 in the Remuneration Committee Report

HSECR Committee

Members as at 31 December 2020	Attendance	Meetings in 2020	Other contributors
Arturo Fernández (Chair)	4/4	February	Chief Executive Officer
Judith Macgregor	4/4	April	Head of Sustainability
Jaime Lomelín (to 26 February 2020)	1/1	July	Line Managers
Georgina Kessel (from 26 February 2020)	3/3	October	Head of Legal
Fernando Ruiz	4/4		

For more information about the work of the HSECR Committee during 2020
See pages 78 to 79 in the HSECR Committee Report

Terms of reference

The terms of reference of all of the Board Committees were reviewed during the year. The terms of reference of the Audit, Nominations and Remuneration Committees were last updated in 2019 and early 2020 (to take account of the requirements of the new UK Corporate Governance Code). No further changes were made to those terms of reference during 2020. The HSECR Committee recommended changes to its terms of reference to the Board in October 2020 as a result of which the terms of reference were updated to clarify some aspects of the respective roles and responsibilities of the Board, the HSECR Committee and operational management in relation to HSECR matters.

Copies of all of the Committee terms of reference are available on the Company's website
http://www.fresnilloplc.com/who-we-are/corporate-governance/terms-of-reference/

THE BOARD OF DIRECTORS

NON-INDEPENDENT NON-EXECUTIVE 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 and Fomento 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 trustees of Instituto Tecnológico Autónomo de México.	Mr Baillères is Deputy Chairman of Grupo BAL. and a member of the board of trustees of Instituto Tecnológico Autónomo de México. He is Adjunct President of the Consejo de Directores del Centro Cultural Manuel Gómez Morin, A.C.
KEY STRENGTHS AND EXPERIENCE	• Long-term knowledge and understanding of the Mexican commercial environment. • Relationships within the Mexican and international businesses 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.

Note: Some Directors hold directorships of some or all of the following listed companies which are all part of the consortium known as Grupo BAL (along with Fresnillo plc, see also page 173): 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.

JUAN BORDES
NON-EXECUTIVE DIRECTOR

ARTURO FERNÁNDEZ
NON-EXECUTIVE DIRECTOR

FERNANDO RUIZ
NON-EXECUTIVE DIRECTOR

10 January 2008	15 April 2008	15 April 2008
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 México S.A.B. de C.V. (Alternate Director), 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 México.	Mr Fernández is rector and a member of the board of trustees of Instituto Tecnológico Autónomo de México and a member of the board of Grupo Financiero BBVA Bancomer S.A. de C.V.	Mr Ruiz is a non-executive director of Rassini S.A.P.I de C.V., ArcelorMittal de Mexico S.A. de C.V., Santander Inclusión Financiera, S.A. de C.V., SOFOM, E.R. and Grupo Creática, 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's 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.

THE BOARD OF DIRECTORS

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

DATE OF APPOINTMENT
16 May 2014

COMMITTEE MEMBERSHIP
Remuneration Committee (Chairman)
Audit Committee

CURRENT EXTERNAL LISTED COMPANY DIRECTORSHIPS
Investec Plc/Investec Limited

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.

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 30 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.

BÁRBARA GARZA LAGÜERA
INDEPENDENT NON-EXECUTIVE DIRECTOR

DATE OF APPOINTMENT
16 May 2014

COMMITTEE MEMBERSHIP
Nominations Committee

CURRENT EXTERNAL LISTED COMPANY DIRECTORSHIPS
Fomento Económico Mexicano S.A.B. de C.V., Promecap Acquisition Company S.A.B. de C.V., Grupo Aeroportuario del Sureste S.A.B. de C.V. and Grupo Financiero Santander Mexico S.A. de C.V.

OTHER KEY CURRENT APPOINTMENTS
Ms Garza Lagüera is a non-executive director of Soluciones Financieras SOLFI and Vice President of ITESM Mexico City.

KEY STRENGTHS AND EXPERIENCE
- 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.

GEORGINA KESSEL
INDEPENDENT NON-EXECUTIVE DIRECTOR

DATE OF APPOINTMENT
30 May 2018

COMMITTEE MEMBERSHIP
Audit Committee
HSECR Committee

CURRENT EXTERNAL LISTED COMPANY DIRECTORSHIPS
None

OTHER KEY CURRENT APPOINTMENTS
Ms Kessel is a non-executive director of Grupo Financiero Scotiabank 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.

KEY STRENGTHS AND EXPERIENCE
- Ministerial experience within the 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. She has previously been president and a board member of Petróleos Mexicanos (PEMEX), General Director of the National Bank of Works and Public Services (BANOBRAS), member of the governing bodies of Nacional Financiera (NAFIN) and the National Bank of Foreign Trade (BANCOMEXT), adviser to the chairman of the Federal Competition Commission (CFC) and Head of the Investment Unit at the Ministry of Finance and Public Credit of Mexico.

All of the Directors listed above, will seek election or re-election by shareholders at the forthcoming Annual General Meeting.
Luis Robles served as a director during 2020 until his death on 19 November 2020.

DAME JUDITH MACGREGOR, DCMG, LVO
INDEPENDENT NON-EXECUTIVE DIRECTOR

DATE OF APPOINTMENT
23 May 2017

COMMITTEE MEMBERSHIP
HSECR Committee

CURRENT EXTERNAL LISTED COMPANY DIRECTORSHIPS
None

OTHER KEY CURRENT APPOINTMENTS
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 the Caradon Trusts.

KEY STRENGTHS AND EXPERIENCE
- International diplomatic experience.
- Government relations in resource-rich countries.
- International research collaboration.
- Wide ranging managerial and equality, diversity and inclusion experience.

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.

ALBERTO TIBURCIO
INDEPENDENT NON-EXECUTIVE DIRECTOR

DATE OF APPOINTMENT
4 May 2016

COMMITTEE MEMBERSHIP
Audit Committee (Chairman)
Nominations Committee

CURRENT EXTERNAL LISTED COMPANY DIRECTORSHIPS
Mr Tiburcio is an independent non-executive director of Fomento Económico Mexicano, 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.

OTHER KEY CURRENT APPOINTMENTS
Mr Tiburcio is an independent non-executive director of Grupo Financiero Scotiabank 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 México and Tankroom S.A.P.I. de C.V.

KEY STRENGTHS AND EXPERIENCE
- 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 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.

GUADALUPE DE LA VEGA
INDEPENDENT NON-EXECUTIVE DIRECTOR

DATE OF APPOINTMENT
29 May 2020

COMMITTEE MEMBERSHIP
Remuneration Committee

CURRENT EXTERNAL LISTED COMPANY DIRECTORSHIPS
None

OTHER KEY CURRENT APPOINTMENTS
Ms de la Vega is a director of a number of non-listed companies including Almacenes Distribuidores de la Frontera, S.A. de C.V., Maximus Inmobiliaria, S. de R.L. de C.V., Citibanamex, Coparmex, Dominos Pizza Ciudad Juárez and Altec Purificación, S.A. de C.V. She is also a director of ITESM (Tec de Monterrey) and EISAC.

KEY STRENGTHS AND EXPERIENCE
- Broad business leadership experience within Mexico and internationally.
- Community and economic development programme leadership within Mexico.

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, and 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 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.

GUILLERMO GASTÉLUM
VICE PRESIDENT, EXPLORATION

DATE OF APPOINTMENT
1 January 2021

COMMITTEE MEMBERSHIP
Mr Gastélum is invited to attend Board meetings.

KEY STRENGTHS AND EXPERIENCE

- Senior mining exploration experience in Mexico.
- Geological engineering background.

Mr Gastélum has extensive experience in the Mexican mining sector, most recently as Deputy Director of Exploration for Northern Mexico and Chile at Fresnillo. Prior to this, Mr Gastélum was Regional Manager of Exploration at Peñoles. He started his career with Peñoles 31 years ago.

Mr Gastélum holds a degree in Geological Engineering from the Universidad Autónoma de Chihuahua and has a Master's degree in Mineral Exploration from Queen's University in Canada. He also graduated from executive training programmes at IPADE and ITAM business schools in Mexico.

David Giles served as the VP of Exploration until 31 December 2020.

TOMÁS ITURRIAGA
CHIEF OPERATING OFFICER

DATE OF APPOINTMENT
19 November 2020

COMMITTEE MEMBERSHIP
Mr Iturriaga is invited to attend Board meetings and on occasions Audit Committee meetings.

KEY STRENGTHS AND EXPERIENCE

- Senior operational experience in Mexico and North America.
- Strong mining background.

Mr Iturriaga brings more than 20 years of professional experience and a significant track record in the mining sector. Since May 2018, Mr Iturriaga was Director of Health, Safety, Environment and Community Relations at Peñoles. Prior to joining Peñoles, Mr Iturriaga held several positions at Goldcorp, such as General Manager of Los Filos mine, Chief Operating Officer Mexico and Regional Vice-President and General Manager Mexico. He also held the position of Vice President North American Operations at Capstone Mining Corp in Canada and Vice President of Operations and Country Manager for Mexico of Endeavour Silver Corp.

Mr Iturriaga holds a degree in Mechanical and Electrical Engineering from the Instituto Tecnológico de Monterrey, and a Global MBA from Thunderbird, The American Graduate School of International Management and was part of the General Management Programme at Harvard Business School.

André Sougarret served as the Chief Operating Officer until 19 November 2020.

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 Code Provisions of the 2018 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 2020.

Following the passing of Luis Robles, an independent Non-executive Director on 19 November 2020, the Company was technically not compliant with *Code Provisions 24 and 32*, which require that the Audit and Remuneration Committees consist of three or more independent Non-executive Directors. As a result of Mr Robles' passing, both Committees were reduced to two members. On 1 March 2021, Ms Georgina Kessel, an independent Non-executive Director, was appointed a member of the Audit Committee and Ms Guadalupe de la Vega, another independent Non-executive Director, was appointed a member of the Remuneration Committee, thus restoring the membership of both these Committees to three members.

For the financial year ended 31 December 2020 other than as set out below, the Company has complied with the provisions of the Code, save in respect of:

- *Code Provisions 9 and 19,* which provide: (i) that "the chair should be independent on appointment"; and (ii) that "the chair should not remain in post beyond nine years from the date of their first appointment to the board". Mr Baillères was appointed to the Board by Peñoles pursuant to the Relationship Agreement (see page 149); 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 pages 138 to 139). 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 continuing 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 Chairman of the Company, Alberto Baillères, who was not independent at the time of his appointment, is a member of the Remuneration Committee. The Board has consistently believed 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.
- *Code Provision 36,* which provides that remuneration schemes should promote long-term holdings by executive directors that support alignment with long-term shareholder interests. The Company's approach to executive remuneration is explained in the Directors' Remuneration Report on pages 168 to 182. The Company does not use share-based forms of remuneration because historically it has not been a common form of remuneration in Mexico. 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.

Information about compliance with the Code's Provisions may be found in the following sections of this report:

1. Board Leadership and Purpose:
   For more information
   See pages 148 to 149
2. Division of Responsibilities:
   For more information
   See pages 150 to 151
3. Composition, Succession and Evaluation:
   (including the Nominations Committee Report)
   For more information
   See pages 152 to 155
4. Audit, Risk and Internal Control:
   (the Audit Committee Report)
   For more information
   See pages 156 to 167
5. Remuneration:
   (the Directors Remuneration Report)
   For more information
   See pages 168 to 182

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.

BOARD LEADERSHIP AND PURPOSE

Generation and preservation of Company value

Fresnillo's business model and strategy is set out on pages 20 to 21 and 32 to 33 of the Strategic Report and describes the basis upon which the Company generates and preserves value over the long term. In February 2020, the Board reviewed and updated the five-year plan for the period 2020 to 2024. The Executive Committee members report on the implementation of strategy at each Board meeting, with particular reference to performance against the published strategic targets.

Purpose

Our Purpose is to contribute to the wellbeing of people, through the sustainable mining of silver and gold. The Purpose statement was approved by the Board in October 2019. As 2020 has progressed, the Board and the executive team have developed their understanding of what the Purpose means in practice as described on pages 08 to 09.

The Board and culture

The Corporate Code of Conduct was updated and the new version was approved by the Board in February 2020. The Code of Conduct 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. It also 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.

During the year, the Board has monitored workforce culture and behaviour in a number of ways:

- Feedback on the alignment of the decisions taken during the pandemic with the corporate values was obtained through the 2020 Cultural Assessment undertaken by Ethisphere. The Board considers that progress has been encouraging with the Company's culture quotient improving since 2016 and outperforming the relevant benchmarks.
- Regular reviews of whistleblowing reports and actions taken by management in response to issues raised via that medium (see page 84 for a further summary of whistleblower hotline claims during the year). During the year, the Board (and Audit Committee) received reports on the roll-out of the anti-harassment protocol.
- By monitoring progress with the diversity and inclusion programme and the approval of initiatives in relation to gender diversity in April 2020.
- Updates on the 'I Care, We Care' safety strategy (including 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.

For more information about culture and workforce engagement
See pages 10 to 13

Whistleblower hotline

The whistleblower hotline can be used by anyone who wishes to raise concerns, in confidence, about the Company's operations. The hotline is used by employees, contractors and, occasionally, other stakeholders such as suppliers and local communities. The use of the Company's whistleblower arrangements is monitored quarterly by the Audit Committee (see the Audit Committee Report on page 162). 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. The Board received such reports at its meetings in April 2020 (in relation to 2H, 2019) and July 2020 (in relation to 1H, 2020). In 2020, the Audit Committee and Board have monitored the reporting of incidences of harassment following the commencement of the anti-harassment protocol.

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 28 to 31).

During 2020, one impact of the Covid-19 pandemic was to bring some of the non-executive members of the Board more closely into the engagement with key stakeholders, as described in the Our Approach to Governance section on page 138. In particular, there was more frequent communication with employees from the Chairman via weekly newsletters and feedback provided to management and the Board through employee surveys which focused on attitudes towards the health, safety and wellbeing initiatives taken by the Company to facilitate safe working during the pandemic. On behalf of the Board, the HSECR Committee monitored the outcomes (efficiency) of the Company's prevention strategy: cases, rapid testing, contact tracing and isolation, etc., and challenged management concerning key elements of their response such as the protection of the most vulnerable groups and employee communications. The Chairman and Chairman of the HSECR Committee led the Company's successful engagement with the Federal Government over the importance of keeping Mexican mining safely operational as an essential industry.

Workforce engagement

The Group's workforce consists of employees (unionised and non-unionised) and contractors. Further information on our workforce may be found in the 'Our people' section on pages 86 to 87.

Workforce engagement

Engagement with the workforce takes place through direct communication and surveys within which the management team take the primary role. During the year, the Board has focused on workforce engagement in the context of its responses to the pandemic (see pages 12 to 13). This has delayed the development of the normal communication and feedback mechanisms within the workforce engagement model. Nevertheless, several new steps were taken in 2020 including a new diversity, equity and inclusion initiative, a programme covering the entire workforce to prevent and address harassment and also an engagement initiative with the workforce in relation to the pandemic. The 'I Care, We Care' programme was implemented at all of the Group's operations, covering the entire workforce (unionised and contractors).

Mr Arturo Fernández has been designated as the Director responsible for workforce engagement. Mr Fernández intends to undertake two engagement meetings with members of the workforce each year. In 2020, it was not possible to hold such sessions due to the pandemic; however, it is anticipated that these meetings will commence as soon as the prevailing rules and conditions allow.

Investment in the workforce

The Company invests in its employees through training and development programmes and healthcare and wellbeing programmes. Following the onset of the pandemic, the Company invested in state-of-the-art equipment to monitor employees' and contractors' health, including infrared thermometers, thermographic cameras and Covid-19 rapid tests. All personnel continued to receive full salaries and benefits. Mine managers were all provided with Covid-19 training from the Mexican Federal Social Security Institute and free health and wellbeing programmes were provided for miners and their families. Further details are provided on page 90.

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.

Ordinarily, 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 in London and other key financial centres, after preliminary and half-yearly results are announced. In 2020, as a result of the Covid-19 pandemic, such face-to-face meetings have not been possible and were replaced with video-conferencing calls. Similarly, it was not possible to hold an open meeting for the 2020 Annual General Meeting due to Covid-19-related restrictions. Shareholders were provided with an opportunity to submit questions to the Board via a dedicated email address ahead of the AGM. No questions were submitted. Following the Company's announcement that it had hedged 7% of the Company's 2021 silver production to limit downside risk while retaining significant upside exposure to future silver price increases, the Chief Financial Officer held a series of meetings with investors concerning their appetite for additional limited hedging if it continued to be opportunistic and selective allowing investors to benefit as much as possible from potential increases in the price of silver. Taking account of this feedback, the Board agreed to a change to the current Company hedging policy to allow opportunistic/selective hedging for up to a maximum of 20% of production (gold and silver), with a duration of not more than a year and subject to spreads where the ceiling is high enough that investors would still be able to participate in a substantial increase in the price.

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, outside of Covid-19 restrictions, meetings in London. Contact with investors in Mexico is maintained through the Investor Relations Office in Mexico City. The Senior Independent Director, who is based in London, is available to speak with shareholders concerning specific corporate governance questions as and when they arise.

The Board and sustainability

In 2020, the Board focused on two particular areas of environmental risk both through direct reports at its July meeting and through regular updates provided by the Chairman of the HSECR Committee. In relation to tailings storage facilities (TSFs), the Board reviewed the programme of work that has been supervised by the Independent Tailings Review Panel set up to ensure that Fresnillo's TSFs are managed in accordance with international standards of operational and governance practice.

In relation to climate risk, the Board received and reviewed a presentation on Fresnillo's science-based targets for reducing greenhouse gas (GHG) emissions to prevent the worst effects of climate change. This included the proposed strategy for setting a decarbonisation path in line with the 2°C scenario of the Paris Agreement within the 2020-2030 timeframe. The HSECR Committee discussed an updated presentation in October 2020.

Conflicts of interest

The Group requires that Directors complete a 'Director's List' which 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 2020 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 166.

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. Messrs Alberto Baillères, Alejandro Baillères, Juan Bordes and Arturo Fernández 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 independent Non-executive Directors annually review the good standing of the Relationship Agreement (with the most recent review being undertaken in February 2021) and they are satisfied that the Company has complied with the independence provisions included in the Relationship Agreement during the financial year ended 31 December 2020. As far as the Company is aware, such provisions have been complied with during the financial year ended 31 December 2020 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.

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 Board 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 is led by the Chairman with support from the Deputy Chairman. The Board as a whole currently consists of five non-independent Non-executive Directors and six independent Non-executive Directors. It is anticipated that a seventh independent Non-executive Director will be appointed during 2021. 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 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. 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 149), 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 pages 138 to 139). 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 continuing political and social environment in Mexico. Notwithstanding the expectations of the 2018 UK Corporate Governance Code (the '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.

For more information regarding the Relationship Agreement
See page 149

Directors' independence
The Board considers the following Directors to be independent: Charles Jacobs, Bárbara Garza Lagüera, Georgina Kessel, Dame Judith Macgregor, Alberto Tiburcio and Guadalupe de la Vega. 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 was Chairman and Chief Executive Officer of Mancera S.C., the Mexican firm of EY, the Company's auditors, until 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 that date. 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. 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 also considers 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.

Senior Independent Director
Charles Jacobs is the Senior Independent Director. In February 2020, 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, but particularly the non-independent Non-executive Directors, spend considerably more than this amount of time on Board and Committee activity. During 2020, as indicated on page 139, the non-independent Directors devoted additional time to support the Executive Committee in coordinating the Company's response to the pandemic.

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 the total workload of each Non-executive Director and the particular value that each Director brings to the Board. In making this assessment, the Nominations Committee takes into account the following factors:

1. As a single-product company with operations primarily in just one country, and because of the relative commonality of the Company's 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.

2. 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. 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 142 to 145 of this report. The Board and Committee attendance record of each of the Directors during 2020 is set out on page 140 of this report.

In addition, during 2020 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. Mr Ruiz's attendance record at Fresnillo Board and Committee meetings has always 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's 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.

Prior to her appointment to the Board, the other interests of Guadalupe de la Vega were considered and it was noted by the Nominations Committee that she does not hold any other listed company directorships.

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. During 2020, the Board considered a succession plan for the position of Company Secretary in anticipation of the phased retirement from company secretarial duties of Chris Stamp of Prism Cosec Ltd. In February 2020, on the recommendation of the Nominations Committee, the Board approved the appointment of Gerardo Carreto as Assistant Secretary to assist the transition process. He has bachelor's and master's degrees in law and more than 20 years of professional experience in the fields of law, compliance and corporate governance. On 28 October 2020, Gerardo Carreto was appointed Company Secretary. The Company regularly receives advice on UK corporate governance and legal developments from its UK legal and corporate governance advisors.

COMPOSITION, SUCCESSION AND EVALUATION

Performance evaluation

Board effectiveness review

In order to evaluate its own effectiveness, the Board undertakes annual effectiveness reviews 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
Externally facilitated Board evaluation using questionnaires and/or interviews

→

YEAR 2
Follow-up on action plan prepared in response to Year 1 evaluation using internally-facilitated questionnaires

→

YEAR 3
Focus on outstanding and emerging issues arising from the action plan using internally-facilitated questionnaires

In 2020, Lintstock LLP were invited to undertake effectiveness reviews of the Board and the principle Committees of the Board. The reviews consisted of a combination of survey questionnaires and one-to-one interviews.

BOARD EFFECTIVENESS REVIEW PROCESS IN 2020

End August
Completed surveys received by Lintstock LLP and analysed

Mid August
Surveys prepared and circulated to Directors to complete

Early September
Follow-up interviews (45-60 minutes) conducted with all Directors

Reports
- Board
- Audit Committee
- Nominations Committee
- HSECR Committee
- Remuneration Committee
- Chairman and individual Director reports

Mid-late September
Draft reports prepared

Early October
Draft reports reviewed by Chairman and approved for distribution

REPORT CIRCULATION

Board report
Discussed at the Board meeting in October 2020

Committee reports
Discussed at each Committee meeting following circulation of the respective Committee report

Individual Director reports
One-to-one circulation and discussion with each Director by the Chairman

The overall conclusion from the Board effectiveness reviews was that the performance of the Fresnillo Board of Directors is rated very highly and therefore the recommendations were characterised as points of potential further improvement rather than material changes of approach. Particular areas of Board governance which were commended in the report included: Board composition; stakeholder oversight; Board dynamics; Board support and Committees; the management and focus of meetings; the Board's performance during Covid-19; oversight of strategy; risk management; succession planning; and HR management.

There were four priorities for change that the Board was encouraged to focus on over the coming year:

- Transitioning back towards a face-to-face business-as-usual working environment (post-pandemic);
- Improvements to the information flows;
- Focus on strategic implementation; and
- Keeping up the positive momentum that has been generated by the HSECR Committee over the past 18 months, continuing to bring a clear focus to all areas within its remit.

Committee evaluation

The reports on each of the Board Committees prepared as part of the externally-facilitated Board effectiveness review were circulated to the members of each of the Committees in October 2020 and discussed by the Audit, HSECR and Remuneration Committees at their meetings in October 2020 and the Nominations Committee at its meeting in February 2021.

Individual performance reviews

The output from the externally-facilitated Board effectiveness review included individual reports on the performance of each Director which were subsequently circulated to and discussed with each Director, as necessary, by the Chairman. The independent Non-executive Directors meet annually in order to evaluate the performance of the Chairman. These meetings were held in February 2020 and February 2021.

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. Due to the Covid-19 pandemic, it was not possible for the Non-executive Directors to make such visits in person.

Briefings by the Company's legal advisers are arranged for all new Directors. In June 2020, such a briefing was given to Guadalupe de la Vega to familiarise her with the duties and responsibilities of a director of a UK listed company and the 2018 UK Corporate Governance Code. In addition, the Chairman discusses training or development needs with Board members from time to time.

In November 2020, EY, the Company's auditor, ran a half-day briefing session for Audit Committee members, to which other Board Directors were invited and some of whom attended. The session covered recent developments in corporate governance, regulatory compliance, narrative and financial reporting and internals controls.

NOMINATIONS COMMITTEE REPORT

Dear shareholder,

Although 2020 has been a year of considerable short-term and unanticipated challenges, I am pleased to report that the Nominations Committee has nevertheless been able to make progress on its longer-term objectives during the year. At the 2020 Annual General Meeting, the election of our fourth female Director, Guadalupe de la Vega, was approved by shareholders, bringing the percentage of female members on our Board up to 33% for the first time. Of equal importance was the time that the Board devoted to reviewing the Company's diversity strategy during the year.

Board changes

Guadalupe de la Vega's appointment to the Board, enables us to benefit from her extensive executive experience in a wide variety of Mexican companies. Her commitment to community activities will bring valuable and useful perspectives to the Board and we have already benefitted from her insightful input at our meetings since she became a Director.

Jaime Lomelín retired from the Board in February 2020 but continues to be available in an advisory capacity allowing us to benefit from his considerable professional experience and knowledge of mining and resources.

It was with great sadness that we announced the death of Luis Robles, an independent Non-executive Director and member of the Audit and Remuneration Committees in November 2020. In his short time with Fresnillo, Luis made a huge contribution to the Board where he was an outstanding colleague. We will miss his wise counsel, his vast experience, but above all his kindness and friendship. On behalf of the Board, and everyone at Fresnillo, I would like to extend my deepest sympathies to his family, friends and colleagues.

Board Diversity Policy progress

We continue to recognise and embrace 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. We hold fast to the importance of making Board appointments on the basis of merit, but we also take seriously considerations such as background and experience; age; gender; and shareholder perspectives in our reviews of the composition of the Board. We believe that setting targets for the number of people from a particular background or gender is not an effective approach and therefore we have no specific quotas or targets. Nevertheless, our direction of travel, as far as diversity is concerned, has been a progressive one. Since 2012, half of our Board appointments (five out of ten) have been female and, following the appointment of Guadalupe de la Vega to the Board at the 2020 AGM, our Board composition now meets the target set by the Hampton-Alexander Review.

With Guadalupe de la Vega's appointment coinciding with the retirement of Jaime Lomelin from the Board in February 2020, we now have established a precedent for having seven independent Non-executive Directors which is the largest number of independent Directors we have ever had on the Board. This adds further diversity of thought and input into our Board discussions.

With racial inequality and ethnic diversity coming into greater focus in 2020, it is pleasing to note also that in 2020 the Parker Review reported that Fresnillo plc has met its set ethnicity target for FTSE 100 companies. Since our IPO in 2008, the Board has consisted of a mix of Mexican and British Directors which enables the Board to benefit from a sound understanding of both the UK and Mexican cultural contexts of the Company in its decision-making. I believe that the Board's response to the pandemic has demonstrated the benefits of these two different cultural perspectives during 2020.

NOMINATIONS COMMITTEE REPORT
CONTINUED

Company-wide gender diversity

In previous years, we have commented on the challenges of improving the level of female representation below Board-level. At the Nominations Committee meeting in February 2020, we considered a suggestion made by one of our Directors, Ms Georgina Kessel, that the Company adopt the CLIMB framework developed by McKinsey which provides the platform for a comprehensive transformation plan to maximise the potential of women in the Group. The CLIMB framework has given us a better understanding of the systemic barriers to diversity which we need to address. The programme includes a series of initiatives designed to improve the leadership opportunities for women; develop a better human resources infrastructure; adopt and use metrics to improve management; and monitor and promote the right culture and behaviours. The Board subsequently approved this programme at its April 2020 meeting. The programme is strategically important as well as being fair because it is expected to enhance innovation, and improve stakeholder engagement and risk management. To give additional oversight to this initiative, the Nominations Committee recommended and the Board agreed that Ms Kessel should join the HSECR Committee with a view to being a diversity champion on that Committee. Further information on the implementation of this programme is set out on pages 86 to 87 in the Sustainability Report.

Board evaluation

In 2020, the Board engaged Lintstock LLP to undertake an externally facilitated review of the effectiveness of the Board, the Board Committees and the contributions of individual Directors. A summary of the overall approach adopted and findings arising from this review is set out on page 152 of the Corporate Governance Report. As part of the 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. We were pleased that Lintstock reported favourably on the performance of the Board and, indeed, the Nominations Committee. Their challenges to the Nominations Committee arising from their review were to continue (a) to be proactive in developing the membership of the Board and (b) to devote more attention to succession planning. We will respond to those challenges over the next year.

Yours faithfully

Mr Alberto Baillères
Chairman of the Nominations Committee

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 Board Appointments and 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. (Full versions of these Policies can be found on the Company's website – www.fresnilloplc.com).

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 86 to 87

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 ensuing 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.

Directors' length of tenure

As at 31 December 2020	0 to 3 years	3 to 6 years	6 to 9 years	Over 9 years
Independent Directors	2	3	1	-
Non-independent Directors	-	-	1	4

Board skills and experience

Skill/experience	Description	Percentage of Board members
Commercial leadership	Sustainable commercial success in business at a senior executive level.	82%
Strategy	Experience in enterprise-wide strategy development and implementation in industries with long cycles, and developing and leading business transformation strategies.	82%
Mexican business experience	Relevant experience and understanding of the Mexican political, cultural, regulatory and business environments.	91%
Capital allocation and cost efficiency	Extensive direct experience in environments requiring capital allocation, cost efficiency and cash flow management disciplines, with proven long-term performance.	91%
Health, safety, environment and community	Extensive experience with complex workplace health, safety, environmental and community risks, frameworks and issues.	73%
Capital markets	Relevant experience and understanding of capital markets, institutional investor engagement and regulatory/governance expectations.	82%
Mining and natural resources	Board-level experience and/or long-term knowledge gained through working with companies operating in the mining or natural resources sector.	64%
Financial expertise	Relevant experience in financial regulation and the capability to evaluate financial statements, financial controls and risk.	64%
Public policy expertise	Extensive experience of public policy or regulatory matters, including fiscal and economic, ESG (in particular climate change) and community issues, social responsibility and transformation issues.	55%

Executive succession planning

In February 2020, in line with its usual practice, the Nominations Committee reviewed 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 considered both short-term emergency and long-term planning scenarios.

In November 2020, the Nominations Committee approved the appointment of Tomás Iturriaga as Chief Operating Officer following the resignation of André Sougarret. In December 2020, the Nominations Committee also approved the appointment of Guillermo Gastélum as VP of Exploration following an organisational restructuring of Peñoles aimed at achieving a substantial improvement in the operational and financial performance.

Other Committee activity during 2020

The Nominations Committee also considered the following matters as part of its usual programme of activity:

- **Time commitment:** A review of the time commitment required from each Director and their other external appointments prior to making a recommendation to the Board supporting that all of the continuing Directors be proposed for re-election at the 2020 AGM. (Further analysis of the Nominations Committee's assessment is set out on pages 150 to 151 of the Corporate Governance Report).
- **Company Secretary:** Approval of recommendations to the Board concerning the appointment of Gerardo Carreto initially as Assistant Secretary and subsequently, Company Secretary, following the retirement of the previous Company Secretary in October 2020.
- **Committee Report:** Approval of the 2019 Nominations Committee Report prior to publication.
- **Committee evaluation:** A self-evaluation exercise was undertaken by the Nominations Committee in February 2020 (which concluded that the Nominations Committee is functioning well).

AUDIT COMMITTEE REPORT

Dear shareholder,

I am pleased to introduce the Audit Committee Report for 2020.

Due to the pandemic, 2020 was an extremely difficult year for humanity, for the global economy, for business and for many companies around the globe. Companies and their stakeholders have needed to be creative in responding to the pressing challenges caused by it. This has required the careful but quick adjustment of existing processes, prioritising the health and wellbeing of employees and stakeholders, whilst making every effort to maintain financial strength.

Fresnillo was no exception. With rigorous safety measures, our mines were able to continue operating for most of the year, although the majority of the office-based employees had to work from home. From an operational perspective, many new or amended controls needed to be put in place from the outset of the pandemic to address the new risk factors. With the assistance of the Risk Manager and Internal Audit, we monitored the impact of this new environment on our financial statements process, including the management of data security. For the same reasons, we also discussed and agreed with the external auditors the appropriate changes in their audit approach.

Given the challenging circumstances, the Audit Committee placed additional emphasis on the adequacy of the processes and conclusions of key areas of judgement and estimation. These are discussed further in this report, in particular those related to the impairment of long-term assets and the going concern and viability assessments.

During the year, we continued to monitor the ongoing implications of the new aspects of the 2018 UK Corporate Governance Code on our activities and in this report we comment particularly on those aspects that fall within the scope of the Committee. We have also begun to consider the analysis of the significant changes that may be introduced in future years as a result of Kingman and Brydon reviews. To help us in this task, in November 2020 the Audit Committee held a half-day update session which was facilitated by EY and included a review of a wide range of recent developments which are under consideration in the UK. The topics covered included: the impact of the Stewardship Code 2020 on investor priorities and how can corporate boards prepare for change; the UK corporate governance landscape and upcoming regulatory changes; the likely introduction of UK regulation in respect of internal controls on financial reporting; and reporting trends in the context of Fresnillo's Annual Report. This session was attended by Audit Committee members and some other members of the Board, executives from the Finance, Internal Audit, Internal Control, Compliance and Legal areas as well as other executives that work closely with the Committee.

Matters of particular focus for the Audit Committee during the year that merit reference in this year's report, include:

- **Tax contingencies:** Over the past few years, the Audit Committee has closely monitored the tax contingencies, in particular, the differences generated in prior years regarding the tax treatment of certain investments in mining assets and in the intra-group sales of mining concessions. These items were not explicitly determined by the Mexican tax law and consequently were subject to interpretation. The Audit Committee has received regular reports from management on their discussions with the Servicio de Administración Tributaria (SAT) the Mexican tax authority concerning these matters. Following the

change in government at the end of 2018, this issue was re-examined by the SAT. In the second half of the year, the Company reached an agreement with the SAT by which the Company agreed to settle approximately US$62 million (part of which was compensated with balances owed by the Government), with a profit and loss impact of US$22 million. The Audit Committee reviewed the evidence provided by management and discussed the approach taken to this negotiation prior to recommending to the Board that it was a reasonable outcome for the Company.

- **Inventory:** The re-estimation of the inventory quantities held in the leaching pads at Herradura was evaluated at the end of 2019 and no adjustment to the estimated recovery rate was required at that stage. During 2020, the Audit Committee continued to review the assessment of the executive team once additional studies and evidence could be completed. In July, the Audit Committee probed the management assessment of the evidence obtained in the first half that suggested that further ore could be recovered from the deposits built up in prior years that were part of the inventory at the end of 2019. Following this discussion, the Audit Committee agreed with the adjustment resulting from that reassessment which was accounted for prospectively as a change in estimate, in accordance with IFRS. The reduction of the per-ounce cost of gold in leaching pads benefitted the 2020 income statement by approximately US$90 million.
- **Reserves and Resources:** The Audit Committee reviewed the observations raised by SRK Consulting UK Ltd (SRK) (the Company's independent reserves and resources auditor), in relation the preparation of our 2019 Reserves and Resources statement. SRK were invited to meet with the Audit Committee to discuss the timeliness of the preparation of the statement and the discussion focused on some weaknesses in the supporting documentation provided by the Company to SRK and the delays in their procedures arising from these weaknesses. SRK also explained that these weaknesses had resulted in the downgrading of reserves from proven to probable and, until these are remediated, reserves would remain in this category. The Audit Committee reviewed the remedial action plan prepared by management and the steps already taken in response to SRK's observations. There is more work to do and this will be monitored by the Audit Committee during 2021 but progress to-date has been reasonable and the 2020 report by SRK was delivered in time.
- **Cyber security:** IT security and data protection were also subjects that the Committee discussed regularly during the year to ensure that the programmes of activity identified in previous years continue to be implemented on schedule. The Company continues to make progress in this important area and this will be monitored further by the Committee during 2021.

Toward the end of the year, an externally-facilitated Audit Committee effectiveness review was conducted by Lintstock. I am pleased to report that the findings were very positive, with the only suggestion being that we should be more efficient in dealing with relatively minor issues of the agenda. In order to keep the Board informed of the Committee's activities on a timely basis, we have continued with the practice adopted at the end of 2018, of circulating our minutes to all Board members as soon as they are available.

In closing, I would like to acknowledge with gratitude the effort and valuable contributions received from the members of the Committee and from the Company executives who work closely with it, and certainly, for the invaluable support and trust that we have always received from the Board. With profound sadness, I have to mention the passing of Luis Robles in November 2020. He was an outstanding Audit Committee member. His valuable contributions will be missed. I am delighted that Georgina Kessel has been appointed to the Audit Committee. Georgina brings a wide range of skills and experience to the Committee and I am certain that her contributions to the Committee will be hugely valuable over the coming years. Being also a member of the HSECR Committee, it will be extremely helpful to have Georgina's input as the Audit Committee considers climate-related risks in the coming months.

I would also like to thank Chris Stamp, who retired as Secretary of the Audit Committee in October, for his many valuable contributions and support to the Committee for more than ten years, since the Company was listed on the London Stock Exchange. We wish him all the best. We welcome Gerardo Carreto who has already taken over as Company Secretary. We wish him every success in his new responsibilities.

There is no doubt that 2021 will also be a difficult year. It will very much depend on how and when the pandemic is brought under control and the economies of different countries recover from the setbacks experienced in 2020. Despite these difficulties, I am certain that the Audit Committee, backed up by the information and support that it receives from the executive team, is well equipped to continue doing its work effectively.

I would be happy to speak with any shareholders who have questions about the work of the Audit Committee.

Yours faithfully

Alberto Tiburcio
Chairman of the Audit Committee

AUDIT COMMITTEE REPORT
CONTINUED

Audit Committee activity in 2020

This report sets out the key activities of the Audit Committee in discharging its duties during 2020. The Audit Committee met five times during 2020. Due to Covid-19 restrictions, its meetings in April, July, October and December 2020 and February 2021 were held by video-conference; however, its scheduled programme of activity was not adversely impacted by the pandemic. Therefore, the Audit Committee was able to operate in accordance with its terms of reference and it was able to follow its usual pattern of work which is reported under the following headings:

REPORTING

Financial reporting:
Overseeing the Company's financial and narrative reporting to shareholders (including considering whether 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.

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.

Details of the membership of the Audit Committee and the Audit Committee's effectiveness review are set out on pages 140 and 152 respectively of the Governance section.

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 2020 and the full-year financial statements and Annual Report for the year to 31 December 2020. 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 the 2020 interim financial statements and 2020 Interim Announcement and consideration of EY's comments on the drafts of these documents;
- Review of plan for preparing the financial statements and Annual Report for the year ending 31 December 2020;
- Review of the significant judgements and estimates that impact the financial statements (see below); and
- Review of the financial statements and Annual Report for the year ending 31 December 2020 and consideration of EY's comments on these documents.

In addition, the Audit Committee reviewed and recommended for approval, drafts of parent company interim accounts prepared for the periods ended 30 November 2011, 30 June 2012, 30 June 2013, 30 June 2018 and 30 April 2019 in response to a technical breach of Section 838, Companies Act 2006 whereby the Company, having had sufficient distributable reserves and cash available to pay them, had in the past paid certain distributions where relevant accounts had not been filed at Companies House.

During 2020, EY provided assurance work in relation to the repurchase of the Fresnillo plc November 2023 5.5% bond and issue of a new 30-year bond ('the Bond Refinancing'). The Audit Committee discussed with EY, their work on the accounting for the Bond Refinancing and associated taxation effects.

The Audit Committee monitors the implications of new accounting standards and other regulatory developments for the Company's financial reporting. In November, at the request of the Audit Committee, EY further supported this work by providing a half-day thematic update for the Audit Committee members (and executives that work closely with the Committee) on the following topics: (i) the impact of the Stewardship Code 2020 on investor priorities and how can corporate boards prepare for change; (ii) the UK corporate governance landscape and upcoming regulatory changes; (iii) the likely introduction of UK regulation in respect of internal controls on financial reporting; and (iv) narrative reporting trends in the context of the Company's 2020 Annual Report.

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 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:

Significant areas of judgement in 2020
The significant judgement areas considered by the Audit Committee in 2020 are set out below. In each case, the Audit Committee concluded that the accounting treatment and disclosure in the financial statements are appropriate.

Related party transactions including revenue recognition (see Note 26 to the financial statements)

Assessment of 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, 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 'Transactions with Related Parties' on pages 232 to 234).
Sources of assurance	The Audit Committee considered management reports on the transactions with related parties during the year. In particular, it received confirmation from the Chief Executive Officer on the trading relationship with Met-Mex and the basis on which pricing is determined following an amendment to the process which was adopted in 2019. The 2020 charges were proposed using this same methodology and agreed by the Audit Committee (see the Related Party transactions section on page 166). 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. In addition, PwC conducts annual reviews of the price reasonableness of the intercompany transactions each year. In previous years, these reviews have not resulted in any adverse comments thus providing a basis of assurance for the usual approach; however, the PwC 2020 transfer pricing review will not be completed until a later date.

Re-estimation of quantities in inventory (see Note 14 to the financial statements)

Assessment of the risk	Inventory on leaching pads changes over time as new inventory is added or depleted and new techniques for extracting metal from inventories are developed. Consequently, the estimated future recovery of gold from that inventory may change from year-to-year. The re-estimation of the inventory quantities held in the leaching pads at Herradura was evaluated at the end of 2019 and no adjustment to the estimated recovery rate was required at that stage. The recovery of gold from leaching pad inventories at Herradura was reassessed in 2020 and new evidence obtained from the continuing operation of the old leaching pads (I-XII) indicated that further gold ounces could be recovered from the deposits on those pads.
Variables considered	The Audit Committee considered a presentation on the reassessment of inventory at Herradura at its July 2020 meeting and monitored the financial impact of this reassessment during the year. It noted management's response to enquiries from EY concerning information supporting the recovery rates from the pads. The data was reviewed again in February 2021 and it was agreed that no further adjustments to the estimated future recovery of gold in the pads were necessary.
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 264 to 267)	
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. Such calculations are dependent on significant amounts of geological data from the Company's business units. Delays in gathering such data and inaccuracies in the estimation of reserves and resources would have broad implications for the amounts included in the financial statements.
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 judgement in developing and maintaining the mine plans which estimate the timing and quantities of related production.
Sources of assurance	During 2020, the Audit Committee discussed with SRK the observations made during the 2019 year-end audit concerning the Group's processes for the estimation of reserves and resources and discussed with management the resourcing of the internal teams supporting this process and other steps taken to improve the quality and timeliness of the provision of data to SRK. The Audit Committee reviewed progress with the remedial action plan prepared by management and was satisfied that while there is more work to do during 2021, progress to-date had been reasonable and the 2020 report by SRK was delivered in time.

Silverstream contract (see Note 13 to the 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 significant albeit non-cash movements 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 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 from SRK on reserves and resources and scrutinised the process by which they were prepared to ensure that improvements made during the year had been properly implemented. Internal Audit also undertook a review of the process and assurance provided by it during the year. 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.

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. Some aspects of Mexican tax legislation are open to interpretation. Governmental changes in Mexico also result in personnel and policy changes at the SAT, the government tax authority. 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 commenced during the year and ongoing dialogue concerning a previous agreement reached with the SAT. Further information is set out in the Stakeholder reporting (Government/Tax Authorities) section below. The Audit Committee also reviewed reconciling items applied to accounting profit in determining profit subject to taxation and PTU as set out in papers prepared by management.
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 2020 is described on page 167 of the Corporate Governance Report. Following changes introduced to the Company's procedures in 2019 and early 2020, different sections of the Annual Report were circulated to Board members during early February 2021 to provide time for comments to be passed back to management. In addition, Internal Audit undertook a review of the non-financial reporting (which is extracted from the Company's operational records). In support of this process, prior to deciding whether to recommend them to the Board for approval, the Audit Committee also:

- reviewed the Annual Report and financial statements, taking into account comments made and reports issued by EY and comments discussed with management; and
- discussed with Internal Audit points arising from their review of the principal non-financial numbers in the Annual Report.

Stakeholder reporting

The Audit Committee plays a role in overseeing, on behalf of the Board, some key aspects of the Company's reporting concerning its relationships with key stakeholder groups.

Employees: The Audit Committee reviewed the work of the Honour Commission in relation to matters raised via the whistleblower line (see following section).

Government/Tax Authorities: In particular, the Audit Committee closely monitors the Company's relationship with the SAT, with the status of any outstanding tax audits reviewed at most meetings. During 2020, the Company reached an agreement with the SAT concerning the treatment of certain investments during the period 2013 to 2019 for Income Tax and in Special Mining Right purposes. Two principal tax issues were discussed and agreed with the SAT: (i) the tax treatment of costs associated with mine developments and (ii) the tax treatment of the intra-company purchase and sale of mine concessions. The Company's position on both these issues was well-supported by its tax advisers but was interpreted differently by the SAT leading to further negotiations. These resulted in an agreement that approximately 50% of the investments made during the period 2013 to 2019 should be capitalised for tax purposes with the balance amortised for tax purposes and the balance written off in the year incurred. 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 2020, 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.

AUDIT COMMITTEE REPORT
CONTINUED

Reporting continued

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 and the Chairman of the Audit Committee gives a report to the Board every six months on the key trends and steps taken as a result of these reviews.

In 2020, there were a total of 110 reports (compared to 66 in 2019). The Audit Committee particularly noted the impact of increased training in relation to the Harassment Protocol on whistleblower line calls. In 2020, 97 (88%) 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 2020 is set out in the Sustainability Report on page 84. During the year, the Audit Committee was satisfied that all matters had been or continue to be properly investigated with appropriate action taken.

Assurance

External audit

Relationship with EY

EY was reappointed as the Company's auditor at the 2020 AGM. EY was originally appointed in 2008 and their appointment was re-confirmed in 2016 following a rigorous external audit tender process in 2015/2016. The next tender process is expected to be held no later than 2025. Following completion of the 2019 audit, Steve Dobson took over from Daniel Trotman as the lead Audit Partner. During 2020, 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 2019 audit process and management responses to those observations in April 2020.
- Discussion with EY of the findings from their review of the interim results for the period ended 30 June 2020.
- The review of the 2020 half-year representation letter given to EY.
- The review and approval of the external audit plan, fees and terms of audit engagement.
- The review of the results of the 'hard close audit' for the ten months to 31 October 2020.
- The review of the representation letter given to EY for the 2020 full-year audit.
- The review EY's report following completion of the audit for the year ended 31 December 2020.

Covid-19: In 2020, EY's review of the half-year financial statements and the external audit of the full-year financial statements and 2020 Annual Report were restricted by the Covid-19 pandemic which prevented travel from the UK to Mexico and significantly reduced physical access to the Company's facilities. EY revised their approach to the audit to take account of these physical restrictions. The scope of the audit was also adjusted to place enhanced focus on the going concern disclosures and viability assessment.

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.

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 (the 'Policy') in late 2019 to take account of changes to the FRC's Ethical Standard. This review was completed in early 2020 and amendments to the Policy were approved. The Audit Committee has maintained an ongoing dialogue with EY during the year concerning the services that it provides to the Company and the wider Peñoles Group to ensure that where such services are provided, they are in line with the Policy.

The current policy permits the engagement of the external auditor to provide a narrow range of permitted services which are closely related to the audit and/or required by law or regulation. 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 2020, EY provided assurance work in relation to the Bond Refinancing. The cost of such services was US$309,000. EY also provided audit-related assurance services in connection with the review of the interim financial statements (US$821,000). The ratio of fees paid for non-audit work in relation to audit work during the year was 0.49:1.00 (2019: 0.28:1.00). Details of the fees paid to EY during the year are shown in Note 27 to the 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 on EY as a firm and discussed with the EY Audit Partner whether any of the FRC's findings were relevant to the firm's audit of the Fresnillo financial statements. EY also shared the findings from their own internal quality review with the Chairman of the Audit Committee. The conclusion from these reviews was that there were no major matters of concern to consider.

Audit Committee assessment of EY: Following the completion of the 2019 Annual Report, the Audit Committee undertook a review of the performance and effectiveness of EY at its April meeting. As part of this process, the Chief Financial Officer and finance team were invited to provide their insights into their interaction with the EY teams during that process. The Committee concluded that EY was generally performing well with an overall consensus being that the working relationship was good.

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 2020.

Reappointment of the external auditor
In February 2021, 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 2021 Annual General Meeting. The reappointment of the auditor will be subject to a review of proposed fees for the 2021 audit in October 2021.

Internal audit
The 2020 Internal Audit Annual Plan was approved by the Audit Committee in October 2019, incorporating audits across all of Fresnillo's business units with a focus on key operational risks. In March 2020, the Internal Audit plan was revised to accommodate the operational restrictions arising from the health and safety measures undertaken at the onset of the Covid-19 pandemic, which prevented the Internal Audit team from visiting the operating units. However, the Internal Audit programme proceeded forward with work being conducted remotely through increased use of technology, data analytics and process documentation. Throughout the remainder of 2020, Internal Audit completed a number of risk reviews along with process and controls assessments focusing on efficiency, productivity, cost management and regulatory compliance. Prior to the pandemic, Internal Audit was able to complete on-site audits of the Saucito and Penmont mines. However, scheduled visits to Fresnillo, San Julián and Ciénega had to be suspended. Internal Audit verified the validity, accuracy and completeness of the non-financial information included in the 2019 Annual Report, and reported the results to the Audit Committee.

Due to the ongoing importance of cyber security, and the enormous increase of critical work being performed remotely due to the pandemic, Internal Audit conducted a security assessment of applications and services available through the Internet and Virtual Private Network (VPN). Some risk areas were detected, which were promptly remediated by the Cyber security Office. The Audit Committee continues to review progress made in raising the level of cyber security maturity.

The Audit Committee is satisfied that monitoring of significant risks was not adversely impacted by this change of approach in the Internal Audit programme as Internal Audit was able to leverage technology, apply data analytical tools and maintain virtual contact with operational personnel.

Towards the end of each year, Internal Audit presents the proposed Internal Audit Annual Plan and resourcing requirements for the following year. The 2021 Internal Audit Plan was presented to the Audit Committee and approved in October 2020. The plan was developed according to the International Standards for the Professional Practice of Internal Auditing, and included the following steps:

The Internal Audit plan for 2021 includes planned audits of higher risk areas such as permitting, ongoing capital projects, compliance with community relations plans, compliance with environmental law, reserves and resources, tailings dam management, compliance with safety regulations, taxes, multi-risk compliance processes at mines, regulatory compliance, compliance with health legislation (including Covid-19 procedures), digital effectiveness, cyber security and IT processes.

The Head of Internal Audit and Deputy Director of Internal Audit attended all Audit Committee meetings throughout the year. Members of the Audit Committee meet with the Head of Internal Audit and the Deputy Director, Internal Audit two times a year without management present.

At each meeting during the year, the Audit Committee also monitored the progress made by management in addressing 'red flag' items (i.e. most serious control weaknesses) identified through Internal Audit work. The Audit Committee's focus is to ensure that the management responses to remediation are appropriate and that timely progress is made in reducing the number of red flags over time.

In addition, the Audit Committee 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 address 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 Internal Audit points and is satisfied with the progress achieved through this dialogue.

In December 2020, the Audit Committee also considered the appointment of at Ms Nancy Acosta as Head of Internal Audit with effect from 1 January 2021 following the resignation of Mr Rodolfo Gómez. This change was made in accordance with the Internal Audit succession plan and the Audit Committee considered Ms Acosta's credentials, knowledge, skills and experience, prior to approving her appointment.

AUDIT COMMITTEE REPORT
CONTINUED

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 110 to 113). 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.

At the beginning of the year, the review of the Company's risk assessment process, which commenced in 2019, was concluded. As a result, the Audit Committee approved the following definition of emerging risk:

Fresnillo plc defines emerging risks as a new manifestation 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 a risk that the company is not aware of but that could, due to emerging macro trends in the mid or long-term future, have significant implications to achieve the organisation's Strategic Plan.

The Emerging Risks were re-evaluated and reprioritised by management and reviewed by the Audit Committee in February 2021. The Principal Risks and Uncertainties are reviewed every six months prior to the publication of both the interim and full-year reports.

During the pandemic, a weekly procedure for evaluating and mitigating risks was introduced. In July 2020, the Audit Committee reviewed the Risk Matrix as at 30 June 2020. It was agreed that the Covid-19 pandemic should not be considered as a separate risk category but, rather, its impact should be incorporated into the assessment of changes in other risks. In February 2021, the results of the annual risk assessment process were presented to the Audit Committee and discussed with the Group Risk Manager prior to recommendation to the Board. The review considered the most exposed risks which were determined to be increased risk resulting from potential actions by the government; the continuing risk of global macroeconomic developments and their impact on metals prices and the security risk as a result of increased high-impact crimes in the regions where the Group operates. In addition, it was agreed that climate change should become a Principal Risk (previously an emerging risk); the public perception against mining and relations with the communities close to the mines, explorations and projects risks were amalgamated into a single Principal Risk; and the environmental incidents risk was renamed so as to specifically reflect the importance of tailings dam management.

Ethical risk

The Audit Committee monitors ethical risk through regular reviews of progress with the Group's anti-bribery and corruption programme (including regular updates on the completion rates for the online training programmes). This demonstrates that the Group's corporate values and elements of the control culture in relation to ethics remain embedded throughout the organisation. To this end, during the year, the Audit Committee received reports on the roll-out of training in relation to the disclosure of conflicts of interest; the annual assessment of the Code of Conduct; 'Step-Up' Culture; and Harassment.

In response to the Brydon review in the UK and, in particular, the focus on fraud in its recommendations, the Company widened the evaluation of its fraud risk assessment process, separating it from the annual risk assessment to evaluate the findings, observations and potential areas of opportunity. This evaluation will continue in 2021.

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 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 2020, 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 2020.

Information technology

In 2020, 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 123 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 2021, the Audit Committee reviewed the Group's budget and cash flow forecasts for the period to December 2022, taking into account the Company's anticipated production profiles at each mine, budgeted capital and exploration expenditure, the additional cash inflow resulting from the Bond Refinancing, 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. Recognising the prevailing uncertainties as a result of the Covid-19 pandemic at the time of the going concern assessment, an additional scenario test was included to determine the impact of production being stopped for three months as a result of the pandemic.

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. The Going Concern Statement is set out in the Strategic Report on page 131.

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 130 to 131. In December 2020, the Audit Committee received an update on the methodology that the executive team adopted in preparing the Viability Statement. In February 2021, it reviewed the output from that process, including consideration of observations reported by EY, and the proposed Viability Statement itself.

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. To accomplish this, there is a governance and organisational structure in place where internal control is secured by three lines of defence: process owners (1st line); committees, controllers, risk management and other oversight bodies (2nd line); and, Internal Audit (3rd line). 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 directly supported by the work of the Internal Audit team.

The pandemic impacted the way in which the internal control reviews were carried out, making it impossible to conduct physical reviews of the operating processes at all the mines and main projects due to travel restrictions. However, it was possible to monitor and evaluate the effectiveness of internal control by using technology, evaluating electronic information and analysing data from the operations. Accordingly as a result of these reviews, it was concluded that there were no material control weaknesses as a consequence of the pandemic.

At the beginning of the pandemic, numerous controls were implemented to address new risk factors. Where certain controls had to be suspended temporarily due to health and safety requirements, for example fingerprint entry controls, mitigating controls were implemented as appropriate.

Despite these operational restrictions and complexities caused by the pandemic, Fresnillo plc continued with the implementation of vitally important organisational programmes such as health, safety and initiatives for the monitoring and management of tailings dams.

Quarterly internal control reports
During 2020, the Audit Committee continued to review each of the quarterly internal control reports which were 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.

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 Risk Manager sends a survey to managers at the business unit to seek their views on elements of entity-level controls. 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 2021.

Notable control exceptions identified throughout the year were those related to: (i) ensuring that the implementation of the corporate safety ('I Care, We Care') and some environmental (water concessions and tailings dam management) programmes are executed according to EHS best practices; (ii) enhancing procedures for mine closure plans in accordance with international leading practices; (iii) optimising mine planning and contractor performance; (iv) improving procedures for the acquisition of new technologies (specifically those intended to strengthen the safety process); (v) improving the commissioning process to ensure that all systems and components of a new plant or mine are designed, installed, tested, operated, and maintained according to mine operational requirements; and vi) improving the process for the reporting of the reserves and resources as discussed later in this section.

The Chief Executive Officer, Chief Operating Officer and other senior managers were invited to meet with the Audit Committee to discuss their action plans for remediating any issues identified. In 2020, such discussions included a progress review on initiatives to address recommendations made by SRK to improve the governance of the reserves and resources estimation process, with significant progress made during the year.

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 2020 Annual Report and Accounts.

The Board has, through the Executive Committee and the Audit Committee (at its February 2021 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.

AUDIT COMMITTEE REPORT
CONTINUED

Risk and internal control continued

Related parties

With the Company's parent company, Peñoles, owning just under 75% of the issued share capital of the Company (see page 184), 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 reasonableness of proposed treatment and refining charges in respect of the Met-Mex arrangements for 2020. Management circulated a paper setting out the methodology to determine the charges, which takes industry benchmark charges and adjusts to reflect ore composition and transport costs. The methodology used in 2020 was consistent with 2019. The Audit Committee reviewed this paper and recommended approval of the proposed charges by the independent Directors at the Board meeting in October 2020. 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 (PwC)) had been completed with no issues noted. A similar assessment in respect of the 2020 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.

The following diagram summarises the approach taken to identify and manage related party transactions under the Relationship Agreement.

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	**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

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 2020, 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 24 February 2021. 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, the 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 meetings 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 Operations reporting, the Sustainability Report and climate disclosures in particular, the presentation of information on diversity and inclusion and the presentation of health and safety information.
- 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 136 to 167 has been approved by the Board of Directors of Fresnillo plc

Signed on behalf of the Board

Charles Jacobs
Senior Independent Director
1 March 2021

DIRECTORS' REMUNERATION REPORT

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 gold and silver

STRATEGIC PRIORITIES

1 EXPLORE
Extend and maintain a robust growth pipeline

2 DEVELOP
Deliver profitable growth, optimise cash flows and returns

3 OPERATE
Maximise the potential of our operations

4 SUSTAIN
Advance and enhance the sustainability of our business

RELEVANT BONUS METRICS

- Replenishment and expansion of reserves and resources
- Exploration projects progress

- Development projects progress
- Contractors' performance
- EBITDA

- Production – increase in ounces produced
- Synergies and teamwork
- Management of contractors

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 for all employees. 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 Company's 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 2020
WHAT WAS ACHIEVED?

PERFORMANCE		2020	2019	CHANGE (%)
1 EXPLORE	**TOTAL SILVER RESERVES** (MOZ)	**457.4**	484.0	(5.5)
	TOTAL GOLD RESERVES (MOZ)	**8.4**	9.2	(8.8)
2 DEVELOP	**EBITDA** (US$M)	**1,169.1**	674.0	73.4
	PROFIT FOR THE YEAR (US$M)	**375.6**	205.8	82.5
3 OPERATE	**SILVER PRODUCTION** (MOZ)	**53.1**	54.6	(2.9)
	GOLD PRODUCTION (KOZ)	**769.6**	875.9	(12.1)
4 SUSTAIN	**TOTAL ENVIRONMENTAL INCIDENTS**	**0**	0	–
	FATALITIES	**1**	2	(50.0)
CEO'S REMUNERATION	**TOTAL SALARY** (US$'000)	**736**	871	(15.4)
	BONUS (US$'000)	**119**	NIL	–

DIRECTORS' REMUNERATION REPORT

CHAIRMAN'S ANNUAL STATEMENT

Dear shareholder,

Our application of the Remuneration Policy in 2020

With shareholders having approved an updated Directors Remuneration Policy in 2019, the priority of the Remuneration Committee in 2020 was to apply the current Policy appropriately. However, with the unprecedented scenario of the Covid-19 pandemic making this a less straightforward process than we might have anticipated, we have adapted our approach to executive remuneration accordingly. We were, of course, by no means alone in having to react to these new circumstances. In the event, however, the impact of the pandemic on the Company was much more moderate than it could have been. Our operations were, with the exception of a brief disruption to production in the Herradura District, largely uninterrupted and our financial performance was buoyed by reasonably favourable commodity prices. Fresnillo has, therefore, been able to continue operating without the need for short-term financial assistance and we continued to pay dividends in line with our usual policy. As a consequence, our discussions and decisions on remuneration were relatively easy ones to take. Nevertheless, we have been mindful of the need to be fair in our decisions and, above all, we have sought to ensure that the approach to executive remuneration was fairly aligned to the approach to remuneration of our employees.

Salaries

At our meeting in April, the first after the onset of the pandemic, we noted that our CEO had agreed to take a temporary pay reduction of 20% and other members of the Executive Committee had agreed to take a pay reduction of 10%. We therefore proposed and it was agreed that all of the Directors should also consider a temporary reduction in their fees of 30%. Once it was clear that the financial performance of the Company for the year would be more robust than we initially feared, the Directors fees and Executive Committee salaries were restored to their pre-pandemic levels. Nevertheless, we agreed that there should not be any salary increases for the Executive Committee members in 2020 in line with the policy agreed for all non-unionised employees. We believe that this was an equitable approach to take.

Bonus
The Remuneration Committee reviewed the financial and operational outcomes for 2020 and noted that these resulted in a bonus outcome for the Chief Executive Officer equivalent to two and a half months' salary. In view of the performance of the business during 2020, we considered that this was a reasonable outcome and therefore were happy to agree the bonus award without any discretionary adjustment.

Shareholder approval
With our approach to executive remuneration being relatively unusual when compared to our peers in the FTSE 100 Index, I am always keen to ensure that we retain strong shareholder support for the Remuneration Committee's work and the Company's approach. It was therefore encouraging that our 2019 Annual Report on Remuneration was approved by almost 98% of the shares voted by our independent shareholders at our 2020 AGM.

Use of discretion by the Remuneration Committee
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.

Committee discussions during 2020
During the year, the Remuneration Committee met three times and its discussions and decisions included the following:

- Review of the performance of the Chief Executive Officer and members of the Executive Committee compared to the KPIs set for 2019 and approval of annual bonus awards for 2019 based on achievement of KPI targets.
- Review of KPI targets for the Chief Executive Officer and members of the Executive Committee for 2020.
- Review of the Non-executive Directors' fees.
- Review of the external effectiveness review of the Committee undertaken by Lintstock.
- Review and revision of the terms of reference of the Committee in response to UK regulatory developments.

Finally, I would like to acknowledge the contribution of Luis Robles to the work of the Remuneration Committee during the period from his appointment in 2019 until his passing away in November 2020. We were greatly saddened by his loss and will miss his wisdom and input into the work of the Remuneration Committee. My condolences go to all of Luis' family and friends.

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 2020

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 2020. In accordance with the Regulations, the information provided in the section titled 'Directors' Remuneration – 1 January 2020 to 31 December 2020' and accompanying notes, has been audited by Ernst & Young LLP.

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.

Audited information – Directors' Remuneration – 1 January 2020 to 31 December 2020

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 2020 are detailed below:

	2020							2019						
US$ thousands	Salary/ Fees[1]	Benefits	Bonus	Pension	**Total Fixed Pay**	**Total Variable Pay**	**Total**	Salary/ Fees	Benefits	Bonus	Pension	**Total Fixed Pay**	**Total Variable Pay**	**Total**
Chairman														
Alberto Baillères	38	0	0	0	**38**	**0**	**38**	45	0	0	0	**45**	**0**	**45**
Non-executive Directors														
Alejandro Baillères	38	0	0	0	**38**	**0**	**38**	45	0	0	0	**45**	**0**	**45**
Juan Bordes	38	0	0	0	**38**	**0**	**38**	45	0	0	0	**45**	**0**	**45**
Arturo Fernández	38	0	0	0	**38**	**0**	**38**	45	0	0	0	**45**	**0**	**45**
Bárbara Garza Lagüera	38	0	0	0	**38**	**0**	**38**	45	0	0	0	**45**	**0**	**45**
Charles Jacobs	104	0	0	0	**104**	**0**	**104**	118	0	0	0	**118**	**0**	**118**
Georgina Kessel	38	0	0	0	**38**	**0**	**38**	45	0	0	0	**45**	**0**	**45**
Judith Macgregor	98	0	0	0	**98**	**0**	**98**	115	0	0	0	**115**	**0**	**115**
Fernando Ruiz	38	0	0	0	**38**	**0**	**38**	45	0	0	0	**45**	**0**	**45**
Alberto Tiburcio	55	0	0	0	**55**	**0**	**55**	64	0	0	0	**64**	**0**	**64**
Guadalupe de la Vega[2]	21	0	0	0	**21**	**0**	**21**	0	0	0	0	**0**	**0**	**0**
Former directors														
Luis Robles[3]	37	0	0	0	**37**	**0**	**37**	31	0	0	0	**31**	**0**	**31**
Jaime Lomelín[4]	7	0	0	0	**7**	**0**	**7**	45	0	0	0	**45**	**0**	**45**
Jaime Serra[5]	0	0	0	0	**0**	**0**	**0**	7	0	0	0	**7**	**0**	**7**
Total	**588**	**0**	**0**	**0**	**588**	**0**	**588**	**695**	**0**	**0**	**0**	**695**	**0**	**695**
Chief Executive Officer														
Octavio Alvídrez[6]	736	88	119	(4)	**820**	**119**	**939**	871	96	0	197	**1,164**	**0**	**1,164**
Grand Total	**1,324**	**88**	**119**	**(4)**	**1,408**	**119**	**1,527**	**1,566**	**96**	**0**	**197**	**1,895**	**0**	**1,895**

Notes

1 From May to October 2020, the Directors voluntarily accepted a 30% reduction in their fees whilst the financial implications of the Covid-19 pandemic for the Company were evaluated. From June to August 2020, the Chief Executive Officer voluntarily accepted a 20% reduction in salary.
2 Guadalupe de la Vega was appointed to the Board on 29 May 2020.
3 Luis Robles was appointed to the Board on 21 May 2019 and passed away on 19 November 2020.
4 Jaime Lomelín resigned from the Board on 26 February 2020.
5 Jaime Serra resigned from the Board on 25 February 2019.
6 Details of benefits provided and the bonus paid to Mr Alvídrez are set out in the tables below.
7 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$	**2020**	2019		**2020**	2019
Life insurance premiums	**40,865**	35,097	Medical insurance premiums	**4,109**	4,342
Chauffeur	**29,917**	34,404	Club memberships	**1,799**	1,513
Subsistence/meal benefits	**5,314**	14,376	Social security	**1,387**	1,087
Car	**4,646**	5,185			

Pension

The pension entitlement of the Chief Executive Officer is as follows:

US$ thousands	Defined Contribution Scheme (DCS)	Defined Benefit Scheme (DBS)
Rights as at 31 December 2020	889	908
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.

Pension continued

US$ thousands	Accumulated accrued benefits (as at 31 December)		Increase in accrued benefits during the year (see note)		Increase, before inflation and the effect of foreign exchange, in accrued benefits during the year	
	2020	2019	**2020**	2019	**2020**	2019
Octavio Alvídrez	**1,795**	1,794	**1**	308	**76**	199

Note: The increase in accrued benefits during the year includes a revaluation effect of -US$97k (2019: +US$66k) and inflation of +US$23k (2019: +US$43k).

Shares held by Directors

The number of Ordinary Shares of the Company in which the Directors were beneficially interested at 1 January 2020 and at 31 December 2020 was:

Director	1 January 2020	31 December 2020
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	1,600
Georgina Kessel	–	–
Jaime Lomelín[2]	–	N/A
Dame Judith Macgregor	–	–
Luis Robles[3]	–	N/A
Fernando Ruiz	30,000	30,000
Jaime Serra	–	N/A
Alberto Tiburcio	–	–
Guadalupe de la Vega[4]	N/A	–

Notes

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 Jaime Lomelín retired from the Board on 26 February 2020.
3 Luis Robles passed away on 19 November 2020.
4 Guadalupe de la Vega was appointed to the Board on 29 May 2020.

Our stakeholders and remuneration

The Committee seeks to ensure that its approach to executive remuneration matters is aligned with the interests of all of its key stakeholders. In particular, the current Policy seeks to take 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, bringing 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.

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.

DIRECTORS' REMUNERATION REPORT

ANNUAL REPORT ON REMUNERATION 2020 (CONTINUED)

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 may also used as the point of reference in setting the annual salary review for the Chief Executive Officer, members of the Executive Committee and non-unionised employees. In view of the financial uncertainties resulting from the Covid-19 pandemic, it was agreed that there would not be a salary increase for the Chief Executive Officer and members of the Executive Committee, in line with the wider decision not to award non-unionised employees a salary increase in 2020. Consequently, the salary payable under Mr Alvídrez's service agreement remains MX$1,020,611 per month, which excludes payments for holidays, Company-paid savings contributions and other cash benefits.

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 Willis Towers Watson 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 Willis Towers Watson, 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.

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, Willis Towers Watson reviewed the Chief Executive Officer's remuneration by reference to the Peer Group and confirmed that it remained within these parameters. A further review will be conducted ahead of the next renewal of the Policy in 2022. The Peer Group consists of the following companies.

Policy benchmarking Peer Group

Region	Peer Group companies
Mexico	Grupo Mexico Leagold Mining
USA/Canada	Agnico Eagle Mines Ltd Centerra Gold Hecla Mining Co. IAM Gold Newmont Goldcorp Pan American Silver Corp. Yamana Gold Inc.
Europe	Hochschild Mining Antofagasta

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 Annual Bonus Plan includes metrics and targets which are aligned to at least one of the four main themes of the Group's strategy (see Remuneration at a Glance section on pages 168 to 169).

The Remuneration Committee has set 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 101.7 points under the bonus scheme for the year ended 31 December 2020 (2019: 55.6 points) and therefore was awarded a bonus of 2.5 months' salary for 2020.

The objectives, the measures associated with each objective, and the relative weighting between objectives, as applied to Mr Alvídrez's annual bonus payment, are detailed in the following table:

Objective	Measure	Weighting Points[1]	2020 Target	2020 Result	Points awarded
Financial[12]	(Adjusted EBITDA for the year/Budgeted EBITDA) x 100[2]	20	639	736 (15.2%)	25.0
Production[12]	Increase in equivalent ounces produced compared to the prior year production level[3]	20	133.2	131.4 (-1.3%)	18.7
Exploration[12]	(Total Resources for the year/Total Resources prior year) x 100[2]	5	1.20	1.57 (31.1%)	6.6
	Net increase in resources upgraded from inferred to measured and indicated (MI Resources for the year/MI Resources prior year) x 100[3]	5	1.20	-1.52 (-226.8%)	0.0
	Reserves replenishment (Reserves at year end/Reserves prior year) x 100	4	100%	114% (13.8%)	4.6
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 points from 90% to zero%)[5]	8	90.0% (i) 90.0% (ii) 90.0% (iii) 90.0% (iv)	88.0% 53.0% 133.0% 71.0%	2.93 (3) 1.18 (2) 2.20 (2) 0.79 (1)
Projects	Progress compared to project plan for three key development projects (to be reviewed each year)[6] (Target = 92% progress: Maximum = 100% progress, proportional decrease to nil points from 92% to zero%)	11	92.0% (v) 92.0% (vi) 92.0% (vii)	86.0% 100.0% 89.0%	4.66 (5) 3.15 (3) 3.87 (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%	85.0%	2.56
		2 (Open Pit)	100.0%	82.0%	1.64
	Unionised labour relations (Discretionary award)	2	90.0%	90.0%	2.00
	Management of contractors programme (Target = 95% progress on planned work: Maximum = 100% progress, proportional decrease to nil points from 90% to zero%)	1	90.0%	90.0%	1.00
Safety	Fatal accidents[7]	10	0	1	0.00
	Sustainability plan progress in implementing the safety plan for the year[8] (Target = 95% progress: Maximum = 100% progress, proportional decrease to nil points from 95% to zero%)	3	95.0%	90.0% (-5.3%)	2.84
	Reduction in the Lost Days Ratio compared to previous year (Lost Days/Total Headcount, including contractors) Maximum: 10% or more reduction	3.5	7.63	6.20 (-18.7%)	4.20
	Reduce the Injury Rate compared to previous year (Total accidents/Headcount) Maximum: 10% or more reduction	3.5	18.67	13.90 (-25.5%)	4.40
Communities	Perception poll outcomes Effectiveness metrics	3 3	4 0.89	4 0.78	4.0 3.36
Synergies and teamwork	Discretionary target to be agreed by the Chairman and Deputy Chairman	2	95%	100%	2.2
Total		**100**			**101.7**
Adjustments[11]	Safety[9]	0	0	0	0
	Environmental[10]	0	0	0	0
Total		**100**			**101.7**

Explanatory notes:

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. Since 2019, the targets, weighting and measures have been set recognising that the Company is moving into a phase of consolidation rather than growth.

2 EBITDA is adjusted to exclude currency fluctuation, the effect of year-on-year changes in metals prices and any revaluation of the Silverstream contract. The points awarded are increased by 1.0 points per 1.00% increase in EBITDA up to a maximum of 5.0 points. In the event of a decline in EBITDA, there is a decrease of 1 point in the case of a 1% decline in EBITDA; a decrease of 2 points in the case of a 2% decline in EBITDA; a decrease of 4 points in the case of a 3% decline in EBITDA; a decrease of 8 points in the case of a 4% decline in EBITDA; a decrease of 16 points in the case of a 5% decrease in EBITDA; and a decrease of 20 points (total score) in the case of a 6% or more reduction in EBITDA.

3 Proportional increase in points per increase in Resources above target. A proportional decrease in points will be applied in case of a decrease in Resources below target. Resources will be weighted to take account of quality.

4 Increase of 2 points per each 1% of Resources increased above Target. A decrease of 2 points will be applied for each 1% below Target. Resources will be weighted to take account of quality.

5 Exploration Projects for 2020 were: (i) The new JM Ore Deposit at San Julián (3.0 points); (ii) Fresnillo District – Jarillas West (2.0 points); (iii) Condoriaco Project (2 points); and (iv) Guanjuato Project (1 point).

DIRECTORS' REMUNERATION REPORT

ANNUAL REPORT ON REMUNERATION 2020 (CONTINUED)

6 Projects for 2020 were: (v) Juanicipio (5.0 points); (vi) Pyrites Plant Phase 11 (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 Progress with the Sustainability Development Area in the Safety Plan will be set by the Chairman and Deputy Chairman.
9 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. This includes employees and contractors.
10 In the event of an environmental incident, the total bonus score will be reduced by 2%. An additional deduction of 3% will be made from the total score in the case of two incidents. In the case of these incidents, a further 4% for each incident will be deducted and so on.
11 Under the Remuneration Policy, the Remuneration Committee has discretion to make adjustments to bonus payments in certain circumstances.
12 The maximum points awarded for categories where no maximum is set (Financial, Production and Exploration) cannot be more than 35% above the weighting.

Reconciliation of adjusted net profit targets and outcomes to the financial statements

US$ millions	**2020**	2019
Profit for year as shown in financial statements	**375.6**	205.8
Interest, tax, depreciation and amortisation	**864.5**	516.6
Adjustments:		
Changes due to currency fluctuations	**(66.6)**	35.3
Changes due to year-on-year movements in metal prices (including the effects of metal hedging)	**(367.3)**	(192.8)
Changes due to the movement in the valuation of the Silverstream contract	**(71.0)**	(48.4)
Adjusted EBITDA total for bonus purposes	**735.2**	516.6

The Chief Executive Officer is prohibited from participating in the PTU scheme and therefore may only receive a maximum bonus equal to six months' pay. All Mexican employees are eligible for PTU payments annually which can be as high as 200% of salary in exceptional years.

2021 Bonus targets
The Remuneration Committee agreed that 2021 indicators, weightings and measures should be the same as for 2020 with the exception that the Pyrites Plant (Phase II – Fresnillo Tailings) project will be replaced by the Rodeo project in the Projects section. The 2021 targets, performance against those targets and the basis of calculation of bonus points awarded 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 to 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 at the end of 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
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
Guadalupe de la Vega	29 May 2020	3 months	1 year	£35,000

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 18 May 2021, 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		Independent shares voted		
Year	For	Against	For	Against	No 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 Policy	99.45%	0.55%	97.32%	2.68%	9,907
2018: Remuneration Report	99.79%	0.21%	98.99%	1.01%	12,203
2019: Remuneration Policy	99.45%	0.55%	95.72%	4.28%	269,961
2019: Remuneration Report	99.41%	0.59%	96.99%	3.01%	15,761
2020: Remuneration Report	99.56%	0.44%	97.75%	2.25%	11,231

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 2020 (CONTINUED)

Advisors to the Remuneration Committee

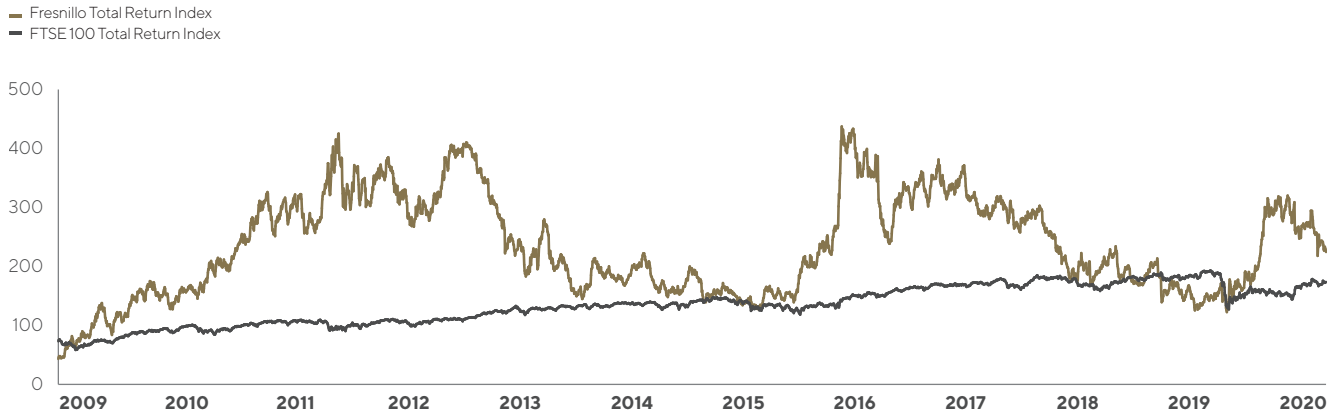
Remuneration consultants (Mercer, Hay Group and Data Compensation) are engaged by Group companies to provide benchmarking information on remuneration across the Fresnillo Group but not to provide guidance on the structure of remuneration. Such information is taken into account when considering Executive Committee remuneration. Willis Towers Watson advises the Remuneration Committee on executive remuneration matters from time to time. During 2020, the Group paid Willis Towers Watson US$nil (2019: US$9,558). 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 arranges 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.

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 2020.



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's contract commenced on 15 August 2012 and is governed by Mexican Federal Labour Law. Mr Alvídrez's service agreement does not have a fixed term and may be terminated in writing by either party. There is no provision in Mr Alvídrez's 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 eight years, in US dollars, has been as follows:

Year ending 31 December	2013	2014	2015	2016	2017	2018	2019	**2020**
Total remuneration (US$'000)								
Octavio Alvídrez	1,116	1,217	1,166	1,111	1,072	886	1,164	**939**
Percentage change on previous year	(41.5%)	9.1%	(4.2%)	(4.7%)	(3.5%)	(10.7%)	31.4%	**(19.3%)**
Proportion of maximum bonus paid to CEO in year								
Octavio Alvídrez	33.33%	33.33%	33.33%	66.66%	33.33%	Nil%	Nil%	**20.83%**

Changes in Directors remuneration 2019-2020

The changes in Directors total remuneration between 2019 and 2020 and a comparison with changes in average employee over that period are as follows:

Year-on-year change (%)		Salary/Fees	Bonus	Benefits
Directors	Alberto Baillères	(14.65%)	N/A	N/A
	Alejandro Baillères	(14.65%)	N/A	N/A
	Juan Bordes	(14.65%)	N/A	N/A
	Arturo Fernández	(14.65%)	N/A	N/A
	Bárbara Garza Lagüera	(14.65%)	N/A	N/A
	Charles Jacobs[5]	(12.89%)	N/A	N/A
	Georgina Kessel	(14.65%)	N/A	N/A
	Judith Macgregor	(14.65%)	N/A	N/A
	Luis Robles (appointed on 17 May 2019 and passed away on 19 November 2020)	19.75%	N/A	N/A
	Fernando Ruiz	(14.65%)	N/A	N/A
	Alberto Tiburcio	(14.65%)	N/A	N/A
	Guadalupe de la Vega (appointed on 29 May 2020)	N/A	N/A	N/A
Chief Executive Officer	Octavio Alvídrez	(15.44%)	Note 2	(8.30%)
Average Employee Remuneration		(3.76%)	(10.18%)	(7.28%)

Notes

1 Average Employee Remuneration is calculated by dividing the relevant Personnel Costs (as disclosed in Note 7 to the consolidated financial statements on page 218) by the average number of employees (as disclosed in Note 7(b) to the consolidated financial statements on page 218). PTU is excluded in order to make a like-for-like comparison with the Chief Executive Officer who does not receive PTU.

2 The Chief Executive Officer's salary, bonus and benefit amounts are excluded from the calculation of Average Employee Remuneration. No bonus was paid to the Chief Executive Officer in 2019 but a bonus of 2.5 months was paid in respect of 2020, therefore it is not possible to present a percentage increase figure.

3 Calculated using the data from the single figure table in the Annual Report on Remuneration (page 172) in US dollars. The Non-executive Directors are paid fees in UK sterling and therefore will be subject to year-on-year changes in exchange rates.

4 The Non-executive Directors do not receive bonuses or benefits from the Company.

5 Following approval of the current Directors Remuneration Policy at the 2019 AGM, Charles Jacobs received additional fees for being a member of the Audit Committee for eight months in 2019. These fees were paid for the full year in 2020, albeit reduced by 30% along with his other fees in line with the voluntary reduction in all Directors fees from 1 May to 31 October 2020.

Relative importance of the spend on pay

	2020	2019	% change
Staff costs (US$'000)[1]	**122,345**	126,723	(3.5)
Distributions to shareholders (US$'000)	**104,639**	142,221	(26.4)

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
1 March 2021

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 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 date 21 May 2019. The full text of the current Remuneration Policy can be found on pages 143 to 147 of the Fresnillo plc 2018 Annual Report and Accounts, which can 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 was reviewed in April 2019. Further information about the Peer Group agreed at that time can be found in the Annual Report on Remuneration on page 174.

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 paid for aggregate performance against target at or above 100 points 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 set out in the previous table will apply and 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.

DIRECTORS' REMUNERATION REPORT

APPENDIX: SUMMARY OF THE DIRECTORS' REMUNERATION POLICY (CONTINUED)

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 Willis Towers Watson 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 Directors of Fresnillo plc present their report for the year ended 31 December 2020. 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 2020 are set out in the Financial Review on pages 66 to 77 and the Consolidated Income Statement on page 198.
Dividends	Information regarding the proposed dividend can be found in the Financial Review on page 77. Information regarding dividend payments can be found in the notes to the financial statements on page 227.
Strategic Report	The Strategic Report can be found on pages 01 to 135.
Corporate Governance Statement	The Company's Statement on Corporate Governance can be found on page 147.
Directors Remuneration Report	The Directors Remuneration Report can be found on pages 168 to 182.
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 34 to 37.
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 142 to 145.
Directors' Interests	Details of the Directors' beneficial interests are set out in the Remuneration Report on page 173.
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 Companies Act 2006 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 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 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 Services 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.

DIRECTORS' REPORT
CONTINUED

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 132.
Employee engagement	Details of how the Company engages with its workforce can be found in the Strategic Report on pages 12 to 13.
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 132 to 134 and Corporate Governance Report on page 139.
Payments to Governments	In June 2020, 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 2020 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 99 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 financial statements.
Shareholders and share capital	
Share capital	Details of the Company's share capital are set out in Note 17 to the financial statements on page 226.
Authority to purchase own shares	The Company was authorised by a shareholders' resolution passed at the Annual General Meeting held in May 2020 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 2020, 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 2020	As at 31 December 2019	**As at 31 December 2020**	As at 31 December 2019
Industrias Peñoles S.A.B. de C.V.	**552,595,191**	552,595,191	**74.99**	74.99
First Eagle Investment Management LLC.	**36,827,622**	37,114,461	**4.998**	5.04

As at 1 March 2021, the Company had not been advised of any changes.

2020 Annual General Meeting	At the 2020 Annual General Meeting, 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 2018 UK 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.
2021 Annual General Meeting	The Company's thirteenth Annual General Meeting will be held on 24 June 2021 at 12.00 noon. 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 Annual General Meeting.
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; and • 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. • The confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.
Listing Rules Disclosures	
Listing Rule 9.8.4C	Disclosure requirements under Listing Rule 9.8.4 C 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 2020 and information regarding tax relief can be found on page 224. • Details of significant contracts with controlling shareholders can be found on page 166. • Details pertaining to services provided to the Company by Peñoles are set out on pages 233 to 234. • Statement confirming agreement has been entered into with controlling shareholder and that independence provisions are complies with can be found in the Corporate Governance Report on page 149.

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
1 March 2021

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 regulations.

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. The Directors have elected to prepare the Group and parent company financial statements in accordance with International Financial Reporting Standards (IFRSs) in conformity with the Companies Act 2006.

Under the Financial Conduct Authority's Disclosure Guidance and Transparency Rules, Group financial statements are required to be prepared in accordance with IFRSs adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

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;
- make judgements and accounting estimates that are reasonable and prudent;
- 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 IFRSs 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;
- in respect of the Group financial statements, state whether IFRSs in conformity with the Companies Act 2006 and IFRSs adopted pursuant to Regulation(EC) No 1606/2002 as it applies in the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- in respect of the parent company financial statements, state whether IFRSs in conformity with the Companies Act 2006, have been followed, subject to any material departures disclosed and explained in the financial statements;
- 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 unless it is appropriate to presume that the Company and/or the Group will not continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's and Group's transactions and 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. 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 Strategic Report, 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 142 to 145 confirm that to the best of their knowledge:

a) the consolidated financial statements, prepared in accordance with International Financial Reporting Standards in conformity with the Companies Act 2006 and IFRSs adopted pursuant to Regulation(EC) No 1606/2002 as it applies in 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
1 March 2021

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 2020 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No. 1606/2002 as it applies in the European Union;
- the parent company financial statements have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 as applied in accordance with section 408 of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Fresnillo plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2020 which comprise:

Group	Parent company
Consolidated balance sheet as at 31 December 2020	Parent company balance sheet as at 31 December 2020
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 their preparation is applicable law and International Accounting Standards in conformity with the requirements of the Companies Act 2006 and, as regards the Group financial statements, International Financial Reporting Standards adopted pursuant to Regulation (EC) No. 1606/2002 as it applies in the European Union, as regards the parent company financial statements, as applied in accordance with section 408 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. We are independent of the Group 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 going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Directors' assessment of the Group and parent company's ability to continue to adopt the going concern basis of accounting included the following procedures:

- We confirmed our understanding of management's going concern assessment process and confirmed that the Group is not subject to financial covenants on its borrowings;
- We assessed management's forecasting accuracy as reliable by comparing forecasts from prior periods to subsequent actuals and assessing the reasons for differences, including the effect of market-driven factors;
- We assessed the completeness of the factors included in the going concern assessment by reference to our understanding of the business;
- We obtained management's going concern assessment, including the cash forecast for the going concern period which extends to December 2022. The group has developed a number of scenarios in order to model plausible, adverse changes and to apply reverse stress testing to the forecast liquidity of the Group;
- We have tested the factors and assumptions included in the base case and most severe adverse scenario for the cash forecast, in particular comparing forecast metals prices to analyst forecasts and comparing production forecasts to 2020 production, plant capacity and our understanding of the business and its future plans;
- We have tested the impact of Covid-19 overlays applied to each forecast scenario. We considered the appropriateness of the methods used to calculate the cash forecasts and determined through inspection and testing of the methodology and calculations that the methods utilised were appropriate to be able to make an assessment for the entity;
- We considered the mitigating actions available to management, although these were not modelled due to the level of headroom in the plausible, adverse cases;
- We have reviewed management's reverse stress testing in order to identify what reduction in metal prices, as the key variable input, would lead to the Group utilising all liquidity during the going concern period noting that these are well below the minimum analyst price forecast for the going concern period; and
- We reviewed the Group's going concern disclosures included in the annual report in order to assess that the disclosures were appropriate and in conformity with the reporting standards.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group and parent company's ability to continue as a going concern for the going concern period which extends to December 2022.

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

In relation to the Group and parent company's reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

Overview of our audit approach

Audit scope	• We performed an audit of the complete financial information of seven components being the five operating mining units, the parent company and the entity which holds the Silverstream contract. These components represented 100% of revenues, 100% of the Silverstream revaluation effects, 95% of profit before tax excluding revenue and Silverstream revaluation effects and 84% of total assets. • We performed specific procedures on specific balances at a further four components. These components represented 4% of profit before tax excluding revenue and Silverstream revaluation effects and 15% of total assets.
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); • Re-estimation of quantities held in leaching pads at Herradura.
Materiality	• Overall Group materiality was set at US$22.0 million which represents 5% of average of profit before tax prior to Silverstream revaluation effects and material non-recurring items over the last five years (Adjusted Normalised Profit).

An overview of the scope of the parent company and group audits

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each company 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, changes in the business environment and other factors when assessing the level of work to be performed at each company.

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, of the 16 reporting components of the Group, we selected 11 components covering entities within Mexico and Chile, which represent the principal business units within the Group.

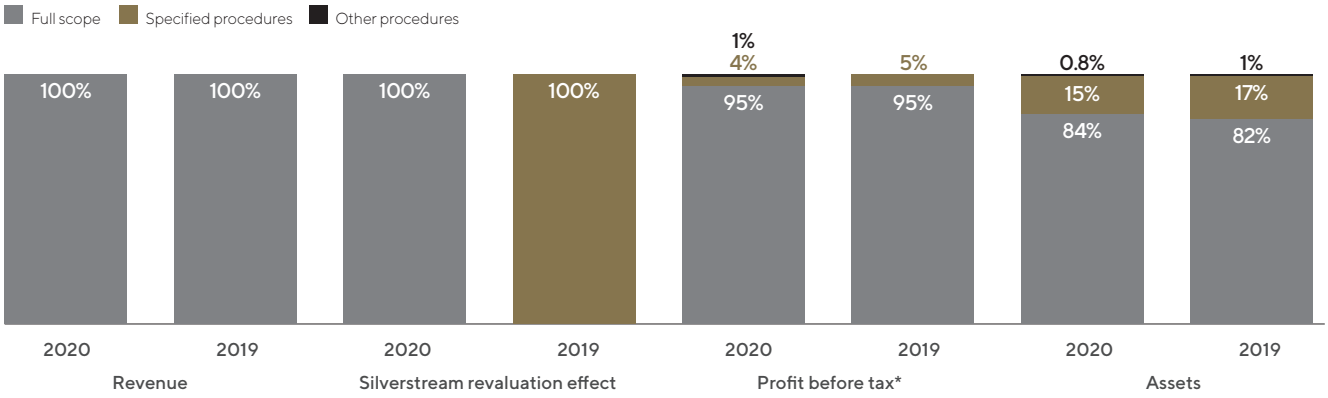
Of the 11 components selected, we performed an audit of the complete financial information of seven components ('full scope components') which were selected based on their size or risk characteristics. For the remaining four components ('specified procedures components'), we performed specified audit procedures on specific accounts within that component that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile.

The reporting components where we performed audit procedures accounted for 100% (2019: 100%) of the Group's revenues, 100% (2019: 100%) of the Silverstream revaluation effects, 99% (2019: 100%) of the Group's profit before tax excluding revenue and Silverstream revaluation effects and 99% (2019: 99%) of the Group's total assets. For the current year, the full scope components contributed 100% (2019: 100%) of the Group's revenues, 100% (2019: nil) of the Silverstream revaluation effects, 95% (2019: 95%) of the Group's profit before tax excluding revenue and Silverstream revaluation effects and 84% (2019: 82%) of the Group's total assets. The specified procedures scope components contributed nil (2019: 100%) of the Silverstream revaluation effects, 4% (2019: 5%) of the Group's profit before tax excluding revenue and Silverstream revaluation effects and 15% (2019: 17%) of the Group's total assets. The audit scope of these components may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant accounts tested for the Group.

Of the remaining five components that together represent 1% (2019: 0.5%) of the Group's profit before tax excluding revenue and Silverstream revaluation effects and 1% (2019: 1%) of the Group's total assets, none are individually greater than 1% of the Group's profit before tax excluding revenue and Silverstream revaluation effects. For these components, we performed 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. to respond to any potential risks of material misstatement to the Group financial statements.

The chart below illustrates the coverage obtained from the work performed by our audit teams.

Key



* Excludes sales, Silverstream revaluation effects, and material one-off transactions, being the interest expense arising on the voluntary tax amendments (2020 and 2019).
** 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.

Changes from the prior year
To more accurately reflect the nature and extent of the audit procedures we determined were required, we elevated the classification of the component containing the Silverstream contract from specified procedures scope to full scope to better reflect the nature and extent of our audit procedures.

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	●●* (Including the 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 component auditors from other EY global network firms operating under our instruction. Of the seven full scope components, audit procedures were performed on two of these directly by the primary audit team. Of the four specific scope components, the primary team performed audit procedures directly on one and for the other three specific scope components, where the work was 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 as a whole.

Senior members of the component team attended our virtual global planning meetings during the planning phase of the audit, and we discussed the results of interim procedures and interacted regularly with the local team in Mexico. The primary engagement team is predominantly composed of Spanish speakers in order to further enhance our interactions with both the component team and management.

In previous years, the primary engagement team, including the Senior Statutory Auditor, visited Mexico at least 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.

Effect of Covid-19
In the current year, due to the Covid-19 pandemic, travel to Mexico was not possible. As a result, our interactions with our component team, meetings with management and closing meetings were held virtually through the use of video or teleconferencing facilities, with no time spent physically in Mexico. To compensate, we implemented weekly status calls with the component team throughout the duration of the execution phase of the audit. These resulted in the provision of timely feedback and observations and allowed for effective oversight. The review of relevant audit work papers was facilitated by the EY electronic audit file platform, screen sharing or the provision of copies of work papers direct to the Group audit team. Given the nature of our engagement, some of these measures had been implemented, albeit to a lesser extent, in previous years, providing an appropriate base from which to expand our interactions.

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

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 and discussed these with the component team.

Based upon the above approach we are satisfied that we have been able to perform sufficient and appropriate oversight of our component teams. This, together with the additional procedures performed at group level, gave us appropriate evidence for our opinion on the Group financial statements.

Key audit matters
Key audit matters are those matters that, in our professional judgment, 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.

In the tables 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, excluding hedging, (US$2,427.7 million; 2019: US$2,126.0 million), and a significant amount of its expenses incurred (US$152.2 million; 2019: US$155.0 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 judgment 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 seven components, which covered 100% of the aggregate risk amount relating to revenue, 100% of the risk related to the Silverstream contract and 63% relating to related party expenses. In addition, we performed specified procedures in 2 components which covered 30% of related party expenses.

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 considered the completeness of related party transactions through virtual meetings with management at various levels, inspection of board minutes, and confirmation letters. • We read new and amended contracts and agreements with related parties, including Met-Mex Peñoles, 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. • We evaluated the risk of material misstatement due to assay adjustments by performing a retrospective review of their quantum during the year and determining the maximum plausible adverse effect on period-end provisional sales. • We performed revenue cut-off testing, by reference to shipment dates. • On a sample basis, we performed testing to verify physical deliveries of product in the year. • Since this is a significant risk, our testing threshold is lower and our sample sizes are larger than they would otherwise have been. • We obtained an understanding of the basis of the treatment and refining charges (TR&Cs) negotiated between the Group and Peñoles for the current year, these being deducted from revenue. We confirmed principal inputs to external benchmarks or other external evidence. We recalculated TR&Cs based on actual production and contractual terms. • 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 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 2019) to management from its transfer pricing specialists, as well as an update letter issued in early 2021 in respect of 2020. • We assessed the competence, capabilities and objectivity of management's specialist. • Our transfer pricing specialist inspected information to support transactions between Fresnillo and Peñoles. As part of this evaluation, our specialist met virtually with management's specialist to further understand the content of the letter and to assess the conclusions reached. • We confirmed principal inputs to external benchmarks used to determine transfer pricing ranges. In respect of T&RCs, these include confirmations from the auditor of Peñoles in respect of T&RCs charged to other customers.
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 utilised data analysis tools to interrogate entire data sets for potential related party transactions. We also compared related parties and related party transactions identified through our audit with 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$576.1 million at 31 December 2020; 2019: US$541.3 million; revaluation effect: US$71.0 million pre-tax gain in 2020; 2019: US$48.4 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 judgment 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 judgment 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.

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 full scope audit procedures over the valuation of the Silverstream contract at 31 December 2020 and related income statement revaluation effects. In 2019, the procedures were classified as specified procedures, although there have not been any significant changes to our procedures. These procedures covered 100% of the risk amount.

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

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.
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 2019 plan; • 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 detailed in the instructions 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 the Sabinas mine geologist 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 2020, by reference to external market and internal operational benchmarks. • We discussed the results of the above procedures with the auditor of Peñoles and reviewed their 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, such as recoverable amounts of mining assets. • 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 in its methodology 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. We performed sensitivity analysis to quantify the financial impact of reducing to the high end of our range of acceptable values.
- We concluded that the overall valuation of the contract is appropriate.

Key audit matter: Recoverable amount of mining assets ▲

The identification of indicators of impairment is judgmental.

- 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 judgment 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$2,708.2 million, 2019: US$$2,813.4 million). There is no impairment taken in prior years that may be reversed.

➲ Our judgment is that the level of risk in this area, on balance, remains consistent with the prior year. Whilst there is some additional risk related to the potential for Covid-19 related effects and an increased focus on the potential effects of climate change on financial information, price expectations are higher than in the prior year.

In the current year, we have considered also considered the possible effect of climate change on cost estimates.

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, after the parent company notes.

Our audit response We performed full scope audit procedures over this risk area in six components and specific scope procedures over this risk in one component, 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, including assessing the potential for indicators related to Covid-19. • 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 specifically discussed how the Covid-19 pandemic and related travel restrictions impacted their audit procedures. • 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 SRK. • We discussed directly with SRK the results of their report.
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. • 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 considered the possible effect of climate change on cost estimates. • We have performed sensitivity analysis on management's calculated recoverable values in respect of cost assumptions.
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 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 considered 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 and in certain years prices are higher than an acceptable range. We therefore highlighted the impact of using alternative assumptions for metals prices on the estimated recoverable value of mining assets.
- We concluded that the carrying values of mining assets are recoverable at 31 December 2020.
- We concluded 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$ 5,790.2 million, 2019: US$5,546.9 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 (2020 aggregate net reversal of US$234.0 million, 2019 aggregate impairment of US$949.8 million).

➲ Our judgment is consistent with that in respect of the recoverable amount of mining assets.

We have not made significant changes to our audit response, other than those described in the recoverable amount of mining assets section above, compared to the prior year.

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.

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

Our audit response We performed full scope audit procedures over this risk area in one component, 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.
Key internal assumptions used in management's estimate of the recoverable value	• Refer to the 'our audit response' section of the key audit matter above with respect to procedures performed relating to the recoverable value of mining assets. • We evaluated management's approach to valuing exploration prospects, re-calculated gold and silver equivalent ounces using comparable transactions data and, where available, agreed the resources of the prospects to SRK's audited report. • We performed sensitivity analysis on management's calculated recoverable values in respect of cost assumptions.
Key external assumptions used in management's estimate of the recoverable value	• Refer to the 'our audit response' section of the key audit matter above with respect to procedures performed relating to the recoverable value of mining assets. • We performed sensitivity analysis on management's calculated recoverable values for alternative assumptions around 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 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 impairment reversal reflected in the parent company financial statements is appropriate.
- We concluded 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 ongoing sales recovery information from the 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.

We have not made significant changes to our audit response.

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's conclusion that there were sufficient operational indicators to suggest that a change to the estimated recovery rate was required at the beginning of the year by analysing various operational data points in the last quarter of 2019 and first half of 2020. • With geological input from our specialist, we challenged the acceptability of the methodology used by management to arrive at the estimated rate of recovery and the related assumptions. • We tested the inputs into the calculation of the quantities held in leaching pads, including those relating to the estimated recovery rate, and agreed these back to other audit evidence obtained during the course of the audit, where relevant. • 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 concluded that the prospective change to the estimated recovery rate from the outset of 2020 was appropriate.

Our application of materiality

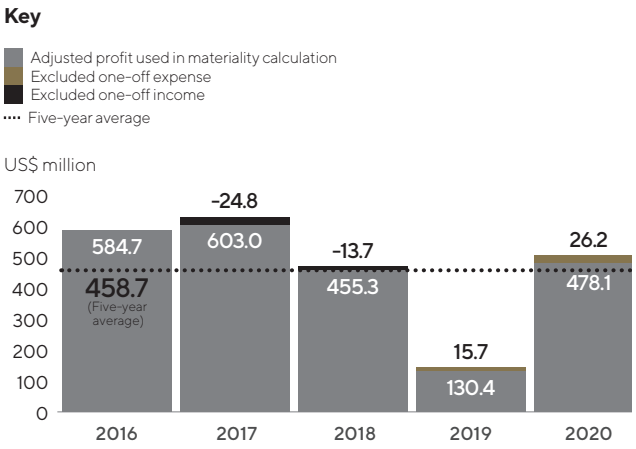
We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

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.

We determined materiality for the Group to be 5% of the five-year average profit before tax prior to Silverstream revaluation effects, adjusted for any material one-off transactions ('adjusted normalised 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.

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 for determining materiality 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.



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 and 2020).

At planning, we determined materiality for the Group to be US$18.5 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$22.0 million (2019: US$19.7 million).

We determined materiality for the parent company to be US$53.6 million (2019: US$54.0 million), which is 1% (2019: 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.

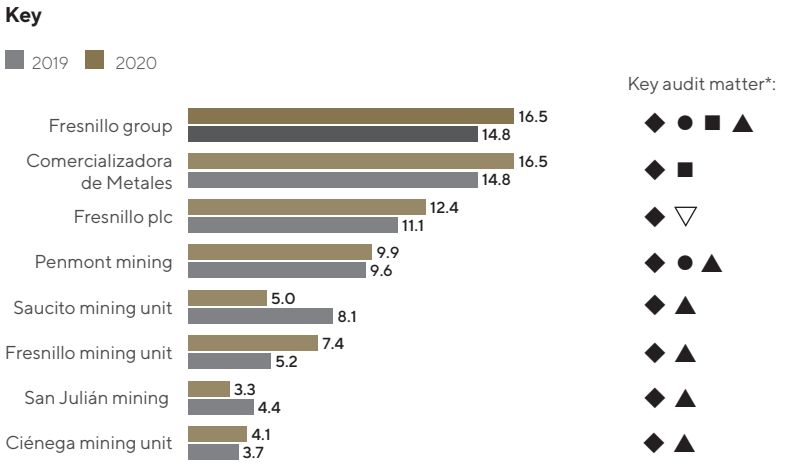
Performance materiality

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 was 75% (2019: 75%) of our planning materiality, namely US$16.5 million (2019: US$14.8 million). We have set performance materiality at this percentage due to the level of 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.

Allocated performance materiality increased 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.

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

Reflecting the fact that dividends are a key focus for shareholders and that the dividends are derived from the operating results of the Group, we apply group materiality to our procedures around dividends, including distributable reserves.

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$1.1 million (2019: US$1.0 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
The 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 contained within the annual report.

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.

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 course of 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 themselves. 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.

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 those reports have been prepared in accordance with applicable legal requirements;
- the information about internal control and risk management systems in relation to financial reporting processes and about share capital structures, given in compliance with rules 7.2.5 and 7.2.6 in the Disclosure Rules and Transparency Rules sourcebook made by the Financial Conduct Authority (the FCA Rules), is consistent with the financial statements and has been prepared in accordance with applicable legal requirements; and
- information about the Company's corporate governance statement and practices and about its administrative, management and supervisory bodies and their committees complies with rules 7.2.2, 7.2.3 and 7.2.7 of the FCA Rules.

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; or
- the information about internal control and risk management systems in relation to financial reporting processes and about share capital structures, given in compliance with rules 7.2.5 and 7.2.6 of the FCA Rules.

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; or
- a Corporate Governance Statement has not been prepared by the Company.

Corporate Governance Statement
The Listing Rules require us to review the Directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Group and Company's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements or our knowledge obtained during the audit:
- Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified;
- Directors' explanation as to its assessment of the Company's prospects, the period this assessment covers and why the period is appropriate;
- Directors' statement on fair, balanced and understandable;
- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks;
- The section of the annual report that describes the review of effectiveness of risk management and internal control systems; and;
- The section describing the work of the audit committee.

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement, 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.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined below, to detect irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the Company and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant are those related to the reporting framework (International Financial Reporting Standards adopted pursuant to Regulation (EC) No. 1606/2002 as it applies in the European Union, 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 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.
- 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. In the current year, forensic specialists reviewed our fraud risk assessment.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved enquiries of group management and those charged with governance, legal counsel, internal audit, and the risk and compliance departments; journal entry testing, with a focus on manual journals and those indicating large or unusual journals based on our understanding of the business and challenging the assumptions and judgements made by management in respect of significant accounting estimates.

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

- Following the recommendation from the audit committee, 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 13 years, covering the years ending 2008 to 2020.
- 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 report 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.

Steven Dobson
(Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London

2 March 2021

CONSOLIDATED INCOME STATEMENT

YEAR ENDED 31 DECEMBER

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

YEAR ENDED 31 DECEMBER

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

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER

	Notes	As at 31 December 2020 US$ thousands	2019 US$ thousands
ASSETS			
Non-current assets			
Property, plant and equipment	12	**2,708,195**	2,813,417
Equity instruments at FVOCI	29	**212,576**	123,024
Silverstream contract	13	**534,697**	518,696
Deferred tax asset	10	**120,676**	110,770
Inventories	14	**91,620**	91,620
Other receivables	15	**–**	23,014
Other assets		**3,429**	3,622
		3,671,193	3,684,163
Current assets			
Inventories	14	**351,587**	272,120
Trade and other receivables	15	**512,927**	437,642
Income tax recoverable		**–**	57,124
Prepayments		**18,207**	18,344
Derivative financial instruments	29	**6,290**	2,623
Silverstream contract	13	**41,443**	22,558
Cash and cash equivalents	16	**1,070,415**	336,576
		2,000,869	1,146,987
Total assets		**5,672,062**	4,831,150
EQUITY AND LIABILITIES			
Capital and reserves attributable to shareholders of the Company			
Share capital	17	**368,546**	368,546
Share premium	17	**1,153,817**	1,153,817
Capital reserve	17	**(526,910)**	(526,910)
Hedging reserve	17	**(4,300)**	139
Cost of hedging reserve	17	**8,664**	918
Fair value reserve of financial assets at FVOCI	17	**117,420**	54,734
Foreign currency translation reserve	17	**(1,467)**	(250)
Retained earnings	17	**2,363,275**	2,093,666
		3,479,045	3,144,660
Non-controlling interests		**135,559**	134,059
Total equity		**3,614,604**	3,278,719
Non-current liabilities			
Interest-bearing loans	19	**1,156,670**	801,239
Lease liabilities	24	**7,697**	8,009
Provision for mine closure cost	20	**245,688**	231,056
Pensions and other post-employment benefit plans	21	**11,977**	10,704
Deferred tax liability	10	**295,595**	321,347
		1,717,627	1,372,355
Current liabilities			
Trade and other payables	22	**225,208**	159,768
Income tax payable		**88,066**	3,991
Derivative financial instruments	29	**–**	1,789
Lease liabilities	24	**5,048**	4,535
Employee profit sharing		**21,509**	9,993
		339,831	180,076
Total liabilities		**2,057,458**	1,552,431
Total equity and liabilities		**5,672,062**	4,831,150

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

Mr Juan Bordes
Non-executive Director
1 March 2021

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED 31 DECEMBER

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

1 Corresponds to a short-term interest-bearing note payable received from Minera los Lagartos, S.A. de C.V. which holds a non-controlling interest in Juanicipio project.
2 Includes the effect of hedging of dividend payments made in currencies other than US dollar.
3 Corresponds to capital contribution from non-controlling interest.
4 Total interest paid during the year ended 31 December 2020 less amounts capitalised totalling US$8.8 million (31 December 2019: US$6.1 million) which were included within the caption Purchase of property, plant and equipment.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

YEAR ENDED 31 DECEMBER

		Attributable to the equity holders of the Company										
		Share capital	Share premium	Capital reserve	Hedging reserve	Cost of hedging reserve	Fair value reserve of financial assets at FVOCI	Foreign currency translation reserve	Retained earnings	Total	Non-controlling interests	Total equity
	Notes											US$ thousands
Balance at 1 January 2019		368,546	1,153,817	(526,910)	(229)	(2,374)	23,370	(795)	2,033,860	3,049,285	78,968	3,128,253
Profit for the year		–	–	–	–	–	–	–	203,997	203,997	1,817	205,814
Other comprehensive income, net of tax		–	–	–	912	3,292	31,364	545	(1,970)	34,143	(59)	34,084
Total comprehensive income for the year		–	–	–	912	3,292	31,364	545	202,027	238,140	1,758	239,898
Hedging loss transferred to the carrying value of PPE purchased during the year		–	–	–	(544)	–	–	–	–	(544)	77	(467)
Capital contribution		–	–	–	–	–	–	–	–	–	53,256	53,256
Dividends declared and paid	18	–	–	–	–	–	–	–	(142,221)	(142,221)	–	(142,221)
Balance at 31 December 2019		368,546	1,153,817	(526,910)	139	918	54,734	(250)	2,093,666	3,144,660	134,059	3,278,719
Profit for the year		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**374,124**	**374,124**	**1,455**	**375,579**
Other comprehensive income, net of tax		**–**	**–**	**–**	**(4,333)**	**7,746**	**62,686**	**(1,217)**	**124**	**65,006**	**(11)**	**64,995**
Total comprehensive income for the year		**–**	**–**	**–**	**(4,333)**	**7,746**	**62,686**	**(1,217)**	**374,248**	**439,130**	**1,444**	**440,574**
Hedging loss transferred to the carrying value of PPE purchased during the year		**–**	**–**	**–**	**(106)**	**–**	**–**	**–**	**–**	**(106)**	**3**	**(103)**
Capital contribution		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**53**	**53**
Dividends declared and paid	18	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(104,639)**	**(104,639)**	**–**	**(104,639)**
Balance at 31 December 2020		**368,546**	**1,153,817**	**(526,910)**	**4,300**	**8,664**	**117,420**	**(1,467)**	**2,363,275**	**3,479,045**	**135,559**	**3,614,604**

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 consolidated financial statements of the Group for the year ended 31 December 2020 were authorised for issue by the Board of Directors of Fresnillo plc on 1 March 2021.

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

2. Significant accounting policies

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

Basis of preparation and statement of compliance

The Group's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union as they apply to the financial statements of the Group for the years ended 31 December 2020 and 2019, and in accordance with the provisions of the Companies Act 2006.

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

The consolidated financial statements are presented in dollars of the United States of America (US dollars or US$) and all values are rounded to the nearest thousand ($000) except when otherwise indicated.

Basis of consolidation

The consolidated financial statements set out the Group's financial position as of 31 December 2020 and 2019, and the results of operations and cash flows for the years then ended.

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

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

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

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

(b) Changes in accounting policies and disclosures

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

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

A number of new or amended standards (the 'Standards') became applicable for the current reporting period. The adoption of these Standards did not have any impact on the accounting policies, financial position or performance of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

2. Significant accounting policies continued

Standards, interpretations and amendments issued but not yet effective

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

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

(c) Significant accounting 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 2020 are:

Recognition and classification of assets at Soledad-Dipolos mine:

In 2009, five members of the El Bajío agrarian community in the state of Sonora, who claimed rights over certain surface land in the proximity of the operations of Minera Penmont ('Penmont'), submitted a legal claim before the Unitarian Agrarian Court (Tribunal Unitario Agrario) of Hermosillo, Sonora, to have Penmont vacate an area of this surface land. The land in dispute encompassed a portion of surface area where part of the operations of the Soledad-Dipolos mine are located. The litigation resulted in a definitive court order, with which Penmont complied by vacating 1,824 hectares of land, resulting in the suspension of operations at Soledad-Dipolos. Whilst the claim and the definitive court order did not affect the Group's legal title over the mining concession or the ore currently held in leaching pads near the mine site, land access at the mine site is required to further exploit the concession at Soledad-Dipolos.

Penmont is the legal and registered owner of the land where the leaching pads are located but has not yet been able to gain physical access to these pads due to opposition by certain local individuals. The Group has a reasonable expectation that Penmont will eventually regain access to the Soledad-Dipolos assets and process the ore content in the Soledad-Dipolos leaching pads. Therefore, the Group continues to recognise property, plant & equipment and inventory related to Soledad-Dipolos, as disclosed in Note 12 and Note 14, respectively. Due to the fact that it is not yet certain when access may be granted so that the inventory can be processed, this inventory is classified as a non-current asset.

As previously reported by the Group, claimants from the El Bajío community also presented claims against occupation agreements they entered into with Penmont, covering land parcels other than the surface land where Soledad-Dipolos is located. Penmont has had no significant mining operations or specific geological interest in the affected parcels and these lands are therefore not considered strategic for Penmont. The Agrarian Court has issued rulings declaring such occupation agreements over those land parcels to be null and void and that Penmont must remediate such lands to the state that they were in before Penmont's occupation as well as returning any minerals extracted from this area. The case relating to the claims over these land parcels remains subject to final conclusion. However, given that Penmont has not conducted significant mining operations or had specific geological interest in these land parcels, any contingencies relating to such land parcels are not considered material by the Group. There are no material assets recognised in respect of these land parcels as at 31 December 2020 or 31 December 2019.

Estimates and assumptions

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

- Estimated recoverable ore reserves and mineral resources, Note 2(e):
- Ore reserves are estimates of the amount of ore that can be economically and legally extracted from the Group's mining properties; mineral resources are an identified mineral occurrence with reasonable prospects for eventual economic extraction. The Group estimates its ore reserves and mineral resources based on information compiled by appropriately qualified persons relating to the geological and technical data on the size, depth, shape and grade of the ore body and suitable production techniques and recovery rates, in conformity with the Joint Ore Reserves Committee (JORC) Code 2012. Such an analysis requires complex geological judgements to interpret the data. The estimation of recoverable ore reserves and mineral resources is based upon factors such as geological assumptions and judgements made in estimating the size and grade of the ore body, estimates of commodity prices, foreign exchange rates, future capital requirements and production costs.

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

- the carrying value of property, plant and equipment and mining properties may be affected due to changes in the recoverable amount, which consider both ore reserves and mineral resources;
- depreciation and amortisation charges in the income statement may change where such charges are determined using the unit-of-production method based on ore reserves;
- stripping costs capitalised in the balance sheet, either as part of mine properties or inventory, or charged to profit or loss may change due to changes in stripping ratios;
- provisions for mine closure costs may change where changes to the ore reserve and resources estimates affect expectations about when such activities will occur; 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, the grade of the ore (based on assay data) and the estimated recovery percentage (based on metallurgical studies and current technology).

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

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

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

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

- Silverstream, Note 13:
  The valuation of the Silverstream contract as a derivative financial instrument requires estimation by management. The term of the derivative is based on the Sabinas life of mine and the value of this derivative is determined using a number of estimates, including the estimated recoverable ore reserves and mineral resources and future production profile of the Sabinas mine on the same basis a market participant would consider, the estimated recoveries of silver from ore mined, estimates of the future price of silver and the discount rate used to discount future cash flows. For further detail on the inputs that have a significant effect on the fair value of this derivative, see Note 30. The impact of changes in silver price assumptions and the discount rate is included in Note 30. Management considers that an appropriate sensitivity for volumes produced and sold is on the total recoverable reserve and resource quantities over the contract term rather than annual production volumes over the mine life. A reasonably possible change in total recoverable resources and reserves quantities would not result in a significant change in the value of the contract.

- Income tax, notes 2(q) and 10:
  The recognition of deferred tax assets, including those arising from unutilised tax losses, requires management to assess the likelihood that the Group will generate taxable earnings in future periods, in order to utilise recognised deferred tax assets. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Group to realise the net deferred tax assets recorded at the balance sheet date could be impacted.

Covid-19

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

During 2020, the Group has taken a number of measures to safeguard the health of its employees and their local communities while continuing to operate safely and responsibly. The Group acted in compliance with government-ordered restrictions, resulting in operations being temporarily suspended in Minera Penmont, all other mines have operated at normal production capacity. The Group incurred on US$19.4 million on temporary suspension, standby and other production costs. These costs are associated with placing Penmont mines in care and the subsequent ramp-up of operations, and the underutilisation of production capacity to the pre-Covid-19 operating activity. These production costs are presented as unabsorbed production cost in cost of sales. In addition, the Group incurred other production costs of US$4.5 million resulting from Covid-19 which include community support, the acquisition of additional personal protective equipment and other safety measures and are presented in cost of sales.

During 2020, attempts at containment of Covid-19 have resulted in decreased economic activity, which has adversely affected the broader global economy. In the current environment, assumptions about future commodity prices, exchange rates, and interest rates are subject to greater variability than normal, which could in the future affect the valuation of the Group's assets and liabilities, both financial and non-financial. As at 31 December 2020, there were no material changes to the valuation of the Group's asset and liabilities due to Covid-19.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

2. Significant accounting policies continued

(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 basis for mine buildings and installations, plant and equipment used in the mine production process (except mobile equipment) or on a straight-line basis over the estimated useful life of the individual asset that are not related to the mine production process. Changes in estimates, which mainly affect unit-of-production calculations, are accounted for prospectively. Depreciation commences when assets are available for use. Land is not depreciated.

The average expected useful lives are as follows:

	Years
Buildings	8
Plant and equipment	10
Mining properties and development costs[1]	8
Other assets	4

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

An item of property, plant and equipment is 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.

Ore generated as part of the development stage may be processed and sold, giving rise to revenue before the commencement of commercial production. Where such processing is necessary to bring mining assets into the condition required for their intended use (for example, in testing the plants at the mining unit in development), revenues from metals recovered from such activities are credited to mining properties and development costs. When the processing does not contribute to bringing the mining assets into the condition required for their intended use (for example, when the processing of the ore extracted is supported by assets outside of the development project), the revenue is considered as incidental and it is recognised in profit or loss. In the latter case, cost of sales is measured based on expected operating cost once commercial production has been initiated.

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 either depreciation or depletion to cost of sales in the income statement based on the mine's units of production once commercial operations begin.

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

Production stripping cost is capitalised only if the following criteria are met:
- it is probable that the future economic benefits (improved access to an ore body) associated with the stripping activity will flow to the Group;
- the Group can identify the component of an ore body for which access has been improved; and
- the costs relating to the improved access to that component can be measured reliably.

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

Stripping activity costs associated with such development activities are capitalised into existing mining development assets, as mining properties and development cost, within property, plant and equipment, using a measure that considers the volume of waste extracted compared with expected volume, for a given volume of ore production. This measure is known as 'component stripping ratio', which is revised annually in accordance with the mine plan. The amount capitalised is subsequently depreciated over the expected useful life of the identified component of the ore body related to the stripping activity asset, by using the unit-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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

2. Significant accounting policies continued

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 other comprehensive income (OCI); and
- those to be measured subsequently at fair value through profit or loss.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset.

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset.

Classification

The Group classifies its financial assets in one of the following categories.

Amortised cost

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

The Group's financial assets at amortised cost include receivables (other than trade receivables which are measured at fair value through profit and loss).

Fair value through other comprehensive income

Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the statement of profit or loss. As at 31 December 2020 and 2019 there were no such instruments.

Equity instruments designated as fair value through other comprehensive income

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at FVOCI 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 FVOCI 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.

The Group classifies its financial liabilities as follows:

- Financial liabilities are classified, at initial recognition, as financial liabilities at FVPL, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.
- All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables and loans and borrowings.

Classification
For purposes of subsequent measurement, financial liabilities held by the Group are classified as financial liabilities as amortised cost.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

Derecognition of financial liabilities
A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

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

For this purpose, the costs of production include:
- personnel expenses, which include employee profit sharing, materials and contractor expenses which are directly attributable to the extraction and processing of ore;
- the depreciation of property, plant and equipment used in the extraction and processing of ore; and
- related production overheads (based on normal operating capacity).

Work in progress inventory comprises ore in leaching pads as processing is required to extract benefit from the ore. The recovery of gold is achieved through the heap leaching process. The leaching process may take months to obtain the expected metal recovery and mainly depends on the continuity of the leaching process. When the ore in leaching pads is in active leaching, it is classified as current. When the leaching process has stopped and not expected to restart within 12 months, ore in the leaching pads affected is classified as non-current.

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

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

(i) Cash and cash equivalents
For the purposes of the balance sheet, cash and cash equivalents comprise cash at bank, cash on hand and short-term deposits held with banks that are readily convertible into known amounts of cash and which are subject to insignificant risk of changes in value. Short-term deposits earn interest at the respective short-term deposit rates between one day and three months. For the purposes of the cash flow statement, cash and cash equivalents as defined above are shown net of outstanding bank overdrafts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

2. Significant accounting policies continued

(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 for its employees based in Mexico:

Defined benefit pension plan

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

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

Past service costs are recognised when the plan amendment or curtailment occurs and when the entity recognises related restructuring costs or termination benefits.

The defined benefit asset or liability comprises the present value of the defined benefit obligation less the fair value of plan assets out of which the obligations are to be settled directly. The value of any asset is restricted to the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

Net interest cost is recognised in finance cost and return on plan assets (other than amounts reflected in net interest cost) is recognised in OCI and permanently excluded from profit or loss.

Defined contribution pension plan

A defined contribution plan is a post-employment benefit plan under which the Group pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in profit or loss when they are due. The contributions are based on the employee's salary.

This plan started on 1 July 2007 and it is voluntary for all employees to join this scheme.

Seniority premium for voluntary separation

This unfunded plan corresponds to an additional payment over the legal seniority premium equivalent to approximately 12 days' salary per year for unionised workers who have more than 15 years of service. Non-unionised employees with more than 15 years of service have the right to a payment equivalent to 12 days' for each year of service. For both cases, the payment is based on the legal current minimum salary.

The cost of providing benefits for the seniority premium for voluntary separation is determined using the projected unit credit actuarial valuation method and prepared by an external actuarial firm as at each year-end balance sheet date. Actuarial gains or losses are recognised as income or expense in the period in which they occur.

Other

Benefits for death and disability are covered through insurance policies.

Termination payments for involuntary retirement (dismissals) are charged to the income statement, when incurred.

(l) Employee profit sharing

In accordance with the Mexican legislation, companies in Mexico are subject to pay for employee profit sharing ('PTU') equivalent to 10% of the taxable income of each fiscal year.

PTU is accounted for as employee benefits and is calculated based on the services rendered by employees during the year, considering their most recent salaries. The liability is recognised as it accrues and is charged to the income statement. PTU, paid in each fiscal year, is deductible for income tax purposes.

(m) Leases

Group as a lessee

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable variable lease payment that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment.

(n) Revenue from contracts with customers

Revenue is recognised when control of goods or services transfers to the customer based on the performance obligations settle in the contracts with customers.

Sale of goods

Revenue associated with the sale of concentrates, precipitates, doré bars and activated carbon (the products) is 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 FVPL up from initial recognition and until the date of settlement. These subsequent changes in fair value are recognised in revenue but separately from revenue from contracts with customers.

Refining and treatment charges under the sales contracts are deducted from revenue from sales of concentrates as these are not related to a distinct good or service.

(o) Exploration expenses

Exploration activity involves the search for mineral resources, the determination of technical feasibility and the assessment of commercial viability of an identified resource.

Exploration expenses are charged to the income statement as incurred and are recorded in the following captions:

- Cost of sales: costs relating to in-mine exploration, that ensure continuous extraction quality and extend mine life; and
- Exploration expenses:
  - costs incurred in geographical proximity to existing mines in order to replenish or increase reserves; and
  - costs incurred in regional exploration with the objective of locating new ore deposits in Mexico and Latin America and which are identified by project. Costs incurred are charged to the income statement until there is sufficient probability of the existence of economically recoverable minerals and a feasibility study has been performed for the specific project from which time further expenses are capitalised as exploration costs on balance sheet as property, plant and equipment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

2. Significant accounting policies continued

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

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

- where the deferred income tax asset relating to deductible temporary differences arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

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

Deferred income tax relating to items recognised directly in OCI 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 as finance income or finance cost respectively.

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

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

- there is 'an economic relationship' between the hedged item and the hedging instrument;
- the effect of credit risk does not 'dominate the value changes' that result from that economic relationship; and
- 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 OCI 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 OCI 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 OCI from the period that the hedge was effective remains separately in OCI until the forecast transaction occurs, when it is then recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in OCI is immediately transferred to the income statement.

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

When hedging with forward contracts, the forward element is included in the designation of the financial instrument. Therefore, there is no cost of hedging in relation to forward contracts.

(s) Borrowing costs

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

2. Significant accounting policies continued

(t) Fair value measurement

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

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

- in the principal market for the asset or liability; or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

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

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

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

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

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

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

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

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

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by 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.

As at 31 December 2020, the Group has six 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 (closed at the end of 2020);
- The Herradura mine, located in the state of Sonora, a surface gold mine;
- The Noche Buena mine, located in state of Sonora, a surface gold mine; and
- The San 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 2020 and 2019, all revenue was derived from customers based in Mexico.

Operating segments

The following tables present revenue and profit information regarding the Group's operating segments for the years ended 31 December 2020 and 2019, respectively. Revenues for the year ended 31 December 2020 and 2019 include those derived from contracts with customers and other revenues, as showed in Note 4.

									Year ended 31 December 2020
US$ thousands	**Fresnillo**	**Herradura**	**Ciénega**	**Saucito**	**Noche Buena**	**San Julián**	**Other[5]**	**Adjustments and eliminations**	**Total**
Revenues:									
Third party[1]	**366,245**	**777,455**	**230,221**	**521,817**	**151,402**	**380,552**		**2,363**	**2,430,055**
Inter-segment							**119,412**	**(119,412)**	**–**
Segment revenues	**366,245**	**777,455**	**230,221**	**521,817**	**151,402**	**380,552**	**119,412**	**(117,049)**	**2,430,055**
Segment profit[2]	**191,042**	**400,540**	**129,479**	**325,099**	**53,661**	**211,681**	**101,615**	**(4,593)**	**1,408,524**
Foreign exchange hedging gains									**4,145**
Depreciation and amortisation[3]									**(514,572)**
Employee profit sharing									**(18,731)**
Gross profit as per the income statement									**879,366**
Capital expenditure[4]	**92,627**	**30,182**	**35,071**	**73,376**	**19,674**	**36,329**	**125,067**	**–**	**412,326**

1 Total third-party revenues include treatment and refining charges amounting US$180.55 million. Adjustments and eliminations correspond to hedging gains (Note 4).
2 Segment profit excluding foreign exchange hedging gains, depreciation and amortisation and employee profit sharing.
3 Includes depreciation and amortisation included in unabsorbed production cost amounted US$9.1 million.
4 Capital expenditure represents the cash outflow in respect of additions to property, plant and equipment, including mine development, construction of leaching pads, and purchase of mine equipment, excluding additions relating to changes in the mine closure provision. Significant additions include the construction of the leaching plant at Fresnillo and the facilities of the Juanicipio development project (included in Other).
5 Other inter-segment revenue corresponds to leasing services provided by Minera Bermejal, S.A. de C.V and incidental ore sales from Juanicipio development project to Fresnillo; capital expenditure mainly corresponds to Minera Juanicipio S.A de C.V. and Minera Bermejal, S. de R.L. de C.V.

									Year ended 31 December 2019
US$ thousands	Fresnillo	Herradura	Ciénega	Saucito	Noche Buena	San Julián	Other[4]	Adjustments and eliminations	Total
Revenues:									
Third party[1]	316,214	692,444	189,441	439,170	176,291	312,065		(5,984)	2,119,641
Inter-Segment							94,967	(94,967)	–
Segment revenues	316,214	692,444	189,441	439,170	176,291	312,065	94,967	(100,951)	2,119,641
Segment profit[2]	164,570	218,661	84,926	238,133	58,295	128,221	66,547	965	960,318
Depreciation and amortisation									(489,529)
Employee profit sharing									(9,079)
Gross profit as per the income statement									461,709
Capital expenditure[3]	172,846	37,520	58,220	126,384	5,709	65,325	93,260	–	559,264

1 Total third-party revenues include treatment and refining charges amounting US$144.6 million. Adjustments and eliminations correspond to hedging gains (Note 4).
2 Segment profit excluding foreign exchange hedging gains, depreciation and amortisation and employee profit sharing.
3 Capital expenditure represents the cash outflow in respect of additions to property, plant and equipment, including mine development, construction of leaching pads, and purchase of mine equipment, excluding additions relating to changes in the mine closure provision. Significant additions include the construction of the leaching plant at Fresnillo and the facilities of the Juanicipio development project (included in Other).
4 Other inter-segment revenue corresponds to leasing services provided by Minera Bermejal, S.A. de C.V; capital expenditure mainly corresponds to Minera Juanicipio S.A de C.V. and Minera Bermejal, S. de R.L. de C.V.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

4. Revenues

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

(a) Revenues by source

	Year ended 31 December	
	2020 US$ thousands	2019 US$ thousands
Revenues from contracts with customers	**2,425,098**	2,125,962
Revenues from other sources:		
Provisional pricing adjustment on products sold	**2,594**	(337)
Hedging gain/(loss) on sales	**2,363**	(5,984)
	2,430,055	2,119,641

(b) Revenues by product sold

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

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

(c) Value of metal content in products sold

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

	Year ended 31 December	
	2020 US$ thousands	2019 US$ thousands
Silver	**970,532**	776,784
Gold	**1,328,000**	1,183,116
Zinc	**204,733**	202,281
Lead	**107,272**	102,058
Value of metal content in products sold	**2,610,537**	2,264,239
Adjustment for treatment and refining charges	**(180,482)**	(144,598)
Total revenues[1]	**2,430,055**	2,119,641

1 Includes provisional price adjustments which represent changes in the fair value of trade receivables resulting in a gain of US$2.6 million (2019: loss of US$0.3 million) and hedging gain of US$2.3 million (2019: loss of US$6.0 million). For further detail, refer to Note 2(n).

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

	Year ended 31 December	
	2020 US$ per ounce	2019 US$ per ounce
Gold[2]	**1,792.44**	1,418.0
Silver[2]	**21.28**	16.1

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

5. Cost of sales

	Year ended 31 December	
	2020 US$ thousands	2019 US$ thousands
Depreciation and amortisation (Note 12)	**505,377**	489,529
Personnel expenses (Note 7)	**116,103**	110,704
Maintenance and repairs	**175,087**	189,042
Operating materials	**203,217**	233,159
Energy	**189,239**	219,531
Contractors	**357,278**	363,737
Mining concession rights and contributions	**20,409**	12,910
Freight	**8,037**	10,613
Surveillance[1]	**7,028**	8,491
Insurance	**7,141**	5,819
Other	**18,212**	25,503
Cost of production	**1,607,128**	1,669,038
Unabsorbed production costs[2]	**19,403**	–
Gain on foreign currency hedges	**(4,145)**	–
Change in work in progress and finished goods (ore inventories)[3]	**(71,698)**	(11,106)
	1,550,689	1,657,932

1 Figures corresponding to the year 2019 have been reclassified from Other to be consistent with the presentation in the current year.
2 Corresponds to production cost incurred in Minera Penmont as a result of the operational impact related to Covid-19, see Note 2(c). Main Unabsorbed production costs include US$9.1 million of Depreciation and amortisation and US$3.1 million of Contractors.
3 Refer to Note 2(c) for more detail related to change in work in progress inventories for the year ended 31 December 2020 following a change in estimation.

6. Exploration expenses

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

These exploration expenses were mainly incurred in the operating mines located in Mexico; the Juanicipio, Guanajuato, Orisyvo and Centauro Deep projects, and the Mexico Nuevo and Mirador de Cristo prospects. Exploration expenses of US$10.4 million (2019: US$14.9 million) were incurred in the year on projects located in Peru and Chile.

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

	Year ended 31 December	
	2020 US$ thousands	2019 US$ thousands
Liabilities related to exploration activities	**666**	106

The liabilities related to exploration activities recognised by the Group operating companies are not included since it is not possible to separate the liabilities related to exploration activities of these companies from their operating liabilities.

Cash flows relating to exploration activities are as follows:

	Year ended 31 December	
	2020 US$ thousands	2019 US$ thousands
Operating cash out flows related to exploration activities	**106,768**	157,919

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

7. Personnel expenses

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

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

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

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

	Year ended 31 December	
	2020 Number	2019 Number
Mining	**2,222**	2,334
Plant	**926**	869
Exploration	**403**	468
Maintenance	**1,255**	1,115
Administration and other	**1,010**	897
Total	**5,816**	5,683

8. Other operating income and expenses

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

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

1 Corresponds to the insurance claim relating to the theft of doré at Minera Penmont less its corresponding production cost (2019: Insurance claim corresponding the theft of doré at Minera Penmont less its corresponding production cost).
2 Costs relating to the rehabilitation of the facilities of Compañía Minera las Torres, S.A. de C.V. (a closed mine).

9. Finance income and finance costs

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

10. Income tax expense

(a) Major components of income tax expense:

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

	Year ended 31 December	
	2020 US$ thousands	2019 US$ thousands
Consolidated statement of comprehensive income:		
Deferred income tax (charge)/credit related to items recognised directly in other comprehensive income:		
Gain/losses on cash flow hedges recycled to income statement	**1,953**	(1,795)
Changes in fair value of cash flow hedges	**(91)**	(436)
Changes in the fair value of cost of hedges	**(3,320)**	384
Changes in fair value of equity investments at FVOCI	**(26,866)**	(13,441)
Remeasurement losses/gains on defined benefit plans	**(23)**	372
Income tax effect reported in other comprehensive income	**(28,347)**	(14,845)

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

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

(b) Reconciliation of the income tax expense at the Group's statutory income rate to income tax expense at the Group's effective income tax rate:

	Year ended 31 December	
	2020 US$ thousands	2019 US$ thousands
Accounting profit before income tax	**551,253**	178,756
Tax at the Group's statutory corporate income tax rate 30.0%	**165,376**	53,627
Expenses not deductible for tax purposes	**2,921**	2,934
Inflationary uplift of the tax base of assets and liabilities	**(22,972)**	(17,229)
Current income tax (over)/underprovided in previous years	**44**	(275)
Effect of conclusive agreement	**–**	(5,084)
Exchange rate effect on tax value of assets and liabilities[1]	**55,110**	(37,101)
Non-taxable/non-deductible foreign exchange effects	**(16,923)**	3,982
Inflationary uplift of tax losses	**(1,170)**	(1,439)
Inflationary uplift on tax refunds	**(2,077)**	(3,867)
Incentive for Northern Border Zone	**(35,810)**	(6,417)
IEPS tax credit (Note 10(e))	**–**	(9,975)
Deferred tax asset not recognised	**4,916**	6,688
Special mining right taxable/(deductible) for corporate income tax	**(10,488)**	5,718
Other	**1,710**	432
Corporate income tax at the effective tax rate of 25.5% (2019: (4.5)%)	**140,637**	(8,006)
Special mining right	**35,037**	(19,053)
Tax at the effective income tax rate of 31.9% (2019: (15.1)%)	**175,674**	(27,059)

1 Mainly derived from the tax value of property, plant and equipment.

The most significant items reducing the effect of effective tax rate are inflation effects, exchange rate and the incentive for Northern Border Zone. The future effects of inflation and exchange rate will depend on future market conditions.

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

	Year ended 31 December	
	2020 US$ thousands	2019 US$ thousands
Opening net liability	**(210,577)**	(382,042)
Income statement credit arising on corporate income tax	**67,666**	156,518
Income statement (charge)/credit arising on special mining right	**(3,696)**	29,596
Exchange difference	**35**	196
Net charge related to items directly charged to other comprehensive income	**(28,347)**	(14,845)
Closing net liability	**(174,919)**	(210,577)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

10. Income tax expense continued

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

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

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

On the basis of management's internal forecast, a deferred tax asset has been recognised in respect of tax losses amounting to US$248.4 million (2019: US$176.7 million). If not utilised, US$12.7 million (2019: US$21.2 million) will expire within five years and US$235.7 million (2019: US$155.5 million) will expire between six and ten years. At entity level deferred tax asset amounting to US$31.2 million is cover by a deferred tax liability position, the remaining US$43.3 million corresponds to Fresnillo plc which maintained a deferred net asset position. The Group has conducted a feasible tax planning that will allow applied the tax losses before its expiration.

The Group has further tax losses and other similar attributes carried forward of US$64.6 million (2019: US$59.7 million) on which no deferred tax is recognised due to insufficient certainty regarding the availability of appropriate future taxable profits. Based on the applicable tax legislation the tax losses are not subject to expire.

(d) Unrecognised deferred tax on investments in subsidiaries

The Group has not recognised all of the deferred tax liability in respect of distributable reserves of its subsidiaries because it controls them and only part of the temporary differences are expected to reverse in the foreseeable future. The temporary differences for which a deferred tax liability has not been recognised aggregate to US$1,797 million (2019: US$1,619 million).

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

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

On 30 December 2018, the Decree of tax incentives for the northern border region of Mexico was published in the Official Gazette, which provided a reduction of income tax by a third and also a reduction of 50% of the value added tax rate, for taxpayers that produce income from business activities carried out within the northern border region. The tax incentives were applicable since 1 January 2019 and remain in force until 31 December 2020. On 30 December 2020, an extension of the Decree was published in the Official Gazette which remain in force until 31 December 2024. Some of the Group companies which produce income from business activities carried out within Caborca, Sonora, which is considered for purposes of the Decree as northern border region, applied for this Decree tax incentives before the Mexican tax authorities, and were granted authorisation for income tax and value added tax purposes.

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

The special mining right 'SMR' states that the owners of mining titles and concessions are subject to pay an annual mining right of 7.5% of the profit derived from the extractive activities and is considered as income tax under IFRS. The SMR allows as a credit the payment of mining concessions rights up to the amount of SMR payable within the same legal entity. The 7.5% tax applies to a base of income before interest, annual inflation adjustment, taxes paid on the regular activity, depreciation and 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 2020, the Group credited US$21.3 million (2019: US$14.7 million) of mining concession rights against the SMR. Total mining concessions rights paid during the year were US$21.3 million (2019: US$21.1 million) and have been recognised in the income statement within cost of sales and exploration expenses. Mining concessions rights paid in excess of the SMR cannot be credited to SMR in future fiscal periods, and therefore no deferred tax asset has been recognised in relation to the excess. Without regards to credits permitted under the SMR regime, the current special mining right credit would have been US$46.1 million (2019: US$18.6 million).

11. Earnings per share

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

The Company has no dilutive potential Ordinary Shares.

As of 31 December 2020 and 2019, earnings per share have been calculated as follows:

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

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

Adjusted earnings per share have been provided in order to provide a measure of the underlying performance of the Group, prior to the revaluation effects of the Silverstream contract, a derivative financial instrument.

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

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

12. Property, plant and equipment

	Year ended 31 December 2019[3]					
	US$ thousands					
	Land and buildings	Plant and equipment	Mining properties and development costs	Other assets	Construction in progress	Total
Cost						
At 31 December 2018	283,299	2,132,603	2,176,404	276,731	498,168	5,367,205
Effect of adoption IFRS 16	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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

12. Property, plant and equipment continued

	Year ended 31 December 2020[3]					
	US$ thousands					
	Land and buildings	Plant and equipment	Mining properties and development costs	Other assets	Construction in progress	Total
Cost						
At 1 January 2020	323,568	2,271,110	2,321,849	329,529	629,776	5,875,832
Additions	1,930	20,409	3,709	12,910[2]	377,137	416,095
Disposals	(1,015)	(27,690)	(91,266)	(3,268)	–	(123,239)
Transfers and other movements	17,538	122,096	173,362	16,882	(329,878)	–
At 31 December 2020	342,021	2,385,925	2,407,654	356,053	677,035	6,168,688
Accumulated depreciation						
At 1 January 2020	(162,328)	(1,345,809)	(1,406,781)	(147,497)	–	(3,062,415)
Depreciation for the year[1]	(9,234)	(221,497)	(256,181)	(30,741)	–	(517,653)
Disposals	387	26,448	91,687	1,053	–	119,575
At 31 December 2020	(171,175)	(1,540,858)	(1,571,275)	(177,185)	–	(3,460,493)
Net Book amount at 31 December 2020[4]	170,846	845,067	836,379	178,868	677,035	2,708,195

1 Depreciation for the year includes US$515.9 million (2019: US$490.7 million) recognised as an expense in the income statement and US$1.7 million (2019: US$0.3 million), capitalised as part of construction in progress.
2 From the additions in 'Other assets' category US$3.9 million (2019: US$29.4 million) corresponds to the reassessment of mine closure rehabilitations costs, see Note 20.
3 Figures include right-of-use assets as described in Note 24.
4 The amount of PP&E related to Soledad-Dipolos at 31 December 2020 is US$35.9 million (2019: US$37.2 million) and reflects capitalised mining works and the amount recognised in the cost of PP&E related to estimated remediation and closure activities.

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

	Year ended 31 December	
	2020 US$ thousands	2019 US$ thousands
Saucito	45,845	75,346
Herradura	55,120	53,388
Noche Buena	10,069	10,682
Ciénega	56,032	57,214
Fresnillo	154,276	141,166
San Julián	20,801	41,158
Juanicipio	320,306	231,105
Other[1]	14,586	19,717
	677,035	629,776

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

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

Sensitivity analysis

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

13. Silverstream contract

On 31 December 2007, the Group entered into an agreement with Peñoles through which it is entitled to receive the proceeds received by the Peñoles Group in respect of the refined silver sold from the Sabinas mine ('Sabinas'), a base metals mine owned and operated by the Peñoles Group, for an upfront payment of US$350 million. In addition, a per ounce cash payment of US$2.00 in years one to five and US$5.00 thereafter (subject to an inflationary adjustment that commenced from 31 December 2013) is payable to Peñoles. The cash payment per ounce for the year ended 31 December 2020 was US$5.37 per ounce (2019: US$5.31 per ounce). Under the contract, the Group has the option to receive a net cash settlement from Peñoles attributable to the silver produced and sold from Sabinas, to take delivery of an equivalent amount of refined silver or to receive settlement in the form of both cash and silver. If, by 31 December 2032, the amount of silver produced by Sabinas is less than 60 million ounces, a further payment is due from Peñoles of US$1 per ounce of shortfall. At 31 December 2020 the weighted average rate applied for the purposes of the valuation model was 7.43% (2019: 6.57%).

The Silverstream contract represents a derivative financial instrument which has been recorded at FVPL and classified within non-current and current assets as appropriate. The term of the derivative is based on Sabinas life of mine which is currently 34 years. Changes in the contract's fair value, other than those represented by the realisation of the asset through the receipt of either cash or refined silver, are charged or credited to the income statement. In the year ended 31 December 2020, total proceeds received in cash were US$33.7 million (2019: US$24.3 million) of which, US$5.2 million was in respect of proceeds receivable as at 31 December 2019 (2018: US$3.3 million). Cash received in respect of the year of US$28.4 million (2019: US$20.9 million) corresponds to 2.3 million ounces of payable silver (2019: 2.3 million ounces). As at 31 December 2020, a further US$7.6 million (2019: US$5.2 million) of cash receivable corresponding to 362,295 ounces of silver is due (2019: 414,963 ounces).

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

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

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

See Note 29 for further information on the inputs that have a significant effect on the fair value of this derivative, see Note 30 for further information relating to market and credit risks associated with the Silverstream asset.

14. Inventories

	As at 31 December	
	2020 US$ thousands	2019 US$ thousands
Finished goods[1]	**28,925**	12,154
Work in progress[2]	**305,888**	252,639
Ore stockpile[3]	**414**	–
Operating materials and spare parts	**113,111**	103,740
	448,338	368,533
Allowance for obsolete and slow-moving inventories	**(5,131)**	(4,793)
Balance as 31 December at lower of cost and net realisable value	**443,207**	363,740
Less – current portion	**351,587**	272,120
Non-current portion[4]	**91,620**	91,620

1 Finished goods include metals contained in concentrates and doré bars on hand or in transit to a smelter or refinery.
2 Work in progress includes metals contained in ores on leaching pads and stoked to be processed in dynamic leaching plants (Note 2(c)).
3 Ore stockpile includes ore mineral obtained during the development phase at Juanicipio.
4 Non-current inventories relate to ore in leaching pads where the leaching process has stopped and is not expected to restart within 12 months.

Concentrates are a product containing sulphides with variable content of precious and base metals and are sold to smelters and/or refineries. Doré is an alloy containing a variable mixture of gold and silver that is delivered in bar form to refineries, activated carbon is a product containing variable mixture of gold and silver that is delivered in small particles. The content once processed by the smelter and refinery is sold to customers in the form of refined products.

The amount of inventories recognised as an expense in the year was US$1,550.7 million (2019: US$1,657.3 million) before changes to the net realisable value of inventory. During 2020 and 2019, there was no adjustment to net realisable value allowance against work in progress inventory. The adjustment to the allowance for obsolete and slow-moving inventory recognised as an expense was US$0.3 million (2019: US$1.3 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

15. Trade and other receivables

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

Trade receivables are shown net of any corresponding advances, are non-interest bearing and generally have payment terms of 46 to 60 days.

The total receivables denominated in US$ were US$339.6 million (2019: US$219.6 million), and in Mexican pesos US$173.2 million (2019: US$241.0 million).

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

As of 31 December for each year presented, with the exception of 'other receivables' in the table above, all trade and other receivables were neither past due nor credit-impaired. The amount past due and considered as credit-impaired as of 31 December 2020 is US$0.5 million (2019: US$0.8 million). Trade receivables from related parties and other receivables for related parties are classified as financial assets at FVPL and therefore not considered in the expected credit loss analysis. In determining the recoverability of receivables, the Group performs a risk analysis considering the type and age of the outstanding receivable and the credit worthiness of the counterparty, see Note 30(b).

16. Cash and cash equivalents

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

	As at 31 December	
	2020 US$ thousands	2019 US$ thousands
Cash at bank and on hand	**1,955**	3,347
Short-term deposits	**1,068,460**	333,229
Cash and cash equivalents	**1,070,415**	336,576

Cash at bank earns interest at floating rates based on daily bank deposits. Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates. Short-term deposits can be withdrawn at short notice without any penalty or loss in value.

17. Equity

Share capital and share premium

Authorised share capital of the Company is as follows:

	As at 31 December			
	2020		2019	
Class of share	**Number**	**Amount**	Number	Amount
Ordinary Shares each of US$0.50	**1,000,000,000**	**$500,000,000**	1,000,000,000	$500,000,000
Sterling Deferred Ordinary Shares each of £1.00	**50,000**	**£50,000**	50,000	£50,000

Issued share capital of the Company is as follows:

	Ordinary Shares		Sterling Deferred Ordinary Shares	
	Number	US$	Number	£
At 1 January 2019	736,893,589	368,545,586	50,000	50,000
At 31 December 2019	736,893,589	368, 545,586	50,000	50,000
At 31 December 2020	**736,893,589**	**368, 545,586**	**50,000**	**50,000**

As at 31 December 2020 and 2019, all issued shares with a par value of US$0.50 each are fully paid. The rights and obligations attached to these shares are governed by law and the Company's Articles of Association. Ordinary shareholders are entitled to receive notice and to attend and speak at any general meeting of the Company. There are no restrictions on the transfer of the Ordinary shares.

The Sterling Deferred Ordinary Shares only entitle the shareholder on winding up or on a return of capital to payment of the amount paid up after repayment to Ordinary Shareholders. The Sterling Deferred Ordinary Shares do not entitle the holder to payment of any dividend, or to receive notice or to attend and speak at any general meeting of the Company. The Company may also at its option redeem the Sterling Deferred Ordinary Shares at a price of £1.00 or, as custodian, purchase or cancel the Sterling Deferred Ordinary Shares or require the holder to transfer the Sterling Deferred Ordinary Shares. Except at the option of the Company, the Sterling Deferred Ordinary Shares are not transferable.

Reserves

Share premium

This reserve records the consideration premium for shares issued at a value that exceeds their nominal value.

Capital reserve

The capital reserve arose as a consequence of the Pre-IPO Reorganisation as a result of using the pooling of interest method.

Hedging reserve

This reserve records the portion of the gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge, net of tax. When the hedged transaction occurs, the gain or the loss is transferred out of equity to the income statement or the value of other assets.

Cost of hedging reserve

The changes in the time value of option contracts are accumulated in the costs of hedging reserve. These deferred costs of hedging are either reclassified to profit or loss or recognised as a basis adjustment to non-financial assets or liabilities upon maturity of the hedged item, or, in the case of a hedge item that realises over time, amortised on a systematic and rational basis over the life of the hedged item.

Fair value reserve of financial assets at FVOCI

The Group has elected to recognise changes in the fair value of certain investments in equity securities in OCI, as explained in Note 2(g). These changes are accumulated within the FVOCI reserve within equity. The Group transfers amounts from this reserve to retained earnings when the relevant equity securities are derecognised.

Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial information of entities with a functional currency different to that of the presentational currency of the Group.

Retained earnings/accumulated losses

This reserve records the accumulated results of the Group, less any distributions and dividends paid.

18. Dividends declared and paid

The dividends declared and paid during the years ended 31 December 2020 and 2019 are as follows:

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

1 This dividend was approved by the shareholders on 26 May 2020 and paid on 2 June 2020.
2 This dividend was approved by the Board of Directors on 27 July 2020 and paid on 16 September 2020.
3 This dividend was approved by the shareholders on 21 May 2019 and paid on 24 May 2019.
4 This dividend was approved by the Board of Directors on 24 July 2019 and paid on 6 September 2019.

The Directors have proposed a final dividend of 23.5 US cents per share, which is subject to approval at the Annual General Meeting and is not recognised as a liability as at 31 December 2020. Dividends paid from the profits generated from 1 January 2014 to residents in Mexico and to non-resident shareholders may be subject to an additional tax of up to 10%, which will be withheld by the Group.

In late 2019, the Directors became aware of a technical breach of the Companies Act 2006 (the Act) whereby certain dividends paid between 2011 and 2019 (the 'Historic Dividends') had been made without having filed interim accounts in accordance with the Act. The relevant interim accounts have now been filed with the Registrar of Companies and these show that the Company had sufficient distributable reserves at the point at which each of the Historic Dividends was paid. It is the intention of the Directors, as a matter of prudence, to put forward a resolution to shareholders in due course to regularise the position. This decision will have no effect on the monies received pursuant to these dividends and will not adversely impact shareholders or the Company. Nevertheless, the Directors will keep the matter under review.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

19. Interest-bearing loans

Senior Notes

On 29 September 2020, the Group repurchased certain of its 5.500% Senior Notes due 2023 that had a carrying value of US$482.1 million for consideration of US$543.0 million. Additional accrued interest at the date of the repurchase included in the settlement amounted US$10.8 million. The premium paid on purchase of these notes of US$60.9 million was recognised in financial expenses. The settlement occurred on 2 October 2020.

On 2 October 2020, the Group completed its offering of US$850,000,000 aggregate principal amount of 4.250% Senior Notes due 2050. The proceeds were partially used to finance the repurchase mentioned above.

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

	As at 31 December	
	2020 US$ thousands	2019 US$ thousands
Opening balance	**801,239**	800,127
Issuance of 4.250% Senior Notes due 2050[1]	**828,325**	–
Repayments of 5.500% Senior Notes due 2023	**(482,121)**	–
Accrued interest	**48,873**	46,267
Interest paid[2]	**(43,144)**	(46,267)
Amortisation of discount and transaction costs	**3,498**	1,112
Closing balance	**1,156,670**	801,239

1 Balance is net of unamortised discounts and capitalised transaction costs of US$21.7 million.
2 Accrued interest is payable semi-annually on 13 May and 13 November for 5.500 Senior Notes and 2 April and 2 October for 4.250% Senior Notes.

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

Change of control:

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

Pledge on assets:

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

20. Provision for mine closure cost

The provision represents the discounted values of the estimated cost to decommission and rehabilitate the mines at the estimated date of depletion of mine deposits. Uncertainties in estimating these costs include potential changes in regulatory requirements, decommissioning, dismantling and reclamation alternatives, timing, and the discount, foreign exchange and inflation rates applied.

The Group has performed separate calculations of the provision by currency, discounting at corresponding rates. As at 31 December 2020, the discount rates used in the calculation of the parts of the provision that relate to Mexican pesos range from 4.35% to 8.12% (2019: range of 6.83% to 7.47%). The range for the current year parts that relate to US dollars range from 0.07% to 1.16% (2019: range of 1.43% to 1.82%). Mexican regulations regarding the decommissioning and rehabilitation of mines are limited and less developed in comparison to regulations in many other jurisdictions. It is the Group's intention to rehabilitate the mines beyond the requirements of Mexican law, and estimated costs reflect this level of expense. The Group intends to fully rehabilitate the affected areas at the end of the lives of the mines.

The provision is expected to become payable at the end of the production life of each mine, based on the reserves and resources, which ranges from 3 to 24 years from 31 December 2020 (2 to 29 years from 31 December 2019). As at 31 December 2020 the weighted average term of the provision is 12 years (2019: 13 years)

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

21. Pensions and other post-employment benefit plans

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

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

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

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

Death and disability benefits are covered through insurance policies.

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

US$ thousands

		Pension cost charge to income statement					Remeasurement gains/(losses) in OCI								
	Balance at 1 January 2020	Service cost	Net interest	Foreign exchange	Sub-total recognised in the year	Benefits paid	Return on plan assets (excluding amounts included in net interest	Actuarial changes arising from changes in demographic assumptions	Actuarial changes arising from changes in financial assumptions	Experience adjustments	Foreign exchange	Sub-total included in OCI	Contributions by employer	Defined benefit increase due to personnel transfer	Balance at 31 December 2020
Defined benefit obligation	**(31,294)**	**(1,211)**	**(1,738)**	**1,595**	**(1,354)**	**985**	**–**	**–**	**(487)**	**976**	**–**	**489**	**–**	**(184)**	**(31,358)**
Fair value of plan assets	**20,590**	**–**	**1,089**	**(1,123)**	**(34)**	**(985)**	**(342)**	**–**	**–**	**–**	**–**	**(342)**	**–**	**152**	**19,381**
Net benefit liability	**(10,704)**	**(1,211)**	**(649)**	**472**	**(1,388)**	**–**	**(342)**	**–**	**(487)**	**976**	**–**	**147**	**–**	**(32)**	**(11,977)**

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)

Of the total defined benefit obligation, US$9.6 million (2019: US$9.2 million) relates to statutory seniority premiums for unionised workers which are not funded. The expected contributions to the plan for the next annual reporting period are nil.

The principal assumptions used in determining pension and other post-employment benefit obligations for the Group's plans are shown below:

	As at 31 December	
	2020 %	2019 %
Discount rate	**7.09**	7.24
Future salary increases (NCPI)	**5.00**	5.00

The life expectancy of current and future pensioners, men and women aged 65 and older will live on average for a further 23.4 and 26.9 years respectively (2019: 23.2 years for men and 26.7 for women). The weighted average duration of the defined benefit obligation is 12.5 years (2019: 11.3 years).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

21. Pensions and other post-employment benefit plans continued
The fair values of the plan assets were as follows:

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

As at 31 December 2020 and 2019, all the funds were invested in quoted debt instruments.

The pension plan has not invested in any of the Group's own financial instruments nor in properties or assets used by the Group.

A quantitative sensitivity analysis for significant assumptions as at 31 December 2020 is as shown below:

Assumptions	Discount rate		Future salary increases (NCPI)		Life expectancy of pensioners
Sensitivity level	**0.5% increase**	**0.5% decrease**	**0.5% increase**	**0.5% decrease**	**+1 increase**
(Decrease)/increase to the net defined benefit obligation (US$ thousands)	**(1,261)**	**1,900**	**(512)**	**(852)**	**522**

The sensitivity analysis above has been determined based on a method that extrapolates the impact on net defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period. The pension plan is not sensitive to future changes in salaries other than in respect of inflation.

22. Trade and other payables

	As at 31 December	
	2020 US$ thousands	2019 US$ thousands
Trade payables	**86,838**	107,222
Note payable[1]	**64,425**	–
Other payables to related parties (Note 26)	**19,629**	17,899
Accrued expenses	**16,368**	18,410
Other taxes and contributions	**37,948**	16,237
	225,208	159,768

1 Corresponds to a short-term interest-bearing note payable received from Minera los Lagartos, S.A. de C.V. which holds a non-controlling interest in Juanicipio project

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

Balances corresponding to Accrued expenses and Other tax and contributions are not financial liabilities.

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

23. Commitments

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

	As at 31 December	
	2020 US$ thousands	2019 US$ thousands
Saucito	**30,922**	36,743
Herradura	**23,635**	9,864
Noche Buena	**373**	252
Ciénega	**9,304**	6,743
Fresnillo	**25,256**	58,109
San Julián	**3,051**	5,516
Juanicipio	**192,038**	84,609
	284,579	201,836

24. Leases

(a) The Group as lessee

The Group leases various offices, buildings and IT equipment. The resulting lease liability is as follows:

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

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

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

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

Amounts recognised in profit and loss for the year, additional to depreciation of right-of-use assets, included US$0.6 million relating to interest expense, US$0.7 million relating to short-term leases and US$2.9 million relating to low-value assets.

(b) The Group as a lessor

Operating leases, in which the Group is the lessor, relate to mobile equipment owned by the Group with lease terms of between 12 to 36 months. All operating lease contracts contain market review clauses in the event that the lessee exercises its option to renew. The lessee does not have an option to purchase the equipment at the expiry of the lease period. The Group's leases as a lessor are not material.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

25. Contingencies

As of 31 December 2020, the Group has the following contingencies:

- The Group is subject to various laws and regulations which, if not observed, could give rise to penalties.
- Tax periods remain open to review by the Mexican tax authorities ('SAT', by its Spanish acronym) in respect of income taxes for five years following the date of the filing of corporate income tax returns, during which time the authorities have the right to raise additional tax assessments including penalties and interest. Under certain circumstances, the reviews may cover longer periods. As such, there is a risk that transactions, and in particular related party transactions, that have not been challenged in the past by the authorities, may be challenged by them in the future.
- Certain of the Group's income tax returns are currently being reviewed by the SAT. The status of the material ongoing inspections is as follows:
  - On 13 February 2020, the SAT initiated an audit of the income tax and mining rights computations of Desarrollos Mineros Fresne for the year 2014. On 3 February 2021, the SAT delivered its findings to which the Company will respond no later than 4 March 2021. The findings relate to the tax treatments of capitalised stripping cost and exploration expenditure.
  - During the year, the Group amended the tax treatment for income tax purposes in respect of mining works and mining concessions as described in Note 10(c). This amendment resulted in the closure of the previously reported income tax audits for the year 2013 at Minera Saucito and Minera Fresnillo.
- It is not practical to determine the amount of any potential claims or the likelihood of any unfavourable outcome arising from these or any future inspections that may be initiated. However, management believes that its interpretation of the relevant legislation is appropriate and that the Group has complied with all regulations and paid or accrued all taxes and withholdings that are applicable.
- On 8 May 2008, the Company and Peñoles entered into the Separation Agreement (the 'Separation Agreement'). This agreement relates to the separation of the Group and the Peñoles Group and governs certain aspects of the relationship between the Fresnillo Group and the Peñoles Group following the initial public offering in May 2008 ('Admission'). The Separation Agreement provides for cross-indemnities between the Company and Peñoles so that, in the case of Peñoles, it is held harmless against losses, claims and liabilities (including tax liabilities) properly attributable to the precious metals business of the Group and, in the case of the Company, it is held harmless by Peñoles against losses, claims and liabilities which are not properly attributable to the precious metals business. Save for any liability arising in connection with tax, the aggregate liability of either party under the indemnities shall not exceed US$250 million in aggregate.
- In 2011, flooding occurred in the Saucito mine, following which the Group filed an insurance claim in respect of the damage caused (and in respect of business interruption). This insurance claim was rejected by the insurance provider. In early 2018, after the matter had been taken to mutually agreed arbitration, the insurance claim was declared valid; however, there is disagreement about the appropriate amount to be paid. In October 2018, the Group received US$13.6 million in respect of the insurance claim, however, this does not constitute a final settlement and management continues to pursue a higher insurance payment. Due to the fact that negotiations are ongoing and there is uncertainty regarding the timing and amount involved in reaching a final settlement with the insurer, it is currently not practicable to determine the total amount expected to be recovered.
- In December 2020, the Group (directly and/or through one or more of its subsidiaries, herein referred to as 'Fresnillo') entered into an agreement with Orla Mining Ltd. and its Mexican Subsidiary, Minera Camino Rojo, S.A. de C.V. (together herein referred to as 'Orla'), granting Orla the right to expand the Camino Rojo oxide pit onto 21.8 hectares of Fresnillo's 782 hectares 'Guachichil D1' mineral concession, located immediately to the north of Orla's property for total consideration of US$62.8 million. This agreement allows Orla to access oxide and transitional heap leachable mineral resources on Orla's property at depth and grants Orla the right to mine from Fresnillo's mineral concession and recover for Orla's account all oxide and transitional material amenable to heap leaching that are within the expanded open pit. The effectiveness of the agreement with Orla was subject to approval of the Mexican Federal Competition Commission (COFECE), which was granted in February 2021, at which time the first payment in respect of this agreement amounting to US$25.0 million was received from Orla. Due to the fact that approval by COFECE was uncertain as at 31 December 2020, no amounts related to this agreement were recorded in the balance sheet as at that date or in the income statement for the year then ended.
- It is probable that interest income will be earned on the Group's outstanding income and value added tax receivable balances; however, there is no certainty that this interest will be realised until the underlying balance is recovered. Due to that uncertainty, it is also not practicable to estimate the amount of interest income earned but not recovered to date.

26. Related party balances and transactions

The Group had the following related party transactions during the years ended 31 December 2020 and 2019 and balances as at 31 December 2020 and 2019.

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

(a) Related party balances

	Accounts receivable		Accounts payable	
	As at 31 December		As at 31 December	
	2020 US$ thousands	2019 US$ thousands	**2020 US$ thousands**	2019 US$ thousands
Trade:				
Metalúrgica Met-Mex Peñoles, S.A. de C.V.	**326,833**	206,982	**170**	409
Other:				
Industrias Peñoles, S.A.B. de C.V.	**7,648**	5,283	**–**	–
Metalúrgica Met-Mex Peñoles, S.A. de C.V.	**397**	2,662	**–**	–
Servicios Administrativos Peñoles, S.A. de C.V.	**–**	–	**3,156**	3,535
Servicios Especializados Peñoles, S.A. de C.V.	**–**	–	**2,652**	4,095
Fuentes de Energía Peñoles, S.A. de C.V.	**–**	–	**568**	1,735
Termoeléctrica Peñoles, S. de R.L. de C.V.	**–**	–	**2,662**	1,168
Eólica de Coahuila S.A. de C.V.	**–**	–	**7,342**	4,772
Other	**131**	43	**3,079**	2,185
Sub-total	**335,009**	214,970	**19,629**	17,899
Less – current portion	**335,009**	214,970	**19,629**	17,899
Non-current portion	**–**	–	**–**	–

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

Other balances with related parties:

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

The Silverstream contract can be settled in either silver or cash. Details of the Silverstream contract are provided in Note 13.

(b) Principal transactions with affiliates, including Industrias Peñoles S.A.B de C.V., the Company's parent, are as follows:

	Year ended 31 December	
	2020 US$ thousands	2019 US$ thousands
Income:		
Sales:[1]		
Metalúrgica Met-Mex Peñoles, S.A. de C.V.	**2,427,692**	2,125,733
Insurance recovery:		
Grupo Nacional Provincial, S.A. B. de C.V.	**2,761**	6,503
Other income:	**3,618**	7,008
Total income	**2,434,071**	2,139,244

1 Figures do not include the effects of hedging as the derivative transactions are not undertaken with related parties. Figures are net of the adjustment for treatment and refining charges of US$180.5 million (2019: US$144.6 million). During 2020, there were no sales credited to development projects (2019: US$0.1 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

26. Related party balances and transactions continued

	Year ended 31 December	
	2020 US$ thousands	2019 US$ thousands
Expenses:		
Administrative services:		
Servicios Administrativos Peñoles, S.A. de C.V.[1]	**33,031**	33,107
Servicios Especializados Peñoles, S.A. de C.V.[2]	**17,932**	19,744
	50,963	52,851
Energy:		
Termoeléctrica Peñoles, S. de R.L. de C.V.	**17,616**	15,305
Fuentes de Energía Peñoles, S.A. de C.V.	**5,051**	4,971
Eólica de Coahuila S.A. de C.V.	**36,090**	41,572
	58,757	61,848
Operating materials and spare parts:		
Wideco Inc	**5,362**	7,699
Metalúrgica Met-Mex Peñoles, S.A. de C.V.	**7,389**	9,502
	12,751	17,201
Equipment repair and administrative services:		
Serviminas, S.A. de C.V.	**6,476**	10,012
Insurance premiums:		
Grupo Nacional Provincial, S.A. B. de C.V.	**12,278**	9,067
Other expenses:	**3,351**	4,014
Total expenses	**144,576**	154,993

1 Includes US$5.1 million (2019: US$8.1 million) corresponding to expenses reimbursed.
2 Includes US$3 million (2019: US$3.2 million) relating to engineering costs that were capitalised.

In 2020, the Group paid US$16.1 million to Industrias Peñoles, S.A.B de C.V. related to the settlement of amounts due to the SAT arising from the voluntary tax amendment mentioned in Note 10(a) in respect of the fiscal year 2013. This payment was made as settlement of the adjustment in respect of 2013 and was done in accordance with the tax consolidation regime that was applicable in that year.

(c) Compensation of key management personnel of the Group
Key management personnel include the members of the Board of Directors and the Executive Committee.

	Year ended 31 December	
	2020 US$ thousands	2019 US$ thousands
Salaries and bonuses	**3,092**	3,568
Post-employment benefits	**146**	242
Other benefits	**370**	296
Total compensation paid in respect of key management personnel	**3,608**	4,106

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

This compensation includes amounts paid to Directors disclosed in the Directors' Remuneration Report.

The accumulated accrued defined pension entitlement represents benefits accrued at the time the benefits were frozen. There are no further benefits accruing under the defined benefit scheme in respect of current services.

27. Auditor's remuneration

Fees due by the Group to its auditor during the years ended 31 December 2020 and 2019 are as follows:

	Year ended 31 December	
Class of services	**2020 US$ thousands**	2019 US$ thousands
Fees payable to the Group's auditor for the audit of the Group's annual accounts	**1,439**	1,443
Fees payable to the Group's auditor and its associates for other services as follows:		
The audit of the Company's subsidiaries pursuant to legislation	**242**	157
Audit-related assurance services	**521**	437
Other assurance services	**309**	–
Tax compliance services	**–**	10
Total	**2,511**	2,047

28. Notes to the consolidated statement of cash flows

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

29. Financial instruments

(a) Fair value category

	As at 31 December 2020			
	US$ thousands			
Financial assets:	**Amortised cost**	**Fair value through OCI**	**Fair value (hedging instruments)**	**Fair value through profit or loss**
Trade and other receivables (Note 15)	**1,944**	**–**	**–**	**334,482**
Equity instruments at FVOCI	**–**	**212,576**	**–**	**–**
Silverstream contract (Note 13)	**–**	**–**	**–**	**576,140**
Derivative financial instruments	**–**	**–**	**6,290**	**–**

Financial liabilities:	**Amortised cost**	**Fair value (hedging instruments)**	**Fair value through profit or loss**
Interest-bearing loans (Note 19)	**1,156,210**	**–**	**–**
Trade and other payables (Note 22)	**106,467**	**–**	**–**
Short-term loans (Note 22)	**64,425**	**–**	**–**

	As at 31 December 2019			
	US$ thousands			
Financial assets:	Amortised cost	Fair value through OCI	Fair value (hedging instruments)	Fair value through profit or loss
Trade and other receivables (Note 15)	4,353	–	–	212,265
Equity instruments at FVOCI	–	123,024	–	–
Silverstream contract (Note 13)	–	–	–	541,253
Derivative financial instruments	–	–	2,623	–

Financial liabilities:	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)	125,121	–	–
Derivative financial instruments	–	1,789	–

1 Trade and other receivables and embedded derivative within sales contracts are presented net in Trade and other receivables in the balance sheet.

(b) Fair value measurement

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

	As at 31 December			
	Carrying amount		Fair value	
	2020 US$ thousands	2019 US$ thousands	**2020 US$ thousands**	2019 US$ thousands
Financial assets:				
Trade and other receivables	**1,944**	4,353	**1,944**	4,353
Financial liabilities:				
Interest-bearing loans[1] (Note 19)	**1,156,210**	801,239	**1,297,770**	870,208
Trade and other payables	**106,467**	125,121	**106,467**	125,121
Short-term loans	**64,425**	–	**64,425**	–

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

The financial assets and liabilities measured at fair value are categorised into the fair value hierarchy as at 31 December as follows:

	As of 31 December 2020			
	Fair value measure using			
	Quoted prices in active markets Level 1 US$ thousands	**Significant observable Level 2 US$ thousands**	**Significant unobservable Level 3 US$ thousands**	**Total US$ thousands**
Financial assets:				
Trade receivables	**–**	**–**	**334,482**	**334,482**
Derivative financial instruments:				
Option commodity contracts (Note 29(c))	**–**	**1,666**	**–**	**1,666**
Option and forward foreign exchange contracts	**–**	**4,624**	**–**	**4,624**
Silverstream contract	**–**	**–**	**576,140**	**576,140**
Other financial assets:				
Equity instruments at FVOCI	**212,576**	**–**	**–**	**212,576**
	212,576	**6,290**	**910,622**	**1,129,488**

	As of 31 December 2019			
	Fair value measure using			
	Quoted prices in active markets Level 1 US$ thousands	Significant observable Level 2 US$ thousands	Significant unobservable Level 3 US$ thousands	Total US$ thousands
Financial assets:				
Trade receivables	–	–	212,265	212,265
Derivative financial instruments:				
Option commodity contracts (Note 29(c))	–	2,537	–	2,537
Option and forward foreign exchange contracts	–	86	–	86
Silverstream contract	–	–	541,253	541,253
Other financial assets:				
Equity instruments at FVOCI	123,024	–	–	123,024
	123,024	2,623	753,518	879,165
Financial liabilities:				
Derivative financial instruments:				
Option commodity contracts (Note 29(c))	–	1,529	–	1,529
Option and forward foreign exchange contracts	–	260	–	260
	–	1,789	–	1,789

There have been no significant transfers between Level 1 and Level 2 of the fair value hierarchy, and no transfers into and out of Level 3 fair value measurements.

A reconciliation of the opening balance to the closing balance for Level 3 financial instruments other than Silverstream (which is disclosed in Note 13) is shown below:

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

The fair value of financial assets and liabilities is included and 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

29. Financial instruments continued
The following valuation techniques were used to estimate the fair values:

Option and forward foreign exchange contracts
The Group enters into derivative financial instruments with various counterparties, principally financial institutions with investment grade credit ratings. The foreign currency forward (Level 2) contracts are measured based on observable spot exchange rates, the yield curves of the respective currencies as well as the currency basis spreads between the respective currencies. The foreign currency option contracts are valued using the Black Scholes model, the significant inputs to which include observable spot exchange rates, interest rates and the volatility of the currency.

Option commodity contracts
The Group enters into derivative financial instruments with various counterparties, principally financial institutions with investment grade credit ratings. The option commodity (Level 2) contracts are measured based on observable spot commodity prices, the yield curves of the respective commodity as well as the commodity basis spreads between the respective commodities. The option contracts are valued using the Black Scholes model, the significant inputs to which include observable spot commodities price, interest rates and the volatility of the commodity.

Silverstream contract
The fair value of the Silverstream contract is determined using a valuation model including unobservable inputs (Level 3). This derivative has a term of over 20 years and the valuation model utilises a number of inputs that are not based on observable market data due to the nature of these inputs and/or the duration of the contract. Inputs that have a significant effect on the recorded fair value are the volume of silver that will be produced and sold from the Sabinas mine over the contract life, the future price of silver, future foreign exchange rates between the Mexican peso and US dollar, future inflation and the discount rate used to discount future cash flows.

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

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

For further information relating to the Silverstream contract see Note 13. The sensitivity of the valuation to the inputs relating to market risks, being the price of silver, foreign exchange rates, inflation and the discount rate is disclosed in Note 30.

Equity investments:
The fair value of equity investments is derived from quoted market prices in active markets (Level 1). These investments were irrevocably designated at fair value through OCI as the Group considers these investments to be strategic in nature. As of 31 December 2020, approximately 86% of the investments correspond to 9,746,193 shares (2019: 9,746,193 shares) of MAG Silver, Corp. for an amount of US$199.5 million (2019: US$114.4 million) and 6% of Endeavor, Inc. represented by 2,800,000 shares (2019: 2,800,000 shares) for an amount of US$14.1 million (2019: US$6.7 million). These equity investments are listed on the Canadian Stock Exchange. The prices per share as 31 December 2020 were US$20.47 (2019: US$11.74) and US$5.05 (2019: US$2.40), respectively.

Interest-bearing loans
The fair value of the Group's interest-bearing loan is derived from quoted market prices in active markets (Level 1).

Trade receivables:
Sales of concentrates, precipitates, doré bars and activated carbon are 'provisionally priced' and revenue is initially recognised using this provisional price and the Group's best estimate of the contained metal. Revenue is subject to final price and metal content adjustments subsequent to the date of delivery (see Note 2(n)). This price exposure is considered to be an embedded derivative and therefore the entire related trade receivable is measured at fair value.

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

30. Financial risk management

Overview

The Group's principal financial assets and liabilities, other than derivatives, comprise trade receivables, cash, equity instruments at FVOCI, interest-bearing loans and trade payables.

The Group has exposure to the following risks from its use of financial instruments:

- Market risk, including foreign currency, commodity price, interest rate, inflation rate and equity price risks.
- Credit risk.
- Liquidity risk.

This note presents information about the Group's exposure to each of the above risks and the Group's objectives, policies and processes for assessing and managing risk. Further quantitative disclosures are included throughout the financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Fresnillo Audit Committee has responsibility for overseeing how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Audit Committee is assisted in its oversight role by Internal Audit, which undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

(a) Market risk

Market risk is the risk that changes in market factors, such as foreign exchange rates, commodity prices or interest rates will affect the Group's income or the value of its financial instruments.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

In the following tables, the effect on equity excludes the changes in retained earnings as a direct result of changes in profit before tax.

Foreign currency risk

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

In order to manage the Group's exposure to foreign currency risk on expenditure denominated in currencies other than the US dollar, the Group has entered into certain forward and option derivative contracts.

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

Year ended 31 December	Strengthening/ (weakening) of US dollar	Effect on profit before tax: increase/ (decrease) US$ thousands	Effect on equity: increase/ (decrease) US$ thousands
2020	**20%** **(15%)**	**2,792** **(668)**	**30,056** **(12,378)**
2019	5% (5%)	694 (767)	2,295 (1,939)

The effects on profit before tax and equity of reasonably possible changes to the US dollar exchange rate compared to the Mexican peso on the Silverstream contract are not material. The Group's exposure to reasonably possible changes in other currencies is not material.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

30. Financial risk management continued

Commodity risk

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

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

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

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

	Increase/(decrease) in commodity prices					
Year ended 31 December	Gold	Silver	Zinc	Lead	Effect on profit before tax: increase/ (decrease) US$ thousands	Effect on equity: increase/ (decrease) US$ thousands
2020	**20%**	**45%**	**25%**	**15%**	**88,037**	**(7,989)**
	(20%)	**(45%)**	**(20%)**	**(15%)**	**(86,165)**	**22,697**
2019	15%	20%	15%	15%	28,367	(1,939)
	(10%)	(15%)	(15%)	(15%)	(21,218)	2,295

Commodity price risk – Silverstream

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

Year ended 31 December	Increase/ (decrease) in silver price	Effect on profit before tax: increase/ (decrease) US$ thousands
2020	**45%**	**338,484**
	(45%)	**(338,494)**
2019	20%	146,873
	(15%)	(110,155)

Interest rate risk

The Group is exposed to interest rate risk from the possibility that changes in interest rates will affect future cash flows or the fair values of its financial instruments, principally relating to the cash balances and the Silverstream contract held at the balance sheet date. Interest-bearing loans are at a fixed rate, therefore the possibility of a change in interest rate only impacts its fair value but not its carrying amount. Therefore, interest-bearing loans and loans from related parties are excluded from the table below.

The following table demonstrates the sensitivity of financial assets and financial liabilities (excluding Silverstream) to a reasonably possible change in interest rate applied to a full year from the balance sheet date. There is no impact on the Group's equity other than the equivalent change in retained earnings.

Year ended 31 December	Basis point increase/ (decrease) in interest rate	Effect on profit before tax: increase/ (decrease) US$ thousands
2020	**25**	**2,676**
	(20)	**(2,141)**
2019	50	1,683
	(50)	(1,683)

The sensitivity shown in the table above primarily relates to the full year of interest on cash balances held as at the year end.

Interest rate risk – Silverstream

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

Year ended 31 December	Basis point increase/ (decrease) in interest rate	Effect on profit before tax: increase/ (decrease) US$ thousands
2020	**25**	**(14,689)**
	(20)	**12,239**
2019	50	(32,969)
	(50)	36,322

Equity price risk

The Group has exposure to changes in the price of equity instruments that it holds as equity investments at FVOCI.

The following table demonstrates the sensitivity of equity investments at FVOCI to a reasonably possible change in market price of these equity instruments, reflecting the effect on the Group's profit before tax and equity:

Year ended 31 December	Increase/ (decrease) in equity price	Effect on profit before tax: increase/ (decrease) US$ thousands	Effect on equity: increase/ (decrease) US$ thousands
2020	**70%**	**–**	**148,803**
	(40%)	**–**	**(85,031)**
2019	70%	–	86,116
	(25%)	–	(30,756)

(b) Credit risk

Exposure to credit risk arises as a result of transactions in the Group's ordinary course of business and is applicable to trade and other receivables, cash and cash equivalents, the Silverstream contract and derivative financial instruments.

The Group's policies are aimed at minimising losses as a result of counterparties' failure to honour their obligations. Individual exposures are monitored with customers subject to credit limits to ensure that the Group's exposure to bad debts is not significant. The Group's exposure to credit risk is influenced mainly by the individual characteristics of each counter party. The Group's financial assets are with counterparties with what the Group considers to have an appropriate credit rating. As disclosed in Note 26, the counterparties to a significant proportion of these financial assets are related parties. At each balance sheet date, the Group's financial assets were neither credit-impaired nor past due, other than 'Other receivables' as disclosed in Note 15. The Group's policies are aimed at minimising losses from foreign currency hedging contracts. The Company's foreign currency hedging contracts are entered into with large financial institutions with strong credit ratings.

The Group has a high concentration of trade receivables with one counterparty Met-Mex Peñoles, the Group's sole customer throughout 2020 and 2019. A further concentration of credit risk arises from the Silverstream contract. Both Met-Mex and the counterparty to the Silverstream contract are subsidiaries in the Peñoles Group which currently owns 75 per cent of the shares of the Company and is considered by management to be of appropriate credit rating.

The Group's surplus funds are managed by Servicios Administrativos Fresnillo, S.A. de C.V., which manages cash and cash equivalents, including short-term investments investing in a number of financial institutions. Accordingly, on an ongoing basis the Group deposits surplus funds with a range of financial institutions, depending on market conditions. In order to minimise exposure to credit risk, the Group only deposits surplus funds with financial institutions with a credit rating of MX-1 (Moody's) and mxA-1+ (Standard and Poor's) and above. As at 31 December 2020, the Group had concentrations of credit risk as 22 percent of surplus funds were deposited with one financial institution of which the total investment was held in short-term Mexican Government paper.

The maximum credit exposure at the reporting date of each category of financial asset above is the carrying value as detailed in the relevant notes. See Note 16 for the maximum credit exposure to cash and cash equivalents and Note 26 for related party trade and other receivables. The maximum credit exposure with relation to the Silverstream contract is the value of the derivative as at 31 December 2020, being US$576.1 million (2019: US$541.2 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

30. Financial risk management continued

(c) Liquidity risk

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

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

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

					US$ thousands
	Within 1 year	**2–3 years**	**3–5 years**	**> 5 years**	**Total**
As at 31 December 2020					
Interest-bearing loans (Note 19)	**53,608**	**425,096**	**72,250**	**1,753,125**	**2,304,079**
Trade and other payables	**170,899**	**–**	**–**	**–**	**170,899**
Lease liabilities (Note 24)	**5,520**	**6,444**	**1,614**	**680**	**14,258**
Derivative financial instruments – liabilities	**–**	**–**	**–**	**–**	**–**

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

The payments disclosed for financial derivative instruments in the above table are the gross undiscounted cash flows. However, those amounts may be settled gross or net. The following table shows the corresponding estimated inflows based on the contractual terms:

					US$ thousands
	Within 1 year	**2–3 years**	**3–5 years**	**> 5 years**	**Total**
As at 31 December 2020					
Inflows	**45,343**	**–**	**–**	**–**	**45,343**
Outflows	**(40,768)**	**–**	**–**	**–**	**(40,768)**
Net	**4,575**	**–**	**–**	**–**	**4,575**

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

The above liquidity tables include expected inflows and outflows from currency option contracts which the Group expects to be exercised during 2021 as at 31 December 2020 and during 2020 as at 31 December 2019, either by the Group or counterparty.

Management considers that the Group has adequate current assets and forecast cash from operations to manage liquidity risks arising from current liabilities and non-current liabilities.

Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios that support its business and maximise shareholder value. Management considers capital to consist of equity and interest-bearing loans, as disclosed in the balance sheet, excluding net unrealised gains or losses on revaluation of cash flow hedges and equity instruments at FVOCI. In order to ensure an appropriate return for shareholder's capital invested in the Group, management thoroughly evaluates all material projects and potential acquisitions and approves them at its Executive Committee before submission to the Board for ultimate approval, where applicable. The Group's dividend policy is based on the profitability of the business and underlying growth in earnings of the Group, as well as its capital requirements and cash flows, including cash flows from the Silverstream contract.

One of the Group's metrics of capital is cash and other liquid assets which in 2020 and 2019 consisted of only cash and cash equivalents.

PARENT COMPANY STATEMENT OF COMPREHENSIVE INCOME

YEAR ENDED 31 DECEMBER

		Year ended 31 December	
	Notes	**2020 US$ thousands**	2019 US$ thousands
Profit/(loss) for the year	3	**271,228**	(791,501)
Other comprehensive income/(expense)			
Items that will not be reclassified to profit or loss:			
Changes in the fair value of equity investments at FVOCI		**89,552**	44,805
Income tax effect on items that will not be reclassified to profit or loss	4	**(26,866)**	(13,442)
Net other comprehensive income that will not be reclassified to profit or loss		**62,686**	31,363
Other comprehensive income, net of tax		**62,686**	31,363
Total comprehensive income/(expense) for the year, net of tax		**333,914**	(760,138)

PARENT COMPANY BALANCE SHEET

AS AT 31 DECEMBER

	Notes	As at 31 December 2020 US$ thousands	2019 US$ thousands
ASSETS			
Non-current assets			
Investments in subsidiaries	5	**5,790,218**	5,546,870
Equity instruments at FVOCI	16	**212,576**	123,024
Deferred tax asset	4	**6,111**	–
		6,008,905	5,669,894
Current assets			
Loans to related parties	13	**1,315,578**	1,240,385
Income tax recoverable		**2,347**	206
Trade and other receivables	6	**368**	8,454
Derivative financial instruments	16	**6,290**	2,623
Cash and cash equivalents	7	**4,660**	10,976
		1,329,243	1,262,644
Total assets		**7,338,148**	6,932,538
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	**3,911,531**	3,677,500
Fair value reserve of financial assets at FVOCI	8	**110,537**	47,851
Retained earnings	8	**54,026**	121,468
Total equity		**5,598,457**	5,369,182
Non-current liabilities			
Interest-bearing loans	10	**1,156,670**	801,239
Deferred tax liability	4	**–**	1,765
		1,156,670	803,004
Current liabilities			
Trade and other payables	11	**7,521**	11,694
Derivative financial instruments	16	**–**	1,789
Loans from related parties	13	**575,500**	746,869
		583,021	760,352
Total liabilities		**1,739,691**	1,563,356
Total equity and liabilities		**7,338,148**	6,932,538

The profit for the Company is US$271.2 million for the year ended 31 December 2020 (2019: loss of US$791.5 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 1 March 2021 and signed on its behalf by:

Mr Juan Bordes
Non-executive Director
1 March 2021

PARENT COMPANY STATEMENT OF CASH FLOWS

YEAR ENDED 31 DECEMBER

	Notes	Year ended 31 December 2020 US$ thousands	2019 US$ thousands
Net cash (used in)/generated from operating activities	15	**(35,893)**	7,577
Cash flows from investing activities			
Capital contribution to subsidiaries		**(9,317)**	(81,493)
Loans granted to related parties		**(4,364,860)**	(5,090,484)
Proceeds from repayment of loans granted to related parties		**4,288,686**	4,746,142
Interest received		**82,609**	102,911
Dividends received		**104,985**	146,191
Net cash generated/(used in) from investing activities		**102,103**	(176,733)
Cash flows from financing activities			
Loans granted by related parties		**2,711,684**	2,768,342
Repayment of loans granted by related parties		**(2,881,878)**	(2,357,028)
Dividends paid[1]		**(104,686)**	(142,179)
Proceeds from the issuance of interest-bearing loans	10	**828,325**	-
Repayment of interest-bearing loans	10	**(542,956)**	-
Interest paid	10	**(83,615)**	(93,397)
Net cash (used in)/generated in financing activities		**(73,126)**	175,738
Net in cash and cash equivalents during the year		**(6,916)**	6,580
Effect of exchange rate on cash and equivalents		**600**	(164)
Cash and cash equivalents at 1 January		**10,976**	4,560
Cash and cash equivalents at 31 December	7	**4,660**	10,976

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

	Notes	Share capital	Share premium	Merger reserve	Fair value reserve of financial assets at FVOCI	Retained earnings	Total equity
Balance at 1 January 2019		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 expense net of tax		–	–	–	31,363	–	31,363
Total comprehensive loss 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**
Profit for the year		**–**	**–**	**–**	**–**	**271,228**	**271,228**
Other comprehensive income net of tax		**–**	**–**	**–**	**62,686**	**–**	**62,686**
Total comprehensive income for the year		**–**	**–**	**–**	**62,686**	**271,228**	**333,914**
Transfer of reserves		**–**	**–**	**234,031**	**–**	**(234,031)**	**–**
Dividends declared and paid	9	**–**	**–**	**–**	**–**	**(104,639)**	**(104,639)**
Balance at 31 December 2020		**368,546**	**1,153,817**	**3,911,531**	**110,537**	**54,026**	**5,598,457**

NOTES TO THE PARENT COMPANY 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. 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 2020 were authorised for issue by the Board of Directors of Fresnillo plc on 1 March 2021.

2. Significant accounting policies

(a) Basis of preparation and statement of compliance

The financial statements of the Company have been prepared in accordance with in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 as they apply to the financial statements of the Company for the years ended 31 December 2020 and 2019.

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

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

A number of new or amended standards (the Standards) became applicable for the current reporting period. The adoption of these Standards does not have any impact on the accounting policies, financial position or performance of the Group.

Standards, interpretations and amendments issued but not yet effective

The IASB has issued other amendments resulting from improvements to IFRSs that management considers do not have any impact on the accounting policies, financial position or performance of the 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:

- Deferred tax asset (Note 4):
  The Company has recognised a deferred tax asset in respect of tax losses amounting to US$43.3 million. In accordance with the tax legislation tax losses amounting US$22.4 million will expire in a period of six years and US$121.8 million in a period of ten years. The Company has conducted a feasible tax planning and concluded it will generate future taxable income that allow apply the tax losses before its expiration.

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

CONTINUED

2. Significant accounting policies continued

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 associated 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 2020, the Company recognised a net impairment reversal of US$234.0 million (2019: impairment of US$911.2 million) to recognised a cumulative impairment relating to subsidiaries of US$1,878.1 million (2019: US$2,112.1 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 having 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 would have been determined had no impairment loss been recognised for the asset in prior years.

(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 other comprehensive income (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.

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 FVOCI 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 FVOCI 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.

Financial liabilities are classified, at initial recognition, as financial liabilities at FVPL, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables and loans and borrowings.

Classification
For purposes of subsequent measurement, financial liabilities held by the Group are classified as financial liabilities at amortised cost.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

CONTINUED

2. Significant accounting policies continued

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

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

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

- where the deferred income tax asset relating to deductible temporary differences arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

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

Deferred income tax relating to items recognised directly in 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.

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

CONTINUED

4. Income tax

(a) Income tax reported in other comprehensive income

	Year ended 31 December	
	2020 US$ thousands	2019 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))	**(26,866)**	(13,442)
Income tax effect reported in other comprehensive income	**(26,866)**	(13,442)

(b) Movements in the deferred income tax liability and asset:

	Year ended 31 December	
	2020 US$ thousands	2019 US$ thousands
Opening net asset	**(1,765)**	23,012
Income tax credit	**34,742**	(11,336)
Net charge related to items directly charged to other comprehensive income (Note 2(f))	**(26,866)**	(13,441)
Closing net asset/(liability)	**6,111**	(1,765)

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	
	2020 US$ thousands	2019 US$ thousands
Prepayments and other assets	**(4,968)**	(389)
Accrual for expected credit losses on loans granted to subsidiaries	**746**	374
Derivative financial instruments	**3,008**	(508)
Losses carried forward	**43,269**	6,837
Equity instruments at FVOCI	**(35,944)**	(9,236)
Net deferred tax asset/(liability)	**6,111**	(2,922)

(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$1,797 million (2019: US$1,619 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%.

5. Investments in subsidiaries

	Year ended 31 December	
	2020 US$ thousands	2019 US$ thousands
Opening balance	**5,546,870**	6,415,137
Impairment	**234,031**	(949,760)
Additions	**9,317**	81,493
Closing balance	**5,790,218**	5,546,870

During 2020, the Company made an impairment assessment to determine whether the carrying value of each of its subsidiaries was recoverable as at 31 December 2020 and determine if prior year impairment could be reversed. As a result, a cumulative impairment loss of US$1,878.1 million is recognised with respect to certain of the Company's investment in subsidiaries (2019: US$2,112.1 million). The recoverable amount was estimated based on the Fair Value Less Cost of Disposal (FVLCD) model (2019: FVLCD).

The following tables provide relevant information in respect of each impaired subsidiary:

	Year ended 31 December 2020			
	Impairment loss (reversal) in the year US$ thousand	**Cumulative Impairment US$ thousand**	**Recoverable amount US$ thousands**	**Discount rate**
Minera Fresnillo, S.A. de C.V.	**(54,115)**	**1,250,040**	**2,690,073**	**Post-tax 4.23%**
Minera Mexicana la Ciénega, S.A. de C.V.	**(87,294)**	**463,543**	**563,889**	**Post-tax 4.01%**
Minera Saucito, S.A. de C.V.	**(58,847)**	**-**	**1,688,152**	**Post-tax 4.44%**
Minera San Julián, S.A. de C.V.	**4,895**	**120,607**	**631,204**	**Post-tax 3.91%**
Exploraciones Mineras Parreña, S.A. de C.V.	**(38,671)**	**43,878**	**178,455**	**Post-tax 4.16%**
	(234,031)	**1,878,069**		

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 2020, the Company used long-term price assumptions of US$1,580 per ounce and US$20.2 per ounce for gold and silver, respectively.

	Year ended 31 December 2019			
	Impairment (reversal) in the year 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 per ounce and US$18.70 per ounce for gold and silver, respectively.

Sensitivity analysis

As at 31 December 2020, 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 gold and silver of 20% and 45% respectively (2019: 10% gold, 15% silver). The sensitivity resulted in an additional impairment on Minera Fresnillo, S.A. de C.V. of US$1,657.2 million (2019: US$577.5 million), Minera Mexicana la Ciénega, S.A. de C.V. US$240.0 million (2019; US$85.1 million), Minera Saucito, S.A. de C.V. US$83.8 million (2019: US$186.4 million); and Minera San Julián, S.A. de C.V. US$141.9 million (2019: US$141.9 million).

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

CONTINUED

5. Investments in subsidiaries continued

The subsidiaries in which investments are directly held as at 31 December 2020 and 2019 are as follows:

Legal company	Principal activity	Country of incorporation	Equity interest % Year ended 31 December 2020	2019
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 Perú, S.A.C.	Exploration services	Peru[6]	**100**	100
Parreña Perú, 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 2020 US$ thousands	2019 US$ thousands
Other receivables from related parties (Note 13)	**-**	8,444
Prepayments	**368**	10
	368	8,454

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.

For total trade and other receivables, balances corresponding to Prepayments and Other are not considered as financial assets.

7. Cash and cash equivalents

	Year ended 31 December	
	2020 US$ thousands	2019 US$ thousands
Cash at bank and on hand	**383**	106
Short-term deposits	**4,277**	10,870
Cash and cash equivalents	**4,660**	10,976

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			
	2020		2019	
Class of share	**Number**	**Amount**	Number	Amount
Ordinary Shares each of US$0.50	**1,000,000,000**	**$500,000,000**	1,000,000,000	$500,000,000
Sterling Deferred Ordinary Shares each of £1.00	**50,000**	**£50,000**	50,000	£50,000

Issued share capital of the Company is as follows:

	Ordinary Shares		Sterling Deferred Ordinary Shares	
	Number	US$	Number	£
At 1 January 2019	736,893,589	368,545,586	50,000	50,000
At 31 December 2019	736,893,589	368,545,586	50,000	50,000
At 31 December 2020	**736,893,589**	**368,545,586**	**50,000**	**50,000**

As at 31 December 2020 and 2019, all issued shares with a par value of US$0.50 each are fully paid. The rights and obligations 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 transferable.

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 2020 and 2019 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.

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

CONTINUED

9. Dividends declared and paid

The dividends declared and paid during the years ended 31 December 2020 and 2019 are as follows:

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

1 This dividend was approved by the Shareholders on 26 May 2020 and paid on 2 June 2020.
2 This dividend was approved by the Board of Directors on 27 July 2020 and paid on 16 September 2020.
3 This dividend was approved by the Shareholders on 21 May 2019 and paid on 24 May 2019.
4 This dividend was approved by the Board of Directors on 24 July 2019 and paid on 6 September 2019.

The Directors have proposed a final dividend of 23.5 US cents per share, which is subject to approval at the Annual General Meeting and is not recognised as a liability as at 31 December 2020. Dividends paid from the profits generated from 1 January 2014 to residents in Mexico and to non-resident shareholders may be subject to an additional tax of up to 10%, which will be withheld by the Group.

In late 2019, the Directors became aware of a technical breach of the Companies Act 2006 (the 'Act') whereby certain dividends paid between 2011 and 2019 (the 'Historic Dividends') had been made without having filed interim accounts in accordance with the Act. The relevant interim accounts have now been filed with the Registrar of Companies and these show that the Company had sufficient distributable reserves at the point at which each of the Historic Dividends was paid. It is the intention of the Directors, as a matter of prudence, to put forward a resolution to shareholders in due course to regularise the position. This decision will have no effect on the monies received pursuant to these dividends and will not adversely impact shareholders or the Company. Nevertheless, the Directors will keep the matter under review.

10. Interest-bearing loans

Senior Notes

On 29 September 2020, the Group repurchased certain of its 5.500% Senior Notes due 2023 that had a carrying value of US$482.1 million for consideration of US$543.0 million. Additional accrued interest at the date of the repurchase included in the settlement amounted US$10.8 million. The premium paid on purchase of these notes of US$60.9 million was recognised in financial expenses. The settlement occurred on 2 October 2020.

On 2 October 2020, the Group completed its offering of US$850,000,000 aggregate principal amount of 4.250% Senior Notes due 2050. The proceeds were partially used to finance the repurchase mentioned above.

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

	As at 31 December	
	2020 US$ thousands	2019 US$ thousands
Opening balance	**801,239**	800,127
Issuance of 4.250% Senior Notes due 2050[1]	**828,325**	-
Repayments of 5.500% Senior Notes due 2023	**(482,121)**	-
Accrued interest	**48,873**	46,267
Interest paid[2]	**(43,144)**	(46,267)
Amortisation of discount and transaction costs	**3,498**	1,112
Closing balance	**1,156,670**	801,239

1 Balance is net of unamortised discounts and capitalised transaction costs of US$21.7 million.
2 Accrued interest is payable semi-annually on 13 May and 13 November for 5.500 Senior Notes and 2 April and 2 October for 4.250% Senior Notes.

The Company has the following restrictions derived from the issuance of all outstanding Senior Notes:

Change of control:

Should the rating of the Senior Notes be downgraded as a result of a change of control (defined as the sale or transfer of 35% or more of the common shares; the transfer of all or substantially all the assets of the Group; starting a dissolution or liquidation process; or the loss of the majority in the Board of Directors) the 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.

11. Trade and other payables

	Year ended 31 December	
	2020 US$ thousands	2019 US$ thousands
Other payables to related parties (Note 13)	**1,954**	5,937
Other taxes and contributions	**4,776**	5,033
Accrued expenses	**791**	724
	7,521	11,694

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.

For total trade and other payables, balances corresponding to Other taxes and contributions and Accrued expenses are not considered as financial liabilities.

12. Contingencies

As of 31 December 2020, 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.
- 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.

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 2020 and 2019 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 2020	31 December 2019	**31 December 2020**	31 December 2019
Loans[1]	**1,315,578**	1,240,385	**575,500**	746,869
Other	**–**	8,444	**1,954**	5,937
Total	**1,315,578**	1,248,829	**577,454**	752,806

1 Accounts receivable derived from loans with related parties are net of reserve for expected credit loss of US$2.5 million (2019: US$1.5 million).

Effective interest rates on loans granted to related parties in US dollar range between 2.15% to 3.91% (2019: 3.91% to 4.33%) and in Mexican peso range 6.47% to 9.73% (2019: 9.74% to 10.34%).

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS
CONTINUED

13. Related party balances and transactions continued

(b) Principal transactions with related parties (apart from dividends, additional investments and returns of capital) are as follows:

	Year ended 31 December	
	2020 US$ thousands	2019 US$ thousands
Income:		
Interest on loans	**81,361**	103,810
Total income	**81,361**	103,810

	Year ended 31 December	
	2020 US$ thousands	2019 US$ thousands
Expenses:		
Administrative services	**5,947**	5,877
Interest	**39,347**	47,829
Total expenses	**45,294**	53,706

(c) Compensation of key management personnel of the Company

Key management personnel comprise Non-executive Directors. In 2020, their compensation was US$0.6 million (2019: US$0.7 million). This compensation paid is disclosed in the Directors' Remuneration Report.

14. Auditor's remuneration

The auditor's remuneration for the Company was US$1.4 million (2019: US$1.4 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

		Year ended 31 December	
	Notes	**2020 US$ thousands**	2019 US$ thousands
Reconciliation of profit/(loss) for the year to net cash generated from operating activities			
Profit/(loss) for the year		**271,228**	(791,501)
Adjustments to reconcile loss for the year to net cash inflows from operating activities:			
Impairment of investment in subsidiaries	5	**(234,031)**	949,760
Dividend income		**(104,985)**	(146,191)
Income tax expense		**(34,742)**	11,335
Net finance loss/(gain)		**66,404**	(13,431)
Foreign exchange (gain)/loss		**(600)**	165
Working capital adjustments			
Decrease/(increase) in trade and other receivables		**7,170**	(3,812)
(Decrease)/Increase in trade and other payables		**(4,489)**	1,265
Cash generated from operations		**(34,045)**	7,590
Income tax paid		**(1,848)**	(13)
Net cash (used)/generated from operating activities		**(35,893)**	7,577

16. Financial instruments

(a) Fair value category

	As at 31 December 2020		
	US$ thousands		
Financial assets:	**Amortised cost**	**Fair value through OCI**	**Fair value through profit or loss**
Loans to related parties	**1,315,578**	**–**	**–**
Equity instruments at FVOCI	**–**	**212,576**	**–**
Derivative financial instruments	**–**	**–**	**6,290**

Financial liabilities:	**At amortised cost**	**Fair value through profit or loss**
Interest-bearing loans	**1,156,670**	**–**
Trade and other payables	**1,954**	**–**

	As at 31 December 2019		
	US$ thousands		
Financial assets:	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

(b) Fair values

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

	As at 31 December			
	Carrying amount		Fair value	
	2020 US$ thousands	2019 US$ thousands	**2020 US$ thousands**	2019 US$ thousands
Financial assets:				
Trade and other receivables	**6,290**	8,464	**6,290**	8,464
Loans to related parties[1]	**1,315,578**	1,240,385	**1,315,578**	1,240,385
Financial liabilities:				
Interest-bearing loans[2]	**1,156,670**	801,239	**1,297,770**	870,208
Trade and other payable	**1,954**	5,936	**1,954**	5,936

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.

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS
CONTINUED

16. Financial instruments continued

The financial assets and liabilities measured at fair value are categorised into the fair value hierarchy as at 31 December as follows:

			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	**–**	**1,666**	**–**	**1,666**
Option and forward foreign exchange contracts	**–**	**4,624**	**–**	**4,624**
Other financial assets:				
Equity investments	**212,576**	**–**	**–**	**212,576**
	212,576	**6,290**	**–**	**218,866**
Financial liabilities:				
Derivative financial instruments:				
Option commodity contracts	**–**	**–**	**–**	**–**
Option and forward foreign exchange contracts	**–**	**–**	**–**	**–**
	–	**–**	**–**	**–**

			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	–	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	–	1,529	–	1,529
Option and forward foreign exchange contracts	–	260	–	260
	–	1,789	–	1,789

There have been no significant transfers between Level 1 and Level 2 of the fair value hierarchy, and no transfers into and out of Level 3 fair value measurements.

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.

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). These investments were irrevocably designated at fair value through OCI as the Company considers these investments to be strategic in nature. As of 31 December 2020, approximately 86% of the investments correspond to 9,746,193 shares (2019: 9,746,193 shares) of MAG Silver, Corp. for an amount of US$199.5 million (2019: US$114.4 million) and 6% of Endeavor, Inc. represented by 2,800,000 shares (2019: 2,800,000 shares) for an amount of US$14.1 million (2019: US$6.7 million). These equity investments are listed on the Canadian Stock Exchange. The prices per share as at 31 December 2020 were US$20.47 (2019: US$11.74) and US$5.05 (2019: US$2.40), respectively.

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 loan to related party 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
2020	**20%** **(15%)**	**(992)** **937**
2019	5% (5%)	(5) 5

The Company's exposure to reasonably possible changes in other currencies is not material.

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

CONTINUED

17. Financial Risk Management continued

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).

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)
Year ended 31 December	Gold	Silver	Zinc	Lead	US$ thousands
2020	**20%**	**45%**	**25%**	**15%**	**30,132**
	(20%)	**(45%)**	**(20%)**	**(15%)**	**(12,332)**
2019	15%	20%	15%	15%	(2,247)
	(10%)	(15%)	(15%)	(15%)	1,855

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
2020	**25**	**12**
	(20)	**(9)**
2019	50	55
	(50)	(55)

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

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.

(b) Credit risk

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 2020					
Interest-bearing loans	**53,608**	**425,096**	**72,250**	**1,753,125**	**2,304,079**
Derivatives financial instruments – liabilities	**170,899**	**–**	**–**	**–**	**170,899**
Trade and other payables	**–**	**–**	**–**	**–**	**–**

					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

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:

					US$ thousands
	Within 1 year	**2–3 years**	**3–5 years**	**> 5 years**	**Total**
As at 31 December 2020					
Inflows	**45,343**	**–**	**–**	**–**	**45,343**
Outflows	**(40,768)**	**–**	**–**	**–**	**(40,768)**
Net	**4,575**	**–**	**–**	**–**	**4,575**

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

The above liquidity tables include expected inflows and outflows from currency option contracts which the Company expects to be exercised during 2021 as at 31 December 2020 and during 2020 as at 31 December 2019, either by the Company 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 aims 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. The Company aim is to maintain enough flexibility to be able to react to movements in precious metals prices and seize attractive business opportunities.

CONSOLIDATED AUDITED MINERAL RESOURCE STATEMENT[1]

AS AT 31 DECEMBER 2020

		Quantity	Grade				Contained Metal 2020			
Resource Category	Cut-off Grade[2]	Tonnes (kt)	Gold (g/t)	Silver (g/t)	Lead (%)	Zinc (%)	Au (koz)	Ag (koz)	Pb (kt)	Zn (kt)
Minera Fresnillo – Fresnillo/Proaño Mine – Underground										
Measured	147 g/t AgEq	11,523	0.89	549	1.08	1.90	329	203,408	124	219
Indicated		21,585	0.84	260	1.69	3.99	580	180,718	364	862
Measured & Indicated		33,108	0.85	361	1.47	3.26	910	384,127	488	1,080
Inferred		34,108	0.69	303	1.22	2.51	755	332,810	416	857
Minera Saucito – Saucito Mine – Underground										
Measured	162 g/t AgEq	6,071	2.28	383	1.68	2.87	444	74,796	101	174
Indicated		18,842	1.33	248	1.60	2.72	805	150,183	302	512
Measured & Indicated		24,912	1.56	281	1.62	2.75	1,249	224,979	404	686
Inferred		37,949	0.85	279	1.36	2.71	1,036	340,476	515	1,027
Minera Ciénega – Ciénega Complex – Underground										
Measured	Multiple[3]	4,482	4.70	198	1.40	2.01	678	28,481	63	90
Indicated		6,047	2.31	228	1.11	1.75	448	44,346	67	106
Measured & Indicated		10,529	3.33	215	1.23	1.86	1,126	72,828	129	196
Inferred		11,872	1.68	206	0.65	1.07	640	78,805	77	128
Minera San Julián – San Julián Mine Underground: Veins										
Measured	137 g/t AgEq	1,828	1.85	131	–	–	109	7,703	–	–
Indicated		8,027	1.55	148	–	–	400	38,214	–	–
Measured & Indicated		9,855	1.61	145	–	–	509	45,917	–	–
Inferred		12,384	1.27	162	–	–	507	64,322	–	–
Minera Julián – San Julián Mine Underground: Disseminated										
Measured	104 g/t AgEq	13,360	0.10	169	0.48	1.29	42	72,678	64	172
Indicated		1,623	0.05	69	0.40	1.25	3	3,622	7	20
Measured & Indicated		14,984	0.09	158	0.47	1.28	44	76,300	71	192
Inferred		0,003	0.05	41	0.22	1.62	–	3	–	–
Minera Penmont Underground: Centauro Profundo										
Measured	1.7 g/t Au	–	–	–	–	–	–	–	–	–
Indicated		13,072	6.10	–	–	–	2,564	–	–	–
Measured & Indicated		13,072	6.10	–	–	–	2,564	–	–	–
Inferred		3,155	4.99	–	–	–	506	–	–	–
Minera Penmont Open Pit: Mega Centauro[4]										
Measured	Multiple[5]	68,104	0.71	–	–	–	1,544	–	–	–
Indicated		248,989	0.80	–	–	–	6,374	–	–	–
Measured & Indicated		317,093	0.78	–	–	–	7,918	–	–	–
Inferred		9,452	0.77	–	–	–	234	–	–	–
Minera Penmont Open Pit: Soledad-Dipolos[4,6]										
Measured	0.25 g/t Au	48,477	0.56	–	–	–	868	–	–	–
Indicated		26,389	0.50	–	–	–	428	–	–	–
Measured & Indicated		74,866	0.54	–	–	–	1,295	–	–	–
Inferred		2,737	0.37	–	–	–	32	–	–	–
Minera Penmont Open Pit: Noche Buena[4]										
Measured	0.25 g/t Au	20,454	0.51	–	–	–	335	–	–	–
Indicated		13,007	0.49	–	–	–	207	–	–	–
Measured & Indicated		33,461	0.50	–	–	–	541	–	–	–
Inferred		1,957	0.47	–	–	–	29	–	–	–
Totals – Underground[3]										
Measured & Indicated	Multiple	106,461	1.87	235	1.03	2.02	6,403	804,151	1,093	2,154
Inferred		99,472	1.08	255	1.01	2.02	3,445	816,416	1,008	2,012
Totals – Open Pit[4]										
Measured & Indicated	Multiple	425,420	0.71	–	–	–	9,755	–	–	–
Inferred		14,147	0.65	–	–	–	296	–	–	–

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 payabilities.
3 The cut-off grade for Ciénega's mineral resources varies between 181 and 288 g/t AgEq
4 The Mega Centauro resources are reported within pit shells run at a US$1,600/oz Au price. Soledad-Dipolos, and Noche Buena resources are reported within pit shells run at a US$1,400/oz Au price.
5 Mega Centauro mineral resources are reported at varied cut-offs dependent on material types and grade. Oxide material above 0.25 g/t Au and below 0.57 g/t Au reports to the heap leach, transitional and sulfide material above 0.30 g/t and below 0.35 g/t Au reports to the heap leach, oxide material above 0.57 g/t Au reports to the mill, transitional and sulfide material above 0.35 g/t Au reports to the mill.
6 The Soledad-Dipolos mine has been subject to legal action regarding surface access.
- Metal price assumptions considered for the calculation of metal equivalent grades are: Gold (US$/oz 1,600.00 for Mega Centauro, US$/oz 1,400.00 for all other properties), Silver (US$/oz 17.50), Lead (US$/lb 0.90) and Zinc (US$/lb 1.05).

CONSOLIDATED AUDITED MINERAL RESOURCE STATEMENT OF EXPLORATION PROJECTS AND PROSPECTS[1]

AS AT 31 DECEMBER 2020

		Quantity	Grade				Contained Metal 2020			
Deposit	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		–	–	–	–	–	–		–	–
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]		–	–	–	–	–	–	–	–	–
Opulencia – veins (Gto. Norte)		–	–	–	–	–	–	–	–	–
La Gloria – veins (Gto. Centro)		–	–	–	–	–	–	–	–	–
La Joya – veins (Gto. Sur)		–	–	–	–	–	–	–	–	–
Cebadillas – veins		–	–	–	–	–	–	–	–	–
La Yesca – veins		–	–	–	–	–	–	–	–	–
San Nicolas – veins		–	–	–	–	–	–	–	–	–
Pilarica – mantos		–	–	–	–	–	–	–	–	–
Total Measured		**41,530**	**1.44**	**1.77**	**–**	**–**	**1,919**	**2,363**	**–**	**–**
Indicated Mineral Resource										
Orisyvo – disseminated Au[4]	0.35 g/t Au	201,152	1.05	1	–	–	6,793	8,666	–	–
Candameña – disseminated Au[4]	0.38 g/t AuEq	49,353	0.77	18	0.04	0.10	1,225	27,832	19	51
Leones – breccia[4]		–	–	–	–	–	–	–	–	–
Tajitos – disseminated Au	0.25 g/t Au	31,678	0.37	–	–	–	377	–	–	–
Lucerito – breecia/mantos[4]	1.00 g/t AuEq	113,151	0.40	26	0.28	0.46	1,439	94,611	322	520
Rodeo – disseminated Au	0.30 g/t Au	5,445	0.57	3			100	585	–	–
Manzanillas – veins	US$58.30/t	940	3.48	68			105	2,050	–	–
San Juan – veins	US$58.30/t	3,169	1.47	158			150	16,108	–	–
Juanicipio – veins[3]	US$65.00/t	8,030	1.86	382	2.58	4.60	481	98,537	207	369
Opulencia – veins (Gto. Norte)	1.87 g/t AuEq	2,110	3.53	152	–	–	240	10,297	–	–
La Gloria – veins (Gto. Centro)	1.87 g/t AuEq	1,158	4.07	96	–	–	152	3,573	–	–
La Joya – veins (Gto. Sur)	1.87 g/t AuEq	577	5.10	768	–	–	95	14,253	–	–
Cebadillas – veins		–	–	–	–	–	–	–	–	–
La Yesca – veins		–	–	–	–	–	–	–	–	–
San Nicolas – veins		–	–	–	–	–	–	–	–	–
Pilarica – mantos	US$11.00/t	9,558	–	106	0.31	0.48	–	32,673	30	46
Total Indicated		**426,320**	**0.81**	**23**	**0.14**	**0.23**	**11,156**	**309,185**	**577**	**986**
Inferred Mineral Resource										
Orisyvo – disseminated Au[4]	0.35 g/t Au	46,682	0.61	1.08	–	–	914	1,625	–	–
Candameña – disseminated Au[4]	0.38 g/t AuEq	7,577	0.43	16	0.01	0.05	104	3,981	1	4
Leones – breccia[4]	60 g/t Ag	7,268	0.01	112	1.44	1.26	1	26,151	105	91
Tajitos – disseminated Au	0.25 g/t Au	11,946	0.43	–	–	–	165	–	–	–
Lucerito – breecia/mantos[4]	1.00 g/t AuEq	104,104	0.40	31	0.24	0.42	1,351	104,664	247	438
Rodeo – disseminated Au[4]	0.30 g/t Au	78,662	0.47	5	–	–	1,199	12,613	–	–
Manzanillas – veins	US$58.30/t	343	1.97	45	–	–	22	495	–	–
San Juan – veins	US$58.30/t	8,433	1.55	132	–	–	420	35,685	–	–
Juanicipio – veins[3]	US$65.00/t	8,373	1.25	231	2.50	5.11	336	62,083	209	428
Opulencia – veins (Gto. Norte)	1.87 g/t AuEq	2,635	2.23	137	–	–	189	11,643	–	–
La Gloria – veins (Gto. Centro)	1.87 g/t AuEq	8,811	2.38	96	–	–	675	27,286	–	–
La Joya – veins (Gto. Sur)	1.87 g/t AuEq	2,749	1.67	324	–	–	148	28,616	–	–
Cebadillas – veins	1.87 g/t AuEq	2,112	2.52	63	–	–	171	4,297	–	–
La Yesca – veins	159 g/t AuEq	1,355	0.72	135	–	–	32	5,886	–	–
San Nicolas – veins	1.87 g/t AuEq	2,167	1.61	225	–	–	112	15,684	–	–
Pilarica – mantos	US$33.59/t	5,329	0.65	115	1.96	1.89	111	19,687	104	101
Total Inferred		**298,546**	**0.62**	**38**	**0.22**	**0.36**	**5,951**	**360,394**	**666**	**1,062**

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. Composites were capped where appropriate. Mineral resources are reported at variable metal, metal equivalent or NSR cut-off grades, assuming reasonable metal recoveries. Orisyvo, Lucerito, Candameña,and Rodeo 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 are based on US$1,400 per ounce of gold, US$17.50 per ounce of silver, US$1.05 per pound of zinc, US$0.90 per pound of lead and US$2.95 per pound of copper.
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.

AUDITED ORE RESERVE STATEMENT

AS AT 31 DECEMBER 2020

		Quantity	Grade				Contained Metal 2020			
Deposit	Cut-off Grade[1]	Tonnes (kt)	Gold (g/t)	Silver (g/t)	Lead (%)	Zinc (%)	Gold (koz)	Silver (koz)	Lead (kt)	Zinc (kt)
Minera Fresnillo – Fresnillo/Proaño Mine – Underground[2]										
Proven		–	–	–	–	–	–	–	–	–
Probable	239 g/t AgEq	15,401	0.76	265	1.54	3.42	378	131,023	237	527
Proven and Probable		**15,401**	**0.76**	**265**	**1.54**	**3.42**	**378**	**131,023**	**237**	**527**
Minera Saucito – Saucito Mine – Underground[2]										
Proven		–	–	–	–	–	–	–	–	–
Probable	243 g/t AgEq	14,323	1.33	303	1.55	2.44	611	139,560	221	349
Proven and Probable		**14,323**	**1.33**	**303**	**1.55**	**2.44**	**611**	**139,560**	**221**	**349**
Minera Ciénega – Ciénega Complex – Underground[2]										
Proven		–	–	–	–	–	–	–	–	–
Probable	Multiple[3]	4,523	2.36	232	1.11	1.65	343	33,710	50	75
Proven and Probable		**4,523**	**2.36**	**232**	**1.11**	**1.65**	**343**	**33,710**	**50**	**75**
Minera San Julián – San Julián Mine Underground: Veins[2]										
Proven		–	–	–	–	–	–	–	–	–
Probable	196 g/t AgEq	3,489	1.77	204	–	–	199	22,833	–	–
Proven and Probable		**3,489**	**1.77**	**204**	**–**	**–**	**199**	**22,833**	**–**	**–**
Minera San Julián – San Julián Underground: Disseminated[2]										
Proven		–	–	–	–	–	–	–	–	–
Probable	133 g/t AgEq	7,953	0.09	167	0.46	1.14	23	42,781	36	91
Proven and Probable		**7,953**	**0.09**	**167**	**0.46**	**1.14**	**23**	**42,781**	**36**	**91**
Minera Penmont Open Pit: Mega Centauro[4]										
Proven		–	–	–	–	–	–	–	–	–
Probable	Multiple[5]	250,578	0.76	–	–	–	6,139	–	–	–
Proven and Probable		**250,578**	**0.76**	**–**	**–**	**–**	**6,139**	**–**	**–**	**–**
Minera Penmont Open Pit: Soledad-Dipolos[4,6]										
Proven		–	–	–	–	–	–	–	–	–
Probable	0.25 g/t Au	–	–	–	–	–	–	–	–	–
Proven and Probable		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Minera Penmont Open Pit: Noche Buena[4]										
Proven		–	–	–	–	–	–	–	–	–
Probable	0.25 g/t Au	20,054	0.51	–	–	–	326	–	–	–
Proven and Probable		**20,054**	**0.51**	**–**	**–**	**–**	**326**	**–**	**–**	**–**
Totals – Underground										
Proven		–	–	–	–	–	–	–	–	–
Probable	Multiple	45,688	1.06	252	1.19	2.28	1,554	369,907	545	1,041
Proven and Probable		**45,688**	**1.06**	**252**	**1.19**	**2.28**	**1,554**	**369,907**	**545**	**1,041**
Totals – Open Pit										
Proven		–	–	–	–	–	–	–	–	–
Probable	Multiple	270,632	0.74	–	–	–	6,465	–	–	–
Proven and Probable		**270,632**	**0.74**	**–**	**–**	**–**	**6,465**	**–**	**–**	**–**

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 186 and 411 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 above 0.25 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 0.57 g/t Au reports to the mill, transitional and sulfide material above 0.35 g/t Au reports to the mill.

6 The Soledad-Dipolos mine has been subject to legal action regarding surface access. In 2019 this material has been removed from reserves due to minimal progress on the outstanding legal items and lack of detailed engineering.

- Metal price assumptions considered for the calculation of metal equivalent grades are: Gold (US$/oz 1,600.00 for Mega Centauro, US$/oz 1,400.00 for all other properties), Silver (US$/oz 17.50), Lead (US$/lb 0.90) and Zinc (US$/lb 1.05).
- The reserves are valid as of May 31, 2020. All topography is valid as of May 31, 2020.

AUDITED ORE RESERVE STATEMENT FOR MINERA JUANICIPIO

	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%)	8,869	1.47	307	2.1	3.6	419	88	184	322
Proven and Probable	**8,869**	**1.47**	**307**	**2.1**	**3.6**	**419**	**88**	**184**	**322**

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 Ore Reserves.
- NSR values are calculated as:
  - NSR = 28.65*Au+0.40*Ag+16.48*Pb+12.07*Zn.
  - Units gold (g/t), silver (g/t), lead (%), zinc (%)
- NSR factors are based on metal prices of US$1,400/oz Au, US$17.50/oz Ag, US$0.90/lb Pb, and US$1.05/lb Zn and estimated recoveries of 81.15% Au, 94.62% 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 US$100/t for longhole and US$110/t for Cut and Fill, marginal stope cut-off value is US$65/t.
- The stope hangingwall and footwall dilution (ELOS) was included in the stope optimisation 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. CAF has a 95% recovery.
- Exchange rate of 22 MXP to US$1.

Competent Person for the Ore Reserve statement for Minerva Juanicipio Mine.

Gary Methven, P.Eng., RPEQ, has verified the reserve estimations for the Minera Juanicipio Mine. Gary 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. Gary Methven is independent of Fresnillo.

OPERATING STATISTICS

	ORE PROCESSED (tonnes)							SILVER (grams/tonne)						
	2014	2015	2016	2017	2018	2019	2020	2014	2015	2016	2017	2018	2019	2020
Fresnillo	2,625,511	2,410,033	2,373,092	2,447,394	2,443,440	2,461,785	**2,336,943**	258.5	220.0	226.7	229.6	213.8	184.5	**193.9**
Ciénega	1,341,569	1,329,364	1,274,939	1,302,409	1,323,908	1,329,134	**1,318,263**	108.5	129.0	143.5	151.5	164.4	158.9	**158.6**
Herradura	22,305,133	22,875,421	25,158,600	26,027,466	22,156,792	22,926,542	**19,797,063**	1.2	1.2	1.2	0.9	2.7	3.1	**2.6**
Saucito	1,534,579	2,339,096	2,635,093	2,753,876	2,792,057	2,752,638	**2,767,432**	338.9	327.5	302.7	279.8	257.6	227.6	**205.8**
Saucito Pyrites	–	–	–	–	131,780	167,513	**172,233**	–	–	–	–	393.4	299.4	**220.1**
Soledad-Dipolos	–	–	–	–	–	–	**–**	–	–	–	–	–	–	**–**
Noche Buena	15,607,230	17,399,931	17,431,718	17,820,817	18,195,744	12,166,900	**6,682,617**	0.4	0.2	0.1	0.1	0.1	0.2	**0.7**
San Julián – Veins	–	–	423,069	1,273,129	1,270,781	1,265,030	**1,254,970**	–	–	172.5	157.2	144.1	115.4	**108.6**
San Julián – DOB	–	–	–	945,057	2,221,433	2,226,956	**2,229,612**	–	–	–	180.3	154.4	139.5	**150.3**
Juanicipio (Total)	–	–	–	–	–	–	**71,859**	–	–	–	–	–	–	**327.8**

	ZINC CONCENTRATE (tonnes)							SILVER (grams/tonne)						
	2014	2015	2016	2017	2018	2019	2020	2014	2015	2016	2017	2018	2019	2020
Fresnillo	29,196	36,595	50,682	57,686	59,987	61,639	**67,851**	1,221	1,036	868	816	773	622	**627**
Ciénega	11,850	11,694	14,265	14,108	12,472	16,897	**17,470**	1,172	1,770	1,692	2,413	2,042	1,177	**1,336**
Herradura	–	–	–	–	–	–	**–**	–	–	–	–	–	–	**–**
Saucito	20,794	42,643	50,409	41,768	60,879	62,171	**86,451**	789	788	842	889	704	692	**501**
Soledad-Dipolos	–	–	–	–	–	–	**–**	–	–	–	–	–	–	**–**
Noche Buena	–	–	–	–	–	–	**–**	–	–	–	–	–	–	**–**
San Julián – DOB	–	–	–	15,827	43,808	45,979	**39,621**	–	–	–	2,750	2,590	2,188	**2,959**
Juanicipio (Total)	–	–	–	–	–	–	**576**	–	–	–	–	–	–	**1,835**

	LEAD CONCENTRATE (tonnes)							SILVER (grams/tonne)						
	2014	2015	2016	2017	2018	2019	2020	2014	2015	2016	2017	2018	2019	2020
Fresnillo	57,263	50,787	58,584	58,675	53,930	58,679	**60,157**	10,180	8,737	7,653	7,950	7,859	6,241	**6,042**
Ciénega	12,627	13,721	15,600	16,508	12,951	13,032	**14,450**	8,004	8,418	7,607	6,966	10,689	10,797	**9,292**
Herradura	–	–	–	–	–	–	**–**	–	–	–	–	–	–	**–**
Saucito	40,415	69,128	61,321	53,082	63,756	56,844	**71,982**	11,443	9,405	10,440	11,731	8,978	8,632	**6,110**
Soledad-Dipolos	–	–	–	–	–	–	**–**	–	–	–	–	–	–	**–**
Noche Buena	–	–	–	–	–	–	**–**	–	–	–	–	–	–	**–**
San Julián – DOB	–	–	–	8,634	13,434	16,200	**14,363**	–	–	–	11,524	12,847	10,478	**11,924**
Juanicipio (Total)	–	–	–	–	–	–	**894**	–	–	–	–	–	–	**20,505**

	DORÉ AND OTHER PRODUCTS (tonnes)							SILVER (grams/tonne)						
	2014	2015	2016	2017	2018	2019	2020	2014	2015	2016	2017	2018	2019	2020
Ciénega precipitates	67.4	68.2	59.4	67.5	70.5	56.5	**58.9**	175,026	204,790	282,650	277,557	321,707	348,315	**366,889**
Ciénega Gravimetric Concentrator	–	–	–	–	–	–	**–**	–	–	–	–	–	–	**–**
Saucito Pyrites precipitates	–	–	–	–	87.3	83.3	**60.0**	–	–	–	–	348,123	437,279	**476,801**
Herradura doré	31.1	33.6	46.8	44.3	79.1	79.7	**66.6**	650,999	480,633	417,271	393,103	604,868	606,458	**583,752**
Herradura slag	716.9	779.1	807.1	669.9	773.4	1,284.3	**1,323.7**	1,198	578	965	738	1,174	1,041	**1,634**
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	**0.4**	333,260.8	213,687.2	69,443.6	31,252.3	24,479.9	98,118.4	**269,785.8**
Noche Buena slag	564.2	452.1	229.0	371.2	292.5	248.7	**11.6**	1,125.6	707.2	263.4	61.2	206.3	–	**1,068.5**
San Julián – Veins precipitates	–	–	84.6	218.4	202.1	155.6	**142.8**	–	–	759,300	845,230	836,331	862,812	**877,909**

	METAL PRODUCED[1,2] SILVER (ounces)							GOLD (ounces)						
	2014	2015	2016	2017	2018	2019	2020	2014	2015	2016	2017	2018	2019	2020
Fresnillo	20,098,245	15,612,175	15,864,614	16,511,937	15,117,156	13,007,227	**13,054,481**	35,676	34,120	42,421	38,784	42,290	52,259	**38,388**
Ciénega	4,075,181	4,827,864	5,130,870	5,394,037	5,998,987	5,796,190	**5,762,384**	108,211	85,662	72,851	71,947	66,869	65,583	**64,101**
Herradura	679,073	525,757	637,775	551,476	1,523,453	1,563,060	**1,305,572**	265,564	398,866	520,366	473,638	474,168	482,722	**425,288**
Saucito	15,396,754	21,983,852	21,946,059	21,215,072	19,780,721	17,159,627	**15,532,298**	57,227	84,884	86,198	69,948	86,092	79,539	**84,878**
Saucito Pyrites	–	–	–	–	977,414	1,171,298	**920,212**	–	–	–	–	3,556	4,045	**3,452**
Soledad-Dipolos	–	–	–	–	–	–	**–**	–	–	–	–	–	–	**–**
Noche Buena	102,357	72,868	32,631	31,324	51,616	57,754	**39,340**	129,242	158,179	182,280	172,282	167,208	127,166	**87,998**
San Julián – Veins	–	–	2,065,536	5,935,507	5,433,526	4,317,225	**4,030,008**	–	–	31,397	82,782	79,218	62,207	**61,790**
San Julián – DOB	–	–	–	4,598,421	9,196,272	8,691,636	**9,276,125**	–	–	–	1,750	3,125	2,393	**3,134**
Juanicipio (Atribuible)	–	–	–	–	–	–	**349,220**	–	–	–	–	–	–	**590**
Fresnillo Total	40,351,611	43,022,515	45,677,485	54,237,774	58,079,146	51,764,018	**50,269,639**	595,920	761,712	935,513	911,132	922,527	875,913	**769,618**

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	2020	2014	2015	2016	2017	2018	2019	2020	2014	2015	2016	2017	2018	2019	2020
0.53	0.57	0.73	0.64	0.70	0.89	**0.73**	0.97	1.18	1.56	1.72	1.75	1.80	**2.07**	0.59	0.75	0.99	0.92	0.90	1.01	**1.08**
2.59	2.07	1.84	1.82	1.65	1.66	**1.63**	0.73	0.80	1.00	0.98	0.83	1.13	**1.18**	0.53	0.61	0.68	0.74	0.60	0.67	**0.70**
0.72	0.73	0.71	0.64	0.76	0.80	**0.77**	–	–	–	–	–	–	**–**	–	–	–	–	–	–	**–**
1.40	1.42	1.39	1.09	1.25	1.19	**1.24**	1.32	1.70	1.49	1.21	1.61	1.57	**2.21**	0.75	1.01	0.93	0.77	0.94	0.90	**1.22**
–	–	–	–	2.77	2.32	**1.92**	–	–	–	–	–	–	**–**	–	–	–	–	–	–	**–**
–	–	–	–	–	–	**–**	–	–	–	–	–	–	**–**	–	–	–	–	–	–	**–**
0.51	0.50	0.51	0.51	0.52	0.55	**0.52**	–	–	–	–	–	–	**–**	–	–	–	–	–	–	**–**
–	–	2.47	2.10	2.01	1.61	**1.61**	–	–	–	–	–	–	**–**	–	–	–	–	–	–	**–**
–	–	–	0.12	0.09	0.08	**0.09**	–	–	–	1.18	1.35	1.36	**1.19**	–	–	–	0.52	0.43	0.44	**0.41**
–	–	–	–	–	–	**0.73**	–	–	–	–	–	–	**0.60**	–	–	–	–	–	–	**0.33**

GOLD (grams/tonne)							ZINC (%)							LEAD (%)						
2014	2015	2016	2017	2018	2019	2020	2014	2015	2016	2017	2018	2019	2020	2014	2015	2016	2017	2018	2019	2020
3.0	2.6	2.8	2.3	2.3	2.6	**2.2**	52.1	52.0	51.1	52.0	51.8	51.2	**50.3**	–	–	–	–	–	–	**–**
11.8	11.2	10.1	13.9	13.1	7.1	**7.6**	50.6	51.1	52.2	50.0	47.2	53.2	**53.0**	–	–	–	–	–	–	**–**
–	–	–	–	–	–	**–**	–	–	–	–	–	–	**–**	–	–	–	–	–	–	**–**
3.5	3.0	3.8	3.8	2.8	3.1	**2.4**	50.5	49.3	46.6	48.7	48.5	47.2	**49.5**	–	–	–	–	–	–	**–**
–	–	–	–	–	–	**–**	–	–	–	–	–	–	**–**	–	–	–	–	–	–	**–**
–	–	–	–	–	–	**–**	–	–	–	–	–	–	**–**	–	–	–	–	–	–	**–**
–	–	–	0.9	0.8	0.6	**1.0**	–	–	–	49.6	50.3	49.4	**51.7**	–	–	–	–	–	–	**–**
–	–	–	–	–	–	**3.7**	–	–	–	–	–	–	**45.9**	–	–	–	–	–	–	**–**

GOLD (grams/tonne)							ZINC (%)							LEAD (%)						
2014	2015	2016	2017	2018	2019	2020	2014	2015	2016	2017	2018	2019	2020	2014	2015	2016	2017	2018	2019	2020
17.4	18.7	20.0	18.3	21.8	25.0	**17.3**	–	–	–	–	–	–	**–**	24.3	32.0	36.4	35.0	36.4	36.6	**35.4**
146.9	105.0	76.5	69.5	85.4	78.2	**72.0**	–	–	–	–	–	–	**–**	37.5	39.5	37.7	38.3	37.1	44.8	**42.3**
–	–	–	–	–	–	**–**	–	–	–	–	–	–	**–**	–	–	–	–	–	–	**–**
42.3	36.3	40.6	38.0	39.3	40.2	**33.8**	–	–	–	–	–	–	**–**	24.7	30.0	34.1	33.4	35.5	36.5	**39.7**
–	–	–	–	–	–	**–**	–	–	–	–	–	–	**–**	–	–	–	–	–	–	**–**
–	–	–	–	–	–	**–**	–	–	–	–	–	–	**–**	–	–	–	–	–	–	**–**
–	–	–	4.6	4.5	2.8	**4.0**	–	–	–	–	–	–	**–**	–	–	–	41.7	45.4	47.2	**49.5**
–	–	–	–	–	–	**34.2**	–	–	–	–	–	–	**–**	–	–	–	–	–	–	**21.5**

GOLD (grams/tonne)						
2014	2015	2016	2017	2018	2019	2020
20,327	16,008	15,660	13,252	11,504	15,918	**13,940**
–	–	–	–	–	–	**–**
–	–	–	–	1,267	1,510	**1,788**
247,967	369,321	351,900	344,604	196,925	190,981	**192,426**
756	541	942	647	435	334	**494**
–	–	–	–	–	–	**–**
–	–	–	–	–	–	**–**
10.8	10.4	14.5	–	–	–	**–**
465,538	533,408	611,567	602,221	509,555	406,858	**475,146**
815	506	1,225	979	324	206	**1,025**
–	–	11,542	11,788	12,193	12,432	**13,461**

ZINC (tonne)							LEAD (tonne)						
2014	2015	2016	2017	2018	2019	2020	2014	2015	2016	2017	2018	2019	2020
15,199	19,029	25,898	30,021	31,094	31,530	**34,116**	13,888	16,248	21,326	20,514	19,619	21,472	**21,319**
6,000	5,970	7,450	7,048	5,892	8,986	**9,263**	4,736	5,425	5,883	6,328	4,799	5,839	**6,112**
–	–	–	–	–	–	**–**	–	–	–	–	–	–	**–**
10,501	21,023	23,498	20,348	29,506	29,365	**42,774**	9,967	20,740	20,935	17,714	22,662	20,764	**28,592**
–	–	–	–	–	–	**–**	–	–	–	–	–	–	**–**
–	–	–	–	–	–	**–**	–	–	–	–	–	–	**–**
–	–	–	–	–	–	**–**	–	–	–	–	–	–	**–**
–	–	–	–	–	–	**–**	–	–	–	–	–	–	**–**
–	–	–	7,849	22,027	22,697	**20,492**	–	–	–	3,598	6,101	7,648	**7,112**
–	–	–	–	–	–	**148**	–	–	–	–	–	–	**108**
31,700	46,022	56,845	65,266	88,520	92,578	**106,793**	28,591	42,413	48,144	48,153	53,181	55,722	**63,242**

SHAREHOLDER INFORMATION

Financial calendar

Preliminary Statement	2 March 2021
First Quarter Production Report	28 April 2021
Annual General Meeting	24 June 2021
Second Quarter Production Report	28 July 2021
Interim Statement	3 August 2021
Third Quarter Production Report	27 October 2021

Dividend payment schedule

2020 Final Dividend Record Date	23 April 2021
2020 Final Dividend Payment Date	1 June 2021
2021 Interim Dividend Record Date	6 August 2021
2021 Interim Dividend Payment Date	15 September 2021

Registrar
Equiniti Ltd
Aspect House,
Spencer Road, Lancing
West Sussex BN99 6DA
United Kingdom

Registered office
21 Upper Brook Street
London W1K 7PY
United Kingdom

Corporate headquarters
Calzada Legaria No. 549
Torre 2, Piso 11
Delegación Miguel Hidalgo
11250 Mexico, D.F.
Mexico

Sponsor and Corporate Broker
JPMorgan Cazenove Limited
25 Bank Street
London E14 5JP
United Kingdom

Joint Corporate Broker
Merrill Lynch International
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.

FSC
www.fsc.org
MIX
Paper from
responsible sources
FSC® C141094

Designed and produced by emperor
Visit us at emperor.works

21 UPPER BROOK STREET
MAYFAIR
LONDON
W1K 7PY

WWW.FRESNILLOPLC.COM