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5 August 2014

Fresnillo plc interim results for the six months to 30 June 2014

Highlights (H1 2014/H1 2013 comparisons)

- Silver production (21.3m ounces, including Silverstream up 1.3%) buoyed by strong performance at Saucito and increased Silverstream volumes
- Gold production down 18.9% to 191,317 ounces as a result of temporary disruptions at Herradura and suspension of Soleded-Dipolos, but recovering as Herradura resumed production in March and the Dynamic Leaching Plant came on line
- Significantly lower realised commodity prices (silver US$20.26 per oz, down 17.9%; gold US$1,302.07 per oz, down 11.5%) impacting financial performance
- Profit attributable to equity shareholders, including Silverstream revaluation effects, decreased by 10.1% to US$130.1m
- Basic and diluted EPS US$0.177 per share, down 11.5%
- Cash generation from operations remains significant at US$336.7m down 32.2%
- Strong balance sheet with cash, cash equivalents and short term investments of US$1,164.3m
- Special dividend of US$36.8m (5.0 US cents per share) declared reflecting the Board's confidence in the financial position and outlook; but no change to previously stated policy.
- Near term growth projects Saucito II and San Julián on track to begin production in 4Q 2014 and 2H 2015 respectively
- 2014 production guidance maintained at 43 million silver ounces, including the Silverstream, and 450,000 attributable gold ounces

Highlights for 1H14

US$ million unless stated	H1 14	H1 13	% change
Silver Production (koz) – Attributable*	21,334	20,980	1.7
Gold Production (oz) - Attributable	191,317	235,827	-18.9
Total Revenue	677.1	925.9	-26.9
Adjusted Revenue[1]	750.4	982.3	-23.6

Exploration expenses	69.0	114.7	-39.8
EBITDA[2]	324.5	486.3	-33.3
Attributable Profit	130.1	144.8	-10.2
Cash generated by operations before changes in working capital	336.7	496.4	-32.2
Basic and Diluted EPS (US$)[3]	0.177	0.200	-11.5
Dividend per ordinary share (US$)	0.0500	0.0490	2.0

* Silver production includes volumes realised under the Silverstream Contract.

1 Adjusted revenue is the revenue shown in the income statement adjusted to add back treatment and refining costs and lead and zinc hedging. The Company considers this is a useful additional measure to help understand underlying factors driving revenue in terms of volumes sold and realised prices

2 Earnings before interest, taxes, depreciation and amortisation (EBITDA) is calculated as gross profit plus depreciation less administrative, selling and exploration expenses.

3 The weighted average number of shares H1 2014 was 736,894 (724,615 in H1 2013). See Note 8 in the Interim Consolidated Financial Statements.

Octavio Alvídrez, Chief Executive Officer of Fresnillo plc, said:

"In a challenging pricing environment, our operations continue to perform very well although our financial results for the period have been impacted by lower gold and silver prices, and by the lower gold ounces sold that followed the suspension of operations at Soledad-Dipolos and the temporary stoppage at Herradura. The latter issue has now been resolved and gold production is returning to normal levels.

"We are focused on maximising the efficiency of our operations, controlling costs and optimising grades at Fresnillo, while ensuring we are on time and on budget to deliver Saucito II and San Julián. While EBITDA margins have declined somewhat, they remain among the best in the industry, demonstrating the success we have had in controlling costs across the business. Meanwhile precious metals prices have shown signs of stability over recent months.

With a strong balance sheet, high quality assets and a solid pipeline of projects for growth, we continue to invest in the business for the long term and paying dividends to shareholders thus creating value throughout the cycles."

Commentary on the Group's results

Fresnillo plc's operating results were underpinned by a solid performance at the Saucito and Noche Buena mines, and the resumption of operations and the start-up of the dynamic leaching plant at Herradura. However, the Group continued to face some challenges such as lower grades at the Fresnillo and Ciénega mines. To compensate for this, the volumes of ore processed were increased and efficiency measures implemented. Additional activities such as external consultation on adjustments to the mining method and conducting more infill drilling to increase certainty of our geological model are currently being carried out and are expected to stabilise the ore grade at the Fresnillo mine.

The Group's financial results for the first six months of 2014 were negatively impacted by the decline in precious metal prices adversely affecting the Group's average realised silver and gold prices, which decreased by 17.9% and 11.5% respectively, when compared to the same period of 2013.

We were also affected by the reduced sales volumes of gold resulting from the suspended operations at Soledad-Dipolos and the disrupted production at Herradura. The impact of this, together with the lower precious metals prices, drove adjusted revenues down by 23.6% to US$750.4 million.

Cost of sales decreased by 6.1% when compared to the first half 2013 as a result of lower adjusted production cost, which more than compensated for the higher depreciation and the adverse effect of the unproductive costs recorded at Minera Penmont. The 14.1% decrease in adjusted production costs to US$291.3 million was largely explained by: i) costs not incurred at Soledad-Dipolos; ii) lower variable production costs at Herradura; iii) the favourable impact of the 4.4% devaluation of the average spot Mexican peso/US dollar exchange rate; and iv) efficiencies achieved at some of our mines. These factors were partially mitigated by the increased costs related to the start-up of the dynamic leaching plant and higher costs associated with the increased production volumes at Noche Buena, Saucito, Ciénega and Fresnillo; as well as higher unit prices of diesel, contractors and personnel.

Cost per tonne decreased at Fresnillo and Ciénega over the first half of the year, reflecting the positive effect of our cost reduction initiatives and economies of scale achieved at these underground mines.

However, cost per tonne at Herradura increased mainly due to the natural higher restart production costs compared to the uninterrupted full capacity operations in the first half of 2013.

Cost per tonne at Noche Buena was affected by the higher personnel and maintenance costs associated with the replacement of contractors by unionised workers relocated to Noche Buena from the suspended Soledad-Dipolos mine. In addition, the natural higher costs associated with the initial start-up of the expansion further impacted cost per tonne. However, this effect will reverse once production runs at full capacity.

Gross profit decreased by 43.1% to US$295.1 million in the first half 2014 as a result of the factors mentioned above.

Exploration expenses recorded in the income statement totalled US$69.0 million, representing a 39.9% decrease compared to the first half 2013. This was in accordance with the Group's decision to reduce exploration expenses in light of current market conditions. Our exploration objectives for the year will be met as we intensify the drilling campaign over the second half of the year but we expect to do so slightly below the US$225m budget level.

Promising drill intersections were obtained particularly at San Ramón in the Ciénega district, South Veins at Fresnillo, Cardones at Guanajuato and Pilarica, where increases in resources are anticipated in the year end estimates. In addition, metallurgical testwork and preliminary economic assessments are in progress at the Orisyvo, Candameña and Lucerito projects.

EBITDA decreased by 33.3% when compared to the first half of 2013 as a result of the lower gross profit which was partially mitigated by reduced exploration expenses. EBITDA margin decreased to 47.9% from 52.5% in the first half 2013 but remains robust.

The positive revaluation of the Silverstream impacted the Group's financial results by US$47.3 million due to higher forward silver prices, lower interest rates (LIBOR) and higher silver ounces sold over the period. In contrast, a US$112.5 million loss was recorded in the first half of 2013.

Income tax expense declined by 20.4% to US$58.1 million as a result of lower profits generated in the first half 2014. The effective tax rate, excluding special mining right, was 27.9%, and 34,2% including the effects of the special mining right.

Net profit for the period was US$137.1 million, a 22.5% decrease when compared to the first half 2013, whilst profit attributable to equity shareholders of the group totalled US$130.1 million, representing a 10.1% decrease over the same period of 2013.

Cash flow generated by operations, before changes in working capital, decreased by 32.2% to US$336.7 million in the first half of 2014 as a result of the lower profits. Working capital increased by 35.0% to US$71.5 million which resulted mainly from an increase in the volume of dore sold to Met-Mex in the last three months of the period, and also from higher inventories at the leaching pads at Herradura and Noche Buena.

In the first half 2014, capital expenditures totalled US$212.0 million, a decrease of 34.6% when compared to the same period of 2013. Investments included the construction of the Saucito II and San Julián projects, purchase of components for mobile equipment at Herradura and Fresnillo, development works at Saucito and Ciénega, and construction of leaching pads at Noche Buena.

The Group maintained a strong balance sheet. Cash, cash equivalents and short term investments (together defined as "short term funds") as of June 2014 amounted to US$1,164.3 million, a 7.0% decrease when compared to the year-end 2013 cash and cash equivalents of US$1,251.7 million. Taking into account the short term funds of US$1,164.3 million, the US$795.3 million bond and loan from Newmont of US$41.5 million, Fresnillo's net cash is US$327.5 million.

Although the 2014 dividend was brought forward and paid in November 2013, the Board has declared a one-off special dividend of 5.0 US cents per share, equivalent to US$36.8 million payable on 11 September 2014 to shareholders on the register as at 15 August 2014. This decision was made after a comprehensive review of the Company's and Group's financial situation, assuring that the group is well placed to meet its current and future financial requirements, including its development and exploration projects. Additionally, when making their recommendation, management and the Board took into consideration that both gold and silver prices have been sustained at high enough levels over the half and that cost inflation has been contained, enabling the company to continue to generate healthy profit margins and good levels of cash flow.

It must be noted that Fresnillo plc's existing dividend policy remains in place which takes into account the profitability of the business and underlying growth in earnings, as well as our capital requirements and cash flows while maintaining an appropriate level of dividend cover. To reiterate the policy, a total dividend of between 33 and 50 percent of profit after tax is paid out each year in the approximate proportion of one-third to be paid as an interim dividend, two-thirds to be paid as a final dividend.

Growth

Fresnillo plc has always maintained a disciplined approach to profitable growth by continuously investing in its solid portfolio of projects and prospects. After concluding the construction of the Dynamic Leaching Plant and following its successful start-up, the work on the construction of the Saucito II and San Julián projects remained on time and on budget.

During the first six months of 2014 significant progress was achieved in the construction of the beneficiation plant and development works at Saucito II. This project is expected to be concluded in the fourth quarter of 2014 and will produce an average of 8.4 million ounces of silver and 35,000 ounces of gold per year at full capacity.

Furthermore, construction of the leaching plant at the San Julián project commenced and detailed engineering works continued for the flotation plant. This US$515.0 million silver-gold project remains on track to start operations in the second half of 2015 with an expected average production of 10.3 million ounces of silver and 44,000 ounces of gold per year once at full capacity.

Outlook

Fresnillo plc has always taken a conservative and long-term view. A solid portfolio of mines and development projects which yield returns even in a low metal price environment along with stringent cost control, allows us to balance profitable results with sustainable growth.

However, a certain degree of volatility in the precious metals prices is expected to remain, caused by increased geopolitical risk in countries such as Ukraine, Iraq and Israel and by speculation of economic distress in the Eurozone and the likelihood of the US Federal Reserve increasing interest rates in the near future.

We will continue to focus on operational excellence, investing in productivity and cost reduction initiatives and strengthening our growth pipeline. However, we will give priority to optimising output from the Fresnillo mine and to concluding the Saucito II and San Julián projects on time and on budget. We are confident that by being consistent in executing our value creation strategy, Fresnillo plc will be able to deliver solid results to its stakeholders.

Presentation for Analysts

Octavio Alvídrez, Chief Executive Officer, and Mario Arreguín, Chief Financial Officer, will host a presentation for analysts on Tuesday 5th August at 9am (BST) at Bank of America Merrill Lynch, 2 King Edward St, London EC1A 1HQ

For analysts unable to attend dial in details are:

Dial-in number: +44 (0)1452 555 566

Conference ID: 25367848

A replay of the conference call will be available for 7 days after the call at:

Dial in number: +44 (0)1452 550 000

Conference ID: 25367848

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About Fresnillo plc

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

Fresnillo has six operating mines, all of them in Mexico - Fresnillo, Saucito, Ciénega (including the San Ramón satellite mine), Herradura, Soledad-Dipolos and Noche Buena; two development projects –Saucito II and San Julián; and four advanced exploration prospects – Centauro Deep, Juanicipio, Orisyvo and Las Casas Rosario as well as a number of other long term exploration prospects. In total, Fresnillo plc has mining concessions covering approximately 2.1 million hectares in Mexico.

Fresnillo has a strong and long tradition of mining, a proven track record of mine development, reserve replacement, and production costs in the lowest quartile of the cost curve for both silver and gold.

Fresnillo's goal is to maintain the Group's position as the world's largest primary silver company, producing 65 million ounces of silver and 500,000 ounces of gold by 2018.

Forward-looking statements

Information contained in this announcement may include 'forward-looking statements'. All statements other than statements of historical facts included herein, including, without limitation, those regarding the Fresnillo Group's intentions, beliefs or current expectations concerning, amongst other things, the Fresnillo Group's results of operations, financial position, liquidity, prospects, growth, strategies and the silver and gold industries are forward-looking statements. Such 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 Fresnillo Group's operations, financial position and liquidity, and the development of the markets and the industry in which the Fresnillo 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 Fresnillo 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 exchanges rates), the Fresnillo 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 and political and economic uncertainty.

Operational Review

Attributable silver production, including the Silverstream, remained at similar levels when compared to the same period 2013 as a result of higher production at Saucito and increased contribution from the Sabinas mine; which compensated for the lower silver grades at Fresnillo.

Attributable gold production for the first half 2014 continued to be impacted by the stoppage of operations at Soledad-Dipolos and disrupted operations at Herradura in the first two months of the year. To a lesser extent, gold production was also affected by the anticipated decline in ore grades at Ciénega during the period. Notwithstanding, the expansion of the capacity at Noche Buena and the start-up of commercial production at the Dynamic Leaching Plant in March 2014 partially offset the above adverse effects.

The flexibility provided by our quality assets and the synergies achieved through the consolidation of mining districts meant that we were well placed to cope with the challenges during the period and as a result, have achieved solid operating results. This, together with the additional measures being taken to stabilise ore grades at the Fresnillo and Ciénega mines, give us the confidence that our full year production targets of 43 million ounces of silver and 450,000 ounces of gold will be met.

At the same time, the Group continued to make progress in the projects that will contribute towards the achievement of its medium and long term goals. The construction of the expansion of the Saucito mine, namely Saucito II, remained on track to be concluded in the fourth quarter of 2014 on budget. Similarly, the San Julián project continued with the construction of the leaching plant and further development works and is on track to start production in the second half 2015.

Furthermore, we continued to invest in our exploration programme which is paramount to providing profitable growth in the years and decades to come. In the first half of the year, promising exploration results were obtained at San Ramón (Ciénega), Cardones (Guanajuato) and Pilarica (Peru) and we expect to report an increase in resources at year end.

We are saddened to report that in April, one of our contractors at the Juanicipio project suffered a fatal accident due to inadequate communication among workers while conducting their activities, which resulted in a breach of our safety policies. We deeply regret this accident and remain committed to implementing the "No More Accidents" programme and reinforcing our training campaigns. We extend our sincere condolences to the family of our colleague.

Production

Production	H1 2014	H1 2013	% change
Silver (kOz) - attributable	19,132	19,144	-0.1
Silverstream prod'n (kOz)	2,202	1,836	19.9
Total Silver prod'n (kOz)	21,334	20,980	1.7
Gold (Oz) - attributable	191,317	235,827	-18.9
Lead (t)	12,143	12,421	-2.2
Zinc (t)	13,795	11,957	15.4

Attributable silver production for the first half 2014, excluding the Silverstream, maintained similar levels when compared to the same period 2013 as a result of higher volumes of ore processed at Saucito resulting from an optimised process and maintenance programme and additional ore processed from the development of the Jarillas vein. These factors compensated for the lower silver ore grades at Fresnillo and Ciénega.

Attributable gold production for the first six months of 2014 decreased 18.9% when compared to the same period 2013 mainly as a result of: i) the disrupted operations at Herradura due to the temporary suspension of explosives permits which affected the second half of 2013 and the first two months of 2014; ii) the stoppage of operations at Soledad- Dipolos related to the legal proceeding regarding the Ejido "El Bajío" litigation process; and iii) the expected lower gold ore grade at Ciénega. However, the higher ore deposited (+13.6%) and higher recovery rates (+14.5%) at Noche Buena partially mitigated the aforementioned effect.

Year to date by-product lead production remained at similar levels compared to 2013 as the increase in production at Saucito was offset by the lower grades at Ciénega and Fresnillo.

By-product zinc production for the first half 2014 increased by 15.4% when compared to the same period 2013 as a result of higher recovery rates, ore processed and ore grades at Saucito. Similarly, higher ore throughput and ore grades at Fresnillo also contributed to the increase in zinc production.

Production of gold and silver was within the Group's expectations and we remain confident of achieving our full year target of 43 million ounces of silver, including Silverstream, and 450,000 ounces of gold.

Fresnillo mine production

Production	H1 2014	H1 2013	% change
Silver (kOz)	10,547	11,197	-5.8
Gold (Oz)	15,879	13,640	16.4
Lead (t)	6,672	7,165	-6.9
Zinc (t)	7,409	6,886	7.6

Year to date silver production decreased by 5.8% compared to the same period 2013 due to lower silver ore grades (258.17 g/t in 1H14 vs 287.20 g/t in 1H13), which resulted from: i) the anticipated natural decline in silver ore grades; ii) the delay in development works at the San Carlos and San Alberto areas resulting from mechanical failures of the contractor's in-mine equipment; iii) dilution of ore as a result of rock instability in the deeper stopes, which are currently being controlled through adjustments to the mining method; and iv) a lower real ore grade than indicated in the geological model. The adverse effect of the decline in ore grade was partially mitigated by higher volumes of ore processed and improved recovery rates.

We continue to work with consultants to achieve the optimal mining method in order to mitigate dilution.

Gold production for the first half 2014 increased 16.4% when compared to the same period 2013 as a result of higher recovery rates (+6.1%), ore grades (+5.0%) and ore processed. Similarly, by-product zinc production increased 7.6% over the first half 2013 as a result of higher ore processed and ore grades.

Year to date by-product lead production decreased by 6.9% when compared to the first half 2013 due to lower ore grades and to a lesser extent, lower recovery rates.

Saucito mine production

Production	H1 2014	H1 2013	% change
Silver (kOz)	6,315	5,628	12.2
Gold (Oz)	26,823	22,041	21.7
Lead (t)	3,084	2,581	19.5
Zinc (t)	3,427	2,151	59.3

Silver production for the first half 2014 increased 12.2% over the same period in 2013 due to the increased ore processed, which resulted from: i) the additional material from the development carried out as part of the preparation of the Jarillas vein at Saucito II and which was in part processed at Fresnillo due to the available capacity at the plant; and ii) lower than expected time to carry out the maintenance programme at the beneficiation plant, thus increasing the availability of the equipment to process higher volumes of ore.

These favourable effects were slightly impacted by the lower silver ore grades (320.68 g/t in 1H14 vs 336.65 g/t in 1H13) as a result of the unusual higher ore grades mined at the Jarillas vein in 2013. However, year to date silver ore grades at Saucito are in line with the previously guided range and are expected to remain at those levels for the rest of 2014.

Year to date gold production increased 21.7% when compared to the same period of 2013 due to higher volumes of ore processed and better ore grades. Similarly, year to date by-product lead and zinc production significantly increased by 19.5% and 59.3% respectively over the same period 2013 as a result of higher ore processed and ore grades. In addition, improved recovery rates also contributed to the increase in zinc production.

Ciénega mine production

Production	H1 2014	H1 2013	% change
Gold (Oz)	53,984	59,644	-9.5
Silver (kOz)	2,072	2,188	-5.3
Lead (t)	2,387	2,675	-10.8
Zinc (t)	2,959	2,919	1.4

Year to date gold production decreased 9.5% when compared to the same period 2013 mainly as a result of the expected decline in ore grades resulting from the depletion of higher grade stopes (2.62 g/t in 1H14 vs 3.13 g/t in 1H13). However, the higher volumes of ore processed as a result of the optimisation project to increase milling capacity to 3,600 tpd and the efficiency achieved in the maintenance programme partially compensated for the lower gold grades.

Silver production for the first half 2014 decreased 5.3% when compared to the same period 2013 as a result of the lower ore grades (111.53 g/t in 1H14 vs 127.17 g/t in 1H13). This decrease was explained by the increased dilution due to narrower veins at San Ramón and increased ore volumes processed from the main Ciénega mine. Nevertheless, higher ore throughput partially compensated for the above negative effect.

Year to date by-product lead production decreased 10.8% when compared to the first six months of 2013 as a result of lower ore grades (-12.0%) and recovery rates (-6.5%).

Herradura mine production - Attributable

Production	H1 2014	H1 2013	% change
Gold (Oz)	58,532	91,233	-35.8
Silver (kOz)	170	112	51.8

Year to date attributable gold production, including the output from the dynamic leaching plant, decreased 35.8% when compared to the same period 2013 as a result of the impact of the temporary suspension of explosives permit which was lifted in mid-March 2014 affecting the volumes of ore deposited at the leaching pads. The process of depositing mineral on the leaching pads was normalised over the second quarter, and the recovery cycles are expected to reach regular levels in the second half 2014.

The above adverse effect was partially offset by the increased ore processed at the Dynamic Leaching Plant and the expected higher gold grade (0.71 g/t in 1H14 vs 0.61 g/t in 1H13).

By-product silver production for the first half 2014 increased 51.8% over the same period of 2013 due to improved recovery rates and higher ore grades.

Soledad-Dipolos mine production - Attributable

Production	H1 2014	H1 2013	% change
Gold (Oz)	-	22,226	-100.0
Silver (kOz)	-	14	-100.0

Operations at this mine continued to be suspended as a result of the court ruling to vacate the area at the site of the Soledad-Dipolos mine as part of the legal proceedings surrounding the Ejido “El Bajío” litigation process (Further information related to this process is provided in note 17 to the Financial Statements). It is expected that throughout the rest of 2014 this suspension will remain. However, the Company continues to analyse the alternatives with regard to the future of the Soledad-Dipolos mine and expects to have a final decision within the next twelve months.

Noche Buena mine production - Attributable

Production	H1 2014	H1 2013	% change
Gold (Oz)	36,099	27,044	33.5
Silver (kOz)	28	5	460.0

Attributable gold production for the first six months of 2014 increased 33.5% when compared to the corresponding period 2013 due to higher ore deposited (+13.6%) and recovery rates (49.48% in 1H14 vs 43.21% in 1H13). These increases were explained by the additional trucks and loaders in operation and increased areas under irrigation, which resulted from the ramping-up of production to the expanded capacity of 75,000 attributable gold ounces per year.

Year to date attributable silver production increased to 27,862 ounces mainly as a result of improved recovery rates and higher ore grades.

Growth Projects

Saucito II

As previously stated, the construction of Saucito II is on track to be concluded in the fourth quarter of 2014 on budget. In the first six months of 2014 detailed engineering works were concluded and significant progress was achieved in the milling and flotation areas with the assembly of the mills and flotation cells structures. Mine development has advanced further than scheduled.

This US$235 million project will produce an average of 8.4 million ounces of silver and 35,000 ounces of gold per year at full capacity.

San Julián

Construction of the San Julián project is progressing on time and on budget. Over the first half 2014, development of the vein system continued, additional orders for equipment were placed, surface land was acquired and construction of the leaching plant commenced.

This US$515 million silver-gold project remains on track to start operations in the second half of 2015 with an expected average production of 10.3 million ounces of silver and 44,000 ounces of gold per year once at full capacity.

Exploration

The 2014 exploration budget (including capitalised exploration expenses) was set at US$225 million dollars of which US$71 million were for exploration at mines currently in operation and for development works to confirm resources. The remaining US$154 million were for exploration projects of which in the first half 2014 US$30.0 million dollars were spent principally on drilling in the Fresnillo, Ciénega, and Herradura districts, and the San Julián, Orisyvo, Guanajuato, Rodeo and Pilarica advanced projects. Additionally, 119,080 metres of core and reverse circulation drilling was completed using 30 drills, and 10 additional rigs have been recently added to accelerate the programme. Several joint venture proposals in Mexico, Peru and Chile are currently being evaluated.

At the Ciénega district additional silver-gold resources were discovered on the San Gregorio and Campo 2 veins near the San Ramón satellite mine. Systematic drilling was carried out in three target areas at the Fresnillo district and interesting silver values were intersected on veins to the south of the mine.

Drilling was re-initiated at the San Julián project focused on increasing resources on the gold-silver bearing veins. In addition, eight structures with silver and gold will be drill tested.

A district-wide effort is being made to advance our resource position at Guanajuato, where nine vein systems are being drilled. Good silver-gold values were obtained at Opulencia, El Gigante and Cardones, which are within trucking distance from the Las Torres processing plant. Drilling and metallurgical testwork continue on properties where we are exploring for gold and silver-gold in the Rodeo district. In Peru, silver mineralisation was extended along strike by drilling at Pilarica and we continue to evaluate other properties in this district.

Our exploration objectives for the year will be met as we intensify the drilling campaign over the second half of the year but we expect to do so slightly below the US$225m budget level.

Resource and reserve estimates will be updated and audited by SRK at year end.

Health and safety, human resources, environment and community relations

During the first half of 2014 Fresnillo plc has continued with the implementation of the Health, Safety, Environment and Community Relations (HSECR) System. The HSECR System reached an overall maturity level of 77% in the fourth independent assessment conducted by PricewaterhouseCoopers (PwC) where the Integrated Management System plays a central role in the HSECR maturity process. The efforts to integrate Health, Safety and Environment under a single Integrated Management System brought the first positive outcomes with "La Ciénega" becoming the first business unit to achieve a joint (integrated) certification in OHSAS 18001/ ISO 14001.

Fresnillo promoted preventive care and healthier lifestyles as part of the efforts to limit certain chronic diseases and enhance overall wellness and fitness at work. In addition, Fresnillo plc's occupational health programme aims to identify pre-emptively and manage the health risks to which our workforce is exposed. Over the period we reported two new cases of occupational diseases as one employee was diagnosed with a hearing impairment and another with pneumoconiosis (lung disease) by the Mexican Health Authority.

The Safety Strategy is based on managing our knowledge of safety, engaging our stakeholders through the "No More Accidents" programme, and launching initiatives to embed safety in our culture. In the first half of 2014 the Total Recordable Injury Frequency rate (TRIF) rose to 3.77 (3.22 in 2013 and 4.66 in 2012) and the Lost Time Injury Frequency Rate (LTIFR) rose to 0.71 (0.43 in 2013 and 1.19 in 2012). Regrettably there was a fatal accident of a contractor in the Juanicipio project, caused by inadequate communication while performing clearing tasks in the ramp. Safety remains Fresnillo plc's number one priority and we are launching, with the support of Dupont, the "Safe Start" project which focuses on the human factors that are involved in the majority of incidents and injuries.

Communities are our strategic partners and having their trust requires understanding and engaging with them effectively and being accountable for our impact. Over this half year, Fresnillo plc conducted a community perception study across all our operating units. This perception audit has allowed each of the business units to update their social risks and opportunities. Fresnillo plc is following the guidelines set out by the International Finance Corporation (IFC) and the International Council of Mining and Metals (ICMM). In addition, Fresnillo plc has launched the implementation of a state of the art information system to support community relations and social investment which includes analysis and logs of activities organised by the company for the communities and all contribution requests made by the communities.

Our Environmental Management System ensures effective compliance with Mexican regulations, ensures transparency and supports initiatives that reduce our environmental footprint. In the first half of 2014, the Water Intensity measured 0.19 cubic metres per tonne of mineral processed (0.22 in 2013) while the Greenhouse gas (GHG) intensity rose to 0.019 tonnes of CO_2 equivalent per tonne of mineral processed (0.015 in 2013). The Group was recognised with the GEI2 national award for the disclosure and auditing of its greenhouse gas inventory. Additionally, Fresnillo plc disclosed its performance in the water and climate change programmes of the Carbon Disclosure Project (CDP).

We remain strongly committed to attracting, selecting, developing and retaining the best people to successfully support our business strategy. In the first half of 2014, Fresnillo plc's workforce totalled 3,438 employees (3,262 in 2013) and 3,789 contractors (3,150 in 2013). Total and voluntary turnover rates are respectively at 3.29% and 2.88% (8.2% and 4.7% in 2013). Women represent 11.58% of the employee workforce (8.83% in 2013). Our commitment to employee development continued with training programmes throughout the whole company. During the period under review, the "Leaders with Vision" programme took place reinforcing the required abilities and skills to be a leader and promoting further knowledge of the company's processes. We have also continued with the follow up of our personnel performance evaluation to identify areas of opportunity and promote communication. In addition, the second generation of mining technicians from the CETEF graduated during this period.

Related party transactions

Details of related party transactions that have taken place in the first six months of the current financial year are detailed in note 18 of the financial statements.

Financial Review

The interim consolidated financial statements of Fresnillo plc for the first half of 2014 and 2013 have been prepared in accordance with IAS 34 “Interim Financial Statements” as adopted by the European Union. Management recommends reading this section in conjunction with the Interim Financial Statements and their accompanying Notes.

Commentary on financial performance

Financial performance in the first six months of 2014 reflected principally the adverse effect of the on-going decline of precious metals prices and the reduced sales volumes of gold resulting from the suspended production at Soledad-Dipolos and disrupted operations at Herradura. Gross profit, EBITDA and profit from continuing operations before net finance cost and income tax decreased by 43.1%, 33.3% and 50.6% respectively.

Adjusted revenues of US$750.4 million decreased by 23.6% compared to the first six months of 2013 as a result of the 17.9% and 11.5% decreases in silver and gold realised prices respectively, and lower volumes of gold sold mainly at the Herradura district. This was partially mitigated by higher volumes of silver sold.

Adjusted production costs decreased by 14.1% over the first half of 2013 as a result of: i) costs not incurred at the Soledad-Dipolos mine due to the suspended operations resulting from the court ruling regarding the Ejido “El Bajío” legal process; ii) variable production costs not incurred at Herradura due to disrupted operations after the temporary suspension of explosives permits (1^{st} January 2014 to 26^{th} February 2014); iii) the 4.4% devaluation of the average Mexican peso/US dollar spot exchange rate which decreased costs denominated in Mexican pesos when converted to US dollars at a higher exchange rate; and iv) efficiencies achieved at a number of our operating mines.

Depreciation increased by 16.6% as a result of: i) the increased asset base at Penmont mines and Ciénega; and ii) higher depletion factor at Fresnillo, Saucito and Noche Buena resulting from the higher production volumes.

Cost of sales for the first half 2014 decreased 6.1% as a result of the lower adjusted production costs and the favourable impact of the increase in inventories; which were partially mitigated by the higher depreciation and unproductive costs recorded at the Penmont mines.

The net effect of the decline in revenues and lower cost of sales resulted in a 43.1% decrease in gross profit to US$295.1 million in the first half 2014.

Exploration expenses recorded in the income statement decreased by 39.9% over the first half of 2014 in accordance with our decision to reduce exploration expenses in light of current market conditions and as a result of the lower pace at which we explored this year at Centauro Deep, Corredor Herradura and Nuevo Corredor Herradura.

The aforementioned factors resulted in EBITDA of US$324.5 million, with EBITDA margin decreasing from 52.5% in the first half of 2013 to 47.9% in the first half of this year.

An additional favourable impact in the income statement was the US$47.3 million revaluation gain on Silverstream which resulted from higher silver prices, lower interests rates (LIBOR) on 30 June 2014 compared to the ones prevailing at 31 December 2013 and an increase in the number of ounces sold over the period compared with the first half of last year. In contrast, a US$112.5 million loss was recorded in the first half of 2013.

In the first six months of 2014, net finance costs amounted to US$24.5 million as a result of the interest paid in relation to the US$800 million debt facility raised in November 2013.

Income tax expense declined by 20.4% to US$58.1 million as a result of lower profits generated in the first half 2014. The effective tax rate, excluding mining rights, was 27.9%, and 34.2% including the effects of the mining rights.

As a result of the above factors, profit for the period of US$137.1 million decreased by 22.5% compared to the first half 2013.

The Group ended the first half 2014 with short term funds of US$1,164.3 million. The main sources of cash were the cash from operating activities of US$154.7 million and the US$31.4 million proceeds from the Silverstream. This, together with the funds at the beginning of the year, were used to purchase property, plant and equipment for US$212.0 million, pay dividends of US$50.1 million and cover the net finance expense of US$19.4 million.

Fresnillo plc's net cash is US$327.5 million, reflecting short term funds of US$1,164.3 million net of the US$795.3 million interest-bearing loan (Senior notes issued in Nov 2013) and the US$41.5 million loan from Newmont.

Income Statement

Income Statement Key Line Items
Six months ended 30 June
(in millions of US$)

	H1 2014	H1 2013	% change
Adjusted Revenue[1]	750.4	982.3	-23.6
Lead and zinc hedging	0.0	0.1	-100.0
Treatment & Refining charges	-73.3	-56.5	29.7
Total Revenues	677.1	925.9	-26.9
Cost of sales	382.0	407.0	-6.1
Gross Profit	295.1	518.9	-43.1
Exploration expenses	69.0	114.7	-39.8
EBITDA[2]	324.5	486.3	-33.3
Profit before income tax	208.2	249.8	-16.7
Mining Right	13.1	-	N/A
Income tax expense	58.1	73.0	-20.4
Profit for the period	137.1	176.8	-22.5
Profit for the period, excluding post-tax Silverstream revaluation effects	104.0	257.6	-59.6
Attributable profit	130.1	144.8	-10.2
Attributable profit, excluding post-tax Silverstream revaluation effects	97.0	225.6	-57.0
Basic and diluted Earnings per share (US$/share) [3]	0.177	0.200	-11.5
Basic and diluted Earnings per share, excluding post-tax Silverstream revaluation effects (US$/share)	0.132	0.311	-57.6

[1] Adjusted revenue is the revenue shown in the income statement adjusted to add back treatment and refining costs and lead and zinc hedging. The Company considers this is a useful additional measure to help understand underlying factors driving revenue in terms of volumes sold and realised prices.
[2] Earnings before interest, taxes, depreciation and amortisation (EBITDA) is calculated as gross profit plus depreciation less administrative, selling and exploration expenses.
[3] The weighted average number of shares H1 2014 was 736,894 (H1 2013: 724,615). See Note 8 in the Consolidated Financial Statements.

Fresnillo plc's financial results rely, to a great extent, on the Group's operational performance, asset quality, skilled personnel and management execution towards our strategic goals. Notwithstanding, there are certain macroeconomic variables affecting the financial results, which are beyond the Group's control. A description of these variables is provided below.

Precious metal prices

Gold and silver spot prices decreased by 15.2% and 23.8% respectively compared to the first half of 2013 and had a minor decline of 0.7% and 3.9% respectively over the second half of 2013. This effect resulted mainly from the announcement made by the U.S. Federal Reserve at the end of May 2013 with regards to the reduction of the monetary stimulus programme, which triggered gold sales and ETF liquidation, and subsequently severely impacted gold and silver prices in the next two months (June-July 2013). In addition, lower inflation expectations, particularly in the developed economies, and fading Eurozone concerns further impacted precious metals prices. However, increased geopolitical tension in Ukraine, Iraq and Israel in the first half of 2014 relieved some of the pressure in precious metals prices albeit for a short period. The spot gold price reached its lowest level of 2014 in January at US$1,221.0 per ounce, while the spot silver price bottomed in June at US$18.71 per ounce.

The average silver price realised by Fresnillo plc over the half decreased by 17.9% from US$24.67 per ounce in the first half of 2013 to US$20.26 per ounce and the average realised gold price decreased by 11.5% over the first half to US$1,302.07 per ounce.

Similarly, lead prices decreased by 2.0% when compared to the first half 2013. However, zinc prices increased by 9.4% half on half.

Hedging

Fresnillo plc remains fully exposed to volatility in precious metals prices in accordance with its policy of not hedging silver and gold production. However, the Group does not preclude from entering into derivatives to minimise its exposure to changes in the prices of lead and zinc by-products.

In the first half of the year, the Group entered into a zero cost collar structure to mitigate the risks related to the sale of lead, hedging 1,800 tonnes with floor and cap prices of US$2,100 per tonne and US$2,450 per tonne respectively. 900 tonnes expired in the first half of 2014 resulting with a US$0.01 million gain recorded in the income statement. The total outstanding position as of 30 June is 900 tonnes with monthly settlements until December 2014.

In addition, the Group hedged a portion of its zinc production, which did not have an effect in the income statement. The chart below illustrates the expired hedging structures in the first half of 2014 and the outstanding hedging position as of 30 June.

Concept	1H14		As of June 30th
	Jan. '14 - Feb. '14	Mar. '14 - Jun. '14	Jul. '14 - Jun. '15
Weighted Floor (usd/ton)	1,900	1,900	1,900
Weighted Cap (usd/ton)	2,200	2,320	2,390
Expired volume	320	1,920	--
Outstanding volume	--	--	8,820

Fresnillo plc entered into derivative contracts to hedge foreign exchange exposure. The results from these activities is further explained in the cost of sales section.

Foreign exchange rates

The average spot Mexican peso/US dollar exchange rate devalued by 4.4% from $12.56 per US dollar in the first half of 2013 to $13.12 per US dollar in the same period of 2014. This devaluation generated a favourable effect estimated at US$6.1 million in the Group's production costs as costs denominated in Mexican pesos (approximately two thirds of total costs) were lower when converted to US dollars at a higher exchange rate.

Cost Inflation

To calculate cost inflation, we estimate the unit price increase for each component of the adjusted production costs and calculate the weighted average. The estimated cost inflation for the first half 2014 was 0.9%, which includes the positive effect of the 4.4% devaluation of Mexican peso/US dollar exchange rate.

Energy, which covers electricity, diesel and gasoline, showed the highest cost inflation with a weighted unit price increase of 4.0% during the period. Personnel, contractor and maintenance costs remained steady in dollar terms; whilst operating materials presented a deflation in unit prices for the first time in several years. Overall, cost inflation has been contained for the first half of the year.

Labour

Employees received a 5.5% increase in wages in Mexican pesos and administrative employees at the mines received a 4.5% increase. Taking into consideration the 4.4% devaluation of the Mexican peso against the US dollar, cost inflation of personnel was 0.8%.

Inflation of key operating materials

Key operating materials	**HALF OVER HALF CHANGES**
Steel balls for milling	-0.6%
Steel for drilling	-0.3%
Explosives	-3.8%
Tyres	0.2%
Sodium cyanide	-2.8%
Other reagents	-1.1%
Lubricants	-0.5%
Weighted average of all operating materials	-2.2%

Unit prices of the majority of key operating materials decreased during the first half 2014 due to the lower demand for these inputs, resulting in a net weighted average decrease of -2.2%.

Electricity

In the first half of 2014, the weighted average cost of electricity increased by 1.6% from US$11.1 cents per kw in the first six months of 2013 to US$11.3 cents per kw in the same period of 2014. Electricity rates are set by the national utility, Comisión Federal de Electricidad (CFE), based on their average generating cost.

Diesel

The weighted average cost of diesel for the first six months of 2014 increased by 6.2% from US$77.6 cents per litre in the first half 2013 to US$82.4 cents per litre in the same period 2014. Diesel prices are controlled by Petróleos Mexicanos (PEMEX), the national oil company, which aims to gradually align fuel and diesel prices to prevailing international rates.

Contractors

In the first half of 2014, increases granted to contractors, whose agreement was due for review during the period, ranged from -1.7% to 7.3% (equivalent to 2.6% - 12.0% in Mexican pesos), resulting in a weighted average increase of 0.5% which includes costs largely relating to operating materials, equipment and labour.

Maintenance

Unit prices of spare parts to provide maintenance increased by an estimated 0.2% in US dollars.

Others

This includes the unit price of freight which largely remained flat with a 1.9% increase, a 1.0% decline in insurance premium per unit and an average inflation of 4.7% for the remaining components, over the first half of 2013.

Treatment and Refining charges

The 2014 treatment and refining charges (TRCs) per tonne and per ounce are still being negotiated with Met-Mex in accordance with international benchmarks and will apply retrospectively from January 2014. Treatment and Refining Charges were assumed to be the same as those which were negotiated for the full year 2013.

Treatment charges per tonne of zinc, and refining charges per ounce of silver for the first half of 2014 increased by 7.9% and 44.5% respectively compared to the same period of 2013. These significant increases half on half resulted from the assumptions made at the end of the first half of 2013 based on the Group's expectations that silver refining charges would decrease and treatment charges for lead and zinc would remain at similar levels. The final outcome turned out to be different from our assumptions with silver refining charges and treatment charges for zinc increasing in the second half of 2013.

Revenues

Consolidated Revenues
(US$ millions)

	H1 2014	H1 2013	Amount	%Change
Adjusted Revenue[1]	750.4	982.3	-231.9	-23.6
Hedging	0.0	0.1	-0.1	-100.0
Treatment and refining charges	-73.3	-56.5	-16.8	29.7
Total Revenues	677.1	925.9	-248.8	-26.9

[1] Adjusted revenue is the revenue shown in the income statement adjusted to add back treatment and refining costs and lead and zinc hedging. The Company considers this is a useful additional measure to help understand underlying factors driving revenue in terms of volumes sold and realised prices.

Adjusted revenues of US$750.4 million decreased 23.6% when compared to the first half 2013. This resulted mainly from the adverse effects of the lower silver and gold realised prices estimated at US$80.3 million and US$50.2 million respectively, and the impact of the reduced volumes of gold sold at the Herradura district of US$115.0 million.

However, the aforementioned negative aspects were slightly mitigated by the estimated US$9.7 million benefit from the higher volumes of silver sold from Saucito.

Adjusted Revenues[1] by metal
(US$millions)

	H1 2014		H1 2013		Volume Variance	Price Variance	Total	%
Silver	373.3	50%	443.9	45%	9.7	-80.3	-70.6	-15.9
Gold	331.5	44%	496.7	51%	-115.0	-50.2	-165.2	-33.3
Lead	21.8	3%	22.7	2%	-0.4	-0.5	-0.9	-4.0
Zinc	23.7	3%	18.9	2%	2.9	1.9	4.8	25.4
Total Revenues	750.4	100%	982.3	100%	-102.8	-129.1	-231.9	-23.6

[1] Adjusted revenue is the revenue shown in the income statement adjusted to add back treatment and refining costs and lead and zinc hedging. The Company considers this is a useful additional measure to help understand underlying factors driving revenue in terms of volumes sold and realised prices

Silver contribution to adjusted revenues increased from 45% in the first half 2013 to 50% in the same period 2014 mainly due to increased sales volumes at the Saucito mine. In contrast, the contribution from gold decreased from 51% to 44% in the first six months of 2014 as a result of the suspended production at Soledad-Dipolos and temporary disrupted operations at Herradura.

Fresnillo contribution to silver adjusted revenues was 55.4%, a slight decrease when compared to the 58.5% share in the first half 2013 due to the reduced volumes of silver produced. Similarly, Ciénega's contribution decreased to 9.6%. On the contrary, Saucito's participation in silver adjusted revenues reached 33.2% in the first half of the year due to higher production levels.

The split of the contribution to gold adjusted revenues changed in the first half of 2014 reflecting the lower contribution from the Herradura mine, the nil share from Soledad-Dipolos and the increased participation of Noche Buena to 25.0%.

The contribution by metal and by mine to the adjusted revenues is expected to change further over the upcoming periods as new projects are incorporated to the Group's operations and precious metal prices fluctuate.

Gold Adjusted Revenues by mine

	H1 14	**H1 13**
Herradura	40.6%	48.1%
Soledad-Dipolos	0.0%	11.7%
Noche Buena	25.0%	14.1%
Ciénega (and San Ramón)	19.2%	16.8%
Fresnillo	5.5%	3.4%
Saucito	9.7%	5.9%
TOTAL	100%	100%

Silver Adjusted Revenues by mine

	H1 14	H1 13
Fresnillo	55.4%	58.5%
Saucito	33.2%	29.3%
Ciénega (and San Ramón)	9.6%	10.9%
Herradura	1.6%	1.1%
Soledad-Dipolos	0.0%	0.1%
Noche Buena	0.2%	0.1%
TOTAL	100%	100%

Adjusted Revenues by mine

	H1 14	H1 13
Fresnillo	33.3%	30.6%
Herradura	18.7%	24.8%
Ciénega	14.5%	14.4%
Saucito	22.3%	17.0%
Soledad-Dipolos	N/A	6.0%
Noche Buena	11.2%	7.2%
TOTAL	100%	100%

Volumes of metal in products sold
Six months ended 30 June

	H1 14	H1 13	% change
SILVER (kOz)			
Fresnillo	10,214	10,529	-3.0
Ciénega	1,760	1,968	-10.6
Herradura	302	197	53.3
Soledad-Dipolos	-	25	-100.0
Saucito	6,103	5,268	15.9
Noche Buena	48	8	500.0
Total Silver (kOz)	18,427	17,995	2.4
GOLD (kOz)			
Fresnillo	14	12	16.7
Ciénega	49	58	-15.5
Herradura	104	161	-35.4
Soledad-Dipolos	-	39	-100.0
Saucito	24	20	20.0
Noche Buena	64	47	36.2
Total Gold (kOz)	255	337	-24.3
LEAD (MT)			
Fresnillo	5,958	6,283	-5.2
Ciénega	1,879	2,275	-17.4
Saucito	2,721	2,194	24.0
Total Lead (MT)	10,558	10,752	-1.8
ZINC (MT)			
Fresnillo	6,046	5,753	5.1
Ciénega	2,667	2,444	9.2
Saucito	2,750	1,803	52.5

Total Zinc (MT)	11,463	10,000	14.6

Cost of sales

			Change	
	H1 14	**H1 13**	**Amount**	**%**
Adjusted production costs[4]	291.33	338.99	-47.66	-14.1
Depreciation and amortisation	133.33	114.26	19.07	16.7
Change in work in progress	-60.78	-50.99	-9.79	19.2
Unproductive Cost	9.24	-	9.24	N/A
Profit Sharing	8.63	8.81	-0.18	-2.0
Hedging	0.24	-4.05	4.29	N/A
Cost of Sales	**381.99**	**407.02**	**-25.03**	**-6.1**

4 Adjusted production cost is calculated as total production costs less depreciation, profit sharing and the effects of exchange rate hedging.

Cost of sales of US$382.0 million decreased by 6.1% over the first half 2013. The main factors that led to the US$25.0 million decrease are described below:

- Adjusted production costs of US$291.3 million decreased 14.1% over the same period in 2013. The US$47.7 million decrease was largely explained by the non-incurred costs at Soledad-Dipolos as operations continued to be suspended in the first half of 2014, which were estimated at US$59.5 million; the variable production costs of US$12.7 million not incurred at Herradura as a result of the disrupted operations in the first two months of the year; and unproductive costs of US$9.2 million reclassified to a separate line within cost of sales. To a lesser extent, the positive effects of the 4.4% devaluation of the average Mexican peso/US dollar spot exchange rate and the efficiencies achieved at some of our operating mines, which were estimated at US$6.1 million and US$0.6 million respectively, further contributed to the decline in adjusted production costs. The aforementioned favourable effects were mitigated by new adjusted production costs related to the start-up of the new Dynamic Leaching Plant in March 2014 with an estimated impact of US$8.6 million and the increased costs associated with higher volumes of ore processed at Noche Buena and Saucito, Ciénega and Fresnillo for an estimated total of US$19.6 million. In addition, each production cost component had the following cost inflation:

  - The cost of energy increased by US$3.4 million due to higher unit prices of diesel (+6.2%) and electricity (+1.6%).
  - Contractor costs rose by US$2.5 million as a result of the contract adjustments recorded during the first half at Ciénega, Fresnillo and Penmont mines; up 2.6%-12.0% in Mexican pesos.
  - Personnel costs, excluding profit sharing, increased by US$1.7 million as a result of increased wages up 5.5% in Mexican pesos.
  - Cost of maintenance up slightly by US$0.4 million.
  - Cost of operating materials down 2.2% by US$0.7 million, mainly due to lower explosives and sodium cyanide prices.

- Profit sharing decreased by US$0.2 million due to the lower profits at all our operating mines except for Noche Buena, which increased profit levels as a result of the increased gold production.
- Change in work in progress rose by US$9.8 million as a result of increased ore inventories at Herradura and Noche Buena.

- Depreciation increased by US$19.1 million as a result of: i) the increased asset base at Penmont mines and Ciénega; and ii) higher depletion factor at Fresnillo, Saucito and Noche Buena resulting from the higher production volumes.
- Unproductive costs of US$9.2 million generated at Minera Penmont from fixed costs to maintain equipment and pay workers despite the disruption of operations.
- The Group enters into certain exchange rate derivative instruments as part of a programme to manage its exposure to foreign exchange risk associated with costs incurred in Mexican pesos. In the first half of 2014 US$8.0 million short forward position expired, as well as US$109.0 million MXN/USD put and call options structured at zero cost (collars) with average floor and cap exchange rates of $12.6980 and $13.5583 per US dollar respectively. The total hedging result of these instruments was a US$0.24 million loss recorded in the income statement. The total outstanding position using collar structures as of 30 June 2014 was US$235.5 million with maturity dates throughout the second half of this year and into 2015. These instruments guarantee a minimum exchange rate should the market fall below the floor exchange rate. Between the floor and cap exchange rates the Group sells US dollars at the market rate, and when the Mexican peso per US dollar exchange rate goes above the cap rate, Fresnillo plc is obliged to sell US dollars at the contract rate.
  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). The total EUR and SEK outstanding net forward position at 31 December 2013 was EUR 3.25 million and no outstanding SEK position. By the end of the first half of 2014, the EUR position decreased to EUR 352 thousand, with maturity dates throughout September 2014.

Cost per tonne and cash cost per ounce

Cost per tonne, calculated as total production costs, plus mining rights less depreciation, profit sharing and exchange rate hedging effects, divided by total tonnage processed, is a key indicator to measure the effects of mining inflation and cost control performance at each mine.

COST PER TONNE				
				%
		H1 14	**H1 13**	**Change**
Fresnillo	US$/TONNE MILLED	45.02	46.60	-3.4
Ciénega	US$/TONNE MILLED	67.61	73.59	-8.1
Herradura	US$/TONNE DEPOSITED	8.03	7.13	12.6
Soledad-Dipolos	US$/TONNE DEPOSITED	-	9.96	N/A
Saucito	US$/TONNE MILLED	62.09	59.17	4.9
Noche Buena	US$/TONNE DEPOSITED	8.89	8.20	8.4

The common factors impacting cost per tonne across the Group were: i) the 5.5% increase in wages in Mexican pesos for unionised workers; and ii) the higher unit prices of diesel (+6.2%) and electricity (+1.6%). These adverse effects were mitigated by the 4.4% devaluation of the Mexican peso against the US dollar. Additional factors affecting cost per tonne at each particular mine are described below:

Fresnillo

Cost per tonne milled decreased by 3.4% when compared to the same period last year. This was mainly due to the favourable effects of the higher volumes of ore processed and the cost reduction initiatives such as: i) the better control of the rock bolting process in some areas; ii) the use of wire mesh to optimise shotcreting activities; iii) lower consumption per tonne of diesel and some reagents; and iv) lower insurance fees paid at this mine due to the low accident rate. However, these benefits were mitigated by: i) higher contractor costs due to additional scaling and paving carried out in critical areas, maintenance provided to the San Carlos shaft and increased development in the Candelaria ramp; ii) higher consumption per tonne of electricity; and iii) increased consumption of tyres and hoses for rock bolting and drilling equipment and replacement of the steel cable at the general shaft.

Saucito

Cost per tonne increased by 4.9% over the first half of 2014, to US$62.1 The main factors affecting this indicator were: i) the higher insurance fees paid as a result of higher premia in exchange of lower deductible charges and increased risk of flooding due to presence of additional water in the mine; and ii) higher consumption per tonne of explosives related to the increased development and of copper sulphate due to the higher zinc ore grades. Offsetting these adverse effects was the benefit obtained from the economies of scale, which included lower consumption per tonne of electricity, steel balls for mill and some reagents such as zinc sulphate.

Ciénega

Cost per tonne milled at Ciénega decreased 8.1% to US$67.6 reflecting the positive impact of the 8.5% increase in ore milled and lower information technology costs. This was partially mitigated by higher contractor fees negotiated as part of the regular annual review which resulted in an estimated increase of 8.2% expressed in USD. The higher personnel cost due to overtime and productivity bonuses paid, together with higher consumption per tonne of some reagents such as sodium cyanide and copper sulphate also negatively impacted cost per tonne.

Herradura

Cost per tonne of US$8.03 continued to be distorted as a result of the halted operations in the first two months of the year. The 12.6% increase over the first half of 2013 reflected the lower volumes deposited on the leaching pads (-23.8%) and the additional costs due to the start-up of the Dynamic Leaching Plant.

Noche Buena

Similarly, cost per tonne at this mine increased by 8.4% to US$8.9 as a result of: i) the replacement of contractors by unionized workers relocated to Noche Buena from the suspended Soledad-Dipolos mine; ii) the higher consumption per tonne of electricity related to the expansion of the processing plant to 1,600 m3/hour, which is expected to reach full capacity in the second half of the year; and iii) higher consumption of reagents such as sodium cyanide as a result of the increased areas under irrigation. These adverse effects were partially mitigated by the 13.6% increase in volume deposited.

Soledad-Dipolos

There was no comparable indicator for the first half of 2014 as a result of the suspended operations at this mine following the court ruling to vacate the area as part of the legal proceedings surrounding the Ejido "El Bajío" litigation process.

CASH COST PER OUNCE[5]

				%
		H1 14	**H1 13**	**Change**
Fresnillo	US$ per silver ounce	6.13	5.46	12.3
Ciénega	US$ per gold ounce	180.64	-86.29	-309.3
Herradura	US$ per gold ounce	403.74	492.95	-18.1
Soledad-Dipolos	US$ per gold ounce	-	672.71	N/A
Saucito	US$ per silver ounce	3.36	2.19	53.4
Noche Buena	US$ per gold ounce	737.27	896.10	-17.7

5 Cash cost per ounce is calculated as total cash cost (cost of sales plus treatment and refining charges and mining rights less depreciation) less revenues from by-products divided by the silver or gold ounces sold.

The detailed changes in cash cost for each mine are explained below:

Fresnillo: US$6.13/oz (1H14) vs US$5.46/oz (1H13), (+US$0.67/oz; + 12.3%)

The increase in cash cost per ounce is mainly a result of the higher treatment and refining charges applied in the first half of the year whereas in the same period of 2013, we assumed that silver refining charges would decrease and adjusted the accounts accordingly, when in fact they increased once negotiations with Met-Mex were finalised in the second half of 2013. Other factor affecting cash cost was the lower volumes of silver sold, reflecting the decline in ore grade during the period. This was partially mitigated by: i) lower cost per tonne; ii) higher by-product credits per silver ounce as a result of the combined effect of lower silver ounces sold and the increase in gold production; and iii) lower profit sharing resulting from the decrease in silver price.

Saucito: US$3.36/oz (1H14) vs US$2.19/oz (1H13), (+US$1.17/oz; +53.4%)

Cash cost per silver ounce increased mainly due to the higher treatment and refining charges described above; the lower silver ore grades, which were in accordance to the Group's expectations for the first half of 2014 but lower compared to the same period of 2013; and the slight increase in cost per tonne. These adverse effects were partially mitigated by the higher by-product credits per ounce of silver, which resulted from the increased gold, lead and zinc volumes sold. Despite the significant increase, Saucito continues to be one of the lowest cash cost silver mines in the world.

Ciénega: US$180.64/oz (1H14) vs -US$86.29/oz (1H13), (+US$266.93/oz; +309.3%)

The difference in cash cost reflected the following adverse effects: i) the expected lower gold ore grade resulting from the depletion of higher grade stopes which resulted in a decrease in gold ounces sold, ii) a decrease in by-product credits per ounce of gold due to reduced volumes of silver and lead sold at lower prices and; iii) the higher treatment and silver refining charges. These increases were mitigated by the decrease in cost per tonne.

Herradura: US$403.74/oz (1H14) vs US$492.95/oz (1H13), (-US$89.21/oz; -18.1%)

The lower cash cost per ounce resulted mainly from: i) the higher ore grades; ii) the favourable effect of a higher increase in gold inventories than in the same period of 2013; and iii) the increase in by-product credits resulting from the higher silver ounces sold. Offsetting the aforementioned effects was the impact of the disruption of operations causing unproductive costs and a higher cost per tonne.

Noche Buena: US$737.27/oz (1H14) vs US$896.10/oz (1H13), (-US$158.83/oz; -17.7%)

The main reason for the decrease in cash cost was: i) a higher increase in gold inventories on the leaching pads than in 1H2013; ii) the higher ore grade; and iii) the increased by-product credits due to higher silver ounces sold. These positive factors were mitigated by the higher cost per tonne.

Soledad-Dipolos:

There was no comparable cash cost for the first half of 2014 as a result of the suspended operations at this mine.

All in sustaining cost

		H1 14	H1 13	Change %	Life of mine Weighted average
Fresnillo	US$ per silver ounce	9.93	9.45	5.1	9.24 (2025)
Saucito	US$ per silver ounce	7.66	6.83	12.2	6.9 (2022)
Ciénega	US$ per gold ounce	594.58	463.50	28.3	725 (2025)
Herradura	US$ per gold ounce	839.51	735.83	14.1	687 (2019)
Noche Buena	US$ per gold ounce	969.02	1,334.66	-27.4	1,056 (2019)
Soledad-Dipolos	US$ per gold ounce	-	756.62	N/A	850 (2018)

Gross profit

Total gross profit for the first half 2014 of operating mines, excluding hedging gains and losses, decreased by 37.8% to US$312.7 million. The main factors contributing to the US$190.2 million decrease resulted from: i) the significant decrease in silver, gold and lead prices estimated at US$122.6 million; ii) US$78.7 million estimated impact at Herradura due to the disrupted operations until February 2014 resulting from the temporary suspension of the explosives permits; iii) lower ore grades at Ciénega and Fresnillo, which had an adverse effect of US$39.0 million and US$25.5 million respectively; iv) estimated impact at Soledad-Dipolos of US$22.1 million due to the temporary shutdown; v) a US$17.2 million due to higher treatment and refining charges and; vi) the adverse effect of cost inflation estimated at US$7.3 million.

The above factors were partially offset by: i) higher ore grades at Herradura (US$30.9 million); ii) higher production, recovery rates and ore grades at Noche Buena (US$24.4 million); iii) higher volumes of ore processed at Saucito (US$21.8 million), Fresnillo (US$18.9 million) and Ciénega (US$17.4 million); vi) the successful start-up of operations at the dynamic leaching plant (US$7.0 million); and vii) the 4.4% devaluation of the Mexican peso/US dollar exchange rate (US$6.1 million).

The contribution by mine to the Group's gross profit, excluding hedging effects, changed during the period mainly as a result of ramped-up production at the Saucito and Noche Buena mines, disruption at Herradura and the stoppage at Soledad-Dipolos. Despite the lower ore grades, the Fresnillo mine remained as the largest contributor to gross profit. Saucito's contribution increased in the first six months of the year as a result of higher volumes of ore processed; whilst the increased gold production at Noche Buena further increased its participation in gross profit over the first half of 2014.

In contrast, the temporary suspension of explosives permits at Herradura resulted in a decrease in its contribution to the total gross profit from 24.9% in the first half 2013 to 19.1% in the same period 2014. Similarly, Cienega's share decreased to 9.1% from 12.9% as a result of the lower ore grades.

(US$ millions)			Change	
	H114	**H113**	**Amount**	**%**
Fresnillo	117.4	173.8	-56.4	-32.5
Saucito	85.0	105.0	-20.1	-19.0
Herradura	59.9	125.1	-65.2	-52.1
Ciénega	28.6	64.8	-36.2	-55.9
Noche Buena	26.9	16.2	10.7	66.0
Soledad-Dipolos	-5.0	18.1	-23.0	-127.6
Total for operating mines	**312.7**	**502.9**	**-190.2**	**-37.8**
MXP/USD exchange rate hedging (losses) and gains	-0.2	4.1	-4.3	-104.9
Other subsidiaries	-17.4	11.9	-29.3	-246.2
Total Fresnillo plc	**295.1**	**518.9**	**-223.8**	**-43.1**

Administrative expenses

Administrative expenses of US$29.8 million increased by 4.2% over the first half of 2013 driven mainly by services provided by third parties, the 5.5% increase in salaries granted to employees and the additional administrative personnel hired at Ciénega and Fresnillo. Additionally, increased non-recurring engineering and construction services provided by Servicios Industriales Peñoles, S.A.B de C.V. also contributed to the increase in administrative expenses during the first half 2014.

Exploration expenses

BUSINESS UNIT / PROJECT (US$ millions)	Exploration expenses	Capitalised expenses
Ciénega	4.6	
Fresnillo	3.9	
Herradura	8.5	
Guazaparez	2.1	
Saucito	4.3	
Noche Buena	2.4	
San Ramón	5.2	
San Julián	0.4	
Orisyvo	6.5	2.9
Nuevo Corredor Herradura	0.9	
Centauro Deep	9.4	1.3
San Juan	0.8	
Lucerito	0.2	
Candameña	0.3	
Guachichil	0.3	
Guanajuato	1.9	
Perú	1.6	
Manzanillas	0.3	
Juanicipio	0.0	3.6
Others	15.4	
TOTAL	**69.0**	**7.8**

Exploration expenses for the first half of 2014 totalled US$69.0 million, a 39.9% decrease when compared to the first half 2013. This reduction was in line with the Group's decision to reduce exploration expenses in light of more challenging precious metals market conditions. In addition, this favourable effect was also the result of the lower pace at which we explored this year at Centauro Deep, Corredor Herradura and Nuevo Corredor Herradura. An additional US$7.8 million was capitalised related to the Juanicipio, Centauro Deep and Orisyvo projects. The risk capital invested in exploration for 2014 is expected to be slightly lower than theUS$225.0 million budget.

EBITDA

EBITDA and EBITDA Margin
Six months ended 30 June
(in millions of US$)

	H1 2014	H1 2013	% change
Gross Profit	295.1	518.9	-43.1
+ Depreciation and amortisation	133.3	114.3	16.7
- Administrative Expenses	-29.8	-28.6	4.2
- Exploration Expenses	-69.0	-114.7	-39.9
- Selling Expenses	-5.1	-3.5	45.7
EBITDA	324.5	486.3	-33.3
EBITDA Margin	47.9%	52.5%	

A key indicator of the Group's financial performance is EBITDA, which is calculated as gross profit plus depreciation, less administrative, selling and exploration expenses. In the first half of 2014, this indicator decreased by 33.3% to US$324.5 million as a result of the adverse effect of the lower gross profit which was partially mitigated by lower exploration expenses. Likewise, EBITDA margin declined from 52.5% in the first half 2013 to 47.9% in the same period of 2014.

Silverstream revaluation effects

The Silverstream contract is accounted for as a derivative financial instrument carried at fair value. In the first half of 2014, the revaluation of the Silverstream contract generated a US$47.3 million non-cash gain as a result of higher forward silver prices, lower interest rates (LIBOR) and higher silver ounces sold over the period. This increased the accumulated non-cash revaluation gains that have been recognised in the income statement since 2008 to US$482.1 million; whilst cumulative cash received and receivable from the Silverstream contract totalled US$442.7 million.

It is expected that the Group would record further unrealised gains or losses in the income statement in accordance with the cyclical behaviour of the silver price or changes in the assumptions used when valuing this contract. Further information related to the Silverstream contract is provided in the Balance Sheet section below and in notes 10 and 20 to the Consolidated Financial Statements.

Net finance costs

In the first half 2014, net finance costs totalled US$24.5 million, compared with the US$3.7 million expense recorded in the same period 2013. The increase was explained by the interest accrued as a result of the debt issuance of US$800 million of 5.500% Senior Notes.

Foreign exchange

In the first half of 2014, a foreign exchange gain of US$2.0 million was recorded in the income statement, which resulted from the slight revaluation of the Mexican peso against the US dollar at the end of the period and benefitted the value of peso-denominated net assets when converted to US dollars. This gain contrasted against the foreign exchange loss of US$5.3 million recognised in the first half 2013.

Taxation

Income tax expense declined by 20.4% to US$58.1 million as a result of lower profits generated in the first half 2014. The effective tax rate, excluding mining rights, was 27.9% which was slightly below the 30% statutory tax rate. The factors that have reduced this rate from the statutory 30% include principally the effects of foreign exchange and inflationary adjustments.

Including the effect of new mining rights, the effective tax rate was 34.2%.

Profit for the period

Profit for the period accounted for US$137.1 million, a 22.5% decrease when compared to the same period of 2013 as a result of the factors discussed above. Profits due to non-controlling interests decreased by 78.3% to US$7.0 million in the first half 2014 mainly as a result of the lower profits generated at Herradura, partially offset by Noche Buena. Profit attributable to equity shareholders of the Group decreased by 10.1% to US$130.1 million in the first half of 2014.

Excluding the effects of the Silverstream valuation, profit for the period decreased by 59.6% to US$104.0 million in the first six months of 2014, whilst profit attributable to equity shareholders of the Group, declined by 57.0% to US$97.0 million.

Cash Flow

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

Cash Flow Key Items
Six months ended 30 June
(in millions of US$)

	H1 14	H1 13	(US $)	(%)
Cash generated by operations before changes in working capital	336.7	496.4	-159.7	-32.2
Decrease in working capital	-71.5	-53.0	-18.5	34.9
Taxes and Employee Profit Sharing paid	-110.5	-254.5	144.0	-56.6
Net cash from operating activities	154.7	188.9	-34.2	-18.1
Silverstream contract	31.4	37.3	-5.9	-15.8
Purchase of property, plant & equipment	-212.0	-324.1	112.1	-34.6
Dividends paid	-50.1	-304.1	254.0	-83.5
Interest paid on interest-bearing loans	-23.1	-	-23.1	-100.0
Issue of share capital	-	346.4	-346.4	N/A
Decrease in cash during the period before foreign exchange differences	-85.9	-43.8	-42.1	96.1
Cash, cash equivalents and short term investments[1] at 30 June	1,164.3	570.8	593.5	104.0

During the first half 2014, cash generated by operations before changes in working capital decreased by 32.2% to US$336.7 million mainly as a result of lower profits generated at our mines, except for Noche Buena. In addition, working capital increased by US$71.5 million. The main components affecting working capital were:

- A US$55.4 million increase in trade and other receivables which resulted mainly from an increase in the volume of dore sold to Met-Mex in the last three months of the period.

[1] As disclosed in the Interim Consolidated Cash Flow Statement, cash and cash equivalents at 30 June totalled US$414.3 million. Short-term investments amounted to US$750.0 million.

- An increase of US$56.9 million in ore inventories at the Herradura and Noche Buena mines.
- Trade and other payables to suppliers rose by US$36.9 million.

Taxes and employee profit sharing paid of US$110.5 million, decreased by 56.6% over the first half 2013 due to lower profits generated.

As a result of the aforementioned factors, net cash from operating activities for the first six months of 2014 decreased by 18.1% to US$154.7 million.

In addition to cash generated by operations, the Group received proceeds totalling US$40.9 million mainly as a result of: i) the US$31.4 million proceeds from the Silverstream Contract; ii) US$5.3 million from the sale of property, plant and equipment; and others US$4.2 million.

In the first half of 2014, the Group invested US$750.0 million in instruments entered into for fixed periods no longer than four months that do not have an option for an early withdrawal. These instruments earn interest at fixed rates.

The Group purchased property plant and equipment for a total of US$212.0 million, a 34.6% decrease compared to the first half 2013. Capital expenditure for the first six months of 2014 are further described below:

Purchase of property, plant and equipment		
(US$ millions)		
	H114	
Herradura mine	30.9	Construction of dynamic leaching plant and purchase of components for mobile equipment
Saucito mine	67.6	Development works and purchase of in-mine equipment. Expansion of Saucito (Saucito II).
Ciénega mine	18.5	Development works and construction of facilities for employees.
Fresnillo mine	28.4	Purchase of components for mobile equipment and automatisation of the sampling and smelting area.
Noche Buena	13.6	Construction of leaching pads and stripping activities.
San Julián	47.6	Construction of ramps and purchase of equipment.
Juanicipio project	3.6	Exploration expenses.
Bermejal	0.3	Acquisition of trucks and loaders to lease to Herradura and Noche Buena.
Other	1.5	Exploraciones Mineras Parreña and SAFSA.
Total Purchase of property, plant and equip.	212.0	

Dividends paid to shareholders in the first half 2014 totalled US$50.1 million as a result of the special and one-off dividend of 6.8 US cents per share paid in May 2014. Other use of funds was the US$19.4 million net interest paid in the first half of 2014.

The sources and uses of funds described above resulted in a net decrease of US$85.9 million in short term funds, which combined with the US$1,251.7 million balance at the beginning of the year and the adverse effect of the exchange rate (US$1.5 million), resulted in short term funds of US$1,164.3 million as at 30 June 2014.

Going concern

After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. In making this assessment they have considered the Company and Group budget, the cashflow forecasts for the period to December 2015 including exploration and capital expenditure plans and sensitivities around those plans. They have also considered the sensitivities of the cashflow forecasts to movements in metal prices. The Company has considerable financial resources, negligible liquidity risk and is operating within a sector that is experiencing ongoing demand for its products. The Directors therefore have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Balance Sheet

Fresnillo plc maintained its solid financial position. Short term funds as of 30 June 2014 totalled US$1,164.3 million, which decreased by 7.0% when compared to the year-end 2013 cash and cash equivalents position of US$1,251.7 million, but increased by 104% when compared to the cash and cash equivalents position as of 30 June 2013, due mainly to the US$800 million bond issue.

Trade and other receivables increased to US$327.9 million mainly as a result of higher recoverable taxes and increased volumes of gold sold to Met-Mex in the last months of the first half 2014.

In the first six months of 2014, inventories accounted for US$265.0 million, a 27.3% increase over the 2013 year-end figure, reflecting mainly the higher gold inventories deposited on the leaching pads of Herradura and Noche Buena.

The change in the value of the Silverstream derivative from US$372.8 million at the beginning of the year to US$389.4 million as of 30 June 2014 reflects proceeds of US$30.8 million, (US$23.3 million in cash received in respect of the period and US$7.5 million receivable) and the revaluation effects of US$47.3 million in the Group's income statement.

The net book value of property, plant and equipment was US$1,903.4 million at 30 June 2014, an increase of 3.6% over the US$1,838.1 at 31 December 2013. The US$65.3 million increase is explained by the addition of the Dynamic Leaching Plant to the asset base, development works at the underground mines, purchase of in-mine equipment, additional pads constructed at Noche Buena and San Julián project.

Fresnillo plc's total equity for the first half of 2014 was US$2,795.5 million, an increase of 4.6% when compared to the figure at the beginning of the year, which reflected retained earnings from the previous year.

Dividends

The Board of Directors has declared a special dividend of 5.0 US cents per share totalling US$36.8 million which will be paid on 11 September 2014 to shareholders on the register on 15 August 2014. This decision was made after a comprehensive review of the Company's and Group's financial situation, assuring that the group is well placed to meet its current and future financial requirements, including its development and exploration projects. Additionally, when making its recommendation, management took into consideration that both gold and silver prices have sustained good levels and that cost inflation has been contained, enabling the company to continue to generate healthy profit margins and good levels of cash flow.

Fresnillo’s existing dividend policy remains in place, which takes into account the profitability of the business and underlying growth in earnings of the group, as well as its capital requirements and cash flows whilst maintaining an appropriate level of dividend cover. To reiterate the policy, a total dividend of between 33 and 50 percent of profit after tax is paid out each year in the approximate proportion of one-third to be paid as an interim dividend, two-thirds to be paid as a final dividend.

The special dividend will be paid in UK pounds sterling to shareholders, unless a shareholder elects to receive dividends in US dollars. The special dividend will be paid in UK pounds sterling with the dividend being converted into UK pounds sterling on or around 18 August 2014.

Risks and uncertainties

In the first half of 2014, the Board and the Executive Committee continued to monitor Fresnillo plc’s principal risks as part of the operation of the risk management framework and execution towards achieving the long-term objectives. During this period, we have continued to formally gather and report on Key Risk Indicators (KRIs) for our principal risks in order to detect and analyse trends. The KRIs monitored, are now presented quarterly to the Executive Committee and Audit Committee. The Board and Executive Committee have incorporated the appraisal of the risk management performance in the 2013 annual employee performance reviews.

Fresnillo plc currently monitors ten principal risks and have not changed from those set out in the Strategy section of the Strategic Report of the Annual Report for the year ended 31 December 2013. A copy of the Fresnillo plc’s 2013 Annual Report is available at the Company's website at www.fresnilloplc.com.

The principal risks are shown below:

- *Impact of global macroeconomic developments*
- *Access to land*
- *Security*
- *Potential actions by the Government (e.g. taxes, more stringent regulations)*
- *Public perception against mining*
- *Projects (performance risk)*
- *Safety*
- *Exploration*
- *Human Resources*
- *Environmental incidents*

Directors

The names and functions of the current directors and senior management team of Fresnillo plc are shown on the Group's website: www.fresnilloplc.com

Statement of directors' responsibilities

The Directors of the Company hereby confirm that to the best of their knowledge:

(a) the condensed set of financial statements has been prepared in accordance with IAS 34 as adopted by the European Union and gives a true and fair view of the assets, liabilities, financial position and profit and loss account of the Fresnillo Group as required by DTR 4.2.4; and

(b) the interim management report includes a fair review of the information required by DTR 4.2.7 (being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principle risks and uncertainties for the remaining six months of the year) and DTR 4.2.8 (being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period and changes since the last annual report).

On behalf of the board of directors of Fresnillo plc.

Octavio Alvídrez
Chief Executive Officer

INDEPENDENT REVIEW REPORT TO FRESNILLO PLC

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2014 which comprises the interim consolidated income statement, the interim consolidated statement of comprehensive income, the interim consolidated balance sheet, the interim consolidated cash flow statement, the interim consolidated statement of changes in equity and the related notes 1 to 20. We have read the other information contained in the half yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

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

Directors' Responsibilities

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

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

Our Responsibility

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

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2014 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Ernst & Young LLP

London

4 August 2014

Interim Consolidated Income Statement

	Notes	For the six months ended 30 June					
		2014 (Unaudited)			2013 (Unaudited)		
		(in thousands of US dollars)					
		Pre-Silverstream revaluation effect	Silverstream revaluation effect	Total	Pre-Silverstream revaluation effect	Silverstream revaluation effect	Total
Continuing operations:							
Revenues	4	677,075		677,075	925,896		925,896
Cost of sales	5	(381,986)		(381,986)	(407,017)		(407,017)
Gross profit		**295,089**		**295,089**	**518,879**		**518,879**
Administrative expenses		(29,840)		(29,840)	(28,596)		(28,596)
Exploration expenses		(68,971)		(68,971)	(114,675)		(114,675)
Selling expenses		(5,070)		(5,070)	(3,543)		(3,543)
Other operating income		663		663	3,300		3,300
Other operating expenses		(8,449)		(8,449)	(4,084)		(4,084)
Profit from continuing operations before net finance costs and income tax		**183,422**		**183,422**	**371,281**		**371,281**
Finance income	6	3,767		3,767	2,836		2,836
Finance costs	6	(28,253)		(28,253)	(6,519)		(6,519)
Revaluation effects of Silverstream contract	10	-	47,298	47,298	-	(112,496)	(112,496)
Foreign exchange gain/(loss)		2,008		2,008	(5,311)		(5,311)
Profit from continuing operations before income tax		**160,944**	**47,298**	**208,242**	**362,287**	**(112,496)**	**249,791**
Corporate income tax	7	(43,888)	(14,189)	(58,077)	(104,684)	31,690	(72,994)
Special mining right	7	(13,082)		(13,082)	-		-
Income tax expense	7	(56,970)	(14,189)	(71,159)	(104,684)	31,690	(72,994)
Profit for the period from continuing operations		**103,974**	**33,109**	**137,083**	**257,603**	**(80,806)**	**176,797**
Attributable to:							
Equity shareholders of the Company		97,022	33,109	130,131	225,556	(80,806)	144,750
Non-controlling interests		6,952		6,952	32,047		32,047
		103,974	**33,109**	**137,083**	**257,603**	**(80,806)**	**176,797**
Earnings per share: (US$)							
Basic and diluted earnings per ordinary share from continuing operations	8	-		0.177	-		0.200
Adjusted earnings per share: (US$)							
Adjusted basic and diluted earnings per ordinary share from continuing operations	8	0.132		-	0.311		-

Interim Consolidated Statement of Comprehensive Income

	For the six months ended 30 June	
	2014	*2013*
	(Unaudited)	*(Unaudited)*
	(in thousands of US dollars)	
Profit for the period	**137,083**	**176,797**
Other comprehensive income/(expense)		
Items to be reclassified to profit or loss in subsequent periods:		
Net loss on cash flow hedges recycled to income statement	(397)	(3,770)
Income tax effect	119	1,131
Net unrealised gain on cash flow hedges	4,154	2,674
Income tax effect	(1,246)	(802)
Net effect of cash flow hedges	**2,630**	**(767)**
Fair value gain / (loss) on available-for-sale financial assets	46,139	(57,604)
Income tax effect	(13,842)	16,129
Net effect of available- for- sale financial assets	**32,297**	**(41,475)**
Foreign currency translation	**12**	**136**
Net other comprehensive gain / (loss) to be reclassified to profit or loss in subsequent periods	**34,939**	**(42,106)**
Items not to be reclassified to profit or loss in subsequent periods:		
Gain on cash flow hedges reclassified to the value of other assets	-	218
Income tax effect	-	(65)
Net other comprehensive income not being reclassified to profit or loss in subsequent periods	**-**	**153**
Other comprehensive gain / (loss), net of tax	**34,939**	**(41,953)**
Total comprehensive income, net of tax	**172,022**	**134,844**
Attributable to:		
Equity shareholders of the Company	165,070	102,797
Non-controlling interests	6,952	32,047
	172,022	**134,844**

Interim Consolidated Balance Sheet

	Notes	*As of 30 June 2014 (Unaudited)*	*As of 31 December 2013 (Audited)*
		(in thousands of US dollars)	
ASSETS			
Non-current assets			
Property, plant and equipment	9	1,903,402	1,838,124
Available-for-sale financial assets		109,384	63,245
Silverstream contract	10	347,208	334,083
Deferred tax asset		70,807	56,209
Other receivables	11	6,867	14,910
Other assets		2,412	4,031
		2,440,080	2,310,602
Current assets			
Inventories		265,013	208,141
Trade and other receivables	11	244,102	188,057
Income tax recoverable		83,811	79,410
Prepayments		3,026	5,330
Derivative financial instruments		4,378	2,057
Silverstream contract	10	42,168	38,763
Short-term investments	12	750,000	-
Cash and cash equivalents	13	414,276	1,251,694
		1,806,774	1,773,452
Total assets		**4,246,854**	**4,084,054**
EQUITY AND LIABILITIES			
Capital and reserves attributable to shareholders of the Company			
Share capital		368,546	368,546
Share premium		1,153,817	1,153,817
Capital reserve		(526,910)	(526,910)
Net unrealised gains on cash flow hedges		3,351	721
Net unrealised gains on available-for-sale financial assets		40,142	7,845
Foreign currency translation reserve		(351)	(363)
Retained earnings		1,349,803	1,269,781
		2,388,398	2,273,437
Non-controlling interests		407,114	398,534
Total equity	14	**2,795,512**	**2,671,971**
Non-current liabilities			
Interest-bearing loans		795,331	795,306
Provision for mine closure cost		130,679	127,008
Provision for pensions and other post-employment benefit plans		12,347	11,475
Deferred tax liability		351,786	334,181
		1,290,143	1,267,970

Current liabilities		
Trade and other payables	110,408	81,905
Loans from related party	41,451	40,920
Derivative financial instruments	181	848
Employee profit sharing	9,159	20,440
	161,199	144,113
Total liabilities	**1,451,342**	**1,412,083**
Total equity and liabilities	**4,246,854**	**4,084,054**

Interim Consolidated Cash Flow Statement

	Notes	For the six months ended 30 June 2014 (Unaudited)	2013 (Unaudited)
		(in thousands of US dollars)	
Net cash from operating activities	19	**154,660**	**188,890**
Cash flows from investing activities			
Purchase of property, plant and equipment		(211,956)	(324,135)
Proceeds from the sale of property, plant and equipment and other assets		5,259	6,530
Loans granted to contractors		-	(3,000)
Repayments of loans granted to contractors		2,585	5,876
Silverstream contract	10	31,408	37,279
Short-term investments		(750,000)	-
Interest received		3,767	2,772
Other payments		-	(1,095)
Net cash used in investing activities		**(918,937)**	**(275,773)**
Cash flows from financing activities			
Capital contribution		1,628	1,188
Dividends paid to shareholders of the Company		(50,108)	(304,120)
Issue of share capital	14	-	346,397
Transaction cost associated with the issue of share capital		-	(272)
Interest paid on interest-bearing loans		(23,134)	-
Other interest paid		(15)	(93)
Net cash used in financing activities		**(71,629)**	**43,100**
Net decrease in cash and cash equivalents during the period		(835,906)	(43,783)
Effect of exchange rate on cash and cash equivalents		(1,512)	839
Cash and cash equivalents at 1 January	13	1,251,694	613,773
Cash and cash equivalents at 30 June	13	**414,276**	**570,829**

Interim Consolidated Statement of Changes in Equity

	Notes	Share capital	Share premium	Capital reserve	Net unrealised gains on revaluation of cash flow hedges	Net unrealised gain on available-for-sale financial assets	Foreign currency translation reserve	Retained earnings	Total	Non-controlling interests	Total equity
						(in thousands of US dollars)					
Balance at 1 January 2013 *(Audited)*		**358,680**	**818,597**	**(526,910)**	**684**	**52,573**	**(542)**	**1,536,075**	**2.239,157**	**373,082**	**2,612,239**
Profit for the period		-	-	-	-	-	-	144,750	144,750	32,047	176,797
Other comprehensive income, net of tax		-	-	-	(614)	(41,475)	136	-	(41,953)	-	(41,953)
Total comprehensive income for the period		-	-	-	(614)	(41,475)	136	144,750	102,797	32,047	134,844
Capital contribution		-	-	-	-	-	-	-	-	1,188	1,188
Issue of share capital	14	9,866	335,220	-	-	-	-	-	345,087	-	345,087
Dividends paid	15	-	-	-	-	-	-	(304,076)	(304,076)	-	(304,076)
Balance at 30 June 2013 *(Unaudited)*		**368,546**	**1,153,817**	**(526,910)**	**70**	**11,098**	**(406)**	**1,376,749**	**2,382,964**	**406,317**	**2,789,281**
Balance at 1 January 2014 (*Audited)*		**368,546**	**1,153,817**	**(526,910)**	**721**	**7,845**	**(363)**	**1,269,781**	**2,273,437**	**398,534**	**2,671,971**
Profit for the period		-	-	-	-	-	-	130,131	130,131	6,952	137,083
Other comprehensive income, net of tax		-	-	-	2,630	32,297	12	-	34,939	-	34,939
Total comprehensive income for the period		-	-	-	2,630	32,297	12	130,131	165,070	6,952	172,022
Capital contribution		-	-	-	-	-	-	-	-	1,628	1,628
Dividends paid	15	-	-	-	-	-	-	(50,109)	(50,109)	-	(50,109)
Balance at 30 June 2014 *(Unaudited)*		**368,546**	**1,153,817**	**(526,910)**	**3,351**	**40,142**	**(351)**	**1,349,803**	**2,388,398**	**407,114**	**2,795,512**

Notes to the Interim Condensed Consolidated Financial Statements

1 Corporate Information

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

Industrias Peñoles S.A.B. de C.V. ("Peñoles") currently owns 75 percent of the shares of the Company and the ultimate controlling party of the Company is the Baillères family, whose beneficial interest is held through Peñoles. 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 18.

The interim condensed consolidated financial statements of the Group for the six months ended 30 June 2014 ("interim consolidated financial statements"), were authorised for issue by the Board of Directors of Fresnillo plc on 4 August 2014.

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 statement of compliance

The interim consolidated financial statements of the Group for the six months ended 30 June 2014 have been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the European Union. They do not include all the information required for full annual financial statements for the Group, and therefore, should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2013 as published in the Annual Report 2013.

These interim consolidated financial statements do not constitute statutory accounts as defined in section 435 of the Companies Act 2006. The financial information for the full year is based on the statutory accounts for the financial year ended 31 December 2013. A copy of the statutory accounts for that year, which were prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union up to 31 December 2013, has been delivered to the Register of Companies. The auditors' report in accordance with Chapter 3 of Part 16 of the Companies Act 2006 in relation to those accounts was unqualified.

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

The interim consolidated financial statements are presented in dollars of the United States of America (US dollars or US$) and all values are rounded to the nearest thousand ($000) except where otherwise indicated.

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

(b) Basis of consolidation

The interim consolidated financial statements set out the Group's financial position as of 30 June 2014 and 31 December 2013, and its operations and cash flows for the periods ended 30 June 2014 and 30 June 2013.

The basis of consolidation adopted in the preparation of the interim consolidated financial statements is consistent with that applied in the preparation of the consolidated financial statements for the year ended 31 December 2013. As described in note 2 (c), the Group adopted at 1 January 2014, the new IFRS 10

"*Consolidated financial statements*", which require management to exercise significant judgement to determine which subsidiaries are controlled, and therefore, are required to be consolidated. Entities that constitute the Group are those investees controlled by the Group regardless of the number of shares owned by the Group. The Group consolidates investees in which it is exposed, or has rights, to variable returns from its involvement, and has the ability to affect those returns through its power over the investee.

2 Significant accounting policies continued

(c) Changes in accounting policies and presentation rules

The accounting policies adopted in the preparation of the consolidated interim financial statements are consistent with those applied in the preparation of the consolidated financial statements for the year ended 31 December 2013, except for the adoption of new standards and interpretations effective as of 1 January 2014, the amendment to the cash and cash equivalents accounting policy and the new accounting policy for short-term investments.

Amendments to the cash and cash equivalents accounting policy

In light of the Group placing funds in new types of instruments and short-term deposits, as compared to prior period, the Group has amended its accounting policy for cash and cash equivalents as follows:

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 and have maturities of between one day and four months. Short-term deposits earn interest at the respective short-term deposit rates.

For the purposes of the cash flow statement, cash and cash equivalents as defined above are shown net of outstanding bank overdrafts.

Short-term investments accounting policy

Where the Group invests in short-term instruments which are either not readily convertible into known amounts of cash or are subject to risk of changes in value that are not insignificant, these instruments are classified as short-term investments. Short-term investments are classified as loans and receivables.

The Group's accounting policy for financial instruments classified as loans and receivable has not changed and was presented in the Group's Annual Report 2013.

New standards and interpretations as adopted by the Group

The Group has applied, for the first time, certain standards and interpretations. These include the new IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Involvement with Other Entities and IFRIC 21 Levies. As required by IAS 34, the nature and the effect of these changes are disclosed below.

– **IFRS 10 Consolidated Financial Statements**: The standard replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 require management to exercise significant judgement to determine which entities are controlled, and therefore, are required to be consolidated being those investees in which the Group is exposed, or has rights, to variable returns from its involvement, and has the ability to affect those returns through its power over the investee. This Group adopted this standard as at 1 January 2014, as adopted by the European Union. The adoption of this standard did not have any impact on the financial position and performance of the Group.

– **IFRS 12 Disclosure of Involvement with Other Entities:** IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures will also be required. This standard is effective for annual periods beginning on or after 1 January 2014 with the adoption of IFRS 10, IFRS 11, IAS 27 (2012) and IAS 28 (2012). The adoption of this standard did not have a significant impact on the financial position and performance of the Group.

- **IFRIC 21 Levies**: In May 2013, the IASB issued IFRIC 21 , an interpretation of IAS 37 – Provisions, Contingent
  Liabilities and Contingent Assets ("IAS 37"), on the accounting for levies imposed by governments. IAS 37 sets out
  criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as
  a result of a past activity or event ("obligating event") described in the relevant legislation that triggers the payment of the levy. IFRIC 21 was effective January 1, 2014.

(c) Changes in accounting policies and presentation rules continued

The Group recognises a levy in respect of the Extraordinary Mining Right on a progressively basis as sales of gold and silver are recognised during the fiscal year. The Extraordinary Mining Right consists of a 0.5% rate, applicable to the owners of mining titles, over its sales of gold and silver obtained during a fiscal year. The payment must be calculated over the total sales relating to 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. As at 30 June 2014, the Group has recognised a liability of US$1.8 million in this respect.

There was no impact on prior year comparative figures as a result of the application of IFRIC 21.

The IASB and IFRIC have issued other amendments resulting from Improvements to IFRSs that management considers do not have any impact on the accounting policies, financial position or performance of the Group.

The Group has not early adopted any standard, interpretation or amendment that was issued but is not yet effective.

3 Segment reporting

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

At 30 June 2014 the Group has six reportable operating segments which consist of the Group's six producing mines as follows:

- The Fresnillo mine, located in the State of Zacatecas, the world's largest primary silver mine;
- The Saucito mine, located in the State of Zacatecas, an underground silver mine;
- The Cienega mine, located in the State of Durango, an underground gold mine; including the San Ramon satellite mine;
- The Herradura mine, located in the State of Sonora, a surface gold mine;
- The Soledad-Dipolos mine, located in the State of Sonora, a surface gold mine; and
- The Noche Buena mine, located in State of Sonora, a surface 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.

All revenues were derived from customers based in Mexico.

The exploration services provided by the exploration companies and projects under development have been aggregated into the "Other" segment below.

Management monitors the results of its operating segments separately for the purpose of performance assessment and making decisions about resource allocation. Segment performance is evaluated without taking into account certain adjustments included in Revenue as reported in the interim consolidated income 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 interim consolidated income statement. Other income and expenses included in the interim consolidated income statement are not allocated to operating segments. Transactions between reportable segments are accounted for on an arm's length basis similar to transactions with third parties.

3 Segment reporting continued

Operating segments

The following tables present revenue and profit information regarding the Group's operating segments for the six months ended 30 June 2014 and 2013, respectively.

Six months ended 30 June 2014									
US$ thousands	**Fresnillo**	**Herradura**	**Cienega**	**Soledad-Dipolos (2)**	**Saucito**	**Noche Buena**	**Other (1)**	**Adjustments and eliminations**	**Total**
Revenues:									
Third party	209,050	139,972	100,717	-	143,858	83,469	-	-	677,066
Hedging	-	-	-	-	-	-	-	9	9
Inter-Segment	-	-	-	-	-	-	24,797	(24,797)	-
Segment revenues	**209,050**	**139,972**	**100,717**	**-**	**143,858**	**83,469**	**24,797**	**(24,288)**	**677,075**
Segment Profit	**149,401**	**80,203**	**56,099**	**(384)**	**104,551**	**28,825**	**20,954**	**(2,765)**	**436,884**
Hedging	-	-	-	-	-	-	-	-	(240)
Depreciation	-	-	-	-	-	-	-	-	(132,929)
Employee profit sharing	-	-	-	-	-	-	-		(8,626)
Gross profit as per the income statement	-	-	-	-	-	-	-	-	**295,089**

(1) Other includes exploration services provided by the exploration companies.
(2) See note 17 as a reference for the operations at Soledad-Dipolos.

Six months ended 30 June 2013									
US$ thousands	**Fresnillo**	**Herradura**	**Cienega**	**Soledad-Dipolos (2)**	**Saucito**	**Noche Buena**	**Other (1)**	**Adjustments and eliminations**	**Total**
Revenues:									
Third party	268,387	243,233	133,869	58,181	152,089	70,021	-	-	925,780
Hedging	-	-	-	-	-	-	-	116	116
Inter-Segment	-	-	-	-	-	-	33,291	(33,291)	-
Segment revenues	**268,387**	**243,233**	**133,869**	**58,181**	**152,089**	**70,021**	**33,291**	**(33,175)**	**925,896**
Segment Profit	**206,851**	**153,687**	**88,868**	**29,828**	**118,453**	**26,402**	**29,797**	**(15,989)**	**637,897**
Hedging	-	-	-	-	-	-	-	-	4,055
Depreciation	-	-	-	-	-	-	-	-	(114,261)
Employee profit sharing	-	-	-	-	-	-	-		(8,812)
Gross profit as per the income	-	-	-	-	-	-	-	-	**518,879**

statement									

(1) Other includes exploration services provided by the exploration companies.
(2) See note 17 as a reference for the operations at Soledad-Dipolos.

4 Revenues

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

(a) Revenues by product sold

	Six months ended 30 June	
	2014	*2013*
	(in thousands of US dollars)	
Lead concentrates (containing silver, gold, lead and by-products)	389,025	481,431
Doré and slag (containing gold, silver and by-products)	223,441	371,434
Zinc concentrates (containing zinc, silver and by-products)	32,307	31,354
Precipitates (containing gold and silver)	32,302	41,677
	677,075	**925,896**

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

(b) 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:

	Six months ended 30 June	
	2014	*2013*
	(in thousands of US dollars)	
Silver	373,304	443,935
Gold	331,470	496,697
Zinc	23,748	18,931
Lead	21,841	22,811
Value of metal content in products sold	750,363	982,374
Adjustment for treatment and refining charges	(73,288)	(56,478)
Total revenues	**677,075**	**925,896**

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

	Six months ended 30 June	
	2014	*2013*
	(in US dollars per ounce)	
Gold	1,302.07	1,471.67
Silver	20.26	24.67

5 Cost of sales

	Six months ended 30 June 2014	2013
	(in thousands of US dollars)	
Depreciation and amortisation (notes 9)	133,326	114,261
Personnel expenses(1)	41,226	42,110
Maintenance and repairs	38,908	41,048
Operating materials	61,247	68,461
Energy	57,772	57,853
Contractors	91,086	120,416
Mining rights and contributions	4,931	4,133
Freight	5,133	5,312
Insurance	3,829	2,687
Other	8,774	5,777
Cost of production	446,232	462,058
Loss / (gain) on foreign currency hedges	240	(4,055)
Change in work in progress and finished goods (ore inventories)	(64,486)	(50,986)
Cost of sales	**381,986**	**407,017**

(1) Personnel expenses include employees´ profit sharing of US$8.6 million for the six months ended 30 June 2014 (six months ended 30 June 2013: US$8.8 million).

6 Finance income and finance costs

	Six months ended 30 June 2014	2013
	(in thousands of US dollars)	
Finance income:		
Interest on short term deposits	2,626	1,831
Mark to market movements on currency derivatives	-	48
Other	1,141	957
	3,767	**2,836**
Finance costs:		
Interest on interest-bearing loans	23,269	-
Unwinding of discount on provisions	3,420	4,193
Mark to market movements on currency derivatives	751	2,216
Other	813	110
	28,253	**6,519**

7 Income tax expense

	Six months ended 30 June 2014	2013
	(in thousands of US dollars)	
Current corporate income tax:		
Current corporate income tax charge	78,389	123,549
Amounts underprovided in previous years	4,715	1,756
	83,104	125,305
Deferred income tax related to corporate income tax:		
Origination and reversal of temporary differences	(39,216)	(20,621)

	Six months ended 30 June	
	2014	*2013*
	(in thousands of US dollars)	
Revaluation effects of Silverstream contract	14,189	(31,690)
	(25,027)	(52,311)
Corporate income tax	**58,077**	**72,994**
Current special mining right:		
Current special mining right charge [1]	-	-
	-	-
Deferred income tax related to special mining right:		
Origination and reversal of temporary differences	13,082	-
Special mining right	**13,082**	**-**
Income tax expense as reported in the income statement	**71,159**	**72,994**

(1) Without regard to credits permitted under the special mining right regime, the current special mining right charge would have been US$3.9 million. However, the special mining right allows as a credit the payment of mining concession rights up to the amount of special mining right payable. In the six months ended 30 June 2014, the Group credited US$3.9 million of mining concession rights against the special mining right such that the charge for the six months ended 30 June 2014 was nil.

The total mining concession rights paid during the year were US$8.3 and have been recognised in the income statement within cost of sales and exploration expenses. Mining concessions rights paid in excess of the special mining right cannot be credited to special mining rights in future fiscal periods, and therefore, no deferred tax asset has been recognised in relation to the excess.

The effective tax rate for the corporate income tax, for the six months ended 30 June 2014 is 27.89% (six months ended 30 June 2013: 29.22%). The factors that have reduced this rate from the statutory rate of 30% include principally the effects of foreign exchange and inflationary adjustments.

The effective income tax rate, including temporary differences of the deferred income tax related to the special mining right is 34.17% at 30 June 2014.

8 Earnings per share

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

The Company has no dilutive potential ordinary shares.

As of 30 June 2014 and 30 June 2013, earnings per share have been calculated as follows:

	Six months ended 30 June	
	2014	*2013*
Earnings:		
Profit from continuing operations attributable to equity holders of the Company (*in thousands of US dollars*)	130,131	144,750
Adjusted profit from continuing operations attributable to equity holders of the Company (*in thousands of US dollars*)	97,022	225,556

Adjusted profit is profit as disclosed in the Interim Consolidated Income Statement adjusted to exclude revaluation effects of the Silverstream contract of US$47.3 million gain (US$33.1 million net of tax) (2013: US$112.5 million loss and US$80.8 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.

	Six months ended 30 June	
	2014	*2013*
Number of shares:		
Weighted average number of ordinary shares in issue ('000)	736,894	724,615

	Six months ended 30 June	
	2014	*2013*
Earnings per share:		
Basic and diluted earnings per ordinary share from continuing operations (US$)	0.177	0.200
Adjusted basic and diluted earnings per ordinary share from continuing operations (US$)	0.132	0.311

9 Property, plant and equipment

The significant changes in property, plant and equipment during the six months ended 30 June 2014 are additions of US$206 million (six months ended 30 June 2013: US$330 million) and depreciation and amortisation of US$133.3 million (six months ended 30 June 2013: US$114.3 million). Additions consist of mine development works at the underground mines, stripping activity asset at the surface mines, mine equipment such as scoops, trams, trucks, optimization of milling facilities and installation of certain riddles, the purchase of land, and the construction of employee camps at certain mine sites. In the six months ended 30 June 2014, the Group wrote off property, plant and equipment of US$4.5 million.

10 Silverstream contract

On 31 December 2007, the Group entered into an agreement with Peñoles through which it is entitled to receive the proceeds received by the Peñoles Group in respect of the refined silver sold from the Sabinas Mine ("Sabinas"), a base metals mine owned and operated by the Peñoles Group, for an upfront payment of US$350 million. In addition, a per ounce cash payment of $2.00 in years 1 to 5 and $5.00 thereafter (subject to an inflationary adjustment commencing on 31 December 2013) is payable to Peñoles. 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.

The Silverstream contract has been recorded as a derivative financial instrument at fair value and classified within non-current and current assets as appropriate. 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 six months ended 30 June 2014 total proceeds received in cash were US$31.4 million (six months ended 30 June 2013: US$37.3 million), of which US$8.1 million was in respect of proceeds receivable as at 31 December 2013 (six months ended 30 June 2013: US$11.0 million). Cash received in respect of the period of US$23.3 million (six months ended 30 June 2013: US$26.3 million) corresponds to 2.1 million ounces of payable silver (six months ended 30 June 2013: 1.4 million ounces). As at 30 June 2014, a further US$7.5 million (30 June 2013: US$6.0 million) of cash corresponding to 473,272 ounces of silver is due (30 June 2013: 410,730 ounces).

In the six months ended 30 June 2014, the most significant drivers of the US$47.3 million unrealised gain taken to income (six months ended 30 June 2013: loss of US$112.5 million) were the updating of assumptions utilised to value the Silverstream contract, most significantly the forward price of silver which was higher than the observed forward price at 31 December 2013, the decrease of the reference discount rate (libor) and the difference between payments received during the six months ended 30 June 2014 and estimated payments in the valuation model at 31 December 2013.

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

	2014	*2013*
	(in thousands of US dollars)	
Balance at 1 January:	372,846	487,779
Cash received in respect of the period	(23,281)	(26,298)
Cash receivable	(7,487)	(6,021)
Re-measurement gains / (losses) recognised in profit or loss	47,298	(112,496)
Balance at 30 June	**389,376**	**342,964**
Less - Current portion	42,168	41,066
Non-current portion	347,208	301,898

11 Trade and other receivables

	As at 30 June 2014	As at 31 December 2013
	(in thousands of US dollars)	
Trade receivables from related parties (note 18)	127,940	96,641
Value added tax receivable	66,663	47,377
Advances to suppliers and contractors	8,574	7,885
Other receivables from related parties (note 18)	7,514	8,152
Loans granted to contractors	1,514	2,639
Other receivables arising on the sale of fixed assets	11,489	10,163
Other receivables	21,072	15,862
	244,766	188,719
Provision for impairment of other receivables	(664)	(662)
	244,102	188,057
Other receivables classified as non-current assets :		
Loans granted to contractors	5,554	7,012
Other receivables arising from the sale of fixed assets	1,313	7,898
	6,867	14,910
	250,969	**202,967**

12 Short-term investments

	As at 30 June 2014	As at 31 December 2013
	(in thousands of US dollars)	
Fixed-term bank deposits	750,000	-
Short-term investments	**750,000**	**-**

Short-term investments are made for fixed periods no longer than four months (2013: none) and earn interest at fixed rates without an option for early withdrawal.

13 Cash and cash equivalents

	As at 30 June 2014	As at 31 December 2013
	(in thousands of US dollars)	
Cash at bank and on hand	7,838	1,054
Short-term deposits	406,438	1,250,640
Cash and cash equivalents	**414,276**	**1,251,694**

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 four months (2013: one day and three months), depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

14 Equity

Pursuant to the placing of shares announced on 29 April 2013, the Group issued on 3 May 2013, 19,733,430 new ordinary shares at £11.30 (US$17.60) per share for gross proceeds of £222.9 million (US$346.1 million). The placing of shares ensured that Fresnillo plc is compliant with changes to the Ground Rules of the FTSE UK Index Series that require constituents to maintain a minimum free float of 25%. The proceeds of the placing were used for general corporate purposes and the Company's working capital needs.

As a result, the Company's issued ordinary share capital now consists of 736,893,589 (2013: 736,893,589) ordinary shares of US$0.50 each with voting rights. The Company does not hold any ordinary shares in treasury. Therefore, the total number of voting rights in the Company is 736,893,589. There have been no changes to equity during the period ending 30 June 2014.

15 Dividends paid

Dividends declared by the Company are as follows:

	Per share US Cents	Amounts $Million
Six months ended 30 June 2013		
Total dividends paid during the period (1)	42.4	304.1
Six months ended 30 June 2014		
Total dividends paid during the period (2)	6.8	50.1

(1) Final dividend for 2012 approved at the Annual General Meeting on 3 May 2013 and paid on 8 May 2013.
(2) Special dividend for 2013 approved at the Annual General Meeting on 16 May 2014 and paid on 22 May 2014.

16 Commitments

A summary of capital expenditure commitments is as follows:

	As at 30 June 2014	*As at 31 December 2013*
	(in thousands of US dollars)	
Minera Saucito, S.A. de C.V.	61,829	56,597
Minera Penmont, S. de R.L. de C:V.	10,291	16,944
Minera Mexicana La Ciénega, S.A. de C.V.	2,912	4,192
Minera Fresnillo, S.A. de C.V.	134,496	84,604
Minera El Bermejal, S. de R.L. de C.V.	1,610	1,804
Minera Juanicipio, S.A. de C.V	6,326	-
	217,464	**164,141**

17 Contingencies

The contingencies in the Group's annual consolidated financial statements for the year ended 31 December 2013 as published in the 2013 Annual Report, are still applicable as of 30 June 2014, including the El Bajio Ejido conflict. An update of such conflict is described as follows:

- The Agrarian Magistrate has issued a procedural order in execution of his ruling pertaining to the 1,824 hectares which Minera Penmont ("Penmont") delivered before the Agrarian Court in July 2013. In this procedural order, the Magistrate determines, amongst other aspects, that Penmont must remediate the lands to the same state that they were before Penmont's occupation. Penmont conducted mining activities in approximately 300 hectares of such lands. In the opinion of the Company, this procedural order is excessive since such level of remediation was not considered as part of the original agrarian ruling and also because the procedural order appears not to consider the fact that Penmont conducted its activities pursuant to valid mining concessions and environmental impact permits. Penmont has challenged the procedural order before Federal courts and is awaiting resolution of this filing.

- In addition, claimants have also presented other claims against occupation agreements entered into by them with Penmont, covering land parcels separate from the land described above. In such parcels, Penmont has no significant mining operations or specific geological interest. These lands are not considered strategic for Penmont.

- Various claims and counterclaims have been made between the relevant parties. There is significant uncertainty relating to the finalisation and ultimate result relating to these legal proceedings.

18 Related party balances and transactions

The Group had the following related party transactions during the six months ended 30 June 2014 and 30 June 2013 and balances as at 30 June 2014 and 31 December 2013.

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

(a) Related party accounts receivable and payable

	Accounts receivable		*Accounts payable*		*Loans*	
	As at 30 June 2014	*As at 31 December 2013*	*As at 30 June 2014*	*As at 31 December 2013*	*As at 30 June 2014*	*As at 31 December 2013*
	In thousands of US dollars					
Trade:						
Metalúrgica Met-Mex Peñoles, S.A. de C.V.	127,940	96,641	-	-	-	-
Loans:						
Newmont Mining Corporation [1]	-	-	-	-	41,451	40,920
Other:						
Industrias Peñoles, S.A.B. de C.V.	7,487	8,127	-	-	-	-
Other	27	25	5,176	2,542	-	-
Sub-total	135,454	104,793	5,176	2,542	40,920	40,920
Less-Current portion	135,454	104,793	5,176	2,542	40,920	40,920
Non-current portion	-	-	-	-	-	-

[1] Loan received from Newmont bears interest at a fixed rate of 2.58% and has a maturity of one year. Interest payable for the six months ended 30 June 2014 is US$0.5 million (Six months ended 30 June 2013: nil)

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

18 Related party balances and transactions continued

Other balances with related parties:

	As at 30 June 2014	*As at 31 December 2013*
	(in thousands of US dollars)	
Silverstream contract:		
Industrias Peñoles, S.A.B. de C.V.	389,527	372,846

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

(b) Principal transactions with affiliates are as follows:

	Six months ended 30 June	
	2014	*2013*
	(in thousands of US dollars)	
***Income*:**		
Sales[(1)]:		
Met-Mex Peñoles, S.A. de C.V.	677,066	925,780
Other income	558	183
Total income	**677,624**	**925,963**

(1) Figures do not include hedging losses.

	Six months ended 30 June	
	2014	*2013*
	(in thousands of US dollars)	
***Expenses*:**		
Administrative Services:		
Servicios Administrativos Peñoles, S.A. de C.V. [(2)]	19,996	17,981
Servicios de Exploración, S.A. de C.V.	141	2,508
	20,137	20,489
Energy:		
Termoelectrica Peñoles, S. de R.L. de C.V.	15,927	14,986
Operating materials and spare parts:		
Wideco Inc	1,722	3,024
Metalurgica Met-Mex Peñoles, S.A. de C.V.	2,137	1,739
	3,859	4,763
Equipment repairs and administrative services:		
Serviminas, S.A. de C.V.	1,669	2,468
Insurance premiums:		
Grupo Nacional Provincial, S.A.B. de C.V.	2,284	2,285
Interest expense:		
Newmont Mining Corporation	531	-
Other expenses:	3,630	2,486
Total expenses	48,037	47,477

(2) Effective 1 January 2013, a new Service Agreement with Servicios Administrativos Peñoles, S.A. de C.V., ("SAPSA"), a wholly owned Peñoles subsidiary. This Service Agreement comprises administrative and non-administrative services from 1 January 2013 through 31 December 2018, for an annual fee of US$7.4 million and MX$362.8 million.

During the six months ended 30 June 2014, the Company incurred expenses of US$19.9 million under the new above mentioned agreement (US$17.9 million for the six months ended 30 June 2013). Expenses include administrative services of US$14.4 million (US$14.1 million for the six months ended 30 June 2014), exploration services of US$0.06 million (US$0.2 million for the six months ended 30 June 2013) and US$5.4 million that were capitalised (US$3.6 million for six months ended 30 June 2013).

18 Related party balances and transactions continued

(c) Compensation of key management personnel of the Group

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

	Six months ended 30 June	
	2014	*2013*
	(in thousands of US dollars)	
Salaries and bonuses	1,717	1,679
Post-employment pension	72	74
Other benefits	302	215
Total compensation paid to key management personnel	2,091	1,968

19 Notes to the consolidated cash flow statement

	Notes	*Six months ended 30 June*	
		2014	*2013*
		(in thousands of US dollars)	
Reconciliation of profit for the year to net cash generated from operating activities			
Profit for the period		137,083	176,797
Adjustments to reconcile profit for the period to net cash inflows from operating activities:			
Depreciation		132,929	114,261
Employee profit sharing		8,852	9,153
Deferred corporate income tax	7	(25,027)	(52,311)
Corporate income tax expense	7	83,104	125,305
Deferred special mining right	7	13,082	-
(Gain) / loss on the sale of property, plant and equipment and other assets		(63)	532
Other losses		161	252
Loss on write off of property, plant and equipment	9	4,504	-
Net finance costs		23,735	1,490
Foreign exchange loss		4,412	5,738
Difference between pension contributions paid and amounts recognised in the income statement		462	484
Non cash movement on derivatives	6	751	2,192
Changes in fair value of Silverstream	10	(47,298)	112,496
Working capital adjustments			
Increase in trade and other receivables		(55,445)	(9,991)
(Increase) / decrease in prepayments and other assets		3,895	1,081
Increase in inventories		(56,873)	(57,155)
Increase in trade and other payables		36,875	13,056
Cash generated from operations		**265,138**	**443,380**
Income tax paid		(90,176)	(199,159)
Employee profit sharing paid		(20,302)	(55,331)
Net cash from operating activities		**154,660**	**188,890**

20 Financial instruments

(a) Fair value category

As at 30 June 2014
US$ thousands

Financial assets:	At fair value through profit or loss	At fair value through OCI (cash flow hedges)	Available-for-sale investments at fair value through OCI	Loans and receivables
Trade and other receivables[1]	-	-	-	171,099
Short term investments	-	-	-	750,000
Available-for-sale financial assets	-	-	109,384	-
Silverstream contract (note 10)	389,376	-	-	-
Embedded derivatives within sales contracts[1]	4,633	-	-	-
Derivative financial instruments	-	4,378	-	-
Financial liabilities:			At fair value through profit or loss	At amortised Cost
Interest-bearing loans			-	795,331
Loans from related party (note 18)			-	41,451
Trade and other payables			-	66,080
Derivative financial instruments			181	-

[1] Embedded derivative within sales contracts is presented within Trade and other receivables in the balance sheet.

As at 31 December 2013
US$ thousands

Financial assets:	At fair value through profit or loss	At fair value through OCI (cash flow hedges)	Available-for-sale investments at fair value through OCI	Loans and receivables
Trade and other receivables[1]	-	-	-	148,859
Available-for-sale financial assets	-	-	63,245	-
Silverstream contract (note 10)	372,846	-	-	-
Derivative financial instruments	-	2,057	-	-
Financial liabilities:			At fair value through profit or loss	At amortised Cost
Interest-bearing loans			-	795,306
Loans from related party (note 18)				40,920
Trade and other payables			-	52,132
Embedded derivatives within sales contracts[1]			1,154	-
Derivative financial instruments			848	-

[1] Trade and other receivables and embedded derivative within sales contracts are presented net in Trade and other receivables in the balance sheet.

20 Financial instruments continued

(b) Fair value measurement

The fair value of financial assets and liabilities, together with the carrying amounts shown in the balance sheet, other than those with carrying amounts that are a reasonable approximation of their fair values, are as follows:

	Carrying amount		Fair value	
	30 June 2014	31 December 2013	30 June 2014	31 December 2013
	US$ thousands			
Financial assets:				
Short term investments	750,000	-	750,454	-
Available-for-sale financial assets	109,384	63,245	109,384	63,245
Silverstream contract (note 10)	389,376	372,846	389,376	372,846
Embedded derivatives within sales contracts	4,633	-	4,633	-
Derivative financial instruments	4,378	2,057	4,378	2,057
Financial liabilities:				
Interest-bearing loans	795,331	795,306	839,864[1]	780,920[1]
Loans from related party (note 18)	41,451	40,920	41,496[2]	40,920[2]
Embedded derivatives within sales contracts	-	1,154	-	1,154
Derivative financial instruments	181	848	181	848

1 Interest-bearing loans are categorised in Level 1 of the fair value hierarchy.
2 Loans from related party are categorised in Level 3 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 30 June 2014 Fair value measure using
	Quoted prices in active markets Level 1	Significant observable Level 2	Significant unobservable Level 3	Total
	US$ thousands			
Financial assets:				
Derivative financial instruments:				
Option and forward foreign exchange contracts	-	4,378	-	4,378
Silverstream contract (note 10)	-	-	389,376	389,376
Embedded derivatives within sales contracts	-	-	4,633	4,633
	-	**4,378**	**394,009**	**398,387**
Financial investments available-for-sale:				
Quoted investments	109,384	-	-	109,384
	109,384	**4,378**	**394,009**	**507,771**
Financial liabilities:				
Derivative financial instruments:				
Options and forward foreign exchange contracts	-	(181)	-	(181)
	-	**(181)**	**-**	**(181)**

20 Financial instruments continued

	As of 31 December 2013 Fair value measure using			
	Quoted prices in active markets Level 1	Significant observable Level 2	Significant unobservable Level 3	Total
		US$ thousands		
Financial assets:				
Derivative financial instruments:				
Option and forward foreign exchange contracts	–	2,057	–	2,057
Silverstream contract (note 10)	–	–	372,846	372,846
	–	**2,057**	**372,846**	**374,903**
Financial investments available-for-sale:				
Quoted investments	63,245	–	–	63,245
	63,245	**2,057**	**372,846**	**438.148**
Financial liabilities:				
Derivative financial instruments:				
Embedded derivatives within sales contracts	–	–	(1,154)	(1,154)
Options and forward foreign exchange contracts	–	(848)	–	(848)
	–	**(848)**	**(1,154)**	**2,002**

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 beginning balance to the ending balance for Level 3 financial instruments other than Silverstream (which is disclosed in note 10) is shown below:

	30 June 2014	31 December 2013
	US$ thousands	
Balance at 1 January:	(1,154)	(6,136)
Changes in fair value	(3,835)	(16,882)
Realised embedded derivatives during the year	9,622	21,864
Balance at 30 June	**4,633**	**(1,154)**

Fair value hierarchy

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either: a) in the principal market for the asset or liability, or b) in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible to the Group.

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

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

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

20 Financial instruments continued

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

Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Valuation techniques

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 Garmam-Kohlhagen formula, the significant inputs to which include observable spot exchange rates, interest rates and the volatility of the currency.

Silverstream contract

The fair value of the Silverstream contract is determined using a valuation model (for further information relating to the Silverstream contract see note 10). 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 latest plan and estimates, also provided to the Company by Peñoles. The inputs assume no interruption in production over the life of the Silverstream contract and production levels which are consistent with those achieved in recent years.

Management regularly assesses a range of reasonably possible alternatives for those significant unobservable inputs described above, and determines their impact on the total fair value. The significant unobservable inputs are not interrelated. The fair value of the Silverstream 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.

20 Financial instruments continued

The following table demonstrates the sensitivity of the Silverstream contract valuation to reasonably possible change those inputs:

30 June 2014	Increase/ (decrease)	Effect on fair value: increase/ (decrease) *US$ thousands*
Future silver price	25%	124,784
	(25%)	(124,784)
Future inflation	100 basis point	936
	(100 basis point)	(910)
Interest rate	100 basis point	(22,780)
	(100 basis point)	25,351

31 December 2013	Increase/ (decrease)	Effect on fair value: increase/ (decrease) *US$ thousands*
Future silver price	25%	121,546
	(25%)	(121,546)
Future inflation	100 basis point	1,069
	(100 basis point)	(1,037)
Interest rate	100 basis point	(24,144)
	(100 basis point)	27,140

Quoted investments

Fair value of available-for-sale financial assets is derived from quoted market prices in active markets.

Interest-bearing loans

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

Loans with related parties

Fair value of the Group's loan from related party is determined using a discounted cash flow method based on market interest rates at each reporting date.

Embedded derivatives within sales contracts:

Sales of concentrates, precipitates and doré bars are 'provisionally priced' and revenue is initially recognised using this provisional price and the Group's best estimate of the contained metal. Revenue is subject to final price and metal content adjustments subsequent to the date of delivery. This price exposure is considered to be an embedded derivative and is separated from the sales contract.

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.

At 30 June 2014 the fair value of embedded derivatives within sales contracts was US$4.6 million (31 December 2013: US$(1.2) million). The revaluation effects of embedded derivatives arising from these sales contracts are recorded as an adjustment to revenue.

20 Financial instruments continued

(c) Derivative financial instruments

The Group enters into certain forward and option contracts in order to manage its exposure to foreign exchange risk associated with costs incurred in Mexican pesos and other currencies.

The Group entered into a number of forward derivative contracts to hedge its exposure to fluctuations in foreign exchange rates. The outstanding forward derivative contracts as at 30 June 2014 are as follows:

					As at 30 June 2014
	Term	Currency	Contract value *(thousands)*	Contract exchange rate	2013 Fair value *(US$ thousands)*
Euro denominated forward contracts	2014	EUR	352	EUR1.32:US$1 to EUR1.38:US$1	13

The Group's euro-denominated forward derivative instruments mature on 10 September 2014 at a weighted average rate of US$1.33: €1.

The Group also entered into Mexican peso-US dollar collars to hedge its exposure to fluctuations in foreign exchange rates. Collar derivative instruments mature over the period from 14 July 2014 to 8 June 2015. The collar instruments hedge costs denominated in Mexican peso amounting to US$236 million with a range of floor prices from MX$13.00 to MX$13.62:US$1 and a range of capped prices from MX$13.50 to MX$14.50:US$1. The fair value of the put options at 30 June 2014 was an asset of US$5.7 million, and the fair value of the call options at 30 June 2014 was a liability of US$1.5 million.

Forward derivative contracts that were outstanding as at 31 December 2013 were as follows:

					As at 31 December 2013
	Term	Currency	Contract value *(thousands)*	Contract exchange rate	2013 Fair value *(US$ thousands)*
Euro denominated forward contracts	2014	EUR	3,248	EUR1.31:US$1 to EUR1.38:US$1	216
US dollar denominated forward contracts	2014	USD	8,000	MX$12.58:US$1 to MX$12.61:US$1	(317)

The Group's euro-denominated forward derivative instruments mature over a period from 12 March to 10 September 2014 at a weighted average rate of US$1.31: €1. The Group also entered into a number of US dollar denominated forward contracts to hedge its exposure to fluctuations in foreign exchange rates. These derivative instruments mature on13 January 2014 with a weighted average rate of MX$12.60: US$1.

The Group also entered into Mexican peso-US dollar collars to hedge its exposure to fluctuations in foreign exchange rates. Collar derivative instruments mature over the period from 13 January 2014 to 15 December 2014. The collar instruments hedge costs denominated in Mexican peso amounting to US$221 million with a range of floor prices from MX$12.40 to MX$13.59:US$1 and a range of capped prices from MX$13.21 to MX$14.50:US$1. The fair value of the put options at 31 December 2013 was an asset of US$5.0 million, and the fair value of the call options at 31 December 2013 was a liability of US$3.7 million.