



# 2007

Hochschild Mining plc

Annual Report & Accounts

For the year ended 31 December 2007



# WE ARE A LEADING PRECIOUS METALS COMPANY OPERATING IN THE AMERICAS WITH A PRIMARY FOCUS ON SILVER AND GOLD



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KEY FOR FURTHER INFORMATION

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## 2007 HIGHLIGHTS

**\$305m**

REVENUE UP 44%

**\$148m**

ADJUSTED EBITDA\* UP 37%

**\$85m**

ATTRIBUTABLE PROFIT UP 104%

**\$0.28**

PRO FORMA EPS\* UP 100%

**9.2¢**

TOTAL DIVIDEND PER SHARE

**+16%**

ATTRIBUTABLE RESERVES

### Production

Produced 25.7 million attributable silver equivalent ounces in line with expectations

### New operations

Commenced production at San José (Argentina), Moris (Mexico) and Pallancata (Peru)

### Expansions

Completed capacity expansions at Ares, Arcata and Selene

### Operating costs

Contained unit operating costs at our three original mines in Peru despite continued cost pressure in the industry

### Life of mine

Extended life of mine to an average of 3.9 years from 2.8 years at the time of the Listing

### 100% hedge free

All our forward sales contracts expired in June 2007

\* Full definitions of Adjusted EBITDA and Pro Forma EPS may be found in the Glossary on page 134.

## HOCHSCHILD AT A GLANCE

We are a leading precious metals company operating in the Americas with a primary focus on silver and gold. We have over 40 years of experience in underground, high-grade, mid-sized epithermal vein mines.

### OUR LOCATIONS

Our operations and projects are situated in the Americas, a vast region with enormous mineral potential.

We currently have three 100% owned operating mines located in Peru: Arcata, Ares and Selene. In addition, the Group has three joint venture operations which started production in 2007: San José in Argentina (51%), Moris in Mexico (70%) and Pallancata in Peru (60%). All our operations are underground epithermal vein mines and the principal mining method is cut and fill, with the exception of Moris which is an open pit mine. The ore at our operations is processed into silver-gold concentrate or Doré.

We also have one major development project, San Felipe, a polymetallic deposit in northern Mexico which entered feasibility stage in late 2007 and is expected to commence production in 2010. In addition, we have a presence in Canada through our strategic investment in Lake Shore Gold Corp. ('Lake Shore'), and 16 long term target definitions/prospects in Argentina, Chile, Mexico and Peru.

Hochschild Mining is listed on the Main Market of the London Stock Exchange and is headquartered in Lima, Peru. In addition, the Group has offices in Argentina, Chile and Mexico and a corporate office in London.



**13.6moz**

SILVER PRODUCED IN 2007 (attrib)

**201koz**

GOLD PRODUCED IN 2007 (attrib)

**\$3.94/oz**

SILVER CO-PRODUCT CASH COST

**\$190/oz**

GOLD CO-PRODUCT CASH COST

- Mining operation
- Resource delineation
- Corporate office
- Exploration office



## OUR GROWTH ▶▶ <sup>131</sup>

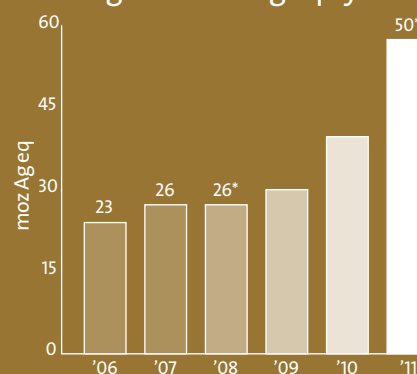


We are on track to reach our 2011 production target of 50 million attributable silver equivalent ounces through our six operating mines, San Felipe and our project pipeline. To achieve this, we are focusing on several key projects, most notably:

- San José expansion by Q3 2008
- Arcata expansion by Q3 2008
- Selene expansion by Q4 2008
- Lake Shore production in 2009
- San Felipe production in 2010

We aim to strengthen our interest in specific geological regions in the Americas by executing a cluster consolidation acquisition and joint venture strategy.

### Growing to 50moz Ag eq by 2011



\* Production forecast

## OUR EXPLORATION ▶▶ <sup>127</sup>



Exploration underpins our growth strategy. Our exploration philosophy focuses on maintaining a highly motivated, technically proficient and well funded exploration team while continuing to position ourselves as the partner of choice for mining companies throughout the region.

Extending the Group's reserve and resource base is a key priority for 2008 and beyond. Our stated goal is to achieve a four year reserve life plus a four year inferred resource tail at each of our mines, except Ares and Moris.

### Our growth pyramid



## OUR RESPONSIBILITY ▶▶ <sup>28</sup>



Our commitment to the health and safety of our employees, respect for the environment and active engagement with local communities are fundamental to our business. In addition to achieving health and safety certification based on international standards, the Group is currently implementing DNV's Health and Safety Management System.

We have an environmental management system based on ISO: 14001 and are in the process of complying with World Bank environmental standards across our entire operations.

**\$4.3m**  
2007 COMMUNITY INVESTMENT

**OHSAS 18001**  
HEALTH & SAFETY SYSTEM

**4,137**  
TOTAL WORKFORCE\*

\* Includes contractors

## CHAIRMAN'S STATEMENT

“We successfully expanded from three operating mines in one country to six operating mines in three countries, whilst maintaining our focus on responsibility and excellence.”

### Strategy for growth

We continue to build on our existing operations through exploration and expansions, and bring into production new profitable projects throughout the Americas, while maintaining a strong focus on corporate responsibility and excellence. During 2007, we successfully expanded from three operating mines in one country to six operating mines in three countries. We continue to excel in identifying value enhancing opportunities consistent with our strategy. Our entry into Argentina, with the San José mine, and Mexico, with the Moris mine, demonstrates our progress towards production growth and diversification into mining friendly jurisdictions. Furthermore, our new Peruvian mine, Pallancata, also creates significant synergies for the Group, leveraging the mill and plant already in place at the Selene mine only 17 kilometres away.

As a result of these important milestones and capacity expansions at our original operations, we achieved our stated production target for the year of approximately 26 million attributable silver equivalent ounces, representing a 10% increase on 2006 production. Attributable production for the year amounted to 13.6 moz of silver and 201 koz of gold, a year-on-year increase of 17% and 3%, respectively. With the achievements of 2007, our San Felipe project moving towards feasibility and our strong project pipeline, we are on track to create the operational platform that will allow us to deliver our 2011 production target of 50 million attributable silver equivalent ounces.

Our growth strategy remains consistent – we look to continue to strengthen our interest in specific geological regions in the Americas by executing a cluster consolidation strategy and making anchor investments in key mining districts, such as the highlands of Peru, the Argentinian Patagonia and northern Mexico. Our recent strategic investment in Lake Shore Gold Corp., announced in February 2008, provides a phased, low-risk entrance into attractive high-grade, long-life assets in Canada, another important geological district in the Americas.

### Delivering strong financial performance

Stronger commodity prices, increased production and operational optimisation underpin our strong set of financial results for the year ended 31 December 2007. Revenue from our operations increased 44% in 2007 to \$305 million driven by the additional ounces produced and sustained high commodity prices. Sales of gold and silver increased significantly, up 35% and 51%, respectively.

Another significant development in 2007 was the expiry of our forward sales contracts, which means that we are now 100% hedge free and well positioned to benefit from the continued favourable market environment for precious metals. Had we been hedge free throughout 2007 and 2006, we would have recorded additional revenue of approximately \$16.5 million and \$28.7 million, respectively.



The high cost inflation associated with inputs into the mining industry impacted our operations during the course of 2007. In particular, demand for contract labour, fuel, explosives, electricity and cyanide continued to outstrip supply, resulting in escalating prices. Additional industry-wide demand for equipment also increased lead times for the delivery of equipment. During 2007 we were able to mitigate partially these cost increases by capacity expansions and efficiency gains, and we are confident that we will remain one of the lowest cash cost producers in our industry.

We continue to enjoy a healthy balance sheet with a current net cash position of \$236.8 million which, in conjunction with cash generated from our operations, will allow us to pursue our growth strategy. In the first quarter of 2008 we secured a \$200 million Secured Term Loan Facility providing the Group with further financial flexibility.

Our continued success in delivering our growth strategy reinforces our confidence for the business going forward. With a 100% increase in the pro forma earnings per share (after exceptional items) to \$0.28, I am pleased to announce the declaration of a final dividend of 7.2 cents per share payable on 13 May 2008, which brings the total 2007 dividend to 9.2 cents.

#### Exploration success

Exploration is a core element of our growth strategy. We have committed substantial resources to our exploration

and geology programme in order to increase our reserve and resource base at a low cost per ounce. In 2007, we spent a total of \$35 million on exploration at our existing mines and on our project pipeline (includes \$8.3 million of exploration costs capitalised during the year).

Further additions to reserves and resources have been achieved at a number of the Group's operations and projects, enhancing the life of our operations and significantly increasing the net present value of these assets. During 2007 the Group increased overall attributable reserves net of production by 16%, with significant reserve developments at Arcata, Pallancata and San José. Life of mine across our operations increased to 3.9 years based on reserves as at 31 December 2007, which is a significant achievement given our capacity expansions. Proving up reserves remains a costly exercise in underground mining but we are committed to achieving a four year minimum reserve life and four year inferred resource tail at each of our operations except Ares and Moris.

By mid-2007 we had confirmed sufficient resources at San Felipe, our key development project in northern Mexico, to justify advancing this exciting project towards feasibility stage. We are pleased to report that the feasibility study is progressing according to schedule and we intend to fast track this project towards production while undertaking an aggressive exploration campaign to facilitate future expansions and maximise its potential.

“ Our first full year as a publicly listed company was a transformational one. We met all our production and expansion targets, demonstrating our ability to execute our growth strategy and create long-term profitable growth for shareholders. ”

Eduardo Hochschild, Executive Chairman

## A brief history of the business

### 1910–1970

Beginning and consolidation of the mining business.

### ▶ 1980–2000

Business growth/aggressive exploration process.

### ▶ 2000–2006

Listing on the London Stock Exchange.  
Beginning of diversification.

### ▶ 2007 onwards

Expanding from three to six mines. Focus on delivering growth and regional consolidation.



## CHAIRMAN'S STATEMENT (...cont'd)

“2008 will be a year of consolidation of the growth platform we have created. Strong metal prices and our hedge free position should further enhance the Group's potential.”

We are excited about the prospects of the projects in our pipeline and, in order to enhance the scale and diversity of our asset portfolio, we are committed to remaining the regional partner of choice for exploration companies.

### Management changes

With key operational milestones delivered in 2007, and looking beyond our 2011 production target, it is crucial that we have a solid foundation for long-term, profitable growth consistent with our strategy. With this in mind, we were delighted to announce, earlier in the year, the appointment of our new Chief Executive Officer, Miguel Aramburú. Miguel brings a wealth of knowledge and experience to his new role and is widely respected by our employees. He leads a professional management team as we continue to implement our growth strategy and prepare for the future. Miguel assumes day-to-day responsibility for the operations of the Group, including exploration projects. In my capacity as Executive Chairman, I shall continue to lead the Board and, in close collaboration with Miguel, shall direct the development of the Group's vision and overall corporate strategy.

These changes are indicative of Hochschild's evolution as a public company committed to good corporate governance and of its focus on the creation of shareholder value.

### Responsible mining

We are devoted to maintaining the highest standards of corporate and social responsibility. We continue to exert every effort to ensure the safety of all our employees and so it is with deep regret that I report four onsite fatalities in 2007. The Board has taken steps to support the families of those involved and has addressed the underlying safety deficiencies that led to the occurrence of these tragic events.

A team of industry consultants has been commissioned to undertake a comprehensive review of the Group's health, safety and environmental procedures to ensure that all sites are operating to the highest standards. The Group is making progress in implementing the recommendations made as we strive to achieve our goal of zero fatalities.

### Outlook

Thus far in 2008 we have seen a strong increase in gold and silver prices, up approximately 17% and 37%, respectively. We remain positive on the fundamentals for silver and gold given continued US dollar weakness, heightened geopolitical tensions, depleted above ground stocks and increasing investment demand. In addition to macroeconomic drivers, we believe that industrial demand for silver will remain strong in 2008 and will reflect positively on its price.



13.6moz  
SILVER PRODUCED IN 2007 (attrib)



As outlined in January, our 2008 attributable production target is 26 million attributable silver equivalent ounces, comprising approximately 16.9 million attributable ounces of silver and 153 thousand attributable ounces of gold. The level of production in 2008 is principally driven by lower grades at Ares and Selene.

While we expect industry cost inflation to continue in general and foreign exchange to be a potentially negative factor in a weak US dollar environment, we anticipate that our average cash cost per tonne in 2008 for our five underground operations will be at or below 2007 levels. This is primarily a result of an increase in tonnage treated at Arcata, San José and Pallancata and continued cost reduction efforts.

With the achievements of 2007, our San Felipe project moving towards feasibility and our strong project pipeline, we are on track to create the operational platform that will allow us to deliver our 2011 production target of 50 million attributable silver equivalent ounces with incremental growth in 2009 and a major step up in 2010 when San Felipe is expected to begin operations.

On behalf of the Board, I would like to take this opportunity to thank all our employees for their hard work, enthusiasm and commitment to the business over the past year.

**Eduardo Hochschild**  
Executive Chairman

## Delivered on IPO commitments

COMMITMENTS	PROGRESS
Production target	✓
Expansions	
Arcata	✓
Ares	✓
Selene	✓
New mining operations	
San José	✓
Moris	✓
Pallancata	✓
Increase reserve life	✓
100% hedge free	✓
Dividend	✓



**201koz**  
GOLD PRODUCED IN 2007 (attrib)

# Q&A WITH MIGUEL ARAMBURÚ, CEO

“We continue to optimise our mines through exploration and expansions and advance our development projects towards feasibility, whilst striving to control operating costs.”

### Q. What were the operational highlights in 2007?

2007 was a transformational and exciting year for the Group. We delivered on all our commitments for the year, notably:

- Produced 25.7 million attributable silver equivalent ounces in line with market expectations.
- Commenced production at three new mines: San José (Argentina), Moris (Mexico) and Pallancata (Peru).
- Increased capacity at our three original mines: Arcata, Ares and Selene.
- Increased average life of mines from 2.8 years at the time of the Listing to 3.9 years.

### Q. Are you on target to achieve the 50 million attributable silver equivalent ounce production target by 2011?

With the achievements of 2007, the additional expansions that will take place in 2008, the San Felipe project moving towards feasibility, the investments in Lake Shore and our strong project pipeline, we are creating the platform that will enable us to achieve our 2011 production target of 50 million attributable silver equivalent ounces.

### Q. What are the key goals for 2008?

- Produce 26 million attributable silver equivalent ounces.
- Minimise increases in our average unit cost per tonne.
- Double capacity at San José by Q3 2008.
- Further expand the Arcata plant to 618 ktpa by Q3 2008.
- Take the Selene plant to 1,059 ktpa by Q4 2008.
- Complete the feasibility study of San Felipe.
- Achieve our target of zero fatalities and remain below the industry average on Lost Time Injury Frequency Rate.

### Q. The legacy forward sales contracts expired in June 2007, do you plan to hedge future production?

No, our current plan is to remain 100% hedge free allowing us to maximise the benefit from the positive fundamentals for both gold and silver prices. However, we do not rule out any options which may benefit the Group in the long run.

### Q. What level of capital expenditure are you forecasting for 2008?

We anticipate capex of approximately \$200 million in 2008. Our major development project, San Felipe, will account for approximately \$40 million of this.

### Q. What is your dividend policy?

In both years since the Listing, we have paid out approximately one third of net income attributable to equity shareholders after exceptional items. Our dividend policy takes into account the profitability of the business and the underlying growth in earnings of the Company, as well as its capital requirements and cash flows.

### Q. What is the Group's acquisition strategy?

Our focus is on mid-sized, high-grade, underground precious metal assets in the Americas. We aim to execute a cluster consolidation strategy in specific geological regions by securing bolt-on acquisitions, joint ventures or strategic investments in key mining districts, such as the highlands of Peru, the Argentinian Patagonia and northern Mexico. Our recent investment in Lake Shore is an example of this strategy and provides the Group with a phased, low-risk exposure to high-grade, long-lived gold deposits in a mining friendly and mineral rich region of the Americas, adding a new cluster to our portfolio.



“The safety of our workers, respect for the environment and commitment to our community programmes are a key pillar of our strategy.”

Miguel Aramburú, CEO

**Q. You have a significant exploration budget. How far do you plan to expand your reserve base?**

Proving up reserves is a costly endeavour in underground mining but we are committed to achieving a four year minimum reserve life plus a four year inferred resource tail at each of our operations except Ares and Moris.

**Q. Are you confident about the opportunities in the current pipeline?**

We are very optimistic about our project pipeline which currently comprises 16 target definitions/prospects in Argentina, Chile, Mexico and Peru. We have extensive experience in identifying profitable long-term opportunities and continue to support a significant greenfield exploration budget.

**Q. Cost inflation is becoming increasingly common in the industry, how does this impact Hochschild?**

In line with the mining industry at large, we face inflationary pressures, especially relating to raw materials, for example, cyanide, explosives and energy. However, we have been successful in offsetting some of this pressure through operational efficiencies and capacity expansions, thereby diluting fixed costs. Although we do not foresee inflationary pressures abating in the near future, we continue to implement operational efficiencies and enforce strict cost controls in order to remain a low cash cost producer.

**Q. Tell us about your background**

I am an industrial engineer and hold an MBA from Stanford University. I have worked at Hochschild for over 12 years – my first position was Mine Manager at one of the Group's previous operations. I have since served as General Manager of the Mining Division, Chief Financial Officer and Chief Operating Officer.

**Q. What keeps you inspired?**

I am very excited by the opportunities and challenges that we face and particularly inspired by the commitment and dedication of the Hochschild workforce. My goal for 2008, and beyond, is to achieve all our milestones, both operational and financial, whilst maintaining our strong corporate culture and work ethic.

## Delivering on our strategy

### EXPANDING EXISTING OPERATIONS

San José to 530 ktpa

Q3 2008

Arcata to 618 ktpa

Q3 2008

Pallancata (Selene)\* to 1,059 ktpa

Q4 2008

### BRINGING NEW PROJECTS TO PRODUCTION

San Felipe feasibility

Q4 2008

Lake Shore production

2009

San Felipe production

2010

Exploration, joint ventures, acquisitions

\* Expansion to accommodate Pallancata ore

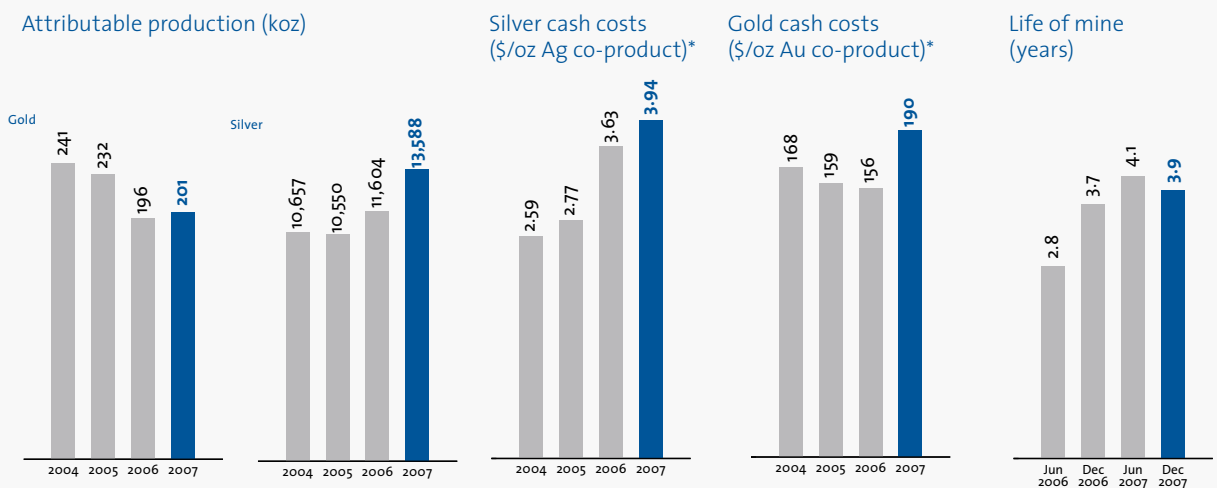
## STRATEGY & KPIs

Our strategy is to maximise the potential of our existing operations through exploration and expansions and bring into production new, profitable precious metal projects throughout the Americas, whilst maintaining a strong focus on responsibility and excellence.

Our strategy is based on the following operational and financial objectives:

### OPERATIONAL ▶▶ <sup>14</sup>

- ▶ Achieving our production target of 50 moz Ag eq (attributable) by 2011
- ▶ Maintaining low operating costs – lowest quartile of the global cash cost curve
- ▶ Growing our asset base:
  - Expanding reserves and resources at existing operations
  - Executing a cluster consolidation acquisition and joint venture strategy
- ▶ Ensuring the highest standards of health, safety and environmental performance



\* Note: figures for 2004 to 2006 have been restated.

Attributable production is measured as the number of ounces produced multiplied by our ownership interest at each mine and summed together for all operations. Attributable production demonstrates our progress towards achieving our 50 moz Ag eq (attributable) target by 2011.

Defined as total cash costs multiplied by the percentage of revenue from silver, divided by the number of silver ounces sold. Cash costs include cost of sales, commercial deductions and selling expenses, less depreciation included in cost of sales. This metric allows us to benchmark ourselves versus our peer group in a consistent manner over time.

Defined as total cash costs multiplied by the percentage of revenue from gold, divided by the number of gold ounces sold. Cash costs include cost of sales, commercial deductions and selling expenses less depreciation included in cost of sales. This metric allows us to benchmark ourselves versus our peer group in a consistent manner over time.

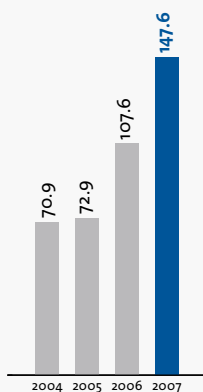
Based on reserves and is calculated by dividing the number of reserve tonnes by the amount of ore forecast to be processed during the following 12 month period. Life of mine measures the extent to which we have expanded our reserve base whilst taking into consideration capacity expansions.



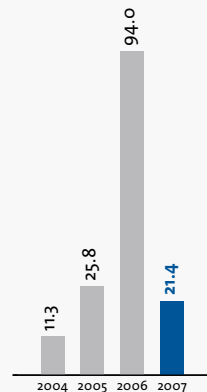
## FINANCIAL <sup>(22)</sup>

- ▶ Achieving Adjusted EBITDA margin of approximately 50%
- ▶ Generating strong cash flow
- ▶ Steadily increasing return on capital employed
- ▶ Delivering value to shareholders

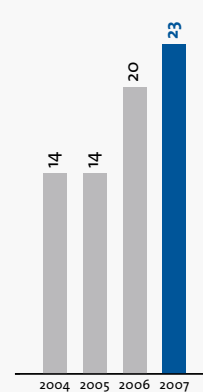
Adjusted EBITDA  
(\$m)\*



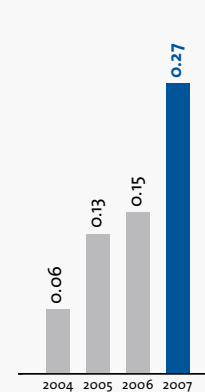
Cash flow from operating  
activities (\$m)\*



Return on capital  
employed (%)\*



Pro forma earnings  
per share (\$)\*



\* Note: figures for 2004 to 2006 have been restated.

Calculated as profit from continuing operations before exceptional items, net finance income/(cost), foreign exchange (loss)/gain and income tax plus depreciation, amortisation and exploration costs other than personnel and other expenses. This provides an indication of the rate of earnings growth achieved.

Defined as net cash flows from operating activities. Cash flow from operating activities quantifies the Group's cash flows which can be used to fund dividend payments and invest in the future growth and development of the business.

Calculated as profit from continuing operations before exploration expense, interest and taxes, and exceptional items divided by average capital (borrowings and total equity including minority interest) for the period. ROCE measures how efficiently the Group's capital is being utilised. The 2006, 2005 and 2004 return and capital employed is calculated on a pro forma basis assuming the proceeds received from the IPO were available for all the years.

Defined as the per share profit (using the number of shares outstanding immediately after the Listing being 307,350,226) available to the equity shareholders of the Group from continuing operations and before exceptional items. EPS provides a measure for the amount of attributable profit available to equity shareholders of the Group taking into account any changes in the number of shares outstanding.

## MARKET & GEOGRAPHIC OVERVIEW

“We are positive about the fundamentals for silver and gold. The Group is 100% hedge free and therefore fully poised to benefit from the rising prices of gold and silver.”

### Silver

Silver continued to enjoy healthy trading in 2007, increasing 15% during the year with an average price of \$13.08 per ounce. Investment demand has been a key driver of the silver price. Industrial use, which represents 51% of fabrication demand, also remains strong, up 6% year-on-year at 430 moz in 2006. The main growth area in industrial silver demand in recent years has been in electronics, health and in renewable energy fields. In addition, global mine supply has been relatively restrained totalling 646 moz in 2006, representing an annual increase of just 0.4 moz.

#### Demand for silver – key market drivers

- Historically strong link between silver and gold.
- Positive outlook for precious metals in general.
- Despite rising prices, industry has found it difficult to substitute silver due to its unique properties of conduction, reflectivity, strength, malleability and antibacterial properties.
- Consumer demand for electronic goods is set to continue, for example sales of flat screen TVs are expected to rise from 10 million to 25 million by 2010.
- Growing investor demand – supported by the introduction of the ETF in 2006.

### Gold

Gold experienced buoyant trading conditions in 2007, achieving a price increase of 29% over the year with an average price of \$631 per ounce. Investor activity continues to drive fluctuations in trading as a result of continued US dollar weakness and concern relating to the US economy and global financial markets. There are seven active gold Exchange Traded Funds, listed on nine stock exchanges around the world and trading continues to be strong, up 260 tonnes year-on-year to 648 tonnes at the end of 2006. Gold is also fabricated and used in a variety of applications including jewellery, electronics, dentistry, industrial and coins and bars.

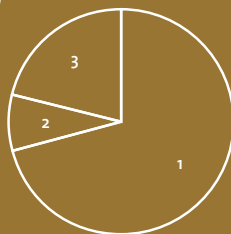
#### Demand for gold – key market drivers

- Investor’s long term interest in gold as a hedge against continued US dollar weakness.
- Rising global inflation and concerns related to the financial markets are likely to support further institutional buying.
- Mine production is at a ten year low with output of 2,471 tonnes in 2006, representing a 3% year-on-year decline.
- Relatively low level of participation from institutional and private investors in most countries, implies there is considerable upside potential for gold.
- Robust economic growth in India and China continues to support jewellery buying.

Sources:  
GFMS, Silver Institute, Bloomberg, Economic Commission for Latin America and the Caribbean

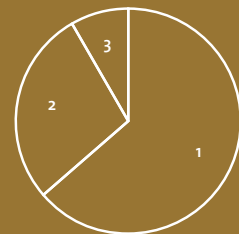
### Silver supply (2006)

- 1 Mine production 71%
  - 2 Government sales 8%
  - 3 Scrap supply 21%
- Total: 911.8 moz



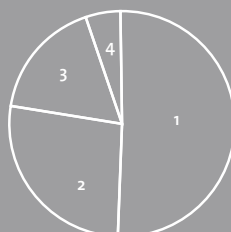
### Gold supply (2006)

- 1 Mine production 63%
  - 2 Scrap supply 29%
  - 3 Official sector sales 8%
- Total: 3,906 tonnes



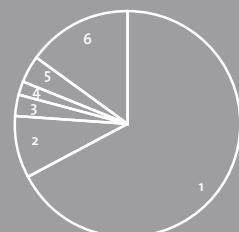
### Silver fabrication demand (2006)

- 1 Industrial applications 51%
  - 2 Jewellery and silverware 27%
  - 3 Photography 17%
  - 4 Coins 5%
- Total: 840.5 moz



### Gold end user demand (2006)

- 1 Jewellery 68%
  - 2 Electronics 9%
  - 3 Other industrial and decorative 3%
  - 4 Dentistry 2%
  - 5 Official coins 4%
  - 6 Identifiable investment 15%
- Total: 3,371 tonnes

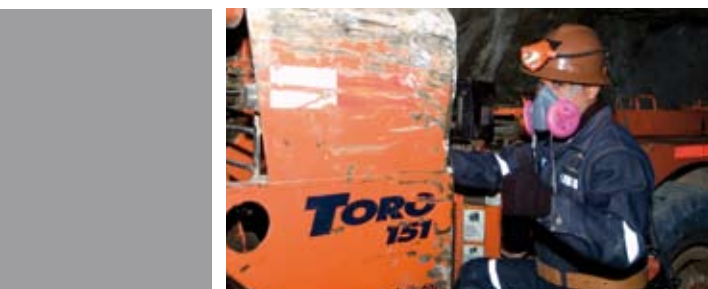


**Geographic overview**

Our growth strategy focuses on achieving profitable production in the Americas, a vast region with enormous mineral potential.

Despite concerns regarding the global economy, Latin America continued to grow rapidly in 2007, with GDP increasing 5.6%, together with primary fiscal and current accounts surpluses, improved terms of trade and lower external debt. Strong economic growth, low inflation and supportive regulatory frameworks continue to promote foreign direct investment in the region, valued at approximately \$95 billion in 2007, the largest inflow since 1999.

In 2007 we diversified into two new countries, Argentina and Mexico and in February 2008, we expanded into Canada via a strategic investment in Lake Shore. We will continue to pursue opportunities in countries throughout the region which offer enabling environments for foreign investment in the mining sector. In our three countries of operation, Peru, Mexico and Argentina, GDP grew by 8.2%, 3.3% and 8.6% respectively and we remain positive about the economic fundamentals and regulatory frameworks in each of these countries.



**Gold and silver price performance 2007**



# OPERATIONAL REVIEW

### Summary

In line with initial guidance, attributable production for the year amounted to 13.6 million ounces of silver and 201 thousand ounces of gold, a year-on-year increase of 17% and 3%, respectively. We were able to achieve our production target by expanding our three original mines, Ares, Arcata and Selene and by bringing into production three new mines, San José (Argentina), Moris (Mexico) and Pallancata (Peru). Notwithstanding certain setbacks at Selene we remain confident of achieving our long-term production targets.

Exploration remains at the core of our business as we seek to expand our existing operations and develop our project pipeline through the discovery of new deposits. During 2007 we successfully expanded our attributable reserves and resources ounces net of production by 16% and 12%, respectively, on a silver equivalent basis, which allows us to expand further capacity during 2008. In addition, as a result of higher commodity prices, we have increased our cut-off prices for calculating reserves and resources.

We continue exploring and seeking new opportunities in various countries (Argentina, Canada, Chile, Mexico and Peru) to increase our project pipeline. Highlights from this programme are the incorporation of resources from the San Felipe project in Mexico and the positive drilling results through intercepts with mineable widths during the last quarter of 2007 at the Azuca project in Peru, where we expect to develop new resources in 2008.

### Peru

#### Arcata

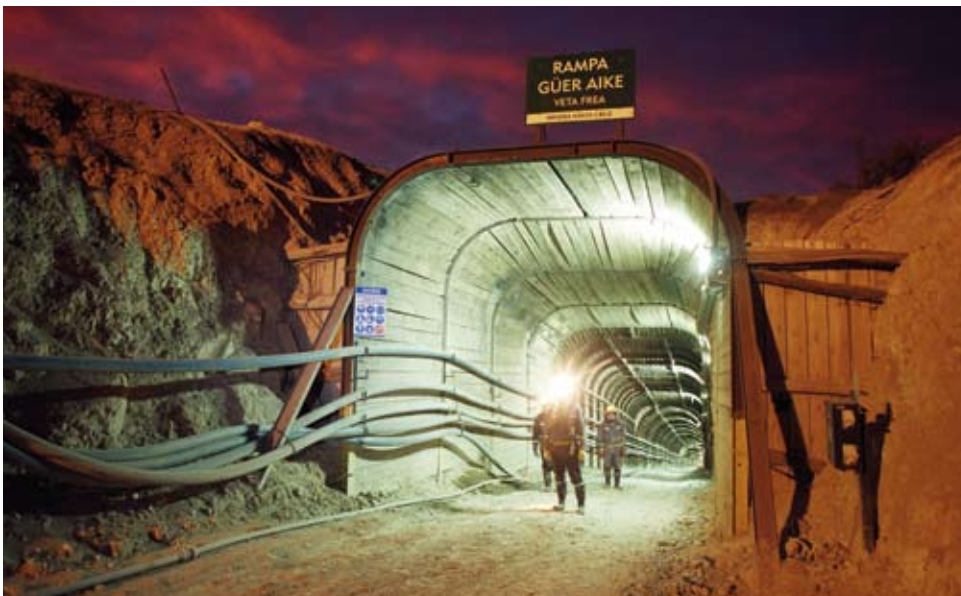
#### Production and sales ▶▶ (32)

Arcata, our flagship mine, enjoyed another successful year underpinned by record production growth. In 2007 we realised a 38% and 39% increase in silver and gold production, respectively. This increase was the result of increased production and throughput at the plant coupled with consistent grades and recoveries.

In the second quarter of 2007 we installed a high efficiency separating system which increased the plant capacity from 350 ktpa to 420 ktpa. Due to favourable exploration results and our ability to grow reserves, we decided to bring forward the capacity expansion (from 420 ktpa to 618 ktpa), which was initially contemplated for 2009 to the third quarter of 2008. The ball mill has been secured, key materials have all been ordered and civil engineering work is underway. This expansion is expected to be completed by the third quarter of 2008.

During 2008 we will continue to advance the underground workings around the new Mariana Ramp in order to sustain further plant expansions. Our intention is to develop approximately 18,841 metres of underground workings in and around this area.

Historically we have sold all the Arcata concentrate to Met-Mex Peñoles S.A. de C.V. ('Peñoles'), the contract with whom expires in 2008. Given the additional concentrate produced at Arcata in 2007, in excess of our contractual sales, we entered into new contracts with Consorcio Minero S.A. ('Cormin') and Traxis North America LLC ('Traxis') for this excess concentrate. For 2008, we have





secured contracts with Peñoles, Doe Run Peru SRL, Traxis and Cormin for a majority of the production budgeted for 2008, albeit on less favourable terms due to increased competition in the concentrate market. We are currently working on securing additional contracts to sell the remaining quantities of the budgeted production.

#### Exploration <sup>(127)</sup>

We continue to increase reserves and resources in the Mariana, Julia, Michelle, Soledad and Ramal Marion veins with 37,505 metres drilled in 144 drill holes in 2007. During 2007 exploration and development focused mainly on the Mariana Vein and on the Michelle, Soledad and Marion-branch secondary structures. Exploration potential is open at depth and along strike for these veins.

The Mariana, Julia, Ramal 2 and Ramal Marion veins together comprise 70% of all measured and indicated reserves for the Arcata unit. Resources also have been identified in a considerable number of smaller secondary ore bodies, in particular those located in the NW-SE trending structure between Ramal Marion and Ramal 2.

The 2008 exploration programme contemplates adding new reserves and resources in these veins as well as exploring new targets north of the Alexia structure through underground workings and drilling.

#### Ares

#### Production and sales <sup>(132)</sup>

In January 2007 we finalised the capacity increase which took the plant from 280 ktpa to 333 ktpa. As a result of lower grades mined, silver production was flat and gold production decreased 4% during the year.

As anticipated, the average grade at the Ares mine is declining due to the ageing and geological nature of the deposit. In addition, as a result of higher commodity prices we have increased our cut-off prices for silver and gold reserves. This has allowed us to lengthen the reserve life by including marginal ore which would have been uneconomical to mine in a lower price environment, but has the effect of lowering the average reserve grade. In our 2007 Q4 Production Report we stated that during 2008 we intend to mine at a grade of 6.4 g/t gold and 165 g/t silver, which is generally consistent with our policy and industry strategy of mining average reserves grades.

At Ares, we produce a gold/silver Doré all of which will be sold to Johnson Matthey Plc ('Johnson Matthey') in 2008.

#### Exploration <sup>(127)</sup>

Replacement of high ore grade in splays and tensionals of the Victoria Vein system continues. During 2007 we drilled 2,855 metres in seven drill holes in Victoria Noreste and Paola Veins. Additionally, at the Victoria Vein system, which hosts 33% of all measured and indicated resources for the Ares mine, 1,246 metres of underground workings were developed for conversion to reserves. The remainder of the resource base has been estimated in 53 separate minor ore bodies, none of which individually contains more than 11% of the measured and indicated resources. The largest resource component after the main Victoria Vein ore body comprises 39 small ore bodies which form part of the overall Victoria Vein structure. They are generally parallel or sub-parallel to the main vein and in many cases these are very close to, or in contact with, sectors of the main vein.

## 2007 key operating data

	ARCATA	ARES	SELENE	PALLANCATA <sup>1</sup>	SAN JOSÉ <sup>1</sup>	MORIS <sup>1</sup>
Ore production (tonnes)	415,400	333,800	413,622	78,335	92,974	338,304
Average head grade (g/t)	560.4 Ag/1.43 Au	279.3 Ag/14.57 Au	295.8 Ag/2.01 Au	310.0 Ag/1.49 Au	538.4 Ag/7.08 Au	4.7 Ag/1.65 Au
Production (koz)	6,553 Ag/16.48 Au	2,701 Ag/149.98 Au	3,414 Ag/21.62 Au	704 Ag/2.76 Au	958 Ag/14.95 Au	13 Ag/5.58 Au
Revenue (\$ million)	95	136	62	9	1	0
Cash costs (\$ per ounce) <sup>2</sup>	4.1 Ag by-product	56 Au by-product	3.5 Ag by-product	–	–	–

<sup>1</sup> Production commenced part way through the year.

<sup>2</sup> Cash costs are calculated to include cost of sales, treatment charges and selling expenses less depreciation included in cost of sales.

## OPERATIONAL REVIEW (...cont'd)

We have been able to replace tonnes mined at Ares, albeit at lower grades, but in the absence of a significant discovery, management believes that beyond 2011, under current conditions, the ore may no longer be economical for extraction.

During the latter part of 2007 a comprehensive compilation of all the regional geological data was conducted for the Ares district with the assistance of external consultants. During the first half of 2008 we will be evaluating the potential for additional targets that will be drilled during the second half of the year.

### Selene

#### Production and sales >>><sup>132</sup>

During 2007 production was primarily (97%) from the Explorador and Ramal Sur ore bodies which form part of the same Explorador Vein system. Minor production was sourced from the Sofia and Tumiri veins.

In contrast to our other operations, Selene is a mine where the vast majority of production comes from one vein with limited mining alternatives. Over the course of 2007 we encountered an increasingly impoverished area in the vein which resulted in declining grades throughout the year. We envisage processing approximately 300 ktpa of ore from Selene in 2008 and mining grades of 1.6 g/t gold and 230 g/t silver. However, we have drill intercepts at depth indicating higher grade ore over mineable thickness at the central and northeast shoots of the Explorador Vein.

As planned, we completed the plant expansion at Selene during the third quarter of 2007 increasing capacity from 350 ktpa to 700 ktpa to accommodate the ore from

Pallancata. On the back of a successful exploration programme at Pallancata, we subsequently decided to increase further the plant capacity at Selene to 1,059 ktpa by the fourth quarter of 2008.

As a result of the decline in grades, we will reduce throughput at Selene in 2008 in order to develop additional underground workings and access tunnels to the vein system. Our 2008 development programme involves advancing 2,090 metres of underground workings and building an additional 15 stopes in the mine. We believe these efforts coupled with an extensive exploration campaign will allow us to better manage ore of different quality in order to extract the average reserve grade, as well as achieving greater visibility of future grades of the mine.

Approximately 63% of the silver-gold concentrate is converted to Doré at the Ares plant and is sold to Johnson Matthey according to contracts already in place for 2008. The remaining concentrate from 2008 will be sold to Teck Cominco Metals Ltd ('Teck').

#### Exploration >>><sup>127</sup>

We continue to deepen the Fenix Ramp and further develop the Tumiri Vein. During 2007, 35,497 metres of diamond drilling were executed in 150 drill holes with significant drill intercepts in the Laguna, Explorador and Tumiri veins. The Explorador Vein system represents 34% of all measured and indicated resources for the Selene unit. Resources also have been identified in generally small secondary ore bodies closely associated with the Explorador Vein, within the Tumiri-Sofia Vein system which is oblique to and truncates the Explorador Vein, and in



a number of outlying veins located at distances up to 700 metres from the principal veins.

At the Tumiri and Explorador veins, 1,175 metres of underground workings were developed for conversion to reserves.

During 2007 we identified potential for high-sulfidation type epithermal mineralisation at Huachuivilca district located approximately 15 kilometres from Selene. However, we had to scale back the drill programme for developing new resources at Selene due to ongoing negotiations with the community of Pampamarca in 2007. Consultations with the community are under way and we expect a favourable outcome by the second quarter of 2008.

The 2008 exploration programme comprises 2,090 metres of underground workings and 18,250 metres of drilling at Huachuivilca, Cuello and Pacapausa.

#### Pallancata

##### Production and sales >>><sup>(13)</sup>

On 18 September 2007 we announced the commencement of production at Pallancata (60% Hochschild, 40% International Minerals) at an initial rate of 180 ktpa. This achievement exemplifies the Group's ability to leverage its existing operations to bring into production new profitable projects in the region. The Pallancata ore is transported to the Selene plant via a 22 kilometre road and shares the plant's capacity.

Production from the Pallancata mine has been from two vein structures only, Veta Oeste and Cimoide, the former contributing 82% of the total. Both of these vein structures

and the other ore bodies and veins which presently contribute to the total resources, all form part of the major Pallancata Vein system.

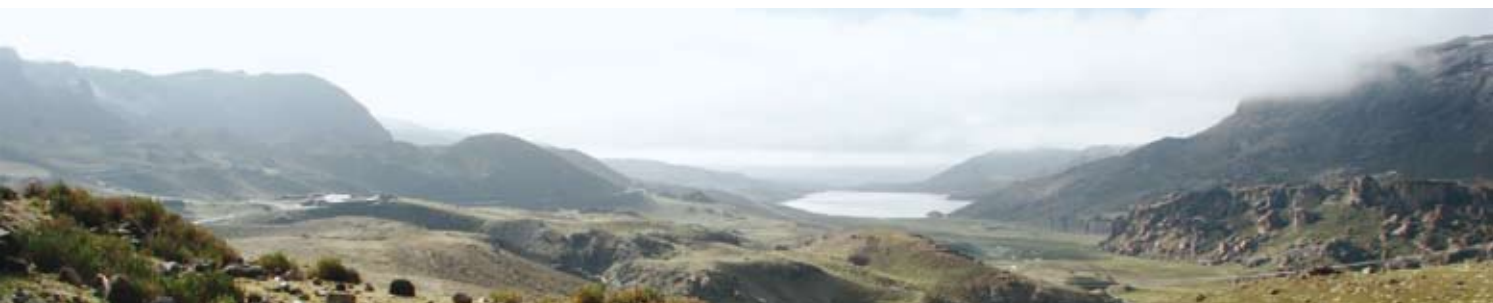
In order to fully benefit from the increasing resource at Pallancata, the Group has decided to increase throughput with the intention of processing approximately 500 ktpa during 2008, which is dependent on completion of the planned expansion of the Selene plant.

The Pallancata ore will be sold in the form of a silver-gold concentrate while the possibility of converting it to Doré is being evaluated. We have signed a new one year contract with Teck for nearly all of the forecasted 2008 production.

##### Exploration >>><sup>(127)</sup>

In 2007 we drilled 20,626 metres in 77 drill holes and developed 368 metres of underground workings on the Pallancata Central Vein. We continue to deepen the Santa Angela and Orion ramps and future exploration targets exist around the Mariana, Mercedes and San Javier structures.

The noticeable increase in reserves and resources has resulted from wider than expected mineralised structures intercepted in drill holes and underground workings in Pallancata Central and Oeste, respectively. The Veta Oeste ore body, comprising two ore zones, presently accounts for 99% of the total measured and indicated resources. Resources have also been identified in a number of vein structures adjacent to the Pallancata Vein system, which occur as sub-parallel or oblique ore bodies.



“Our low cash cost profile continues to be one of our key strengths. Through stringent cost controls, process optimisation and capacity increases, despite the inflationary cost pressures in our industry, we succeeded in containing the weighted average per tonne unit costs at Arcata, Ares and Selene to a marginal 2.9% increase in 2007.”

Ignacio Bustamante, Chief Operating Officer

## OPERATIONAL REVIEW (...cont'd)

Drilling at the Mariana and Mercedes veins has identified potential mineralisation that will be the subject of further work in 2008. In 2008 the exploration programme also includes 1,320 metres of tunnelling for reserve development at Pallancata central and completion of the district geology.

### Argentina San José

#### Production and sales >>> 13

We commenced production at San José in the second quarter of 2007 representing the Group's successful entry into a new country, Argentina. With a workforce of over 500 people, a fully ramped-up operation and a consolidated land package in the Argentinian Patagonia, we are excited about this new operation and expect strong operational and financial performance in the future. We continue to believe Argentina offers an enabling environment for foreign investment in mining although we continue to monitor policy changes closely.

As disclosed in our 2007 Q3 Production Report, we experienced delays in the initial ramp-up of the San José plant due to technical issues with the mill and flotation process, difficulty with the intensive leaching process which is used to turn the concentrate into Doré and the impact of severe weather conditions in August. We are pleased to report that during the fourth quarter of 2007 the plant reached full capacity of 265 ktpa and currently operates at that level.

While the plant is operating at full capacity, we continue to experience some difficulty with the intensive leaching process. We are currently undertaking re-engineering work in order to improve the cyanide detoxification process. We expect these complications to be resolved during the first half of 2008.

We had significant exploration success at San José and for this reason we plan to expand the San José plant during the third quarter of 2008 increasing its capacity from 265 ktpa to 530 ktpa. The Board has approved doubling capacity at the plant, and we will produce both Doré and concentrate at the San José mine until we resolve difficulties with the intensive leaching process, after which we will produce 100% Doré.

We have contracts in place to sell the Doré to Argor Heraeus S.A., a licensed trader, smelter and assayer based in Switzerland. We also have contracts with Norddeutsche Affinerie AG for the sale of the concentrate production and are in negotiations with several other refineries.

We have already ordered the critical equipment for the expansion, including a new ball mill, flotation cells, pumps, a thickener, a filtering system and a crusher. We are in the process of installing additional generators to power the incremental plant capacity while we work to connect the operation to the national grid. We have tendered the equipment, electric towers and transformers and have commenced construction of the electric line. We believe that the move from the use of generators to the national grid will provide significant cost savings.





The preparation and exploitation of the Frea and Huevos Verdes vein continues, as well as the development of the Kospi vein where 173 metres have been developed.

#### Exploration ▶▶ <sup>(127)</sup>

In 2007 we drilled approximately 28,585 metres through 112 drill holes and drifted 641 metres along the Frea Vein, which increased our resources and reserves by 28% and 19%, respectively.

During 2007 the increase in reserves was mainly from the Frea and Kospi veins while the important resource increment came from the Frea, Odin and Ayelen veins. Significant mineralised potential exists along strike and at depth over all the above structures.

During 2008 our exploration efforts will focus on surface work, re-mapping, compiling and integrating the district data (115 km<sup>2</sup>) to define new drill targets. We will continue to drill the San José property throughout 2008 albeit to a lesser degree with a 4,000 metre drill campaign currently contemplated.

#### Mexico

##### Moris

#### Production and sales ▶▶ <sup>(133)</sup>

On 13 August 2007 we announced the commencement of production at Moris which marked another important milestone and our successful entry into a third country, Mexico. Moris is a relatively small operation; however, it has provided a stepping stone into Mexico, a strategic mining country for the Group's long-term growth strategy.

Although Moris is currently operating an open pit mine, we continue to drill and explore the underground potential of the surrounding 9,889 hectares, with our partner EXMIN Resources Inc.

#### Exploration ▶▶ <sup>(127)</sup>

During 2007 we advanced exploration efforts at Moris, drilling 335 metres to define a potential on the old leach pad, incorporating 29,178 ounces gold to production.

#### San Felipe ▶▶ <sup>(127)</sup>

San Felipe is an underground mine located in northern Sonora, Mexico and consists of 10 mining concessions covering a total of approximately 14,498 hectares. The property is currently owned by Grupo Serrana, S.A. de C.V. and Hochschild has the option to acquire up to 70% of all mining rights and ownership of the property through a joint venture vehicle. To acquire this 70% interest, the Group must invest \$33.3 million in the property by 13 May 2011. As at 31 December 2007 we had invested \$5.2 million.

San Felipe is a significant project for the Group and is currently undergoing a feasibility study. We have undertaken an extensive drilling programme in 2008, and remain confident about the upside potential at the property, which is scheduled to commence production in 2010. Verification drilling has indicated attributable resources of 1.91 million tonnes, primarily at La Ventana, with 7.32% zinc, 71 g/t silver, 3.19% lead, 0.41% copper. The goal is to realise at least four million tonnes of total resources by the third quarter of 2008.



“ Exploration underpins our growth strategy. We have significant potential at our existing operations, promising prospects in our project pipeline and an effective joint venture strategy, all of which have enabled us to expand our asset base and will continue to provide us with future opportunities for growth. ”

Jorge Benavides, Senior Vice President, Corporate Development

## OPERATIONAL REVIEW (...cont'd)

We have hired external consultants MTB Project Management Professionals Inc. as project managers for the feasibility study of the project. The team of professionals involved in the project includes M3 Engineering & Technology Corp., Vector Engineering and Mine Development Associates.

Once completed, the feasibility study will be presented to the Board for approval. In the meantime, we are taking steps to ensure that the necessary infrastructure is in place to commence production as planned in 2010, involving plant and mill design, permitting and construction of the exploration ramp.

This joint venture agreement also includes two other nearby projects El Gachi and Moctezuma that consist of 14 mining concessions covering a total of approximately 2,247 hectares.

### Target definitions El Gachi

Together with the San Felipe joint venture, we have acquired rights on the El Gachi project (1,500 hectares) located 70 kilometres northeast from San Felipe. El Gachi was explored by Anaconda Chile S.A. (now Antofagasta Minerals S.A.) and Peñoles in the 1960s and 1970s and under exploration by Serrana during the 1990s. Unverified historic information indicates grades of 250 to more than 900 g/t silver and greater than 15% combined lead and zinc. We presently envisage a potential ore body ranging from a minimum of two metres to upwards of eight metres at similar grades.

In 2007 we reviewed the existing information and mapped the area (surface and underground). Apart from the El Gachi mine target, three new targets were identified in the surface mapping, all four aligned in a NNW direction. An initial drill programme to fast track this high-grade silver and base metal project has been designed for 2008.

### Azuca

Azuca is a 100% owned early stage development project in southern Peru located approximately 80 kilometres from Selene and Arcata. Diamond drilling during 2007 confirmed the lateral and vertical extension of the western ore shoot and also recognised a new mineralised shoot to the east. The 2007 drilling results include 2.6 metres at 1.46 g/t Au, 336 g/t Ag (west shoot) and 0.7 metres at 5.7 g/t Au, 1,420 g/t Ag (east shoot). These intersects, summed to those from previous drill campaigns suggest a mineralised potential between 1.0 to 1.5 million tonnes with 300 g/t Ag and 1.6 g/t Au. First half of 2008 drilling will focus on converting this potential into inferred resources, which should then be transformed into measured and indicated categories during the second half of 2008. Given the proximity of the Azuca project to our existing operations, we envisage leveraging the infrastructure already in place at Arcata and Selene in order to process the Azuca ore, should the project advance to an operational stage.



85  
GEOLOGISTS



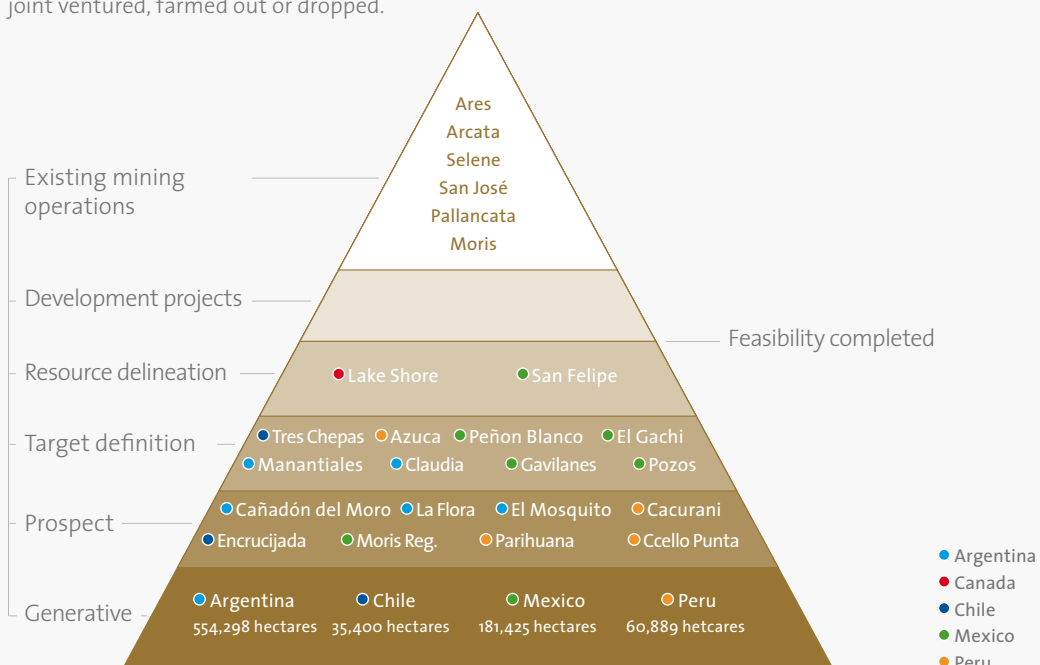
\$35m  
2007 TOTAL EXPLORATION  
EXPENDITURE\*

\* Includes \$8.3m of exploration costs capitalised during the year

## OUR GROWTH PYRAMID

We are constantly assessing new opportunities at all stages of development. Projects enter our growth pyramid either by way of internal discovery or joint venture and are subject to a strict evaluation process, where we rank and prioritise each opportunity based on specific criteria. Any project that does not meet the Group's requirements is joint ventured, farmed out or dropped.

The projects in the bottom half of the pyramid are either 100% owned or allow us the right to earn into majority ownership over time. Our pipeline currently comprises 16 target definitions/prospects in Argentina, Chile, Mexico and Peru:



**16**  
LONG-TERM TARGET  
DEFINITIONS/PROSPECTS



# FINANCIAL REVIEW

As a result of the Group's operational success in 2007, we have delivered a robust set of financial results in our first full year as a listed company. We rigorously manage the financial performance of the Group, measured by a number of key performance indicators as set out in the Strategy & KPIs section on pages 10 and 11. Additional information on the financial performance of the Group is provided below.

### Dividends

The Directors recommend a final dividend of 7.2 cents per share amounting to \$22.2 million. This amounts to a full year dividend of 9.2 cents per share which represents one-third of the Company's attributable profit for the year post exceptional items.

As stated at the time of the Listing, the Company's dividend policy takes into account the profitability of the business and underlying growth in earnings of the Company, as well as its capital requirements and cash flows, while maintaining an appropriate level of dividend cover. Interim and final dividends will be paid in the approximate proportions of one-third and two-thirds of the total annual dividend, respectively.

Dividends will be declared in US dollars. Unless a shareholder elects to receive dividends in US dollars, they will be paid in pounds sterling with the US dollar dividend being converted into pound sterling at exchange rates prevailing at the time of payment.

### Revenue

The Group's full year revenue from continuing operations increased 44% to \$305.0 million (2006: \$211.2 million) due to an increase in gold and silver ounces sold and higher commodity prices.

**Silver** – Revenue from silver increased 51% in 2007 to \$178.8 million (2006: \$118.1 million). This change reflects a higher realised silver price (up 15%) and a 32% increase in silver ounces sold. Total net silver ounces sold were 13,717 koz in 2007 (2006: 10,403 koz). In 2007 revenue from silver accounted for 59% of consolidated revenue compared to 56% in 2006.

**Gold** – Revenue from gold was up 35% in 2007 to \$125.2 million (2006: \$92.5 million). This change in gold revenue was driven by an increase in the realisable gold price (up 30%), coupled with a slight increase of gold ounces sold. Total net ounces of gold sold were 202 koz in 2007 (2006: 190 koz). In 2007 revenue derived from the sale of gold accounted for 41% of consolidated revenue compared to 44% in 2006.



**\$28m**  
TOTAL DIVIDEND 2007



## Revenue by mine

US\$000 unless otherwise indicated	Year ended 31 December 2007	Year ended 31 December 2006	% change
<b>Silver revenue</b>			
Arcata	85,005	48,455	75
Ares	38,078	23,168	64
Selene	47,280	46,513	2
Pallancata	7,712	–	n.m.
San José	739	–	n.m.
Moris	26	–	n.m.
<b>Total silver revenue</b>	<b>178,840</b>	118,138	51
<b>Gold revenue</b>			
Arcata	10,774	5,975	80
Ares	97,469	69,199	41
Selene	14,471	17,199	(16)
Pallancata	1,658	–	n.m.
San José	530	–	n.m.
Moris	348	–	n.m.
Sipan	–	77	n.m.
<b>Total gold revenue</b>	<b>125,250</b>	92,451	35
Other <sup>1</sup>	931	657	42
<b>Total revenue</b>	<b>305,021</b>	211,246	44

<sup>1</sup> Other revenue includes revenue from base metal components in the concentrate sold from the Arcata mine and services rendered.

## Forward sale contracts

We had a number of legacy forward sales contracts in place for both silver and gold which were entered into as part of the security package for a loan facility in 2003, the last of which expired in June 2007. The ounces covered by these forward sales contracts, and the sale prices, are outlined in the table below:

	2007	2006
Silver sales hedged (koz)	772	2,240
Gold sales hedged (koz)	60	97
Silver fixed price (\$/oz)	\$10.7	\$11.4
Gold fixed price (\$/oz)	\$418	\$487

We are now 100% hedge free and the Group's current corporate policy is not to hedge exposure to the underlying commodity prices for silver and gold. However, we do not rule out any options which may benefit the Group in the long-run.

## Average sale prices realised

	2007	2006	% change
Silver (\$/oz)	\$13.08	\$11.36	15
Gold (\$/oz)	\$634	\$487	30

100%  
HEDGE FREE



# FINANCIAL REVIEW (...cont'd)

### Costs

The high cost inflation associated with inputs into the mining industry impacted our operations during the course of 2007. In particular, demand for contract labour, fuel, explosives, electricity and cyanide continued to outstrip supply, resulting in escalating prices. Additional industry-wide demand for equipment also increased lead times for the delivery of equipment. During 2007 we were able to mitigate partially these cost increases by capacity expansions and efficiency gains, and we are confident that we will remain one of the lowest cash cost producers in our industry.

In 2006 we operated three mines, Arcata, Ares and Selene in southern Peru at a weighted average cost of \$59.10 per tonne (excluding depreciation, certain operating expenditure not directly related to production and workers profit sharing). In 2007 the weighted average cost per tonne for these three mines was \$60.81 per tonne, a marginal increase of 2.9% year-on-year.

When taking into account the Group's two new underground mines, San José and Pallancata, the weighted average cost per tonne increased 18% year-on-year to \$69.69 per tonne. This increase was the result of higher costs at San José during the initial ramp-up phase of the mine.

We exclude the cost per tonne from the Moris mine in our weighted average cost calculation as it is an open pit mine with a different operational and cost profile than our underground operations. The weighted average cost per tonne at Moris for 2007 was \$18.42, slightly higher than initially anticipated.

As explained in our 2007 Q4 Production Report, we anticipate that our average cash cost per tonne in 2008 for our five underground operations will be at or below 2007 levels. This is primarily a result of an increase in tonnage treated at Arcata, San José and Pallancata and cost reduction efforts.

### Administrative expenses

Administrative expenses totalled \$69.2 million, up 89% in 2007 as compared to 2006 (2006: \$36.6 million). This increase was mainly due to additional personnel expenses associated with our new operations, the London office, recruitment of corporate staff to create a platform for future growth, higher level of workers' profit sharing due to increase in profits and directors' remuneration payable in respect of a full twelve-month period. In addition to personnel expenses, consulting fees increased as a result of accounting and legal advice and tax consulting services some of which will be non-recurring items in the future.

We believe this increase represents a step change in overhead expenses and is a reflection of the incremental costs associated with being a public company as well as being the result of having diversified into new countries. We are confident that the Group now has in place the appropriate infrastructure to meet its medium-term growth objectives.

### Profit from continuing operations before exceptional items, net finance income/(cost), foreign exchange (loss)/gain and income tax and adjusted EBITDA

Profit from continuing operations before exceptional items, net finance income/(costs), foreign exchange (loss)/gain and income tax increased 37% to \$103.9 million (2006: \$76.0 million).



### Adjusted EBITDA reconciliation

US\$000 unless otherwise indicated	Year ended 31 December 2007	Year ended 31 December 2006	% change
Profit from continuing operations before exceptional items net finance income/(cost), foreign exchange (loss)/gain and income tax	103,930 34%	75,975 36%	37
Operating margin			
Plus:			
Depreciation and amortisation in cost of sales	24,685	17,697	39
Depreciation and amortisation in administrative expenses	525	993	(47)
Exploration expense	26,728	19,026	40
Minus:			
Personnel and other exploration expense	(8,262)	(6,142)	35
Adjusted EBITDA	147,606	107,549	37
Adjusted EBITDA margin	48%	51%	

### Finance income and finance costs

Finance income increased 230% in 2007 to \$19.8 million (2006: \$6.0 million) driven by interest received on liquidity funds. Finance costs for the period primarily related to the interest on pre-shipment loans used to finance working capital. In addition, finance costs included interest on the loan from Minera Andes Inc., our partner at the San José mine, to Minera Santa Cruz S.A. ('Minera Santa Cruz')

the legal owner of the mine in which we have a 51% interest. During 2007 the Company did not have any long-term debt outstanding.

### Foreign exchange loss

The Group incurred a \$4.4 million foreign exchange loss in 2007 (2006: \$0.4 million gain) resulting from the Argentinian peso depreciating against US dollar. Minera Santa Cruz, one of the Group's subsidiaries which is the legal owner of the San José mine, had \$82 million of debt denominated in US dollars. As Minera Santa Cruz's functional currency was the peso during 2007, the translation of this loan into pesos created a loss, which was recorded in the income statement. Following the commencement of operations during the year, we have been required to change the functional currency in Minera Santa Cruz to US dollars from 2008 therefore exchange differences on these loans will not arise.

### Income tax

The weighted average statutory income tax rate was 29.66% for 2007 and 30.18% for 2006. This difference is due to a change in the weighting of profit and loss before tax in the various jurisdictions in which the Group operates.

The effective tax rate for 2007 is 30.81% reduced from 42.00% in 2006. This decrease was driven primarily by: higher profit at Compañía Minera Ares S.A.C., which is taxed at a lower rate (30%); a decrease in non-deductible expenses; recognition of previously unrecognised deferred tax assets in relation to the mine closure provisions; and the recognition of a portion of the double deduction in calculating corporate income tax in Argentina pursuant to the special investment regime in effect in the province of



## FINANCIAL REVIEW (...cont'd)

Santa Cruz; which was partially offset by the impact of introduction of reforms to Mexico's tax legislation.

### Minority interest

The loss attributable to minority interest in both 2007 and 2006 consists predominantly of that portion of the costs for the San José project, of which the Company has a 51% ownership, with Minera Andes S.A. owning the remaining 49%.

### Exceptional items

Exceptional items are those significant items which due to the nature or the expected infrequency of the events giving rise to them need to be disclosed separately on the face of the income statement.

In 2007 we recognised an exceptional gain of \$5.5 million recorded in finance income. This gain principally reflects the change in fair value of warrants the Company holds over 2,475,355 shares in Fortuna Silver Mine Inc. In addition, the Company had a \$1.5 million exceptional loss recorded in other expenses primarily as a result of the sale of its wholly owned subsidiary, Compañía Minera Sipan, to a third party. Correspondingly, we disclosed the tax impact of these items amounting to \$1.3 million as an exceptional item.

In 2006 exceptional items in other expenses principally comprised \$3.0 million asset impairment at Sipan and a loss on the sale of investments of \$2.2 million, which was incurred when the Company disposed of shares in Inversiones Pacasmayo prior to the Listing in November 2006. In addition, there was a \$1.0 million loss on the sale of the Group's wholly owned subsidiary, Mauricio Hochschild & Cia. Ltda. S.A.C.

### Balance sheet and cash flow review

#### Working capital

US\$000 unless otherwise indicated	As at 31 December 2007	As at 31 December 2006
<b>Current assets</b>		
Inventories	47,012	16,533
Trade and other receivables	134,180	47,592
<b>Current liabilities</b>		
Trade and other payables	52,176	64,140
Pre-shipment loans	23,750	26,894
<b>Working capital</b>	<b>105,266</b>	(26,909)

The change in the working capital position resulted from a significant increase in trade and other receivables from \$47.6 million as at 31 December 2006 to \$134.2 million as at 31 December 2007 and to a lesser degree from an increase in inventories from \$16.5 million as at 31 December 2006 to \$47.0 million as at 31 December 2007.

Receivables were higher at the end of 2007 because of an increase in trade receivables, prepaid expenses and VAT, and funds due from a minority shareholder.

As discussed earlier, we produced more concentrate at Arcata than we had contracted to sell to Peñoles in 2007. Whilst this was sold to various other smelters, thus diversifying the Group's concentrated customer base, much of the sales were made during December, resulting in a high level of trade receivables at the year-end. These trade accounts receivable were mainly comprised of amounts receivable from Cormin, Traxis and Norddeutsche Affinerie. We believe that the high level of sales in December 2007,



**48%**  
ADJUSTED EBITDA  
MARGIN

**\$301m**  
CASH AND CASH EQUIVALENTS



and the resulting high balances of accounts receivable, was a one-off situation which will reverse during the first half of 2008.

The increase in prepaid expenses and VAT mainly comprised value added taxes paid in the development of the San José project that will be recovered through future sales of gold and silver by the Group.

The loan due from a minority shareholder corresponds to a capital contribution pending collection from the minority shareholder of the San José operation.

The increase in inventories was the result of the intensive leaching process not working as planned which led to the production of precipitates from the San José operation, some of which will be processed into Doré and sold in 2008.

#### Net debt

US\$000 unless otherwise indicated	As at 31 December 2007	As at 31 December 2006
Cash and cash equivalents	(301,426)	(435,543)
Long-term borrowings	55,209	27,114
Short-term borrowings less pre-shipment loans	9,419	2,888
Net debt/(net cash)	(236,798)	(405,541)

The Group's balance sheet remains robust with \$236.8 million of net cash as at 31 December 2007. In addition, the Group successfully completed the syndication phase of its

\$200 million Secured Term Loan Facility. The facility will be used for general corporate purposes such as potential acquisitions. The Company believes its existing mines and near-term projects are fully funded with current cash on the balance sheet together with future cash which will be generated from these operations.

#### Cash flow

The Group's operations generated \$21.4 million of cash flow in 2007 reduced from \$94.0 million in 2006. This decrease was principally driven by a temporal shift in working capital despite a significant increase in the underlying profit from continuing operations.

#### Total capital expenditure<sup>1</sup>

In 2007 we continued to invest in our production platform, as indicated in the table below:

US\$000 unless otherwise indicated	Year ended 31 December 2007	Year ended 31 December 2006
Arcata	22,750	13,170
Ares	3,705	2,188
Selene	27,497	4,319
Pallancata <sup>2</sup>	12,190	12,931
San José <sup>2</sup>	62,752	36,075
Moris <sup>2</sup>	12,099	8,034
San Felipe <sup>2</sup>	667	156
Other	3,078	1,997
<b>Total</b>	<b>144,738</b>	<b>78,870</b>

<sup>1</sup> The amounts shown above exclude increases in the mine rehabilitation asset amounting to \$1,056,000 (2006: \$1,810,000).

<sup>2</sup> Represents 100% of capital expenditure.

“ With our strong balance sheet, the \$200 million term loan facility and cash flow from our operations, we have the financial capacity to pursue our organic growth strategy. ”

Ignacio Rosado, Chief Financial Officer



# CORPORATE SOCIAL RESPONSIBILITY

## Objectives

- A workforce that is motivated, healthy and committed to excellence with zero fatalities and in the lowest quartile of accidents.
- National and World Bank environmental standards at all of our operations.
- Peaceful and constructive relations with the local communities.

## Management and accountability

### Board responsibility

Roberto Dañino, Deputy Chairman & Executive Director, has Board level responsibility for CSR at Hochschild Mining. The Board has ultimate responsibility for establishing Group policies relating to CSR and ensuring that national and international standards are met.

### Corporate Social Responsibility Committee

The Committee was established in 2006 as a formal committee of the Board with delegated responsibility for various CSR issues, focusing on compliance with national and international standards and ensuring that effective systems, procedures and practices are in place at each of the Company's operations to manage CSR related risks. The Committee is also responsible for reviewing management's investigation of incidents or accidents that occur in order to assess the improvements required.

## CSR in practice

Each country manager is responsible for ensuring that the high standards set by the Board are maintained at an operational level and reports to the CSR Committee and the Board on an ongoing basis.

Hochschild focuses on three key areas: *Workplace, Community and the Environment.*

## Our workplace

Our people and their safety are vital elements of our strategy to which the Board and the Group's employees are committed. By the end of 2007 our total workforce was 4,137.

Given the nature of our industry, health and safety is of critical importance and we have made considerable investments in operating controls and processes to ensure that the most stringent safety standards are met. We achieved the international health, safety and risk management accreditation, OHSAS 18001 at our three original mines and we are now in the process of certifying our three new operations.

We exert every effort to ensure the safety of all our employees. However, it is with great regret that we report four onsite fatalities in 2007. The Board has taken steps to support the families of those involved and has addressed the underlying safety deficiencies that led to the occurrence of these tragic events.



“ A safe and healthy workforce, respect for the environment and commitment to our local communities are essential for the sustained viability of our business and intrinsic to our core values. ”

Roberto Dañino, Deputy Chairman

**OHSAS  
18001**  
HEALTH & SAFETY  
ACCREDITATION

A team of industry consultants undertook a comprehensive review of the Group's health, safety and environmental procedures to ensure their effectiveness. We made substantial progress in implementing the recommendations provided and are now in the process of implementing DNV's Health and Safety Management System at all our operations.

We also monitor the Lost Time Injury Frequency Rate ('LTIFR'). In 2007, the average LTIFR was 6.76 which is in line with industry average. We assess the frequency of accidents on a monthly and annual basis and produce regular statistics regarding the type and cause of accidents so that efforts can be made to reduce and, where possible, eliminate accidents entirely.

At an operational level, local safety and hygiene committees meet once a month to review, promote and monitor health and safety policies as well as environmental protection programmes. Additionally, all employees and contractors are given occupational health examinations prior to joining the Group and are then examined annually. On an ongoing basis, we monitor monthly attendance at our medical facilities including the number of visits per employee per month. We also assess the pharmacy cost per patient and the time taken to produce medical examination results to gain a clear view of the severity of any incidents that takes place and the level of service that is provided.

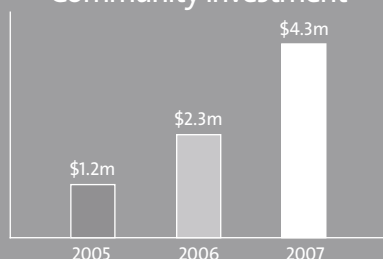
### Our community

We believe that active long-term engagement with our local communities is fundamental to our ability to operate in the region and we devote considerable time and resources to this. We seek to maintain peaceful and constructive relations with our communities, whilst improving the lives of the local people on a sustainable basis. We measure the levels of poverty at each location, including the adequacy of basic needs such as housing, water, sanitation and schooling to tailor our programmes and improve their effectiveness. We also measure the community's dependency on the Group for employment and training. We engage with the local communities to jointly develop Community Development Plans ('CDP') which are then implemented with their participation in order to improve the long-term viability of the programmes.

There are three key areas of our community programme:

- **Healthcare** – We invest in healthcare campaigns that are conducted in conjunction with local communities and provide access to healthcare facilities and medicines. We work with local communities to improve the infrastructure of health facilities and community houses and undertake a number of preventative campaigns, including vaccinations.
- **Education** – We seek to improve the level of general education for both adults and children in our communities. In 2007 we supported a pilot programme for rural education at the community high school in

Community investment



## CORPORATE SOCIAL RESPONSIBILITY (...cont'd)

Iscahuaca, Peru. The Alternance Education System involves high school children living and studying together for 15 day periods followed by 15 days working on projects specifically related to their own development and is supported by the education authorities. We also continue to support TECSUP, the leading technical institute in Peru, which was founded by the Hochschild Group.

- **Sustainable economic activities** – Our programmes include: rehabilitation of agricultural land; provision of greenhouses for community production; education on irrigation techniques; alpaca breeding and marketing; guinea pig farming on a commercial scale; trout farming and marketing; and road building and community employment on road maintenance.

### Our environment

We endeavour to minimise the impact of our business on the environment. At our four mines in Peru, we not only comply with local regulations but also exceed the requirements laid down by the World Bank in its 'Environmental, Health and Safety Guidelines for the Mining Industry'. We apply the same standards to our operations in Mexico and Argentina and are working to ensure that they are fully compliant. We retain our Environmental Management System ISO: 14001 accreditation at our three original operations and our focus in 2008 is to ensure that our three new mines achieve this certification.

International certification firm, Deutsche Gesellschaft zur Zertifizierung von Management Systemen ('DQS') in Germany, undertakes regular audits of our environmental performance and management systems. We are proud to report that DQS has consistently found Hochschild to be in full compliance with international standards and has confirmed our ISO: 14001 accreditation.

As part of our environmental management programme, we measure our consumption of natural resources including water use and the quality of the incoming and outgoing water supply. To ensure the highest standards, we have trained community members to participate in environmental monitoring together with local universities, government mining authorities and laboratory personnel. In addition, we monitor air quality in the surrounding environment and our efforts in reducing the levels of effluents and pollutants. We also closely monitor the cost of mine closure and how we can mitigate the impact of each closure on the surrounding community and its environment.





# RISK MANAGEMENT

## Overview

As with all businesses, management of the Group's operations and execution of the Group's growth strategies are subject to a number of risks, the occurrence of any one of which may adversely affect the execution of growth strategies and hence the performance of the Group.

A number of steps were taken during 2007 in the area of risk management. In particular, the Group has:

- recruited a Head of Risk Management and Head of Internal Audit;
- established processes to identify, evaluate and prioritise the risks faced by the business; and
- established a plan, currently being executed, to conduct an evaluation of the controls currently in place and to implement action plans to ensure that key business risks are adequately mitigated.

Risks are constantly reviewed by the CEO, COO, CFO and the relevant country head with a risk matrix presented to the Audit Committee at least once a year. It is the responsibility of the Group's Internal Audit department to formulate the relevant action plans and to oversee implementation of the relevant internal controls.

The key business risks affecting the Group are set out below. The steps the Group has taken to mitigate these risks, when they are within its control, are also described.

## Financial risks

The Group is exposed to various financial risks that can affect its ability to carry on business. The principal risk relates to movements in the prices of silver and gold which have a direct impact on our revenues, as we currently do not have

forward sale contracts in place. In addition, fluctuations in the exchange rates of the Peruvian sol, Argentinian peso, Mexican peso and the pound sterling against the US dollar can have an impact on the Group's results.

For more detail on these and other financial risks please refer to note 38 of the Group Financial Statements section of this document on page 105.

## Operational risks

### Delivery of projects

We have a number of projects the timely completion of which is taken into consideration for the estimation of future production and thus revenue. Our current and future projects may be significantly delayed due to unforeseen circumstances, for example failure to receive regulatory approvals or renewal of approvals on time, delivery delays from suppliers, resource constraints or other unforeseen circumstances. As a result, these projects may not be completed on time, or at all, and may incur significant cost overruns.

In 2007 the Company created the Project Management Department, a group solely focused on overseeing the timely delivery of projects and the execution of projects according to plan. With the development of the Project Management Department, we believe this area of the business has adequate expertise, both in-house and supplied by third party specialists, and resources to ensure projects are delivered on time and in line with the original scope.



## RISK MANAGEMENT (...cont'd)

### Business interruption

Assets used in our operations may break down in the normal course of operations due to a number of events such as fire, explosion, environmental hazards, loss of electric power or other occurrences.

Our insurance policies may not cover against all forms of risks due to certain exclusions and limitations. Furthermore, it may not be commercially feasible to cover all the risks.

We currently have combined property damage and business interruption insurance policies for all our operations, and regularly review the adequacy of our insurance coverage by engaging consultants and specialists in order to determine the optimal level of insurance coverage appropriate for our industry and operations in Latin America.

### Reserve and resource replacement

The reserves stated in this Annual Report are estimates and represent the quantity of gold and silver that we believe could be mined, processed, recovered and sold at prices sufficient to cover our costs. Our future profitability and operating margins depend upon our ability to replenish our reserves that have geological characteristics which enable mining at competitive costs.

For many years the Group has accomplished an excellent track record of reserve and resource replacement. During 2007 the Group delivered a total of 31.6 million silver equivalent ounces across its six operations whereas it added a total of 60 million silver equivalent ounces to reserves in the same period.

### Personnel

The Group's business depends, to a significant degree, upon the contributions of a number of the Group's key senior management and personnel, in particular its highly skilled team of engineers and geologists. There can be no certainty that the services of key personnel will continue to be available to the Group.

In some of the jurisdictions where the Group's operations and development projects are located, particularly Argentina, it may be difficult for the Group to find or hire qualified people in the mining industry who are situated in those jurisdictions or to obtain all of the necessary services or expertise locally or to conduct operations on its projects at reasonable rates.

The Group considers as critical, the continued service of its present staff and its ability to attract highly qualified personnel. To this end, the Group seeks to provide competitive compensation arrangements and well-defined career plans.

### Political, legal and regulatory risks

The Group's ongoing operations, exploration and development activities and planned expansions are subject to extensive laws and regulations governing various matters.

The costs associated with compliance with these laws and regulations are substantial and future changes to such requirements (including the imposition of higher taxes and mining royalties) could cause additional expense, restrictions on, or suspensions of, the Group's operations and delays in the development of its properties.



The Group performs a thorough risk assessment on a region-by-region basis when considering investments in new countries, and regularly reviews political environments and assesses potential changes to the level of relevant royalties and taxes. With local teams on the ground in each of the countries in which the Group operates, it believes it is well positioned to anticipate and react accordingly to policy changes which may impact the business. The Group further manages these risks through broadening its geographic spread of assets ensuring that such risks are diversified across a number of countries.

#### Corporate social responsibility related risks

##### Health and safety

Given the nature of the Group's business, its workers are exposed to risks that threaten their health and safety. Failure to manage this risk may result in a work slowdown, work stoppage or strike at any of the Group's operating units or development projects and/or will damage the reputation of the Group and hence its ability to operate.

As part of its risk management processes, the Group is in the process of implementing a safety management tool in conjunction with specialist advisers in order to achieve its objectives in this area.

##### Environmental

Mining activities are generally subject to environmental hazards as a result of the processes and chemicals used in the extraction and production methods. The Group may be liable for losses associated with such hazards, or may be forced to undertake extensive remedial clean-up action or to pay for governmental remedial clean-up actions. Although the Directors believe the

The Group is in substantial compliance with applicable laws and regulations, they cannot guarantee that any such law, regulation, enforcement or private claim will not have a material adverse effect on the Group's business, financial condition or results of operations.

As part of the process to establish a robust approach to environmental risk management, the Group's environmental department has engaged the services of external consultants to perform periodic audits of the Group's operations, the findings of which are reported to senior management and the corresponding recommendations implemented according to agreed action plans.

##### Social

There is the potential for communities living in the locations of the Group's various operations to oppose the activities of its existing mines or development projects and prospects. Whilst the Group believes it maintains good relations with local communities, it cannot rule out the possibility of local opposition arising in the future in respect of its existing operations or in relation to obtaining concessions for current or future projects.

In order to maintain peaceful relations with host communities, the Group's Community Relations Department maintains permanent dialogue and cooperation with the surrounding communities. Further, one of the Group's main aims is to develop sustainability programmes for the local communities to achieve self-dependence.



# BOARD OF DIRECTORS

### Executive Directors

#### **Eduardo Hochschild (44)** Executive Chairman

Eduardo Hochschild joined the Hochschild Mining Group in 1987 as Safety Assistant at the Arcata unit, becoming Head of the Hochschild Mining Group in 1998 and Chairman in 2006. He graduated from Tufts University in Boston with a BSc in Physics and Mechanical Engineering. He holds numerous directorships with Cementos Pacasmayo S.A.A., COMEX Peru, the Banco de Crédito del Perú, the Sociedad Nacional de Minería y Petróleo, the Asian Pacific Economic Council Business Advisory Committee, the Conferencia Episcopal Peruana, Pacífico Peruano Suiza, TECSUP, the Universidad Nacional de Ingeniería and the Universidad de Ciencias Aplicadas.

#### **Roberto Dañino (57)** Deputy Chairman and Executive Director

Roberto Dañino joined the Hochschild Mining Group in 1995, where he remained until 2001 when he left to serve in the Peruvian Government as Prime Minister and later as Peru's Ambassador to the United States. From 2003 to 2006 he was Senior Vice President and General Counsel of the World Bank Group and Secretary General of ICSID. Previously, he was a partner of Wilmer, Cutler & Pickering in Washington DC. He was also founding General Counsel of the Inter-American Investment Corporation. He holds Law degrees from Harvard Law School and the Pontificia Universidad Católica del Perú.

#### **Alberto Beeck (52)**

#### Executive Director, Strategy & Corporate Development

Alberto Beeck commenced working with the Hochschild Mining Group in 1998. Prior to this, he served as Managing Director and Head of Latin American Investment Banking for Barings, Inc. in New York and Baring Brothers, in London. From 1988 to 1992, Alberto served in the London Corporate Finance Group of Dillon, Read Ltd, as Vice President with responsibility for Spain and Portugal. He also served as Vice President of Lehman Brothers, New York, from 1982 to 1988 in the International Corporate Finance and Government Advisory Group. He received a BSc in Mechanical Engineering from Purdue University in 1978, and an MBA in Finance and International Business from Columbia University in 1982.



## Independent Non-Executive Directors

### Sir Malcolm Field (70)

#### Senior Non-Executive Director

Sir Malcolm Field is currently the Senior Non-Executive Director of Aricom plc and a Non-Executive Director of both Odgers Ray & Berndtson and Linden Homes. From 2002 to 2006, Sir Malcolm served as Chairman of Tube Lines Limited, one of the London Underground consortia, and from 2001 to 2006, was an external policy adviser to the Department of Transport in the United Kingdom. From 1982 to 1993, he was Group Managing Director of WH Smith plc and from 1993 to 1996 he served as Chief Executive. From 1996 to 2001, Sir Malcolm was Chairman of the Civil Aviation Authority and he has also held appointments as a Non-Executive Director in a number of companies, including Scottish and Newcastle plc, MEPC, The Stationery Office and Evolution Beeson Gregory.

### Jorge Born Jr. (45)

#### Non-Executive Director

Jorge Born Jr. joined Bomagra S.A. in 1997 as Chief Executive Officer, and since 2001 has been President and Chief Executive Officer of the same organisation. Jorge is also a Director of Caldenes S.A., a subsidiary of Bomagra S.A. Prior to joining Bomagra S.A. in 1997, he served as Head of Bunge Limited's European operations from 1992 to 1997 and as Head of Bunge Limited's UK operations from 1989 to 1992. He has been a Director and Deputy Chairman of Bunge Limited since 2001 and director of Mutual Investment Limited since 1997 and its Deputy Chairman since 2001. Jorge has also been a Director of Dufry South America S.A. of Rio de Janeiro since 2006. He is currently also President of the Bunge and Born Charitable Foundation. Jorge received a BSc in Economics from the Wharton School of the University of Pennsylvania in 1983.

### Nigel Moore (63)

#### Non-Executive Director

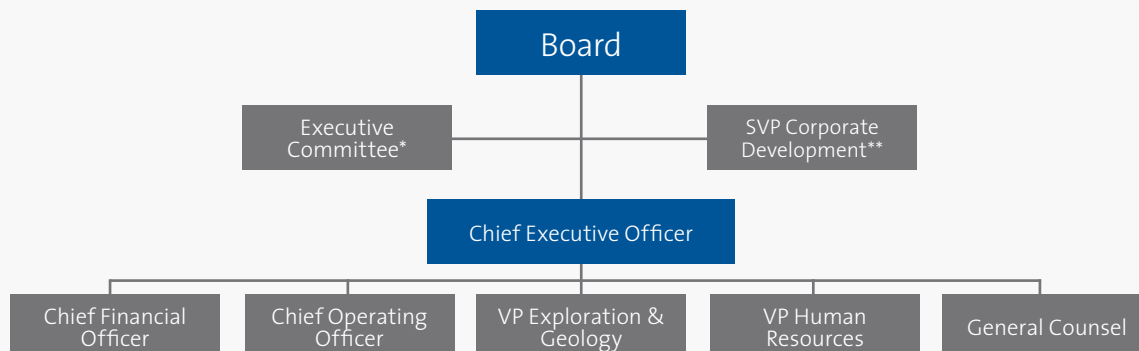
Nigel Moore is a Chartered Accountant. Since 2003, he has been Chairman of TEG Environmental plc. He is currently a Non-Executive Director of The Vitec Group plc, JKX Oil & Gas plc, Ascent Resources plc and Production Services Network Ltd. From 1973 to 2003, Nigel was a Partner at Ernst & Young and was the Managing Partner of Ernst & Young's London office from 1985 to 1987, a Senior Partner attached to the Chairman's Office (Europe) from 1987 to 1989 and the Regional Managing Partner for Eastern Europe and Russia from 1989 to 1996. From 1996 to 2003, he was a Client Service Partner for the oil and gas sector.

### Dionisio Romero (71)

#### Non-Executive Director

Dionisio Romero is Chairman and Chief Executive Officer of the financial services holding company, Credicorp Ltd. He is Chairman of Banco de Crédito del Peru, Banco de Crédito de Bolivia, Atlantic Security Bank and Pacífico Peruano Suiza, Cia. de Seguros y Reaseguros. In addition, Dionisio is a Director of Banco de Credito e Inversiones de Chile. He graduated with a BA degree in Economics from Pomona College, California in 1957, and earned an MBA from Stanford University in 1959.

## SENIOR MANAGEMENT



\* Members of the Executive Committee are Messrs. Hochschild, Dañino, Beeck, Benavides, Aramburú, Rosado and Bustamante. José Augusto Palma serves as Senior Adviser to the Executive Committee.

\*\*The Senior Vice President Corporate Development is supported by Isac Burstein – Corporate Manager, Business Development.

### Miguel Aramburú (44) Chief Executive Officer

Miguel Aramburú joined Hochschild in 1995 when he was appointed General Manager of Compañía Minera Pativilca. He was appointed Chief Financial Officer in 2002 and subsequently served as General Manager of the Mining Division and, most recently, as Chief Operating Officer. Miguel assumed his current role of Chief Executive Officer in January 2008. He graduated from the Pontificia Universidad Católica del Perú in 1987 in Industrial Engineering and holds an MBA from Stanford University.

### Jorge Benavides (54) Senior Vice President, Corporate Development

Jorge Benavides has thirty years' experience in the mining industry. He joined Hochschild in 2001 and was Head of Exploration and Geology between 2005 and January 2008 when he assumed his current role of Senior Vice President, Corporate Development. Previously, he spent eight years working for the Phelps Dodge Mining Company in South America and Mexico, including as Exploration Manager for the Andean Region. Jorge holds an MSc in Ore Deposits and Exploration from Stanford University and a BSc in Geological Engineering from the Colorado School of Mines.

### Isac Burstein (42) Corporate Manager, Business Development

Isac Burstein joined the Group as a geologist in 1995. Prior to his current position, Isac served as Manager for Project Evaluation, Exploration Manager for Mexico, and Exploration Geologist. He holds a BSc in Geological Engineering from the Universidad Nacional de Ingeniería, an MSc in Geology from the University of Missouri and an MBA from Krannert School of Management, Purdue University.

### Ignacio Bustamante (36) Chief Operating Officer

Ignacio Bustamante joined Hochschild in 1992 and, prior to his appointment as Chief Operating Officer in January 2008, served as General Manager of the Peruvian operations. Between 1998 and 2003 he worked as Chief Financial Officer of Cementos Pacasmayo. Subsequently, he worked for Zemex Corporation, a subsidiary of Cementos Pacasmayo, based in Atlanta, Georgia, serving first as Chief Financial Officer and Vice President of Business Development and later as its President. Ignacio holds a BSc in Business and a BSc in Accounting from Universidad del Pacífico in Peru and an MBA from Stanford University.

### Javier Durand (41) General Counsel

Javier Durand has 14 years of legal experience in the mining industry. He joined Hochschild in 1994 and has been the General Counsel of the Group since 1998. Javier received a Law Degree from the Universidad de Lima, has participated in the Management Program for Lawyers at Yale School of Management and has an MBA from the Universidad del Pacífico in Peru.

### Raymond Jannas (55) Vice President Exploration & Geology

Raymond Jannas joined Hochschild in 2007 after working for eight years at Gold Fields Limited where he served as Worldwide Project Generation Manager between 2006 and 2007 and as South America Exploration Manager. Raymond has over 30 years of experience as a geologist throughout the Americas. He holds a BSc in Geology from the Universidad de Chile and an MSc and PhD in Geology from Harvard University.

### José Augusto Palma (40) Senior Adviser, Executive Committee

José Augusto Palma joined Hochschild in July 2006 after a 13 year legal career in the United States, where he was a partner at the law firm of Swidler Berlin and later worked for the World Bank. He also served two years in the Government of Peru. José has Law degrees from Georgetown University and the Universidad Iberoamericana in Mexico and is admitted to practice as a lawyer in Mexico, New York and the District of Columbia.

### Ignacio Rosado (38) Chief Financial Officer

Ignacio Rosado has been the Chief Financial Officer of the Group since 2005. Previously, he was Senior Engagement Manager for Latin America for McKinsey & Company from 2000 to 2005. Ignacio began his career in banking having worked for Banco Wiese Sudameris in Peru (1992-1994) and in Banco de Crédito del Perú. He holds an MBA from the University of Michigan Business School and a BSc in Economics from the Universidad del Pacífico in Peru.

### Eduardo Villar (35) Vice President Human Resources

Eduardo Villar has been with the Group since 1996. Prior to his current position, he served as Human Resources Manager, Deputy HR Manager and Legal Counsel. Eduardo holds a Law Degree from the Universidad de Lima and an MBA from the Universidad Peruana de Ciencias Aplicadas.

# DIRECTORS' REPORT

The Directors have pleasure in presenting the report of Hochschild Mining plc and its subsidiaries for the year ended 31 December 2007.

## Principal activities and business review

Hochschild is a leading precious metals company with a primary focus on the exploration, mining, processing and sale of silver and gold.

Currently, the Group has five underground mines in production which are supported by fully developed infrastructure, four of which are located in southern Peru and the fifth in Argentina. The Group also has one active open pit mine in Mexico. In addition, the Group has one early stage development project in Mexico, a strategic investment in a Canadian gold company and 16 long-term prospects at various stages of development. A number of these projects and prospects are structured as joint ventures or option arrangements with local or overseas mining partners, whilst others are owned and operated exclusively by the Group.

A detailed review of the Group's activities and an indication of its future plans are set out in the At a glance section on pages 2 and 3, the Chairman's Statement on pages 4 to 7, the Q&A with the CEO on pages 8 and 9, the Strategy & KPIs section on pages 10 and 11 and the Operational and Financial Reviews on pages 14 to 27 of this Annual Report.

A description of the principal risks and uncertainties facing the Group is included on pages 31 to 33 which, taken together with the sections of the Annual Report referred to above, fulfil the requirements of the Business Review and which are incorporated into this report by reference.

## Results and dividends

The Group's Adjusted EBITDA (calculated as profit before exceptional items, net finance income/cost, foreign exchange loss/gain and income tax plus depreciation and exploration costs other than personnel and other exploration costs from continuing operations) amounted to US\$147.6 million. Turnover and attributable profit to equity shareholders after tax increased by 44% and 104% respectively.

An interim dividend of US\$0.02 per share was paid to shareholders of the Company on 19 October 2007. The Directors recommend the payment of a final dividend of US\$0.072 per share (2006: US\$0.0074 per share). Subject to shareholders approving this recommendation at the forthcoming annual general meeting ('AGM'), the dividend will be paid in UK pounds sterling on 13 May 2008 to shareholders on the register at the close of business on 18 April 2008. Shareholders may elect to receive dividends in US dollars. The US dollar dividend will be converted into UK pounds sterling at the exchange rate prevailing at the time of payment.

## Directors

The names and biographical details of the Directors serving during the year ended 31 December 2007 and as at the date of this report are given on pages 34 and 35.

Roberto Dañino, Alberto Beeck and Sir Malcolm Field will be retiring by rotation at this year's AGM who, being eligible, will offer themselves for re-election.

## DIRECTORS' REPORT (...cont'd)

### Directors' interests

Details of the beneficial interests of the Directors in the share capital of the Company are shown below:

Name	At 31 December 2007	At 1 January 2007
Eduardo Hochschild <sup>1</sup>	181,350,426	214,962,500
Roberto Dañino <sup>2</sup>	1,725,000	3,450,000
Alberto Beeck <sup>3</sup>	25,112,074	0
Sir Malcolm Field	14,285	14,285
Jorge Born Jr.	0	0
Nigel Moore	14,285	14,285
Dionisio Romero	0	0

<sup>1</sup> Eduardo Hochschild holds an indirect interest in the Company through an intermediate holding company which he controls and which owns the entire issued share capital of Pelham Investment Corporation which, in turn, owns shares in the Company.

<sup>2</sup> Roberto Dañino's shareholding is held through Navajo Overseas Corporation.

<sup>3</sup> Since the Listing and, as at 1 January 2007, Alberto Beeck had an indirect interest in the shares of the Company through an intermediate holding company jointly owned with Eduardo Hochschild ('IntermediateCo'). The shares of IntermediateCo were controlled 82.13% by Eduardo Hochschild and 17.87% by Alberto Beeck, and IntermediateCo owned the entire issued share capital of Pelham Investment Corporation, the Company's major shareholder. On 3 October 2007 the ownership of IntermediateCo was re-organised which resulted in Eduardo Hochschild transferring 33,612,074 shares in the Company to Alberto Beeck in consideration for Alberto Beeck's interest in IntermediateCo.

There are no non-beneficial interests.

There have been no changes in any of the above interests in the period from 31 December 2007 to 1 April 2008.

### Relationship agreement

Prior to the IPO, Pelham Investment Corporation, Eduardo Hochschild, Alberto Beeck and the Company entered into a relationship agreement to regulate the ongoing relationship between them ('the Relationship Agreement'). The principal purpose of the Relationship Agreement is to ensure that the Group is capable of carrying on its business for the benefit of the shareholders of the Company as a whole. Further details are set out in the Corporate Governance Report on pages 43 to 48.

### Corporate social responsibility ('CSR')

The Directors believe that the health and safety of the Group's employees, respect for the environment and active engagement with local communities are fundamental to the sustainability of the Group's business. The Group has sought to reinforce this commitment with appropriate resources and programmes over many years.

The Board has established the CSR Committee with responsibility for formulating and recommending to the Board the Company's policy on all CSR issues, particularly on safety and occupational health, community relations, and the environment, as they affect the Company's operations. In particular, it has focused on compliance with national and international standards to ensure that effective systems of standards, procedures and practices are in place at each of the Company's operations. The CSR Committee is also responsible for reviewing management's investigation of incidents or accidents that occur in order to assess whether policy improvements are required. The ultimate responsibility for establishing such policies remains with the Board.

Further details on the Group's activities in this area are given in the Corporate Social Responsibility Report on pages 28 to 30.

### Rehabilitation of land

The Company has a policy of closing mine facilities as the lives of the mines progress in order to reduce liabilities at the end of the mine life. Total current estimates of end-of-life closure costs for the Group's operations are about US\$38.3 million, which includes amounts estimated for ongoing maintenance of sites. The Group held a provision of US\$32.2 million at 31 December 2007 (2006: US\$32.4 million) which was calculated following a review of the mine's estimated closure costs undertaken during the year by external consultants.



### Employees

Except in respect of Argentina, where employees of Minera Santa Cruz, S.A. are voluntarily affiliated to the Asociación Obrera Mineran Argentina (the Argentine Mineworkers Union), the Group's workforce is not represented by a works council and no unions have yet been formed, either in respect of the employees or the contracted personnel. The Group maintains good relations with its workforce and, for almost 20 years, has not experienced any interruptions in production at any of its operating sites as a result of workplace disputes.

### Supplier payment policy

It is the Company's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the Company and its suppliers, provided that all trading terms and conditions have been complied with by suppliers.

At 31 December 2007, the Company had an average of 27 days' purchases owed to trade creditors.

### Political and charitable donations

The Company does not make any political donations. During the year, the Group expended US\$4.3 million (2006: US\$2.3 million) on social and community welfare activities surrounding its mining units.

### Market value of land and buildings

For the purpose of the IPO in November 2006, the Company commissioned Consultores & Asesores 2020 S.A.C. to carry out an independent appraisal of certain items of property, plant and equipment as at 1 January 2003 to determine their fair value as at that date. The fair value of property, plant and equipment was determined primarily with reference to depreciated replacement cost. Management believes that the fair value reflected the economic condition of Hochschild Mining's property, plant and equipment at that time. This fair value has been used to determine cost as at 1 January 2005, the date of Group transition to IFRS (depreciated further to the date of transition). The revaluation process carries a significant element of judgement; however, management believes that the use of an appropriately qualified independent appraiser has resulted in a fair value of property, plant and equipment that was suitable for inclusion in the Company's financial statements on transition to IFRS.

### Events since the balance sheet date

Details of events occurring since 31 December 2007 are set out in note 39 to the Groups' financial statements on page 108.

### Share repurchase authority

The Company obtained shareholder approval at the AGM held in July 2007 for the repurchase of up to 30,735,024 Ordinary Shares (representing 10% of the Company's issued share capital) ('the 2007 Authority'). Whilst no purchases were made by the Company pursuant to the 2007 Authority, it is intended that shareholder consent will be sought on similar terms at this year's AGM, when the 2007 Authority expires.

### Substantial shareholdings

As at 1 April 2008, the Company had been notified of the following interests in the Company's ordinary share capital in accordance with Chapter 5 of the Financial Services Authority's Disclosure Rules and Transparency Rules.

Name of holder	Number of ordinary shares	Percentage of issued share capital
Eduardo Hochschild	181,350,426	59%
Alberto Beeck	25,112,074	8.17%
Blackrock Investment Management (UK) Ltd	22,633,411	7.36%

# DIRECTORS' REPORT (...cont'd)

### Additional share capital information

Where not previously provided in this Directors' Report, the following provides additional information as at 31 December 2007 and which is required to be given in this Directors' Report by the Companies Act 1985 following implementation of the Takeovers Directive into English law.

References below to 'the Articles' are to the Company's articles of association as at the date of this report, copies of which are available from the Registrar of Companies or on request from the Company Secretary.

#### (a) Structure of share capital

The Company has a single class of share capital which is divided into Ordinary Shares of 25 pence each, which are in registered form.

Details of the authorised and issued share capital of the Company are shown in note 27 to the Accounts.

#### (b) Rights and obligations attaching to shares

The rights attaching to the Ordinary Shares are described in full in the Articles.

In summary, on a show of hands at a general meeting or class meeting, every member present in person has one vote for every Ordinary Share held and on a poll, every member present in person or by proxy has one vote for every Ordinary Share held.

Under the Companies Act 1985 or, as appropriate, the Companies Act 2006 (together, 'the Companies Acts') members are entitled to appoint a proxy to exercise all or any of their rights to attend and to speak and vote on their behalf at a general meeting or class meeting.

The Articles currently only entitle proxies to vote on a poll, whereas the Companies Acts now entitle proxies to vote on a show of hands. In addition, the Companies Acts permits a member that is a corporation to appoint more than one individual to act on its behalf at a general meeting or class meetings as a corporate representative. It is therefore proposed to amend the Articles at the AGM on 9 May 2008 to reflect these changes in legislation.

#### (c) Transfer of shares

The relevant provisions of the Articles state that:

- registration of a transfer of an uncertificated share may be refused in the circumstances set out in the CREST Regulations and where, in the case of a transfer to joint holders, the number of joint holders to whom the uncertificated share is to be transferred exceeds four;
- the Directors may, in their absolute discretion and without giving any reason, decline to register any transfer of any share which is not a fully paid share. The Directors may also decline to recognise any instrument of transfer relating to a certificated share unless the instrument of transfer: (i) is duly stamped (if required) and is accompanied by the relevant share certificate(s) and such other evidence of the right to transfer as the Directors may reasonably require; and (ii) is in respect of only one class of share. The Directors may, in their absolute discretion and without giving any reason refuse to register a transfer if it is in favour of more than four persons jointly; and
- the Directors may decline to register a transfer of any of the Company's shares by a person with a 0.25% interest if such a person has been served with a notice under the Companies Acts after failure to provide the Company with information concerning interests in those shares required to be provided under the Companies Acts.

#### (d) Restrictions on voting

No member shall be entitled to vote at any general meeting or class meeting in respect of any shares held by him if any call or other sum then payable by him in respect of that share remains unpaid. Currently, all issued shares are fully paid. In addition, no member shall be entitled to vote if he failed to provide the Company with information concerning interests in those shares required to be provided under the Companies Acts.

#### (e) Deadlines for voting rights

Votes are exercisable at the general meeting of the Company in respect of which the business being voted upon is being heard. Votes may be exercised in person, by proxy, or in relation to corporate members, by a corporate representative. Under the Companies Acts, the deadline for delivering proxy forms cannot be earlier than 48 hours (excluding non-working days) before the meeting for which the proxy is being appointed.

The Articles currently provide a deadline for submission of proxy forms of not less than 48 hours before the meeting. Accordingly, shareholder approval is being sought at the forthcoming AGM to amend the Articles so that they are consistent with the provisions of the Companies Act 2006.

#### (f) Shareholder Agreements

The Relationship Agreement entered into prior to the IPO between the Major Shareholder, Eduardo Hochschild, Alberto Beeck (collectively 'the Controlling Shareholders') and the Company:

- contains provisions restricting the Controlling Shareholders' rights to exercise their voting rights to procure an amendment to the Articles that would be inconsistent with the Relationship Agreement; and
- contains an undertaking by the Controlling Shareholders that they will, and they procure that their Associates will, abstain from voting on any resolution to approve a transaction with a related party (as defined in the FSA Listing Rules) involving the Controlling Shareholders or their Associates.

#### (g) Appointment and replacement of Directors

Directors may be appointed by the Company by ordinary resolution or by the Board. A Director appointed by the Board holds office only until the next following AGM and is then eligible for election by the shareholders but is not taken into account in determining the Directors or the number of Directors who are to retire by rotation at that meeting.

The Directors may from time to time appoint one or more of their body to be the holder of any executive office for such period (subject to the Companies Acts) and on such terms as they may determine and may revoke or terminate any such appointment. Each Director is required to retire at the AGM held in the third calendar year following the year in which he was elected or last re-elected by the Company. Each Director (other than the Chairman and any Director holding executive office) shall retire at each AGM following the ninth anniversary of the date on which he was elected by the Company. The Company may, in accordance with and subject to the provisions of the Companies Acts by ordinary resolution of which special notice has been given remove any Director before the expiration of his term of office. The office of Director shall be vacated if: (i) he is prohibited by law from acting as a Director; (ii) he resigns or offers to resign and the Directors resolve to accept such offer; (iii) he becomes bankrupt or compounds with his creditors generally; (iv) a relevant order has been made by any court on the ground of mental disorder; (v) he is absent without permission of the Directors from meetings of the Board for six months and the Directors resolve that his office be vacated; (vi) his resignation is requested in writing by not less than three-quarters of the Directors for the time being; or (vii) in the case of a director other than the Chairman and any Director holding an executive office, if the Directors shall resolve to require him to resign and within 30 days of being given notice of such notice he so fails to do.

In addition, under the terms of the Relationship Agreement:

- for as long as the Major Shareholder has an interest of 30% or more in the Company, it is entitled to appoint up to two Non-Executive Directors and to remove such Directors so appointed; and
- for as long as the Major Shareholder has an interest of 15% or more of the Company, it is entitled to appoint up to one Non-Executive Director and to remove such Director so appointed.

#### (h) Amendment of Articles of Association

Any amendments to the Articles may be made in accordance with the provisions of the Companies Acts by way of special resolution.

#### (i) Powers of the Directors

Subject to the Company's Memorandum of Association, the Articles, the Companies Acts and any directions given by special resolution, the business and affairs of the Company shall be managed by the Directors who may exercise all such powers of the Company.

Subject to applicable statutes and other shareholders' rights, shares may be issued with such rights or restrictions as the Company may by ordinary resolution decide, or in the absence of any such resolution, as the Directors may decide. Subject to applicable statutes and any ordinary resolution of the Company, all unissued shares of the Company are at the disposal of the Directors. At each AGM the Company puts in place annual shareholder authority seeking shareholder consent to allot unissued shares, in certain circumstances for cash, in accordance with the guidelines of the Investor Protection Committee.

#### (j) Repurchase of shares

Subject to authorisation by shareholder resolution, the Company may purchase its own shares in accordance with the Companies Acts. Any shares which have been bought back may be held as treasury shares or, if not so held, must be cancelled immediately upon completion of the purchase, thereby reducing the amount of the Company's issued share capital. The Company currently has authority to buy back up to 30,735,024 ordinary shares during the period up to the AGM to be held in 2008. The minimum price which must be paid for such shares is specified in the relevant shareholder resolution.

# DIRECTORS' REPORT (...cont'd)

### (k) Dividends and distributions

Subject to the provisions of the Companies Acts, the Company may by ordinary resolution from time to time declare dividends not exceeding the amount recommended by the Directors. The Directors may pay interim dividends whenever the financial position of the Company, in the opinion of the Directors, justifies its payment. If the Directors act in good faith, they are not liable to holders of shares with preferred or pari passu rights for losses arising from the payment of interim dividends on other shares.

### (l) Significant agreements

A change of control of the Company following a takeover bid may cause a number of agreements to which the Company, or any of its trading subsidiaries, is party, such as commercial trading contracts, joint venture agreements, banking arrangements to take effect, alter or terminate. In the context of the potential impact on the Group, none of these agreements is considered to be significant.

### Policy on financial risk management

The Company's objectives and policies on financial risk management can be found in note 38 to the Group financial statements. Information on the Company's exposures to foreign currency, commodity price, credit, equity, liquidity, interest rate and capital risks can be found in this note.

### Directors' and officers' liability insurance

Since Directors are increasingly being added as defendants in legal actions against companies, the Board believes that the risk of Directors being placed at significant personal financial risk is increasing. The Board also believes that the provision of appropriate indemnities and the funding of Directors' defence costs as permitted by legislation are reasonable protections for the Directors and are important to ensure that the Company continues to be able to attract and retain the highest calibre individuals as Directors. Accordingly, the Company has purchased and maintains liability insurance for its Directors and officers as permitted by section 233 of the Companies Act 2006.

However, a Director will not be indemnified for any liability incurred by him to the Company or Group companies; any criminal or regulatory fines; the costs of defending any criminal proceedings in which he is convicted; or the costs of defending any civil proceedings brought by the Company in which judgement is given against him.

### Statement on disclosure of information to auditors

Having made enquiries of fellow Directors and of the Company's auditors, each Director confirms that to the best of his knowledge and belief, there is no information relevant to the preparation of their report of which the Company's auditors are unaware. Furthermore, each Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

### Going concern

The Directors confirm that they are satisfied that the Company has sufficient resources to continue in operation for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

### Auditors

A resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the forthcoming AGM.

### AGM

The second AGM of the Company will be held at 10 am on Friday, 9 May 2008 at One Silk Street, London EC2Y 8HQ. The notice convening the meeting is included within the accompanying Chairman's letter with details of the business to be considered.

Biographical details of the Directors standing for re-election at the AGM are set out within the accompanying circular to shareholders incorporating the notice of meeting.

On behalf of the Board

### Roberto Dañino

Executive Director and Deputy Chairman

1 April 2008



# CORPORATE GOVERNANCE REPORT

## Introduction

The Hochschild Mining plc Board believes that its participation in an established investment market carries significant responsibility to manage the Company transparently and in a manner appropriate to a successful business. Accordingly, the Board fully supports good corporate governance and is determined to comply, wherever possible, in the interests of shareholders and other stakeholders, with the Combined Code on Corporate Governance ('the Code').

The Company took several steps in the early part of 2007 to achieve compliance with the Code, as reported in the 2006 Annual Report. The Company is pleased to report that, during the year under review, further compliance with the Code was achieved principally through the completion of an evaluation of the performance of the Directors, the Board as a whole, and each of its committees.

## Statement of Compliance

The Directors consider that the Company has complied with the provisions set out in Section 1 of the Code throughout the year with the sole exception that the roles of Chairman and Chief Executive were not separated.

In line with the position taken last year, the Board continues to believe that, consistent with Main Principle A.2 of the Code, the governance structure of the Company during the year under review did not allow any one person to have unfettered powers of decision, as discussed below. The basis for this opinion centres on the fact that there are checks and balances created by the role of the Executive Committee, the corporate governance responsibilities of the Deputy Chairman and the Senior Independent Non-Executive Director, and the undertakings given within the Relationship Agreement.

Notwithstanding the above, the Company announced the appointment, on 7 January 2008, of Miguel Aramburú as Chief Executive Officer.

## The Board

The Board is responsible for approving the Company's strategy and monitoring its implementation, for managing the operations of the Company and for providing leadership and support to the executive management team in achieving sustainable added value for shareholders. It is also responsible for enabling the efficient operation of the various businesses by providing adequate financial and human resources and an appropriate system of financial control to ensure these resources are fully monitored and utilised.

The Board consists of three Executive Directors: Eduardo Hochschild (Chairman), Roberto Dañino (Deputy Chairman) and Alberto Beeck, and four Non-Executive Directors: Sir Malcolm Field (Senior Independent Non-Executive Director), Jorge Born Jr., Nigel Moore and Dionisio Romero.

Eduardo Hochschild, who controls the Major Shareholder of the Company, Pelham Investment Corporation ('Major Shareholder'), has considerable knowledge and experience in the Latin American gold and silver mining industry. Accordingly, the other Directors believe that Eduardo Hochschild's membership of the Board and participation in the management of the Company is vital to the continued success and growth of the Company. Prior to the Company's IPO, the Major Shareholder, its Controlling Shareholders at that time: Eduardo Hochschild and Alberto Beeck, and the Company entered into an agreement regulating their ongoing relationship. Further details concerning this agreement are set out on page 45.

There is an agreed schedule of matters reserved for the Board which was originally agreed at the time of the IPO and subsequently revised by the Board on 11 January 2007. Such matters include the approval of annual and interim results, the Group's strategy, the annual budget and major items of capital expenditure.

The day-to-day operations of the Company were managed by the Executive Chairman and an Executive Committee, the membership of which comprises the Executive Directors, Miguel Aramburú, Jorge Benavides, Ignacio Rosado and Ignacio Bustamante.

During the year there were six scheduled meetings of the Board which were attended by all Directors. Two further meetings were convened to deal with operational matters, the first of which was attended by all Directors other than Sir Malcolm Field and the second was attended by Roberto Dañino and Alberto Beeck only.

# CORPORATE GOVERNANCE REPORT (...cont'd)

The principal matters considered by the Board during the year included:

- various policies and procedures to ensure good corporate governance;
- the Group's strategic plan and annual budget;
- organisational structure;
- corporate development opportunities;
- Board evaluation; and
- various corporate social responsibility related issues including the audits of the Group's Community Relations programme and of the Environmental and Health and Safety policies, procedures and practices in the Group's operations.

Directors receive a full pack of papers for consideration in advance of each Board meeting including regular reports on the Company's operations, to ensure that they remain briefed on the latest developments and are able to make fully informed decisions.

### Board and committees' evaluation

During the year, the Board conducted an evaluation of its performance and effectiveness, the performance of its committees and of the Directors. The evaluation was conducted through the use of questionnaires completed by Directors and members of the Executive Committee and the findings were considered by the Chairman and the Senior Independent Director. A number of recommendations arising from the process were considered and approved by the Board and action plans to ensure their implementation have been agreed. These recommendations principally relate to the establishment of a succession plan in respect of Board and senior management positions, a recruitment plan in respect of key positions of responsibility below these levels and a training programme for the Non-Executive Directors focusing on sector-specific areas.

The Senior Independent Director led a meeting of the Non-Executive Directors to consider the performance of the Chairman.

In conjunction with the Board-led evaluation process, each of the Audit, Remuneration and CSR Committees met to consider the specific findings in relation to its own method of operation and processes. This was not considered necessary in relation to the Nominations Committee which has met only once since it was formed.

### Senior Independent Director

The Board has appointed Sir Malcolm Field as the Senior Independent Director who is available to major shareholders if their concerns have not been resolved by the Chairman or the other Executive Directors.

### Board balance and independence

The Board believes that its current membership of three Executive Directors and four independent and experienced Non-Executive Directors is a well balanced composition capable of managing the Company in an effective and successful manner. Whilst the Chairman is not considered to be independent, the Board considers that decisions can be made without any one Director exercising undue influence. The other Directors are firmly of the opinion that Eduardo Hochschild's long-term relationship with the Company, and his importance to it, make his presence on the Board of vital importance and is in the best interests of the Company and its shareholders generally.

The Board also considers that Eduardo Hochschild's continued involvement as Executive Chairman and, until 8 January 2008, effectively as Chief Executive Officer, was critically important to the Company whilst acknowledging that the presence of this dual role did not comply with the Code. However, in respect of the year under review, the Board believes that the collective responsibility assumed by the Executive Directors and the Executive Committee for the running of the Company, and its current membership of three Executive Directors and four independent and experienced Non-Executive Directors, create a well balanced structure capable of managing the Company effectively. Moreover, the undertakings given in the Relationship Agreement by the Major Shareholder, Eduardo Hochschild and Alberto Beeck, ensure that the Company is managed in accordance with the Code. Accordingly, the Board believes that during the year under review, the Company was structured so as to ensure that no individual had unfettered powers of decision making.

The Board considers that all of the Non-Executive Directors are independent of the Company as defined by the Code. In reaching its conclusion, the Board paid particular regard to the factors set out below:

- Dionisio Romero is Chairman of Banco de Credito del Perú, a provider of finance to the Company and a director of TECSUP, a non-profit organisation affiliated to the Company.

The Board does not consider Dionisio's involvement with either of these two organisations to be sufficiently material to interfere with the exercise of independent judgement when dealing with the Company's affairs. Consequently, he is regarded as being independent for the purposes of the Code.

- Prior to the IPO, Jorge Born Jr. received payments of approximately US\$72,000 from the Company for his participation on the Company's Advisory Board, which has since been dissolved.

The amount paid is not considered to be material and consequently, the Board regards Jorge as being independent for the purposes of the Code.

The Board is of the opinion that all four independent Directors enhance the Board's capacity to oversee and grow the Company's operations. This notwithstanding, the membership of each main Board Committee shall be reviewed annually by the Board as a matter of good practice.

In addition to their legal responsibilities as Directors, the Non-Executive Directors are expected to contribute to issues of strategy and management performance through the application of their independent judgement and to scrutinise management's performance against objectives. To this end, the Non-Executive Directors have held informal discussions with the Chairman without the presence of the other Executive Directors.

Consistent with the Code, consideration of the remuneration of the Non-Executive Directors is a matter reserved for the Board.

#### Relationship agreement

Prior to the Company's IPO, the Major Shareholder, Eduardo Hochschild, Alberto Beeck (collectively the Controlling Shareholders) and the Company entered into an agreement regulating their ongoing relationship. The principal purpose of the Relationship Agreement is to ensure that the Company and its subsidiaries are capable of carrying on their business independently of the Controlling Shareholders and any of their respective associates, and that transactions and relationships with the Controlling Shareholders and any of their respective associates are at arm's length and on normal commercial terms.

The Company and the Major Shareholder agree in the Relationship Agreement that they will comply with the applicable obligations under the Listing Rules and to exercise their powers so far as they are able to ensure the Company is managed in accordance with the Code. Under the agreement, the Major Shareholder has the right to appoint up to two Non-Executive Directors to the Board for so long as the Major Shareholder holds an interest of 30% or more in the Company and the right to appoint one Non-Executive Director for so long as it has an interest of 15% or more in the Company, and in each case to remove any such Director(s) previously appointed. The Relationship Agreement will continue for so long as the Company's shares are traded on the London Stock Exchange or until such times as Eduardo Hochschild and Alberto Beeck cease to own or control in aggregate a minimum of 15% or more of the issued share capital or voting rights of the Company.

#### Board development

The Directors have received regular briefings on their responsibilities as directors of a UK listed company, particularly in light of the Companies Act 2006 and on other relevant UK legal developments. In addition, the Chairman has made arrangements to ensure that the Directors have free access to the Company's officers and advisers and to visit the Company's operations. A formal induction programme is also being developed for new Directors which includes meetings with the Company's principal advisers and visits to the Group's operations. It is the responsibility of the Chairman to ensure that the Directors update their skills and are provided with the necessary resources to continue to do so.

The Company has procedures by which members of the Board may take independent professional advice at the Company's expense in the furtherance of their duties.

#### Re-election of Directors

Roberto Dañino, Alberto Beeck and Sir Malcolm Field will retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election. Biographical details of these Directors are given on pages 34 and 35.

# CORPORATE GOVERNANCE REPORT (...cont'd)

### The Board's committees

The Board has delegated authority to the following standing committees which report regularly to the Board:

- The Audit Committee.
- The Remuneration Committee.
- The Nominations Committee.
- The Corporate Social Responsibility Committee.

The terms of reference for all the Board committees are available for inspection on the Company's website at [www.hochschildmining.com](http://www.hochschildmining.com).

### Audit Committee

The role of the Audit Committee is to monitor the integrity of the Company's financial statements, to monitor the effectiveness of the Company's internal controls and risk management systems, to oversee the relationship with the Company's external auditors and review the effectiveness of the external audit process. The ultimate responsibility for the appointment, re-appointment and removal of the external auditors and for reviewing and approving the interim and annual financial statements remains with the Board.

The Audit Committee is chaired by Nigel Moore who has extensive and substantial financial experience gained whilst holding a number of senior appointments with Ernst & Young. Further details are given in the biography on page 35. The other members of the Audit Committee are Sir Malcolm Field and Jorge Born Jr., both of whom are considered to be independent Directors.

The lead partner of the external auditors and Executive Directors attend each Audit Committee meeting by invitation. During the year, the Audit Committee met once with the external auditors without the presence of executive management. In addition, the Chairman of the Audit Committee has met privately with the Head of Internal Audit who is also invited to attend meetings of the committee.

During the year under review, there were five meetings of the Audit Committee each of which was attended by all members. The following matters featured among those considered by the Committee during the year:

- **Financial reporting** – The Audit Committee reviewed the 2006 Annual Report and Accounts and the 2007 Interim Report before recommending them to the Board for their approval and publication. As part of its review of each, the Audit Committee reviewed accounting policies, estimates and judgements that had been applied in preparing the relevant report and accounts and the transparency and clarity of disclosures contained within them.
- **Risk management** – A review of major risks faced by the Company was conducted early in the year in order to identify the areas on which risk management should be focused. The resulting risk matrix was reviewed by the Executive Committee and, following the appointment of the Group's Head of Risk Management, further processes for more detailed identification, evaluation and management of risks were put in place. In addition, the Head of Risk Management undertook, and presented to the Audit Committee, a detailed assessment of each of the six operations identifying the inherent risks for each one. The Head of Risk Management is in the process of assessing the existing controls applicable to the identified inherent risks to test their effectiveness and to determine the level of residual risk.
- **Internal audit** – The Audit Committee has overseen the Group's adoption of a risk-based approach to internal audit. The 2008 Internal Audit Strategic Plan was approved by the Audit Committee with responsibility for delivery being placed with the Head of Internal Audit recruited during 2007 and who reports directly to the Chief Executive Officer on a day-to-day basis, with a line of accountability to the Audit Committee via its Chairman.
- **Internal control** – The Audit Committee has continued to review the monthly management accounts process and the adequacy of the Group's information technology ('IT') systems. Treasury procedures and controls have also been reviewed with the resulting action plans in the process of implementation.
- **External audit** – The Audit Committee considered the re-appointment of the Company's external auditors before making a recommendation to the Board that the same be put to shareholders. The Audit Committee oversees the relationship with the external auditors. As part of this responsibility, the Audit Committee has reviewed the findings of the external auditors, reviewed management representation letters, approved audit plans, reviewed and agreed audit fees and evaluated its performance. In addition, the Audit Committee has adopted and reviewed policies to safeguard the independence and objectivity of the auditors. To this end, the Company has adopted a policy on the provision of non-audit services which specifies those non-audit services that the external auditor may provide (in the absence of any threat to its independence) and those services which the auditors are prohibited from rendering.



- **Whistleblowing** – The Audit Committee has considered the arrangements by which staff may raise in confidence concerns about possible improprieties in matters of financial reporting or other matters and an enabling policy has been put in place. The Audit Committee has overseen the implementation of the necessary arrangements in the UK, Peru, Argentina, Mexico and Chile which enable proportionate and independent investigation of any improprieties with suitable follow-up action.

#### Remuneration Committee

The role of the Remuneration Committee is to determine and agree with the Board the broad policy for the remuneration of executives and senior management as designated, as well as specific remuneration packages, including pension rights and any compensation payments. The Combined Code recommends that all members of the Remuneration Committee should be independent Non-Executive Directors.

The Remuneration Committee comprises Jorge Born Jr. (Chairman), Sir Malcolm Field and Nigel Moore. The Committee held six meetings during the year under review at which all members were in attendance with the exception that Nigel Moore was unable to attend one meeting.

Further details concerning the activities of the Remuneration Committee are set out in the Directors' Remuneration Report on page 49.

#### Nominations Committee

The role of the Nominations Committee is to identify and nominate candidates for the approval of the Board to fill Board vacancies and make recommendations to the Board on Board composition and balance. The Nominations Committee also prepares the Chairman's job description including any other significant commitments which he should be responsible for.

The members of the Nominations Committee are Eduardo Hochschild (Chairman), Sir Malcolm Field and Dionisio Romero.

All members of the Nominations Committee were present at the one meeting held during 2007 which was convened to consider the appointments of Miguel Aramburú and Ignacio Bustamante as Chief Executive Officer and Chief Operating Officer, respectively and to consider the relevant recommendations arising from the Board evaluation process.

#### Corporate Social Responsibility Committee

The role of the CSR Committee is to formulate and recommend to the Board the Company's policy on all corporate social responsibility issues as they affect the Company's operations. In particular, it focuses on compliance with national and international standards to ensure that effective systems of standards, procedures and practices are in place at each of the Company's operations. The CSR Committee is also responsible for reviewing management's investigation of incidents or accidents that occur in order to assess whether policy improvements are required.

The CSR Committee is chaired by Roberto Dañino and its other members are Sir Malcolm Field and Eduardo Hochschild. During the year, the CSR Committee held four meetings which were each attended by all members.

Further details concerning the CSR Committee and the Group's activities in this area are set out in the CSR Report on pages 28 to 30.

#### Internal control

Whilst the Board has overall responsibility for the Group's system of internal control (including risk management) and for reviewing its effectiveness, responsibility for the periodic review of the effectiveness of these controls has been delegated to the Audit Committee. The system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives and it must be recognised that such a system can only provide reasonable and not absolute assurance against material misstatement or loss. These controls are managed by the use of formal procedures designed to highlight financial, operational, environmental and social risks and provide appropriate information to the Board enabling it to protect effectively the Company's assets and, in turn, maintain shareholder value. The process used by the Audit Committee to assess the effectiveness of internal control includes:

- review of budgets and reporting against budgets;
- consideration of achievement of strategic plans and objectives;
- monitoring the risks faced by the Group's operations through reports from the Head of Risk Management and the Head of Internal Audit;
- review of IT issues and preparation of an IT plan; and
- review of accounting and financial reporting together with the internal control environment existing at Group level.

# CORPORATE GOVERNANCE REPORT (...cont'd)

Based on its review of the process, the Audit Committee is reasonably satisfied that the internal controls are in place at the operational level within the Group. In accordance with the Revised Turnbull Guidance, the Board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Company, and that it has been in place for the year under review and up to the date of approval of this Annual Report. The Board, via the Audit Committee, continues to monitor the internal control environment of the Group alongside the development of risk management processes.

Overall, the Board acknowledges that the steps taken to initiate a risk management framework are appropriate to the Group's circumstances.

### Going concern

A statement on the Directors' position regarding the Company as a going concern is contained in the Directors' Report on pages 37 to 42.

### Company Secretary

The Company Secretary is appointed and removed by the Board and is responsible for advising the Board on governance matters and, the provision of administrative and other services to the Board. All the Directors have access to the Company Secretary.

### Investor relations

The Company is fully committed to achieving an excellent relationship with investors and contact with investors is the responsibility of the Executive Directors, the Chief Executive Officer, the Chief Financial Officer and the Head of Investor Relations.

The Company announces its production results on a quarterly basis and analysts are invited to briefings following release of the annual and interim results as well as to join discussions on the quarterly production results. The Executive Directors, Chief Executive Officer and the Chief Financial Officer are available to discuss the concerns of major shareholders at any time during the year. The Chairman, Deputy Chairman and the Chief Executive Officer, in particular, will be responsible for discussing strategy with the Company's shareholders and will communicate the views of shareholders to the other members of the Board.

The main means of communication with shareholders are the Annual and Interim Reports. The Company also uses the AGM as an opportunity to communicate with its shareholders.

Notice of the 2007 AGM was circulated to all shareholders at least 20 working days prior to the meeting and the Chairmen of the Audit, CSR, Remuneration and Nominations Committees were available at the meeting to answer questions. Each substantive resolution was proposed separately and all proxy votes lodged were notified to shareholders at the meeting and published on the Company's website immediately after the meeting.

Further information on matters of particular interest to investors is available on page 136 and on the Company's website at [www.hochschildmining.com](http://www.hochschildmining.com).

# DIRECTORS' REMUNERATION REPORT

## Introduction

This Directors' Remuneration Report sets out information on the remuneration of the Directors of Hochschild Mining plc for the year ended 31 December 2007. This report has been prepared in accordance with Schedule 7A of the Companies Act 1985 and the requirements of the Financial Services Authority's Listing Rules.

As required by legislation, the information in Part II of this report has been audited by Ernst & Young LLP as it contains the information upon which the auditors are required to report to the Company's shareholders.

## Part I (Information not subject to audit)

### Remuneration Committee

The Remuneration Committee is chaired by Jorge Born Jr. and its other members are Sir Malcolm Field and Nigel Moore. All the members of the Remuneration Committee are independent Non-Executive Directors.

The duties of the Remuneration Committee are to determine and agree with the Board the broad policy for the remuneration of the Executive Directors, the other members of the Executive Committee and the Company Secretary, as well as their specific remuneration packages including pension rights and, where applicable, any compensation payments. In determining such policy, the Remuneration Committee shall take into account all factors which it deems necessary to ensure that members of the senior executive management of the Group are provided with appropriate incentives to encourage strong performance and are rewarded in a fair and responsible manner for their individual contributions to the success of the Group.

The composition of the Remuneration Committee and its terms of reference comply with the provisions of the Combined Code and are available for inspection on the Company's website at [www.hochschildmining.com](http://www.hochschildmining.com).

The Remuneration Committee was advised, during the year under review, by KPMG People Services who provided advice on remuneration matters including the remuneration policy and the structure of possible long-term incentives for senior management. Towards the end of the year, the Committee appointed Kepler Associates as its principal advisers in place of KPMG who will continue to advise management on issues relating to executive remuneration and UK tax.

Kepler Associates does not provide any other services to the Company.

### Remuneration policy

During the year under review, the Remuneration Committee implemented, and looking ahead, intends to continue to apply, its policy on executive remuneration as disclosed in the 2006 Annual Report. This policy is designed to enable the Company to attract, retain, and motivate its executives and senior management. The alignment of management incentives with the creation of shareholder value over both the short and long-term remains key to this strategy. The achievement of annual performance targets is, therefore, rewarded through an annual performance-related bonus, which includes a balanced mix of financial and operational performance measures.

In setting the basic levels of pay for the Executive Directors, the Remuneration Committee seeks to ensure that salaries are market competitive and total remuneration is at or below the upper quartile. In making this determination, the Committee makes reference to pay levels of other FTSE 250 companies as well as those of other international mining companies. Furthermore, the Committee seeks to ensure that the majority of pay is delivered in the form of performance related incentives.

The following chart sets out the split between fixed and variable pay assuming that the maximum bonus for the year is achieved. The maximum bonus percentage of 150% is set out in the Executive Directors' service contracts and is set to ensure that the majority of the remuneration is performance based.

## DIRECTORS' REMUNERATION REPORT (...cont'd)

### Fixed and variable pay

Split between fixed and variable pay for the Executive Directors (based on maximum bonus payments).



### Components of fixed pay for the Executive Directors

Director	Current salary US\$000	Pension supplement US\$000	Total US\$000
Eduardo Hochschild	800	200	1,000
Roberto Daniño	800	200	1,000
Alberto Beeck	800	200	1,000

#### Notes

Each Executive Director has service contracts with both Hochschild Mining plc and Compañía Minera Ares S.A.C., a Group subsidiary. Salary paid by Compañía Minera Ares S.A.C includes all legal labour benefits and compensation such as, but not restricted to, July and December bonuses, family allowance, vacation salaries and compensation for time services (ruled by Peruvian Legislative Decree 6500) but excluding legal profit sharing.

### Basic salaries

In respect of the year under review, the base salary for each Executive Director was US\$800,000 per annum. In each case, US\$640,000 per annum was payable by Compañía Minera Ares S.A.C. and US\$160,000 per annum was payable by the Company. The Remuneration Committee assessed, during the year, the total remuneration packages paid to the Executive Directors with those paid to executive directors of comparable companies and it was considered that the base salaries for the Executive Directors were set at appropriate levels.

Salaries are reviewed on an annual basis to take account of market movement, individual contribution and scope of responsibility.

### Short-term incentives

Each year the Remuneration Committee approves objectives for each of the Executive Directors based on individual roles and responsibilities. The level of bonus paid depends on performance against these objectives. Executive Directors are entitled, under the terms of their service contracts, to a maximum bonus of 150% of aggregate base salary.

Actual bonus awards are subject to the discretion of the Remuneration Committee.

The amounts paid to the Executive Directors in respect of the year ended 31 December 2007 are detailed in the table on page 53.

### Pensions and benefits-in-kind

The Company does not currently provide pension benefits to the Directors but does award the Executive Directors with a pension supplement of US\$200,000 each year in lieu of pension. Of this supplement, US\$160,000 is paid by Compañía Minera Ares, S.A.C. and US\$40,000 is paid by the Company.

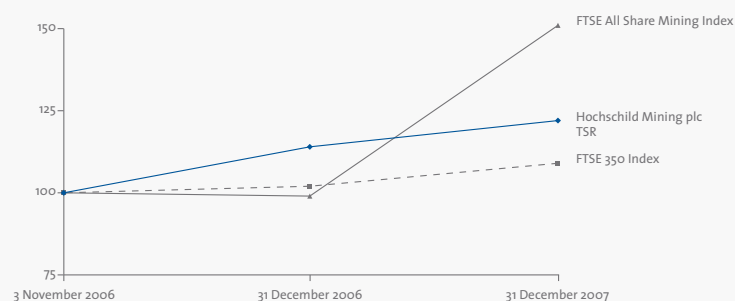
In addition, under Peruvian law, companies must pay an annual share of profits, in an amount up to a maximum of 8% of the taxable income for the year to employees.

The Group also provides medical expenses insurance and motor cars (or an allowance in place thereof) to the Executive Directors.



### Performance graph

The following graph shows the Total Shareholder Return ('TSR') for the Company compared to the FTSE 350 Index and the FTSE All Share Mining Index assuming £100 was invested on 3 November 2006, the date that conditional dealings in the Company's shares commenced. The Board considers that the FTSE 350 and the FTSE All Share Mining indices currently represent the most appropriate of the published indices for these purposes as they provide a view of performance against both the broad equity market index that the Company is a constituent of, and additionally the UK listed mining sector.



### Long-Term Incentive Plan ('LTIP')

In order to achieve its policy objective to motivate executives for the long-term, the Remuneration Committee has decided that Executive Directors ought to be given the opportunity to participate in a cash-based LTIP which will also have the effect of further aligning their long-term interests with those of shareholders. In accordance with the FSA Listing Rules, the proposed LTIP is being submitted to shareholders for approval at the forthcoming AGM. Further details of the Plan, together with a summary of its rules, are provided in the shareholder circular incorporating the Notice of Meeting.

### Directors' service contracts

The Executive Directors are employed under contracts of employment with the Company and Compañía Minera Ares S.A.C., a Group company, dated 16 October 2006. The contracts have no fixed terms and may be terminated on 12 months' notice in writing. In setting the notice period for termination at 12 months, the Remuneration Committee has reduced the likelihood of having to pay excessive compensation in the event of poor performance and to this end, a provision for immediate dismissal with no compensation payable in the event of unsatisfactory performance is included in each Director's contract.

## DIRECTORS' REMUNERATION REPORT (...cont'd)

### External appointments

The Group recognises that Executive Directors may be invited to become Non-Executive Directors of other companies and that such appointments can bring benefits to the Group. The Directors named in the table overleaf served as Non-Executive Directors of the companies detailed by their name during the year, for which the corresponding amounts were received by them.

Name of Director	Company	Fees received
Eduardo Hochschild	Banco Crédito del Perú	Peruvian nuevo sol 208,295
	Cementos Pacasmayo	Peruvian nuevo sol 1,284,436
	Cementos Selva	Peruvian nuevo sol 52,630
	Inversiones Pacasmayo SA	Peruvian nuevo sol 456,008
	Pacifico Peruano Suiza Cía de Seguros y Reaseguros	Peruvian nuevo sol 63,740
Roberto Dañino	Gold Fields La Cima S.A.	Peruvian nuevo sol 100,000
	MiBanco	Peruvian nuevo sol 130,000
	Radio Programas del Peru	Peruvian nuevo sol 36,000
Alberto Beeck	Cementos Pacasmayo	Peruvian nuevo sol 414,415

### Non-Executive Directors

In accordance with each of their letters of appointment dated and effective from 16 October 2006, the Group's Non-Executive Directors serve for an initial period of three years which is automatically extended for a further three years. Notwithstanding the foregoing, Non-Executive Directors like all Directors are subject to periodic re-election by the Company in general meeting and the appointments of Non-Executive Directors may be determined by the Board or the Director giving not less than three months' notice.

The Non-Executive Directors' fees have been set at a level to reflect the amount of time and level of involvement required in order to carry out their duties as members of the Board and its committees.

The current fees for the Non-Executive Directors of the Company are as set out in the table below:

Director	Director's Fee
Sir Malcolm Field	£100,000 per annum
Jorge Born Jr.	£100,000 per annum
Nigel Moore	£120,000 per annum
Dionisio Romero	£100,000 per annum

## Part II (Information subject to audit)

### Directors' remuneration

The following table sets out the remuneration of the Directors in respect of the year ended 31 December 2007 and the period ended 31 December 2006.

Director	Base salary/fees US\$000	Pension supplement US\$000	Statutory profit share US\$000	Benefits in-kind US\$000	Performance related bonus US\$000	Total remuneration Year to 31 December 2007 US\$000	Total remuneration Period to 31 December 2006 <sup>6</sup> US\$000
Eduardo Hochschild <sup>1,2,3,4</sup>	800	200	157	266	800	2,223	213
Roberto Dañino <sup>1,2,3,4</sup>	800	200	157	33	600	1,790	174
Alberto Beeck <sup>1,2,3,4</sup>	800	200	157	58	200	1,415	176
Sir Malcolm Field	200	0	0	0	0	200	42
Jorge Born Jr.	200	0	0	0	0	200	42
Nigel Moore <sup>5</sup>	240	0	0	0	0	240	50
Dionisio Romero	200	0	0	0	0	200	42
<b>Total</b>	<b>3,240</b>	<b>600</b>	<b>471</b>	<b>357</b>	<b>1,600</b>	<b>6,268</b>	<b>739</b>

#### Notes

- Each Executive Director has a service contract with both Hochschild Mining plc and Compañía Minera Ares S.A.C., a Group subsidiary.
- In each case, US\$640,000 per annum is payable from Compañía Minera Ares S.A.C. and US\$160,000 per annum is payable from the Company. In addition, US\$160,000 per annum of pension supplement is payable from Compañía Minera Ares S.A.C. and US\$40,000 of pension supplement is payable from the Company.
- Salary paid by Compañía Minera Ares S.A.C. includes all legal labour benefits and compensation such as, but not restricted to, July and December bonuses, family allowance, vacation salaries and compensation for time services (ruled by Peruvian Legislative Decree 6500) but excluding legal profit sharing.
- Performance related bonuses are paid by Hochschild Mining plc and Compañía Minera Ares S.A.C. in the proportion each company pays the Director's base salary.
- Mr. Moore's fees are higher than those of the other Non-Executive Directors as they include fees paid to him for services as the Chairman of the Audit Committee of the Company.
- 2006 figures represent remuneration paid from the commencement date of the relevant service contract in the final quarter of 2006 to 31 December 2006.

### Directors' interests in shares

The interests of the Directors are set out in the Directors' Report on page 38.

### Approval

This report has been approved by the Board of Directors of Hochschild Mining plc and is signed on its behalf by

**Jorge Born Jr.**  
Chairman, Remuneration Committee

1 April 2008

# STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RELATION TO THE GROUP AND PARENT COMPANY FINANCIAL STATEMENTS

The Directors are responsible for preparing the Annual Report and the Group and parent Company's Financial Statements ('Financial Statements') in accordance with applicable United Kingdom law and those International Financial Reporting Standards ('IFRS') as adopted by the European Union.

The Directors are required to prepare Group and parent company financial statements for each financial year which present fairly the financial position of the Group and parent company, and the financial performance and cash flows of the Group and parent company for that period. In preparing those financial statements the Directors are required to:

- select suitable accounting policies in accordance with IAS 8: *Accounting Policies, Changes in Accounting Estimates and Errors* and apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group and parent company's financial position and financial performance; and
- state that the Group and parent company has complied with IFRS, subject to any material departures disclosed and explained in the financial statements.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and parent company and enable them to ensure that the Group financial statements comply with the Companies Act 1985, Companies Act 2006 and, in the case of Group financial statements, with Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Group and parent company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.



# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HOCHSCHILD MINING PLC

We have audited the Group financial statements (the 'financial statements') of Hochschild Mining plc for the year ended 31 December 2007 which comprise the Group Income Statement, the Group Balance Sheet, the Group Cash Flow Statement, the Group Statement of Change in Equity and the related notes 1 to 39. We have also audited the parent company financial statements (the 'financial statements') of Hochschild Mining plc for the period ended 31 December 2007 which comprise the Company Income Statement, the Company Balance Sheet, the Company Cash Flow Statement, the Company Statement of Change in Equity and the related notes 1 to 18. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRS) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and whether, in addition, the Group financial statements have been properly prepared in accordance with Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the other sections of the Annual Report that is cross referred from the Business Review section of the Directors' Report.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Report reflects the Company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Chairman's Statement, the Operating and Financial Review, the Directors' Report, the unaudited part of the Directors' Remuneration Report, and the Corporate Governance Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

## Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report to be audited.

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HOCHSCHILD MINING PLC (...cont'd)

### Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of the Group's affairs as at 31 December 2007 and of its profit for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of the parent company's affairs as at 31 December 2007 and of its profit for the year then ended;
- the Group's financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation;
- the parent company's financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

### Ernst & Young LLP

Registered auditor

London

1 April 2008

# GROUP INCOME STATEMENT

For the year ended 31 December 2007

	Notes	Year ended 31 December 2007			(Restated) <sup>1</sup> Year ended 31 December 2006		
		Before exceptional items	Exceptional items	Total	Before exceptional items	Exceptional items	Total
		US\$000	US\$000	US\$000	US\$000	US\$000	US\$000
<b>Continuing operations</b>							
Revenue	4, 6	305,021	–	305,021	211,246	–	211,246
Cost of sales	7	(106,084)	–	(106,084)	(77,829)	–	(77,829)
<b>Gross profit</b>		<b>198,937</b>	<b>–</b>	<b>198,937</b>	133,417	–	133,417
Administrative expenses	8	(69,167)	–	(69,167)	(36,633)	–	(36,633)
Exploration expenses	9	(26,728)	–	(26,728)	(19,026)	–	(19,026)
Selling expenses	10	(2,780)	–	(2,780)	(3,187)	–	(3,187)
Other income	12	6,067	932	6,999	5,274	94	5,368
Other expenses	12	(2,399)	(1,501)	(3,900)	(3,870)	(6,495)	(10,365)
<b>Profit from continuing operations before net finance income/(cost), foreign exchange (loss)/gain and income tax</b>		<b>103,930</b>	<b>(569)</b>	<b>103,361</b>	75,975	(6,401)	69,574
Finance income	13	19,783	5,474	25,257	5,988	918	6,906
Finance costs	13	(7,517)	(71)	(7,588)	(12,037)	–	(12,037)
Foreign exchange (loss)/gain		(4,363)	–	(4,363)	353	–	353
<b>Profit from continuing operations before income tax</b>		<b>111,833</b>	<b>4,834</b>	<b>116,667</b>	70,279	(5,483)	64,796
Income tax expense	14, 28	(34,453)	(1,299)	(35,752)	(29,516)	623	(28,893)
<b>Profit for the year from continuing operations</b>		<b>77,380</b>	<b>3,535</b>	<b>80,915</b>	40,763	(4,860)	35,903
<b>Attributable to:</b>							
Equity shareholders of the Company		81,538	3,535	85,073	46,572	(4,860)	41,712
Minority shareholders		(4,158)	–	(4,158)	(5,809)	–	(5,809)
		<b>77,380</b>	<b>3,535</b>	<b>80,915</b>	40,763	(4,860)	35,903
Basic and diluted earnings per ordinary share from continuing operations and for the year (expressed in US dollars per share)	15	0.27	0.01	0.28	0.19	(0.02)	0.17

<sup>1</sup> For restatement of comparative figures, refer to note 3.

## GROUP BALANCE SHEET

As at 31 December 2007

		As at 31 December	
	Notes	2007 US\$000	(Restated) <sup>1</sup> 2006 US\$000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	16	263,062	141,387
Intangibles	17	2,896	2,091
Available-for-sale financial assets	18	15,100	6,285
Trade and other receivables	19	26,134	17,427
Deferred income tax assets	28	22,400	7,920
		<b>329,592</b>	175,110
<b>Current assets</b>			
Inventories	20	47,012	16,533
Trade and other receivables	19	134,180	47,592
Income tax receivable		1,003	2,134
Derivative financial instruments	21	8,039	6,022
Cash and cash equivalents	22	301,426	435,543
		<b>491,660</b>	507,824
Assets classified as held for sale	30	—	345
<b>Total assets</b>		<b>821,252</b>	683,279
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves attributable to shareholders of the Parent</b>			
Equity share capital		146,466	146,466
Share premium		395,928	396,156
Other reserves		(205,556)	(205,039)
Retained earnings		229,202	152,577
		<b>566,040</b>	490,160
<b>Minority interest</b>		<b>50,008</b>	14,489
<b>Total equity</b>	27	<b>616,048</b>	504,649
<b>Non-current liabilities</b>			
Trade and other payables	23	859	1,064
Borrowings	24	55,209	27,114
Provisions	25	30,821	28,690
Deferred income tax liabilities	28	9,091	4,026
		<b>95,980</b>	60,894
<b>Current liabilities</b>			
Trade and other payables	23	52,176	64,140
Borrowings	24	33,169	29,782
Provisions	25	13,029	11,385
Income tax payable		10,850	12,429
		<b>109,224</b>	117,736
<b>Total liabilities</b>		<b>205,204</b>	178,630
<b>Total equity and liabilities</b>		<b>821,252</b>	683,279

1 For restatement of comparative figures, refer to note 3.

These financial statements were approved by the Board of Directors on 1 April 2008 and signed on its behalf by:

**Roberto Dañino**  
Executive Director and Deputy Chairman  
1 April 2008

# GROUP CASH FLOW STATEMENT

For the year ended 31 December 2007

	Notes	Year ended 31 December	
		2007 US\$000	(Restated) <sup>1</sup> 2006 US\$000
<b>Cash flows from operating activities</b>			
Cash generated from operations	33	<b>34,338</b>	132,046
Interest received		<b>18,390</b>	2,576
Interest paid		<b>(1,217)</b>	(9,163)
Payments of mine closure costs		<b>(2,023)</b>	(5,426)
Tax paid		<b>(28,084)</b>	(26,010)
<b>Net cash generated from operating activities</b>		<b>21,404</b>	94,023
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		<b>(134,119)</b>	(65,704)
Purchase of available-for-sale financial assets		<b>(4,669)</b>	(2,770)
Purchase of shares of Minera Colorada S.A.C		<b>-</b>	(240)
Purchase of software licences		<b>(876)</b>	-
Purchase of other financial assets at fair value through profit or loss		<b>-</b>	(5,867)
Purchase of assets and liabilities of Mina Moris		<b>-</b>	(4,983)
Loan to Exmin, S.A. de C.V.		<b>(746)</b>	(754)
Loan to Minera Andes Inc.	24	<b>(22,036)</b>	(9,800)
Proceeds from other financial assets at fair value through profit or loss		<b>-</b>	5,591
Proceeds from sale of available-for-sale financial assets	12, 18	<b>-</b>	6,550
Proceeds from sale of Mauricio Hochschild & Cia. Ltda. S.A.C. (subsidiary)	12	<b>-</b>	3,801
Proceeds from sale of Caylloma mining unit		<b>-</b>	4,500
Proceeds from sale of property, plant and equipment		<b>167</b>	991
Dividends received		<b>-</b>	147
<b>Net cash used in investing activities</b>		<b>(162,279)</b>	(68,538)
<b>Cash flows from financing activities</b>			
Proceeds of borrowings		<b>177,168</b>	77,014
Repayment of borrowings		<b>(150,194)</b>	(95,977)
Dividends paid		<b>(24,729)</b>	(58,375)
Capital contribution		<b>-</b>	93
Proceeds from issue of ordinary share under Global offer		<b>-</b>	515,245
Transaction costs associated with issue of shares	27	<b>(11,722)</b>	(33,989)
Purchase of shares from minority shareholders	27	<b>-</b>	(2)
Capital contribution from minority shareholders		<b>16,175</b>	4,215
Repayment of capital to minority shareholders		<b>-</b>	(671)
<b>Cash flows generated from financing activities</b>		<b>6,698</b>	407,553
Net (decrease)/increase in cash and cash equivalents during the year		<b>(134,177)</b>	433,038
Exchange difference		<b>60</b>	38
Cash and cash equivalents at beginning of year		<b>435,543</b>	2,467
<b>Cash and cash equivalents at end of year</b>	22	<b>301,426</b>	435,543

<sup>1</sup> For restatement of comparative figures, refer to note 3.



# GROUP STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2007

	Notes	Other reserves					Total Other reserves US\$000	Retained earnings US\$000	Capital and reserves attributable to shareholders of the Parent US\$000	Minority interest US\$000	Total equity US\$000
		Equity share capital US\$000	Share premium US\$000	Unrealised gain/loss on available-for- sale financial assets US\$000	Cumulative translation adjustment US\$000	Merger reserve US\$000					
<b>Balance at 1 January 2006 as reported</b>		219,233	–	11,265	726	(210,046)	(198,055)	28,198	49,376	(2,533)	46,843
<b>Adjustments due to change in accounting policy</b>	3	–	–	–	73	–	73	9,343	9,416	5,440	14,856
<b>Balance at 1 January 2006, restated</b>	27	219,233	–	11,265	799	(210,046)	(197,982)	37,541	58,792	2,907	61,699
Fair value gains on available-for-sale financial assets	18	–	–	13,351	–	–	13,351	–	13,351	20	13,371
Deferred income tax on available-for-sale financial assets		–	–	(398)	–	–	(398)	–	(398)	–	(398)
Fair value changes transferred to income statement on disposal		–	–	(22,844)	–	–	(22,844)	–	(22,844)	–	(22,844)
Translation adjustment for the year		–	–	–	2,834	–	2,834	–	2,834	142	2,976
Net income recognised directly in equity		–	–	(9,891)	2,834	–	(7,057)	–	(7,057)	162	(6,895)
Profit for the year		–	–	–	–	–	–	41,712	41,712	(5,809)	35,903
Total recognised income for 2006		–	–	(9,891)	2,834	–	(7,057)	41,712	34,655	(5,647)	29,008
Shares issued		93	–	–	–	–	–	–	93	–	93
Shares issued under Global offer		73,606	441,639	–	–	–	–	–	515,245	–	515,245
Transaction costs associated with issue of shares		–	(45,483)	–	–	–	–	–	(45,483)	–	(45,483)
Capital reduction		(146,466)	–	–	–	–	–	146,466	–	–	–
Dividends	29	–	–	–	–	–	–	(73,142)	(73,142)	(298)	(73,440)
Capital contribution from minority shareholders		–	–	–	–	–	–	–	–	18,200	18,200
Purchase of shares from minority shareholders	27	–	–	–	–	–	–	–	–	(2)	(2)
Repayment of capital to minority shareholders		–	–	–	–	–	–	–	–	(671)	(671)

	Notes	Other reserves					Total Other reserves US\$000	Retained earnings US\$000	Capital and reserves attributable to shareholders of the Parent US\$000	Minority interest US\$000	Equity US\$000
		Equity share capital US\$000	Share premium US\$000	Unrealised gain/loss on available-for- sale financial assets US\$000	Cumulative translation adjustment US\$000	Merger reserve US\$000					
<b>Balance at 31 December 2006, restated</b>		146,466	396,156	1,374	3,633	(210,046)	(205,039)	152,577	490,160	14,489	504,649
Fair value gains on available-for-sale financial assets	18	–	–	1,415	–	–	1,415	–	1,415	87	1,502
Deferred income tax on available-for- sale financial assets	28	–	–	(927)	–	–	(927)	–	(927)	–	(927)
Translation adjustment for the year		–	–	–	(1,005)	–	(1,005)	–	(1,005)	882	(123)
Net income recognised directly in equity		–	–	488	(1,005)	–	(517)	–	(517)	969	452
Profit for the year		–	–	–	–	–	–	85,073	85,073	(4,158)	80,915
Total recognised income for 2007		–	–	488	(1,005)	–	(517)	85,073	84,556	(3,189)	81,367
Transaction costs associated with issue of shares	27	–	(228)	–	–	–	–	–	(228)	–	(228)
Dividends	29	–	–	–	–	–	–	(8,448)	(8,448)	–	(8,448)
Adjustment to deferred consideration <sup>1</sup>		–	–	–	–	–	–	–	–	5,627	5,627
Capital contribution from minority shareholders		–	–	–	–	–	–	–	–	33,081	33,081
<b>Balance at 31 December 2007</b>		<b>146,466</b>	<b>395,928</b>	<b>1,862</b>	<b>2,628</b>	<b>(210,046)</b>	<b>(205,556)</b>	<b>229,202</b>	<b>566,040</b>	<b>50,008</b>	<b>616,048</b>

<sup>1</sup> This amount represents the increase in the minority interest's share of the assets of Pallancata, following the Group's investment during the period in accordance with the agreement described in note 5(b).

# NOTES TO THE GROUP FINANCIAL STATEMENTS

For the year ended 31 December 2007

## 1 Corporate Information

Hochschild Mining plc (hereinafter the 'Company') is a public limited company incorporated on 11 April 2006 under the Companies Act 1985 as a Limited Company and registered in England and Wales with registered number 05777693. The Company's registered address is 18 Hanover Square, London W1S 1HX, United Kingdom.

The ultimate controlling party of the Company is Mr. Eduardo Hochschild whose beneficial interest in the Company and its subsidiaries (together the 'Group' or 'Hochschild Mining Group') is held through Pelham Investment Corporation, a Cayman Islands company.

On 8 November 2006, the Company's shares were admitted to the Official List of the UKLA (United Kingdom Listing Authority) and to trading on the London Stock Exchange.

The Group's principal business is the mining, processing and sale of silver and gold. The Group has four operating mines (Ares, Arcata, Selene and Pallancata) located in southern Peru, one operating mine (San Jose) located in Argentina and one operating mine (Santa Maria de Moris) located in Mexico. The Group also has a portfolio of projects located across Peru, Argentina, Mexico, Chile, and the United States of America at various stages of exploration and development.

These consolidated financial statements were approved for issue by the Board of Directors on 1 April 2008.

The principal activities of the Company's subsidiaries are as follows:

Company	Principal activity	Country of incorporation	Equity interest at 31 December	
			2007	2006
Hochschild Mining (Argentina) Corporation S.A. (formerly Hochschild Mining (Argentina) Corporation) <sup>1</sup>	Holding company	Argentina	100	100
Larchmont S.A. (formerly Larchmont Corporation) <sup>1</sup>	Holding company	Peru	100	100
Garrison S.A. (formerly Garrison Corporation) <sup>1</sup>	Holding company	Peru	100	100
Ardsley S.A. (formerly Ardsley Corporation) <sup>1</sup>	Holding company	Peru	100	100
Hochschild Mining (Peru) S.A. (formerly Hochschild Mining (Peru) Corporation) <sup>1</sup>	Holding company	Peru	100	100
Hochschild Mining (Mexico) Corporation (formerly Port Chester Ltd.)	Holding company	Cayman Islands	100	100
Hochschild Mining Holdings Limited	Holding company	United Kingdom	100	100
Compañía Minera Sipán S.A.C. <sup>2</sup>	Production of gold and silver	Peru	–	100
Compañía Minera Ares S.A.C.	Production of gold and silver	Peru	100	100
Compañía Minera Arcata S.A. <sup>3</sup>	Production of gold and silver	Peru	96.8	96.8
Minera Colorada S.A.C. <sup>4</sup>	Exploration office	Peru	–	30
Empresa de Transmisión Callalli S.A.C.	Power transmission	Peru	100	100
Asociación Sumac Tarpuy <sup>5</sup>	Not-for-profit	Peru	–	–
Pallancata Holding S.A.C. (formerly Compañía Minera Coriorco S.A.)	Holding company	Peru	100	100
Minera Suyamarca S.A.C.	Production of gold and silver	Peru	60	60
MH Argentina S.A.	Exploration office	Argentina	100	100
Minera Hochschild Chile S.C.M. (formerly Minera MH Chile Ltda.)	Exploration office	Chile	100	100
Minera Hochschild Mexico, S.A. de C.V.	Exploration office	Mexico	100	100
Minas Santa María de Moris, S.A. de C.V.	Production of gold and silver	Mexico	70	70
Moris Holding, S.A. de C.V.	Holding company	Mexico	100	100
Servicios Corporativos Hochschild Mining Mexico, S.A. de C.V.	Service company	Mexico	100	–
Hochschild Mining (US) Inc. (formerly MH Nevada, Inc.)	Exploration office	USA	100	100
Minera Santa Cruz S.A.	Production of gold and silver	Argentina	51	51
Hochschild Mining Chile S.A.	Holding company	Chile	100	–
HMX, S.A. de C.V.	Exploration office	Mexico	100	–

1 These subsidiaries were previously domiciled in the Cayman Islands. In 2007, the place of domicile of these subsidiaries was transferred to Peru and Argentina.

2 Sold in 2007. Refer to note 12(f).

3 The operations of Minera Arcata's mine was sold to Compañía Minera Ares S.A.C. in 2006.

4 The investment in Minera Colorada S.A.C. was sold to Cementos Pacasmayo S.A.A. in September 2007 (refer to note 31(c)).

5 Asociación Sumac Tarpuy is an unincorporated entity, which receives donations from Compañía Minera Ares S.A.C., and spends this money on the community and social welfare activities around its mine units at the direction of Ares. As a result, the Group consolidates this entity.

## 2 Significant accounting policies

### (a) Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted for use in the European Union and with the Companies Act 1985. The Group's Financial Statements are also consistent with IFRS issued by the IASB.

The basis of preparation and accounting policies used in preparing the consolidated financial statements for the years ended 31 December 2007 and 2006 are set out below. These accounting policies have been consistently applied, except for the effects of adoption of new and amended accounting standards (refer to note 2(c)) and change in accounting policy of capitalisation of exploration expenses (refer to note 3).

The financial statements have been prepared on a historical cost basis, except for certain classes of property, plant and equipment which were re-valued at 1 January 2003 to determine the deemed cost (refer to note 2(f)), derivatives, available-for-sale financial instruments and other financial assets at fair value through profit and loss which have been measured at fair value. The financial statements are presented in US dollars (US\$) and all monetary amounts are rounded to the nearest thousand (US\$000) except when otherwise indicated.

On 2 November 2006 and according to the share exchange agreement terms Hochschild Mining plc entered into an agreement to acquire Hochschild Mining (Argentina) Corporation, Larchmont Corporation, Garrison Corporation, Ardsley Corporation, Hochschild Mining (Peru) Corporation and Hochschild Mining (Mexico) Corporation (together referred to as the 'Cayman Holding Companies').

In relation to this transaction, Hochschild Mining plc issued 229,900,000 shares to the former shareholders of the Cayman Holding Companies in exchange for the issued share capital of these companies. As this transaction involved the combination of businesses under common control, the pooling of interests method of accounting has been applied in the presentation of the consolidated financial statements for the year ended 31 December 2006 which present the results of the Group as if the Cayman Holding Companies had always been part of the Group. Accordingly, the assets and liabilities transferred to the Company have been recognised at historical amounts. For periods prior to the legal formation of the Company, the assets, liabilities, revenue and expenses of the Cayman Holding Companies comprising the Predecessor Operations were consolidated in preparing the financial statements. The accompanying consolidated financial statements present the results and changes in equity of the Company and its subsidiaries as if the Group had been in existence throughout the years presented.

### Standards, interpretations and amendment to existing standards that are not yet effective and have not been adopted early by the Group

Certain new standards, amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2008 or later periods but which the Group has not adopted early. Those that are applicable to the Group are as follows:

- IFRS 8 'Operating Segments' applicable for annual periods beginning on or after 1 January 2009.
- IFRIC 11, IFRS 2 'Group and Treasury Shares Transactions', applicable for annual periods beginning on or after 1 March 2007.
- IAS 23 Amendment, 'Borrowing Costs', applicable for annual periods beginning on or after 1 January 2009.
- IFRIC 14, IAS 19, 'The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction', applicable for annual periods beginning on or after 1 January 2008.
- IFRS 3 'Business Combinations (revised January 2008)', applicable for annual periods beginning on or after 1 July 2009.
- IFRS 2 'Amendment to IFRS 2 – Vesting Conditions and Cancellations', applicable for annual periods beginning on or after 1 January 2009.
- IAS 27 'Consolidated and Separate Financial Statements (revised January 2008)', applicable for annual periods beginning on or after 1 July 2009.

IAS 23 has been revised to require capitalisation of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. In accordance with the transitional provisions in the Standard, the Group will adopt this as a prospective change. Accordingly, borrowing costs will be capitalised on qualifying assets with a commencement date of 1 January 2009. No changes will be made for borrowing costs incurred prior to this date that have been expensed.

The Directors do not anticipate that the adoption of the remaining standards and interpretations will have a material impact on the Group's financial statements in the period of initial application.

# NOTES TO THE GROUP FINANCIAL STATEMENTS (...cont'd)

## For the year ended 31 December 2007

### 2 Significant accounting policies (...cont'd)

#### (b) Judgements in applying accounting policies and key sources of estimation uncertainty

Many of the amounts included in the financial statements involve the use of judgement and/or estimation. These judgements and estimates are based on management's best knowledge of the relevant facts and circumstances, having regard to prior experience, but actual results may differ from the amounts included in the financial statements. Information about such judgements and estimation is contained in the accounting policies and/or the notes to the financial statements. The key areas are summarised below.

Significant areas at estimation uncertainty and critical judgements made by management in preparing the consolidated statements include:

- Determination of functional currencies – note 2(e).
- Determination of useful lives of assets for depreciation and amortisation purposes – note 2(f).
- Determination of ore reserves and resources – note 2(g).
- Review of asset carrying values and impairment charges – note 2(j).
- Estimation of the amount and timing of mine closure costs – notes 2(n) and 25.
- Income tax – notes 14 and 28.
- Contingent liabilities regarding claims from tax authorities – note 35.
- Estimation of the executive long-term incentive plan – note 25.

#### (c) Changes in accounting policy and disclosures

The accounting policies adopted are consistent with those of the previous financial year except as follows:

- Change in accounting policy on exploration expenses (refer to note 3).
- Adoption of new and amended standards.

#### Adoption of new and amended standards

The Group has adopted the following new and amended IFRS and IFRIC interpretations during the year. Adoption of these revised standards and interpretations did not have any effect on the financial performance or position of the Group. They did however give rise to additional disclosures, including in some cases, revisions to accounting policies.

- IFRS 7 Financial Instruments: Disclosures.
- IAS 1 Amendment – Presentation of Financial Statements.
- IFRIC 9 Reassessment of Embedded Derivatives.

The principal effects of these changes are as follows:

#### IFRS 7 Financial Instruments: Disclosures

This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results, comparative information has been revised where needed.

#### IAS 1 Presentation of Financial Statements

This amendment requires the Group to make new disclosures to enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These new disclosures are shown in note 38.

#### IFRIC 9 Reassessment of Embedded Derivatives

IFRIC 9 states that the date to assess the existence of an embedded derivative is the date that an entity first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. As the Group has no changes in the contracts, the interpretation had no impact on the financial position or performance of the Group.

#### (d) Basis of consolidation

The Group's financial statements set out the Group's financial position and operations and cash flow as at 31 December 2007 and 31 December 2006 and for the years then ended, respectively.

Subsidiaries are those enterprises controlled by the Group regardless of the amount of shares owned by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the



## 2 Significant accounting policies (...cont'd)

date on which control is transferred out of the Group. The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. On acquisition of a subsidiary, the purchase consideration is allocated to the assets and liabilities on the basis of their fair value at the date of acquisition. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of net assets of the entity acquired, the difference is recognised directly in the income statement.

The financial statements of subsidiaries are prepared for the same reporting periods as the Company using consistent accounting policies. All intercompany balances and transactions, including unrealised profits arising from intra-Group transactions, have been eliminated on consolidation. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

Minority shareholders primarily represent the interests in Minera Santa Cruz, Compañía Minera Arcata, Minera Suyamarca, and Minas Santa María de Moris not held by the Company. In the event of a purchase of minority shareholders' interest when the Group holds the majority of shares of a subsidiary, any excess of the consideration given over the Group's share of net assets is recorded in Retained Earnings in Equity.

### (e) Currency translation

The functional currency for each entity in the Group is determined by the currency of the primary economic environment in which it operates. For the holding companies and operating entities it is US dollars and for the other entities it is the local currency of the country in which it operates. The Group's financial information is presented in US dollars, which is the Company's functional currency.

Transactions denominated in currencies other than the functional currency of the entity are initially recorded in the functional currency using the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are remeasured at the rate of exchange ruling at the balance sheet date. Exchange gains and losses on settlement of foreign currency transactions which are translated at the rate prevailing at the date of the transactions, or on the translation of monetary assets and liabilities which are translated at period-end exchange rates, are taken to the income statement. Non-monetary assets and liabilities denominated in foreign currencies that are stated at historical cost are translated to the functional currency at the foreign exchange rate prevailing at the date of the transaction. Exchange differences arising from monetary items that are part of a net investment in a foreign operation are recognised in equity and transferred to income on disposal of such net investment.

Subsidiary financial statements expressed in their corresponding functional currencies are translated into US dollars by applying the exchange rate at period-end for assets and liabilities and the average exchange rate for income statements items. The resulting difference on consolidation is included as cumulative translation adjustment in equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

### (f) Property, plant and equipment

Property, plant and equipment is stated at cost or deemed cost less accumulated depreciation and impairment losses. Cost comprises its purchase price and directly attributable costs of acquisition or construction required to bring the asset to condition necessary for the asset to be capable of operating in a manner intended by management. The cost or deemed cost of property, plant and equipment (hereafter referred to as 'cost') at 1 January 2005, the date of the Group transition to IFRS, is the deemed cost as at the date of transition by considering the revalued amounts as at 1 January 2003 at the time of the initial public offering of the Group and depreciated for the period until the date of transition. Economical and physical conditions of assets have not changed substantially over this period.

The cost less residual value of each item of property, plant and equipment is depreciated over its useful life. Each item's estimated useful life has been assessed with regard to both its own physical life limitations and the present assessment of economically recoverable reserves and resources of the mine property at which the item is located. Estimates of remaining useful lives are made on a regular basis for all mine buildings, machinery and equipment, with annual reassessments for major items. Depreciation is charged to cost of production on a units of production (UOP) basis for mine buildings and installations, plant and equipment used in the mining production process, or charged directly to the income statement over the estimated useful life of the individual asset on a straight-line basis when not related to the mining production process. Changes in estimates, which mainly affect units of production calculations, are accounted for prospectively. Depreciation commences when assets are available for use. Land is not depreciated.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

## NOTES TO THE GROUP FINANCIAL STATEMENTS (...cont'd)

For the year ended 31 December 2007

### 2 Significant accounting policies (...cont'd)

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within other income/expenses, in the income statement.

The expected useful lives under the straight-line method are as follows:

	Years
Buildings	3 to 33
Plant and equipment	5
Furniture, fixtures and fittings	10
Vehicles	5

Borrowing costs are not capitalised and are expensed.

#### Mineral properties and mine development costs

Payments for mineral properties are expensed during the exploration phase of a project and capitalised during their development phase when incurred. Costs associated with developments are capitalised.

Mine development costs are, upon commencement of commercial production, depreciated using the units of production method based on the estimated economically recoverable reserves and resources to which they relate.

#### Construction in progress

Assets in the course of construction are capitalised as a separate component of property, plant and equipment. On completion, the cost of construction is transferred to the appropriate category. Construction in progress is not depreciated.

#### Subsequent expenditure

Expenditure incurred to replace a component of an item of property, plant and equipment is capitalised separately with the carrying amount of the component being written off. Other subsequent expenditure is capitalised if future economic benefits will arise from the expenditure. All other expenditure including repairs and maintenance expenditures are recognised in the income statement as incurred.

#### (g) Determination of ore reserves and resources

The Group estimates its ore reserves and mineral resources based on information compiled by internal competent persons. Reports to support these estimates are prepared semi-annually and are stated in conformity with the Joint Ore Reserves Committee (JORC) code. The year-end report is audited by a third party.

Reserves and resources are used in the units of production calculation for depreciation as well as the determination of the timing of mine closure cost and impairment analysis.

There are numerous uncertainties inherent in estimating ore reserves. Assumptions that are valid at the time of estimation may change significantly when new information becomes available. Changes in the forecast prices of commodities, exchange rates, production costs or recovery rates may change the economic status of reserves and may, ultimately, result in the reserves being restated.

#### (h) Assets held for sale

Assets are classified as assets held for sale and stated at the lower of carrying amount and fair value less cost to sell if their carrying amount is to be recovered principally through a sale transaction rather than through a continuing use. These assets are not depreciated.

#### (i) Intangibles

##### Goodwill

Goodwill is included in intangible assets and represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired entity at the date of acquisition. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed.

Goodwill is allocated to cash-generating units for impairment testing purposes. The allocation is made to those cash-generating units that are expected to benefit from business combination in which the goodwill arose.

##### Other intangibles

Other intangible assets are primarily computer software which are capitalised at cost and are amortised on a straight-line basis over their useful life of three years.

## 2 Significant accounting policies (...cont'd)

### (j) Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment.

The carrying amounts of property, plant and equipment are reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable. If there are indicators of impairment, an exercise is undertaken to determine whether the carrying values are in excess of their recoverable amount. Such review is undertaken on an asset by asset basis, except where such assets do not generate cash flows independent of other assets, and then the review is undertaken at the cash generating unit level.

If the carrying amount of an asset or its cash-generating unit exceeds the recoverable amount, a provision is recorded to reflect the asset at the lower amount. Impairment losses are recognised in the income statement.

#### Calculation of recoverable amount

The recoverable amount of assets is the greater of their value in use and fair value less costs to sell. Fair value is based on an estimate of the amount that the Group may obtain in a sale transaction on an arm's length basis. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. The Group's cash generating units are the smallest identifiable groups of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

#### Reversal of impairment

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

### (k) Inventories

Inventories are valued at the lower of cost or net realisable value. Cost is determined using the weighted average method. The cost of work in progress and finished goods (ore inventories) is based on the cost of production and excludes borrowing costs

For this purpose, the costs of production include:

- costs, materials and contractor expenses which are directly attributable to the extraction and processing of ore;
- depreciation of property, plant and equipment used in the extraction and processing of ore; and
- related production overheads (based on normal operating capacity).

Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

### (l) Trade and other receivables

Current trade receivables are carried at the original invoice amount less provision made for impairment of these receivables. Non-current receivables are stated at amortised cost. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivable which on average, do not exceed 30 days. The amount of the provision is the difference between the carrying amount and the recoverable amount and this difference is recognised in the income statement.

### (m) Share capital

Ordinary shares are classified as equity. Excess to par value of shares received upon issuance of shares is classified as share premium.

### (n) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event. It is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

# NOTES TO THE GROUP FINANCIAL STATEMENTS (...cont'd)

For the year ended 31 December 2007

## 2 Significant accounting policies (...cont'd)

### Mine closure cost

Provisions for mine closure costs are made in respect of the estimated future costs of closure and restoration and for environmental rehabilitation costs (which include the dismantling and demolition of infrastructure, removal of residual materials and remediation of disturbed areas) in the accounting period when the related environmental disturbance occurs. The provision is discounted and the unwinding of the discount is included in finance costs. At the time of establishing the provision, a corresponding asset is capitalised and is depreciated over future production from the mine to which it relates. The provision is reviewed on an annual basis for changes in cost estimates, discount rates and operating lives.

### Workers' profit sharing and other employee benefits

In accordance with Peruvian legislation, Group companies in Peru must provide for workers' profit sharing equivalent to 8% of taxable income in each year. This amount is charged to the income statement within personnel expenses (refer to note 11) and is considered deductible for income tax purposes. The Group has no pension or retirement benefit schemes.

### Share based payments

The fair value of cash-settled share plans is recognised as a liability over the vesting period of the awards. Movements in that liability between accounting dates are recognised as an expense. The fair value of the awards is taken to be the market value of the shares at the date of award adjusted by a factor for anticipated relative Total Shareholder Return ('TSR') performance. Fair values are subsequently remeasured at each accounting date to reflect the number of awards expected to vest based on the current and anticipated TSR performance.

### Other

Other provisions are accounted for when the Group has a legal or constructive obligation for which it is probable there will be an outflow of resources for which the amount can be reliably estimated.

### (o) Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

### (p) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

### (q) Contingencies

Contingent liabilities are not recognised in the financial statements and are disclosed in notes to the financial information unless their occurrence is remote.

Contingent assets are not recognised in the financial statements, but they are disclosed in notes if they are deemed probable.

### (r) Revenue recognition

The Group is involved in production and sale of gold and silver from Doré bars and concentrate containing both gold and silver.

Concentrate is sold directly to customers. Doré bars are sent to a third party for further refining into gold and silver which is then sold.

Revenue is recognised to the extent that it is probable that economic benefits will flow to the Group and the revenue can be reliably measured.

Revenue associated with the sale of concentrate and gold and silver from Doré bars is recognised in the income statement when all significant risks and rewards of ownership are transferred to the customer, usually when title has passed to customer. Revenue excludes any applicable sales taxes.

The revenue is subject to adjustment based on inspection of the product by the customer. Revenue is initially recognised on a provisional basis using the Group's best estimate of contained gold and silver. Any subsequent adjustments to the initial estimate of metal content are recorded in revenue once they have been determined.

## 2 Significant accounting policies (...cont'd)

In addition, certain sales are provisionally priced where the selling price is subject to final adjustment at the end of a period normally ranging from 15 to 90 days after the start of the delivery process to the customer, based on the market price at the relevant quotation point stipulated in the contract. Revenue is initially recognised when the conditions set out above have been met, using market prices at that date. The price exposure is considered to be an embedded derivative and hence separated from the sales contract at each reporting date the provisionally priced metal is revalued based on the forward selling price for the quotational period stipulated in the contract until the quotational period ends. The selling price of gold and silver can be measured reliably as these metals are actively traded on the international exchanges. The revaluing of provisionally priced contracts is recorded as an adjustment to 'revenue'.

Income from services provided to related parties (note 31) is recognised in income when services are provided.

### (s) Finance income and costs

Finance income and expenses comprise interest expense on borrowings, the accumulation of interest on provisions, interest income on funds invested, gains and losses from the change in fair value of derivative instruments, and gains and losses on the disposal of available-for-sale investments.

Interest income is recognised as it accrues, taking into account the effective yield on the asset.

### (t) Income tax

Income tax for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items charged or credited directly to equity, in which case it is recognised in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, with the following exceptions:

- Where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based on the tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

### (u) Financial instruments

Financial assets and liabilities are recognised when the Group becomes party to the contracts that give rise to them and are classified as loans, receivables or as available-for-sale financial assets, as appropriate. The Group determines the classification of its financial assets and liabilities at initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end. When financial assets and liabilities are recognised initially, they are measured at fair value, being the transaction price plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs. The Group considers whether a contract contains an embedded derivative when the entity first becomes a party to it. The embedded derivatives are separated from the host contract if it is not measured at fair value through profit or loss and when the economic characteristics and risks are not closely related to those of the host contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

All regular way purchases and sales of financial assets are recognised on the trade date, being the date that the Group commits to purchase or sell the asset. Regular way transactions require delivery and receipt of assets within the timeframe generally established by regulation or convention in the market place. The subsequent measurement of financial assets depends on their classification, as follows:



# NOTES TO THE GROUP FINANCIAL STATEMENTS (...cont'd)

For the year ended 31 December 2007

## 2 Significant accounting policies (...cont'd)

### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, do not qualify as trading assets and have not been designated as either fair value through profit and loss or available-for-sale. Such assets are carried at amortised cost using the effective interest method if the time value of money is significant. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

### Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as such or are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit and loss. After initial recognition, available-for-sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the income statement.

### Fair values

The fair value of quoted investments is determined by reference to bid prices at the close of business on the balance sheet date. Where there is no active market, fair value is determined using valuation techniques. These include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; discounted cash flow analysis and pricing models.

### Impairment of financial assets

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

### Assets carried at amortised cost

If there is objective evidence that an impairment loss on assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced, through the use of an allowance account. The amount of the loss shall be recognised in administration costs.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date. In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are derecognised when they are assessed as irrecoverable.

### Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

### Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its fair value is transferred from equity to the income statement. Reversals of impairment losses on debt instruments are reversed through the income statement; if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in profit or loss. Reversals in respect of equity instruments classified as available-for-sale are not recognised in the income statement.

## 2 Significant accounting policies (...cont'd)

### Derecognition of financial assets and liabilities

A financial asset or liability is generally derecognised when the contract that gives rise to it is settled, sold, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, such that the difference in the respective carrying amounts together with any costs or fees incurred are recognised in profit or loss.

#### (v) Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

#### (w) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the balance sheet, cash and cash equivalents comprise cash on hand and deposits held with banks that are readily convertible into known amounts of cash within three months or less and which are subject to insignificant risk of changes in value. For the purposes of the cash flow statement, cash and cash equivalents as defined above are shown net of outstanding bank overdrafts.

#### (x) Exceptional items

Exceptional items are those significant items which due to their nature or the expected infrequency of the events giving rise to them, need to be disclosed separately on the face of the income statement to enable a better understanding of the financial performance of the Group and facilitate comparison with prior years. Exceptional items mainly include:

- Impairments of assets, including goodwill assets held for sale, and property, plant and equipment.
- Gains or losses arising on the disposal of subsidiaries, investments or property, plant and equipment.
- Fair value gains or losses arising on financial instruments not held in the normal course of trading.
- Any gain or loss resulting from any restructuring within the Group.
- The related tax impacts of these items.

#### (y) Comparatives

Where applicable, certain comparatives have been reclassified to present them in a comparable manner to the current period figures. For the restatement of comparative figures in relation to the change in accounting policy for exploration expenditure, refer to note 3.

### 3 Change in accounting policy of capitalisation of exploration expense

During the year, management changed the Group's accounting policy relating to exploration and evaluation expenditures as outlined below:

- **Projects in the development phase** – Exploration and evaluation costs are capitalised as tangible assets from the date that the Board authorises the management to conduct a feasibility study. Previously, the Group would commence capitalisation of these costs only from the date the project's feasibility study was approved and completed.
- **Identification of resources** – Costs incurred in converting inferred resources to indicated and measured resources (of which reserves are a component) are capitalised as incurred. Previously, these costs were expensed. Costs incurred in identifying inferred resources continue to be expensed as incurred.

Management believes that this change in accounting policy will enable improved matching of revenue and costs in the relevant period and thereby better reflect the Group's economic performance. In addition, management believes that this change will ensure consistency with its main peers, thereby enabling more relevant comparisons to be made.

According to IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors', the Group has retrospectively applied this new policy from 1 January 2002, the earliest date at which objective and reliable information existed in relation to the nature of the exploration expenditure incurred, to enable them to calculate this adjustment.

# NOTES TO THE GROUP FINANCIAL STATEMENTS (...cont'd)

For the year ended 31 December 2007

### 3 Change in accounting policy of capitalisation of exploration expense (...cont'd)

The comparative amounts presented in this report have been restated in accordance with the new accounting policy as follows:

Income statement	(Reported) Year ended 31 December 2006 US\$000	(Restated) Year ended 31 December 2006 US\$000	Effect of change in accounting policy US\$000
<b>Continuing operations</b>			
Cost of sales	(76,649)	(77,829)	1,180
Gross profit	134,597	133,417	1,180
Exploration expenses	(20,866)	(19,026)	(1,840)
Profit from continuing operations before net finance income/(cost), foreign exchange (loss)/gain and income tax	68,914	69,574	(660)
Profit from continuing operations before income tax	64,136	64,796	(660)
Income tax expense	(28,695)	(28,893)	198
Profit for the year from continuing operations	35,441	35,903	(462)
<b>Attributable to:</b>			
Equity shareholders of the Company	41,288	41,712	(424)
Minority shareholders	(5,847)	(5,809)	(38)
Basic and diluted earnings per ordinary share from continuing operations and for the year (expressed in US dollars per share)	0.17	0.17	-
<hr/>			
Balance sheet	(Reported) As at 31 December 2006 US\$000	(Restated) As at 31 December 2006 US\$000	Effect of change in accounting policy US\$000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	118,413	141,387	(22,974)
Deferred income tax assets	15,704	7,920	7,784
Total non-current assets	159,920	175,110	(15,190)
<b>Current assets</b>			
Inventories	16,405	16,533	(128)
Total current assets	507,696	507,824	(128)
Total assets	667,961	683,279	(15,318)
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves attributable to shareholders of the Parent</b>			
Other reserves	(205,112)	(205,039)	(73)
Retained earnings	142,810	152,577	(9,767)
Minority interest	9,011	14,489	(5,478)
Total equity	489,331	504,649	(15,318)
Total equity and liabilities	667,961	683,279	(15,318)

### 4 Segment reporting

The Group's activities are principally related to mining operations which involve exploration, production and sale of gold and silver. Products are subject to the same risks and returns and are sold through the same distribution channels. The Group has a number of activities that exist solely to support mining operations including power generation and services. As such, the Group has only one business segment as its primary reporting segment. The Group operates in various countries including Peru, Argentina, Mexico, Chile and the United States of America. Therefore, the geographical segment is the Group's secondary reporting format.

#### 4 Segment reporting (...cont'd)

##### (a) Revenue

Revenue for the year is allocated based on the country in which the customer is located. There are no inter-segment revenues.

	Year ended 31 December	
	2007 US\$000	2006 US\$000
USA	158,092	58,719
Peru	48,147	68
Mexico	47,919	116,034
Belgium	22,415	–
Canada	9,606	717
Germany	9,370	–
United Kingdom	8,202	35,708
Chile	1,270	–
<b>Total</b>	<b>305,021</b>	<b>211,246</b>

The allocation of revenue based on the country in which the asset is located is as follows.

	Year ended 31 December	
	2007 US\$000	2006 US\$000
Peru	303,377	211,246
Argentina	1,270	–
Mexico	374	–
<b>Total</b>	<b>305,021</b>	<b>211,246</b>

##### (b) Profit for the year

The Group has no significant inter-segment transactions. Profit for year is based on country of operation as follows:

	Year ended 31 December 2007			(Restated) Year ended 31 December 2006		
	Before exceptional items US\$000	Exceptional items US\$000	Total US\$000	Before exceptional items US\$000	Exceptional items US\$000	Total US\$000
	Peru	94,415	2,454	96,869	58,808	(3,827)
Cayman Islands	68	393	461	(2,756)	(1,033)	(3,789)
Argentina	(5,689)	–	(5,689)	(10,745)	–	(10,745)
Mexico	(11,403)	–	(11,403)	(3,920)	–	(3,920)
Chile	(2,718)	–	(2,718)	(1,613)	–	(1,613)
USA	(1,212)	8	(1,204)	(778)	–	(778)
United Kingdom	3,919	680	4,599	1,767	–	1,767
<b>Total</b>	<b>77,380</b>	<b>3,535</b>	<b>80,915</b>	<b>40,763</b>	<b>(4,860)</b>	<b>35,903</b>

# NOTES TO THE GROUP FINANCIAL STATEMENTS (...cont'd)

For the year ended 31 December 2007

## 4 Segment reporting (...cont'd)

### (c) Total segment assets

Total segment assets, which exclude income tax assets, are allocated based on where the assets are located:

	As at 31 December	
	2007 US\$000	(Restated) 2006 US\$000
Peru	234,667	139,117
Cayman Islands	6	11,134
Argentina	194,792	75,674
Mexico	37,915	12,340
Chile	972	580
USA	234	162
United Kingdom	329,263	434,218
<b>Total segment assets</b>	<b>797,849</b>	<b>673,225</b>
Deferred income tax assets	22,400	7,920
Income tax receivable	1,003	2,134
<b>Total</b>	<b>821,252</b>	<b>683,279</b>

### (d) Capital expenditure<sup>1</sup>

Capital expenditure is allocated based on where the assets are located:

	Year ended 31 December	
	2007 US\$000	(Restated) 2006 US\$000
Peru	68,226	34,413
Argentina	62,929	36,155
Mexico	13,386	8,191
Chile	43	67
USA	49	40
United Kingdom	105	4
<b>Total</b>	<b>144,738</b>	<b>78,870</b>

<sup>1</sup> The amounts shown above exclude increases in the mine closure asset amounting to US\$1,056,000 (2006: US\$1,810,000). Refer to note 16.

### (e) Total segment liabilities

Total segment liabilities, which exclude income tax liabilities, are allocated based on where the liabilities are located:

	As at 31 December	
	2007 US\$000	2006 US\$000
Peru	80,720	95,190
Cayman Islands	–	22,576
Argentina	97,853	35,911
Mexico	4,192	1,923
Chile	267	99
USA	304	48
United Kingdom	1,927	6,428
<b>Total segment liabilities</b>	<b>185,263</b>	<b>162,175</b>
Deferred income tax liabilities	9,091	4,026
Income tax payable	10,850	12,429
<b>Total</b>	<b>205,204</b>	<b>178,630</b>



#### 4 Segment reporting (...cont'd)

##### (f) Depreciation<sup>1</sup>

Depreciation is allocated based on where the assets are located:

	Year ended 31 December	
	2007 US\$000	(Restated) 2006 US\$000
Peru	19,170	18,447
Argentina	4,818	1,032
Mexico	1,940	44
Chile	19	3
USA	29	14
United Kingdom	24	—
<b>Total</b>	<b>26,000</b>	<b>19,540</b>

<sup>1</sup> Includes US\$861,000 (2006: US\$850,000) of depreciation charged on equipment used to construct the mine capitalised as property, plant and equipment during the construction of the Moris and San José mines.

##### (g) Non-cash expenses

Non-cash expenses for the year based on country of operation were as follows:

	Year ended 31 December 2007			Year ended 31 December 2006		
	Before exceptional items US\$000	Exceptional items US\$000	Total US\$000	Before exceptional items US\$000	Exceptional items US\$000	Total US\$000
Peru	—	1,501	1,501	226	5,462	5,688
United Kingdom	—	71	71	—	—	—
USA	—	—	—	—	1,033	1,033
<b>Total</b>	<b>—</b>	<b>1,572</b>	<b>1,572</b>	<b>226</b>	<b>6,495</b>	<b>6,721</b>

#### 5 Acquisitions

##### (a) Business combination

###### Minera Colorada S.A.C.

On 30 June 2006, the Group acquired a 30% interest in Minera Colorada S.A.C. ('Colorada'), an exploration company, from Cementos Pacasmayo S.A.A. ('Pacasmayo') (a related party) for US\$240,000 in cash. The Group's interest was deemed to be a controlling interest because of the Group's demonstrable ability to govern its financial and operating policies so as to obtain benefits from its activities.

As at 31 December 2006, it was concluded that the project was not commercially viable and accordingly the Group impaired in full the goodwill which arose on acquisition of US\$230,000 and related assets of US\$113,000.

On 30 September 2007, the Group sold its shares in Colorada for US\$14,000 to Cementos Pacasmayo S.A.A. (refer to note 31(c)).

No further disclosures have been provided since amounts involved are not considered significant in relation to the financial statements of the Group.

##### (b) Acquisition of assets

###### Mina Moris

On 30 June 2006 Minera Hochschild Mexico, S.A. de C.V. ('MHM') and EXMIN, S.A. de C.V. ('EXMIN') entered into an agreement to purchase the assets and related liabilities of Santa Maria de Moris mine ('Mina Moris') for US\$6 million. MHM agreed to pay US\$4.2 million (70% share) and Exmin agreed to pay US\$1.8 million (30% share). MHM and EXMIN also incurred pre-acquisition costs of US\$0.8 million, which has been treated as a part of the consideration for the acquisition of these assets. EXMIN'S contribution to the project has been funded by a loan from the Group and the proceeds from purchase of shares in EXMIN Resources Inc. by the Group (refer to note 18). These shares were issued at a discount of 20% to the market price, resulting in an unrealised gain on issue of these shares of US\$0.3 million, which has reduced the cost of acquisition of the net assets for the Group.

# NOTES TO THE GROUP FINANCIAL STATEMENTS (...cont'd)

For the year ended 31 December 2007

## 5 Acquisitions (...cont'd)

The assets and liabilities of Mina Moris at the date of acquisition were as follows:

	US\$000
Plant and equipment	3,255
Mining properties	3,355
Land and buildings	1,432
Supplies	248
Provision for mine closure costs	(1,830)
<b>Total</b>	<b>6,460</b>

### Pallancata

On 3 July 2006, the Group entered into an agreement with Minera Oro Vega S.A.C. ('Minorva') to form an entity in order to purchase the mining rights for the Pallancata properties located in the Coronel Castañeda District, Parinacochas province, Ayacucho (department in Peru) from Minorva. On 10 July 2006, Pallancata Holdings S.A.C. and Minorva incorporated Minera Suyamarca S.A.C ('Suyamarca'), with the Group being the operator of the project through a 60% controlling interest in this company.

The Group's initial contribution was US\$6.0 million (US\$3.0 million paid in 2006 and US\$3.0 million paid in 2007) for the development of the project and Minorva's contribution was in the form of mining rights and an associated US\$1.4 million liability to Minorva representing Minorva's payables to third parties, at an agreed net value of US\$4.0 million. Further, the Group had agreed to fund the cost of construction of the mine in full, up to an operating capacity of 1,000 tonnes per day. As a result, the total cost of acquisition was determined by the Group to be US\$9.7 million (US\$4 million of the aforementioned contribution from Minorva and US\$5.7 million representing Minorva's share in the net assets on construction of the mine to be paid by the Group). US\$1.1 million of this consideration has been allocated to the mining rights and US\$1.4 million towards the liability acquired. The US\$5.7 million has been treated as deferred consideration.

On 12 October 2006, Suyamarca purchased the mining rights of four additional properties in the Pallancata project area from Minorva for US\$89,000 and assumed a liability of US\$140,000.

During 2007, Suyamarca paid the US\$1.4 million liability to Minorva (being the party which has the legal mortgage with the third parties) and Minorva subsequently settled this liability. Further significant development activities were carried out in 2007 resulting in the reduction in the deferred consideration to US\$1,326,000 as at the end of 2007.

## 6 Revenue

	Year ended 31 December	
	2007 US\$000	2006 US\$000
Gold (from Doré bars)	<b>105,975</b>	70,498
Silver (from Doré bars)	<b>64,713</b>	23,929
Concentrate	<b>134,212</b>	116,751
Services	<b>121</b>	68
<b>Total</b>	<b>305,021</b>	211,246

The concentrate sold contained:

	Year ended 31 December	
	2007 US\$000	2006 US\$000
Gold	<b>19,275</b>	21,953
Silver	<b>114,127</b>	94,208
Other minerals	<b>810</b>	590
<b>Total</b>	<b>134,212</b>	116,751

## 6 Revenue (...cont'd)

Included within revenue is US\$6,303,000 provisional pricing adjustments representing the change in the fair value of embedded derivatives (2006: US\$9,872,000) arising on sales of concentrates and doré bars (refer to notes 2(r) and 21(2)).

The total volumes of gold and silver sold are as follows:

	Year ended 31 December	
	2007 k oz	2006 k oz
Gold	198	190
Silver	13,670	10,403

## 7 Cost of sales

Included in cost of sales are:

	Year ended 31 December	
	2007 US\$000	(Restated) 2006 US\$000
Depreciation	24,679	17,697
Amortisation of software licences	6	–
Personnel expenses	20,377	12,028
Mining royalty (note 37)	4,218	3,258
Provision for slow moving and obsolescence of supplies	–	303
Mining rights	613	402
Change in products in process and finished goods	(23,591)	(4,031)

## 8 Administrative expenses

	Year ended 31 December	
	2007 US\$000	2006 US\$000
Personnel expenses	32,877	18,486
Professional fees	15,159	5,210
Social and community welfare expenses <sup>1</sup>	4,317	2,307
Lease rentals	1,969	1,275
Travel expenses	2,823	534
Communications	356	327
Indirect taxes	1,606	923
Depreciation	460	993
Amortisation of software licences	65	–
Contribution to Peruvian Government (note 26)	940	800
Technology and systems	1,744	433
Termination benefits	735	639
Security	320	322
Supplies	332	253
Other	5,464	4,131
<b>Total</b>	<b>69,167</b>	<b>36,633</b>

<sup>1</sup> Represents amounts expended by the Group on social and community welfare activities surrounding its mining units.

# NOTES TO THE GROUP FINANCIAL STATEMENTS (...cont'd)

For the year ended 31 December 2007

## 9 Exploration expenses

	Year ended 31 December	
	2007 US\$000	(Restated) 2006 US\$000
<b>Mine site exploration<sup>1</sup></b>		
Arcata	930	447
Ares	1,657	1,527
Selene	987	99
Pallancata	–	1,443
San José	264	–
Moris	112	–
	<b>3,950</b>	3,516
<b>Prospects<sup>2</sup></b>		
Peru	1,805	411
Argentina	599	–
Chile	312	–
	<b>2,716</b>	411
<b>Generative<sup>3</sup></b>		
Peru	959	1,676
Argentina	3,149	2,826
Mexico	6,491	2,796
Chile	346	1,018
USA	110	150
South Africa	104	–
	<b>11,159</b>	8,466
<b>Mining rights</b>	<b>641</b>	491
<b>Personnel</b>	<b>5,272</b>	4,873
<b>Other</b>	<b>2,990</b>	1,269
<b>Total</b>	<b>26,728</b>	19,026

- Mine site exploration is performed with the purpose of identifying potential minerals within an existing mine site, with the goal of maintaining or extending the mine's life. Once an inferred resource has been identified, costs incurred converting it to indicated and measured resources are capitalised.
- Prospects expenditures relate to detailed geological evaluations in order to determine zones which have mineralisation potential that is economically viable for exploration. Exploration expenditure is generally incurred in the following areas: detail mapping, detail sampling, geophysics, identification of local targets and reconnaissance drilling.
- Generative expenditure is very early stage exploration expenditure related to the basic evaluation of the region to identify prospects areas that have geological conditions necessary to contain mineral deposits. Related activities include regional and field reconnaissance, satellite images, compilation of public information and identification of exploration targets.

The following table lists the liabilities (generally payables) outstanding at the year end, which relate to the exploration activities of Group companies engaged only in exploration. Liabilities related to exploration activities incurred by Group operating companies are not included since it is not possible to separate the liabilities related to exploration activities of these companies from their operating liabilities.

	Year ended 31 December	
	2007 US\$000	2006 US\$000
Liabilities related to exploration activities	<b>709</b>	320

## 9 Exploration expenses (...cont'd)

Cash flows of exploration activities are as follow:

	Year ended 31 December	
	2007 US\$000	2006 US\$000
Payments	<b>13,486</b>	8,649

## 10 Selling expenses

	Year ended 31 December	
	2007 US\$000	2006 US\$000
Transportation of Doré, concentrates and maritime freight	<b>1,559</b>	2,110
Sales commissions	<b>651</b>	548
Personnel expenses	<b>82</b>	77
Warehouse services	<b>191</b>	152
Other	<b>297</b>	300
<b>Total</b>	<b>2,780</b>	3,187

## 11 Personnel expenses

	Year ended 31 December	
	2007 US\$000	2006 US\$000
Salaries and wages <sup>1</sup>	<b>35,815</b>	21,125
Workers' profit sharing <sup>2</sup>	<b>11,621</b>	8,293
Other legal contributions	<b>6,566</b>	2,484
Termination benefits	<b>1,803</b>	1,313
Statutory holiday payments	<b>1,960</b>	1,244
Executive Long-Term Incentive Plan (note 25 footnote 2)	<b>799</b>	–
Other	<b>2,033</b>	1,356
<b>Total</b>	<b>60,597</b>	35,815

<sup>1</sup> Included in salaries and wages is the Director's remuneration (refer to note 31(b)).

<sup>2</sup> In accordance with Peruvian Labour Regulations, the Peruvian companies of the Group are required to pay 8% of the taxable profit for the year to their employees.

Personnel expenses are distributed as follows:

	Year ended 31 December	
	2007 US\$000	2006 US\$000
Cost of sales (note 7)	<b>20,377</b>	12,028
Administrative expenses (note 8)	<b>32,877</b>	18,486
Exploration expenses (note 9)	<b>5,272</b>	4,873
Selling expenses (note 10)	<b>82</b>	77
Property, plant and equipment	<b>1,989</b>	351
<b>Total</b>	<b>60,597</b>	35,815

# NOTES TO THE GROUP FINANCIAL STATEMENTS (...cont'd)

For the year ended 31 December 2007

## 11 Personnel expenses (...cont'd)

Average number of employees for 2007 and 2006 were as follows:

	Year ended 31 December	
	2007	2006
Peru	1,020	887
Argentina	512	274
Mexico	94	18
Chile	16	6
USA	4	3
United Kingdom	11	1
<b>Total</b>	<b>1,657</b>	<b>1,189</b>

## 12 Other income and other expenses

	Year ended 31 December 2007			Year ended 31 December 2006		
	Before exceptional items	Exceptional items	Total	Before exceptional items	Exceptional items	Total
	US\$000	US\$000	US\$000	US\$000	US\$000	US\$000
<b>Other income:</b>						
Decrease in provision for mine closure <sup>1</sup>	2,647	450	3,097	2,812	–	2,812
Recovery of expenses	891	–	891	791	–	791
Income from mine concession	135	–	135	151	–	151
Gain on sale of property, plant and equipment	–	–	–	–	94	94
Lease rentals	235	–	235	90	–	90
Reversal of impairment of supplies	355	–	355	–	–	–
Recognition of assets on restructuring <sup>2</sup>	–	482	482	–	–	–
Other	1,804	–	1,804	1,430	–	1,430
<b>Total</b>	<b>6,067</b>	<b>932</b>	<b>6,999</b>	<b>5,274</b>	<b>94</b>	<b>5,368</b>
<b>Other expenses:</b>						
Impairment of Sipán assets held for sale <sup>3</sup>	–	–	–	–	(2,983)	(2,983)
Loss on sale of investments <sup>4</sup>	–	–	–	–	(2,249)	(2,249)
Loss on sale of MHC (subsidiary) <sup>5</sup>	–	–	–	–	(991)	(991)
Loss on sale of Sipán (subsidiary) <sup>6</sup>	–	(1,034)	(1,034)	–	–	–
Loss on maintenance of equipment	(713)	–	(713)	(369)	–	(369)
Penalty on cancellation of contract	(13)	–	(13)	(971)	–	(971)
Provision for obsolescence of supplies	–	–	–	(377)	–	(377)
Impairment of Colorada assets	–	–	–	(113)	(230)	(343)
Impairment of receivable from SEAL/Electroperú	–	–	–	(113)	–	(113)
Loss on sale of Inmobiliaria CNP	–	–	–	–	(42)	(42)
Loss on sale of property, plant and equipment	–	(467)	(467)	–	–	–
Cost of services	(372)	–	(372)	(489)	–	(489)
Other	(1,301)	–	(1,301)	(1,438)	–	(1,438)
<b>Total</b>	<b>(2,399)</b>	<b>(1,501)</b>	<b>(3,900)</b>	<b>(3,870)</b>	<b>(6,495)</b>	<b>(10,365)</b>

<sup>1</sup> Decreases in provision for mine closure costs are recorded in 'Other income' where the mine to which it relates has fully depreciated the mine rehabilitation asset but the closure and rehabilitation costs are yet to be incurred, and there is a reduction in the estimate of the total mine closure cost.

Out of the 2007 amount, US\$450,000 represents a reduction in cost (being the VAT component now deemed to be recoverable) due to the transfer of the mine rehabilitation provision from Minera Sipan to Minera Ares as part of the internal restructuring prior to the disposal of Minera Sipan.

<sup>2</sup> Represents VAT assets that will now be recoverable due to transfer of assets from Minera Sipan to Minera Ares as a result of the internal restructuring.

<sup>3</sup> In December 2006 an appraisal of the assets of Compañía Minera Sipán S.A.C. was performed resulting in an impairment of a portion of these assets (refer to note 30).

<sup>4</sup> During the 12 months ended 31 December 2006 the Group disposed of 16,585,047 shares in Inversiones Pacasmayo (refer to note 18) for US\$6,350,000 to Greystone Corporation (a related party). These shares were carried at US\$21,133,000, including an unrealised fair value gain of US\$12,534,000 which had been recorded in equity. The disposal of these shares, after recycling the unrealised gain through the income statement, resulted in a loss of US\$2,249,000.



## 12 Other income and other expenses (...cont'd)

5 On 15 June 2006, the Group's wholly owned subsidiary, Mauricio Hochschild & Cía. Ltda. S.A.C. ('MHC'), was sold to Greystone Corporation (a related party) for US\$1,000,000, plus the benefit of a US\$2,801,000 loan payable by MHC to Ardsley Corporation (a subsidiary of the Group) which had previously been eliminated on consolidation, resulting in total consideration received of US\$3,801,000. This disposal resulted in a loss to the Group of US\$991,000.

The book value of the individual assets and liabilities disposed of were as follows:

	US\$000
Available for sale financial assets carried at fair value*	15,077
Less: Unrealised fair value gain on assets recorded in equity	(10,310)
Other assets	344
Other liabilities†	(319)
<b>Net book value of assets and liabilities disposed</b>	<b>4,792</b>

\* The available-for-sale financial assets disposed of represent 11,829,971 shares in Inversiones Pacasmayo (refer to note 18).

† Does not include the US\$2,801,000 loan payable by MHC to Ardsley Corporation as this loan was eliminated on consolidation and therefore the disposal of this loan does not impact upon the liabilities of the consolidated balance sheet of the Group.

6 On 28 December 2007, the Group's wholly owned subsidiary, Compañía Minera Sipan was sold to Avignon Business Corporation (a third party) for US\$199,996. This disposal resulted in a loss to the Group of US\$1,034,000.

The book value of the individual assets and liabilities disposed of are as follows:

	US\$000
Income tax receivable (refer to note 35(a))	1,205
Other assets	29
<b>Net book value of assets disposed</b>	<b>1,234</b>

For details of tax exposures and contingent liabilities assumed by Avignon, refer note 35(a).

## 13 Finance income and finance costs

	Year ended 31 December 2007			Year ended 31 December 2006		
	Before exceptional items US\$000	Exceptional items US\$000	Total US\$000	Before exceptional items US\$000	Exceptional items US\$000	Total US\$000
<b>Finance income:</b>						
Interest on time deposits <sup>1</sup>	17,169	-	17,169	4,053	-	4,053
Gain from changes in the fair value of financial instruments <sup>2</sup>	-	4,331	4,331	-	918	918
Interest on loans to minority shareholders (note 19)	2,324	-	2,324	-	-	-
Discount on purchase of EXMIN shares <sup>3</sup>	-	1,143	1,143	-	-	-
Interest on loans to related parties (note 31)	-	-	-	1,226	-	1,226
Interest received on bonds and equity securities	-	-	-	217	-	217
Dividends received	-	-	-	147	-	147
Interest on loans to third parties	118	-	118	205	-	205
Other	172	-	172	140	-	140
<b>Total</b>	<b>19,783</b>	<b>5,474</b>	<b>25,257</b>	<b>5,988</b>	<b>918</b>	<b>6,906</b>
<b>Finance costs:</b>						
Interest on bank loans and long-term debt	(5,966)	-	(5,966)	(8,832)	-	(8,832)
Unwind of discount rate <sup>4</sup>	(1,227)	-	(1,227)	(1,441)	-	(1,441)
Bank commissions	-	-	-	(854)	-	(854)
Loss from changes in the fair value of financial instruments	-	-	-	(345)	-	(345)
Impairment of available-for-sale financial assets	-	(71)	(71)	-	-	-
Interest on loans from related parties (note 31)	-	-	-	(5)	-	(5)
Other	(324)	-	(324)	(560)	-	(560)
<b>Total</b>	<b>(7,517)</b>	<b>(71)</b>	<b>(7,588)</b>	<b>(12,037)</b>	<b>-</b>	<b>(12,037)</b>

1 Mainly corresponds to interest on liquidity funds (refer to note 22).

2 Mainly corresponds to the change in fair value of 2,475,355 warrants over the same number of shares in Fortuna Silver Mine Inc. (refer to note 21(a)).

3 On 9 July 2007 the Group acquired 7,875,000 common shares of EXMIN for US\$3 million. In addition, on the same date, the Group converted an outstanding loan receivable from EXMIN of US\$1.57 million into 4,127,231 common shares. The common shares were acquired at a discount of 20% to the market price, resulting in a gain on the issue of shares.

4 Mainly corresponds to unwind of the discount on the provision for mine closure of US\$1,134,000 (2006: US\$1,019,000) (refer to note 25).

# NOTES TO THE GROUP FINANCIAL STATEMENTS (...cont'd)

For the year ended 31 December 2007

## 13 Finance income and finance costs (...cont'd)

Interest income and expense from assets and liabilities that are not at fair value through the profit and loss are as follows:

	Year ended 31 December	
	2007 US\$000	2006 US\$000
Interest income from financial assets that are not at fair value through the profit and loss	19,611	5,484
Interest expense from financial liabilities that are not at fair value through the profit and loss	(5,966)	(8,837)
<b>Total</b>	<b>13,645</b>	<b>(3,353)</b>

## 14 Income tax expense

	Year ended 31 December 2007			(Restated) Year ended 31 December 2006		
	Before exceptional items US\$000	Exceptional items <sup>1</sup> US\$000	Total US\$000	Before exceptional items US\$000	Exceptional items US\$000	Total US\$000
Current tax:						
Current tax charge from continuing operations	44,933	–	44,933	31,912	28	31,940
	44,933	–	44,933	31,912	28	31,940
Deferred taxation:						
Origination and reversal of temporary differences from continuing operations (note 28)	(11,641)	1,299	(10,342)	(4,371)	(651)	(5,022)
	(11,641)	1,299	(10,342)	(4,371)	(651)	(5,022)
Withholding taxes	1,161	–	1,161	1,975	–	1,975
<b>Total taxation charge in the income statement</b>	<b>34,453</b>	<b>1,299</b>	<b>35,752</b>	<b>29,516</b>	<b>(623)</b>	<b>28,893</b>

<sup>1</sup> This amount corresponds to the related tax impact of exceptional items (refer to note 2(x)).

The weighted average statutory income tax rate was 29.7% for 2007 and 30.2% for 2006. This is calculated as the average of the statutory tax rates applicable in the countries in which the Group operates, weighted by the profit/(loss) before tax of the subsidiaries in the respective countries as included in the consolidated financial statements.

The change in the weighted average statutory income tax rate is due to a change in the weighting of profit/(loss) before tax in the various jurisdictions in which the Group operates.

## 14 Income tax expense (...cont'd)

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated companies as follows:

	Year ended 31 December	
	2007 US\$000	(Restated) 2006 US\$000
Profit before taxation from continuing operations	<b>116,667</b>	64,796
Profit before tax	<b>116,667</b>	64,796
At average statutory income tax rate of 29.7% (2006: 30.2%)	<b>34,598</b>	19,553
Expenses not deductible for tax purposes	<b>2,381</b>	4,124
Non-taxable income	<b>(505)</b>	(170)
Deferred tax recognised on special investment regime <sup>1</sup>	<b>(4,479)</b>	–
Recognition of previously unrecognised deferred tax assets <sup>2</sup>	<b>(2,917)</b>	–
Net deferred tax assets generated in the year not recognised <sup>3</sup>	<b>4,672</b>	2,552
Change in tax regime <sup>4</sup>	<b>3,403</b>	–
Deferred tax on unremitted earnings	<b>–</b>	397
Withholding taxes	<b>1,161</b>	1,975
Recognition of deferred tax assets on restructuring	<b>(767)</b>	–
Other	<b>(1,795)</b>	462
At average effective income tax rate of 30.6% (2006: 44.6%)	<b>35,752</b>	28,893
Taxation charge attributable to continuing operations	<b>35,752</b>	28,893
<b>Total taxation charge in the income statement</b>	<b>35,752</b>	28,893

- 1 Corresponds to the deferred tax income asset recognised on additional tax losses generated during the year due to 50% of the double deduction in Santa Cruz (refer to note (i) below) claimed during the year for tax purposes.
- 2 Mainly corresponds to tax effect of certain mine closure expenses as they are now expected to be deducted from taxable income, when paid.
- 3 Mainly corresponds to the tax losses arising in exploration companies for which deferred income tax assets are not recognised due to the uncertainty of generating taxable income in the future.
- 4 Corresponds to the effect of the change in the Mexican tax regime (refer to note (ii) below).

### (i) Special investment regime

Minera Santa Cruz benefits from a special investment regime that allows for a double deduction in calculating its corporate income tax liability, in respect of all costs relating to prospecting, exploration and metallurgical analysis, pilot plants and other expenses incurred for feasibility studies of projects. In this regard, the total investment eligible for additional deduction amounts to approximately 79,680,000 Argentinian pesos (US\$26,367,000 and US\$25,595,000 as at 31 December 2006 and 2007, respectively). As this additional deduction does not affect either taxable profit or accounting profit on initial recognition, no deferred tax was recognised as per requirements of IAS 12 'Income Taxes'. However, as per the rules in Argentina, following commencement of operations, this amount can now be claimed in equal amounts over one to five years. The Group has decided to make this claim over two years and hence 50% of the available deduction has been included in the tax losses for the year which are expected to be recovered based on future taxable profits that will be generated in this company. Accordingly, as at 31 December 2007 the net deferred income tax asset of the Company increased by US\$4,479,000.

### (ii) Change in Mexican tax regime

On 28 September 2007, the Mexican Government enacted a bill for tax reform that significantly changed the current income tax structure in Mexico. Effective 1 January 2008 the tax reform requires companies to pay the greater of a business flat tax ('IETU' as abbreviated in Spanish) or the current income tax structure ('ISR' as abbreviated in Spanish).

The Group has performed an analysis of the future impact of this tax reform on its Mexican companies and has determined that the Santa Maria de Moris S.A. de C.V. (the operator of the Moris mine) will be required to pay IETU in each period until the end of the mine's life. Therefore, as at 31 December 2007, the Group recognised a deferred tax liability in connection with IETU of US\$3,403,000 due to the resulting reduction in the amount of capital allowances arising on the investment in the mine to date.

## NOTES TO THE GROUP FINANCIAL STATEMENTS (...cont'd)

For the year ended 31 December 2007

### 15 Basic and diluted earnings per share

Earnings per share ('EPS') is calculated by dividing profit for the year attributable to equity shareholders of the Company by the weighted average number of ordinary shares issued during the year. In 2006, the EPS calculation has assumed that the number of ordinary shares issued resulting from the share exchange agreement for the acquisition of the Cayman Holding Companies have been in issue throughout 2006.

The Company has no dilutive potential ordinary shares.

As at 31 December 2007 and 2006, earnings per share have been calculated as follows:

	Year ended 31 December	
	2007	(Restated) 2006
Profit for the year and from continuing operations attributable to equity holders of the Company (US\$000)	<b>85,073</b>	41,712
Weighted average number of ordinary shares in issue (thousands)	<b>307,350</b>	242,867
Basic and diluted earning/(loss) per share from:		
Before exceptional items (US\$)	<b>0.27</b>	0.19
Exceptional items (US\$)	<b>0.01</b>	(0.02)
Total for the year and from continuing operations (US\$)	<b>0.28</b>	0.17

## 16 Property, plant and equipment

	Exploration and evaluation costs US\$000	Mining properties and development costs US\$000	Land and buildings US\$000	Plant and equipment US\$000	Vehicles US\$000	Mine closure asset US\$000	Construction in progress and capital advances US\$000	Total US\$000
<b>Year ended 31 December 2006</b>								
<b>Cost</b>								
At 1 January 2006, as reported	–	40,638	17,798	42,294	1,015	33,702	6,604	142,051
Change in accounting policy	636	23,053	–	–	–	–	–	23,689
At 1 January 2006, as restated	636	63,691	17,798	42,294	1,015	33,702	6,604	165,740
Additions	1,705	41,298	748	6,369	498	1,810	28,252	80,680
Change in discount rate	–	–	–	–	–	(636)	–	(636)
Disposals	–	–	(203)	(564)	(110)	–	(84)	(961)
Impairment of assets	–	–	–	2	–	–	–	2
Transfers and other movements	(1,059)	1,059	5,393	5,388	132	–	(10,913)	–
Change in mine closure estimate	–	–	–	–	–	(360)	–	(360)
Foreign exchange	–	(37)	(30)	(33)	(7)	–	(8)	(115)
At 31 December 2006, as restated	1,282	106,011	23,706	53,456	1,528	34,516	23,851	244,350
<b>Accumulated depreciation</b>								
At 1 January 2006	–	26,423	6,560	19,277	390	29,998	–	82,648
Change in accounting policy	–	1,293	–	–	–	–	–	1,293
At 1 January 2006, as restated	–	27,716	6,560	19,277	390	29,998	–	83,941
Depreciation for the year	–	9,644	2,951	5,650	189	1,106	–	19,540
Disposals	–	–	(81)	(360)	(47)	–	–	(488)
Impairment of assets	–	–	–	2	–	–	–	2
Foreign exchange	–	–	(13)	(15)	(4)	–	–	(32)
At 31 December 2006, as restated	–	37,360	9,417	24,554	528	31,104	–	102,963
<b>Net book amount at 31 December 2006, as restated</b>	<b>1,282</b>	<b>68,651</b>	<b>14,289</b>	<b>28,902</b>	<b>1,000</b>	<b>3,412</b>	<b>23,851</b>	<b>141,387</b>
<b>Year ended 31 December 2007</b>								
<b>Cost</b>								
At 1 January 2007	1,282	106,011	23,706	53,456	1,528	34,516	23,851	244,350
Additions	8,279	48,004	1,004	9,450	400	1,056	77,601	145,794
Change in discount rate	–	–	–	–	–	2,611	–	2,611
Disposals	–	–	(110)	(2,221)	(104)	–	(6)	(2,441)
Sale of subsidiary – Colorada	–	–	–	(2)	–	–	–	(2)
Change in mine closure estimate	–	–	–	–	–	105	–	105
Transfers and other movements	(3,535)	3,535	40,717	45,114	976	–	(86,807)	–
Foreign exchange	8	161	118	149	24	–	(620)	(160)
<b>At 31 December 2007</b>	<b>6,034</b>	<b>157,711</b>	<b>65,435</b>	<b>105,946</b>	<b>2,824</b>	<b>38,288</b>	<b>14,019</b>	<b>390,257</b>
<b>Accumulated depreciation</b>								
At 1 January 2007	–	37,360	9,417	24,554	528	31,104	–	102,963
Depreciation for the year	–	12,665	3,548	8,767	421	599	–	26,000
Disposals	–	–	(110)	(1,615)	(82)	–	–	(1,807)
Sale of subsidiary – Colorada	–	–	–	(2)	–	–	–	(2)
Foreign exchange	–	2	3	45	(7)	–	(2)	41
<b>At 31 December 2007</b>	<b>–</b>	<b>50,027</b>	<b>12,858</b>	<b>31,749</b>	<b>860</b>	<b>31,703</b>	<b>(2)</b>	<b>127,195</b>
<b>Net book amount at 31 December 2007</b>	<b>6,034</b>	<b>107,684</b>	<b>52,577</b>	<b>74,197</b>	<b>1,964</b>	<b>6,585</b>	<b>14,021</b>	<b>263,062</b>

# NOTES TO THE GROUP FINANCIAL STATEMENTS (...cont'd)

For the year ended 31 December 2007

## 17 Intangibles

	Goodwill US\$000	Software licences US\$000	Total US\$000
<b>Cost</b>			
Balance at 1 January and 31 December 2006	2,091	–	2,091
Additions	–	876	876
<b>Balance at 31 December 2007</b>	<b>2,091</b>	<b>876</b>	<b>2,967</b>
<b>Accumulated amortisation</b>			
Balance at 1 January and 31 December 2006	–	–	–
Amortisation for the year	–	71	71
<b>Balance at 31 December 2007</b>	<b>–</b>	<b>71</b>	<b>71</b>
Net book value as at 31 December 2006	2,091	–	2,091
<b>Net book value as at 31 December 2007</b>	<b>2,091</b>	<b>805</b>	<b>2,896</b>

The carrying amount of goodwill is reviewed annually to determine whether it is in excess of its value-in-use. The value-in-use is determined at the cash-generating unit level, in this case being the San José project, by discounting the expected cash flows estimated by management over the life of the mine.

The key assumptions used for its calculation are as follows:

- Recoverable reserves and resources.
- Gold and silver prices.
- Cash costs and inflation including costs to convert resources into reserves and mine closure costs.
- Discount rates.
- Production capacity.

Recoverable reserves and resources are based on the proven and probable reserves and resources in existence at the end of the year.

Gold and silver prices are based on external market consensus prices.

Cash costs are based on management's best estimate over the life of the mine.

Discount rates are calculated considering the weighted average cost of capital and also reflect management's estimate of the risk attached to the specific projects and the country in which it is based. Pre-tax discount rates are applied and for the San José project, management deems it appropriate to use 12.4% (2006: 14%) as the pre-tax rate.

Production capacity reflects the rate of production at which the mine is expected to operate during its life.

The calculation of value-in-use are most sensitive to the following assumptions:

- Recoverable reserves and resources.
- Future prices of gold and silver.
- Discount rates.

Management believe that no reasonably possible change in any of these assumptions would cause the carrying value of the goodwill to materially exceed its recoverable amount. However, as the Group's business relates to the mining and processing of uncertain amounts of finite resources, it is possible that impairments of certain elements of goodwill may occur at some stage in the future as resources are depleted.



## 18 Available-for-sale financial assets

	Year ended 31 December	
	2007 US\$000	2006 US\$000
<b>Beginning balance</b>	<b>6,285</b>	26,267
Additions <sup>1</sup>	<b>7,384</b>	3,102
Fair value change	<b>(398)</b>	12,973
Impairment recorded in the income statement	<b>(71)</b>	–
Foreign exchange	<b>1,900</b>	398
Disposals	<b>–</b>	(36,455)
<b>Ending balance</b>	<b>15,100</b>	6,285

<sup>1</sup> The amount represents the fair value of shares at the date of acquisition and includes the US\$1,143,000 gain arising from the purchase of EXMIN shares at a discount to the market price (refer to note 13(3)).

Available-for-sale financial assets include the following:

	Year ended 31 December	
	2007 US\$000	2006 US\$000
Equity securities – listed Canadian companies	<b>15,080</b>	6,265
Bonds	<b>20</b>	20
<b>Total</b>	<b>15,100</b>	6,285

The breakdown of the investments in equity securities held is as follows (number of shares):

	Inversiones Pacasmayo	Inmobiliaria CNP	Fortuna River	Rio Fortuna Silver Mine	EXMIN Resources Inc.	Ventura Gold Corp.	Mirasol Resources Ltd.
Number of shares held at 1 January 2006	26,183,568	700,141	1,990,800	2,475,355	–	–	–
Additions	2,231,450	–	–	–	3,435,278	–	–
Disposals	(28,415,018)	(700,141)	–	–	–	–	–
Share consolidation	–	–	(1,327,200)	–	–	–	–
Number of shares held at 31 December 2006	–	–	663,600	2,475,355	3,435,278	–	–
Additions	–	–	–	–	14,952,209	100,000	500,000
<b>Number of shares held at 31 December 2007</b>	<b>–</b>	<b>–</b>	<b>663,600</b>	<b>2,475,355</b>	<b>18,387,487</b>	<b>100,000</b>	<b>500,000</b>

During 2006, the 13.9% interest in Inversiones Pacasmayo ('IPSA'), a non-actively traded investment, was sold for US\$6.35 million to Greystone Corporation (a related party), with the balance being sold as part of the disposal of MHC (refer to note 12(4) and 12(5)).

The addition in the equity investment in EXMIN (20.3%, 2006: 4.46%) is due to the common shares purchases occurring on 17 June 2007 (213,660 common shares), 9 July 2007 (12,002,231 common shares) and 5 December 2007 (2,736,318 common shares). The last two purchases were made in accordance with the Strategic Alliance Agreement signed with EXMIN. This investment is treated as an available-for-sale financial asset on the basis that we do not exercise significant influence over EXMIN.

The fair value of these listed shares is determined by reference to published price quotations in an active market.

Available-for-sale financial assets are denominated in the following currencies:

	2007 US\$000	2006 US\$000
Canadian dollar	<b>15,080</b>	6,265
US dollar	<b>20</b>	20
<b>Total</b>	<b>15,100</b>	6,285

# NOTES TO THE GROUP FINANCIAL STATEMENTS (...cont'd)

For the year ended 31 December 2007

## 19 Trade and other receivables

	As at 31 December			
	2007		2006	
	Non-current US\$000	Current US\$000	Non-current US\$000	Current US\$000
Trade receivables <sup>1</sup>	–	56,820	–	25,216
Advances to suppliers	–	9,162	–	7,412
Prepaid expenses	847	2,347	152	1,508
Value Added Tax (VAT) <sup>2</sup>	5,698	31,052	8,934	6,562
Loan to minority shareholder <sup>3</sup>	19,110	15,100	8,166	2,436
Due from minority shareholder <sup>4</sup>	–	16,927	–	–
Receivables from related parties (note 31)	–	–	–	1,091
Loans to employees	449	434	169	487
Assigned funds <sup>5</sup>	30	–	6	–
Interest receivable <sup>6</sup>	–	1,198	–	2,203
Other	–	1,688	–	1,128
	<b>26,134</b>	<b>134,728</b>	17,427	48,043
Provision for impairment <sup>7</sup>	–	(548)	–	(451)
<b>Total</b>	<b>26,134</b>	<b>134,180</b>	17,427	47,592

- At 31 December 2007, trade accounts receivable are mainly composed of amounts receivables from Consorcio Minero S.A. US\$20,226,000, Traxys Belgium SA/NV of US\$14,728,000 and Norddeutsche Affinerie AG of US\$8,768,000. Trade receivables are denominated in US dollars.
- This includes an amount of US\$24,842,000 (2006: US\$10,214,000) of value added taxes paid in the development of the San Jose Project that will be recovered through the future sales of gold and silver by Minera Santa Cruz S.A.
- The effective interest rate on non-current receivable was between 7.86 % and 8.21% in 2007 (8.18% in 2006) (refer to note 38(f)).
- Corresponds to capital contributions due from minority shareholder of Minera Santa Cruz S.A. (Minera Andes) of US\$16,927,000.
- Assigned funds are time deposits that guarantee short-term sales commitments to certain customers. The deposits are held for more than 12 months and are not accessible to the Group.
- Mainly corresponds to interest receivable on JP Morgan liquidity funds (refer to note 22(i)).
- Includes provision for impairment of other receivables of US\$548,000 as at 31 December 2007 (2006: provision for impairment of other receivables of US\$340,000 and VAT of US\$111,000).

The fair values of trade and other receivables approximate their book value.

Movements in the provision for impairment of receivables:

	Individually impaired US\$000	Collectively impaired US\$000	Total US\$000
<b>At 1 January 2006</b>			
Charge for the year	340	–	340
	111	–	111
<b>At 31 December 2006</b>	451	–	451
Charge for the year	208	–	208
Utilised	(111)	–	(111)
<b>At 31 December 2007</b>	548	–	548

As at 31 December, the ageing analysis of trade and other receivables is as follows:

Year	Neither past due nor impaired US\$000	More than 30 days US\$000	30 to 60 days US\$000	Over 60 days US\$000	Total receivable before impairment US\$000
					US\$000
2007	160,314	–	–	548	160,862
2006	65,019	–	–	451	65,470

## 20 Inventories

	As at 31 December	
	2007 US\$000	(Restated) 2006 US\$000
Finished goods (concentrates)	3,551	7,921
Products in process	29,802	1,841
Raw materials	494	15
Supplies and spare parts	13,563	7,607
	47,410	17,384
Provision for obsolescence of supplies	(398)	(851)
<b>Total</b>	<b>47,012</b>	<b>16,533</b>

Finished goods include only concentrates. Doré is an alloy containing a variable mixture of silver and gold and minor impurities delivered in form of bar to refiners and is considered as a product in process. The refined products are then sold to customers. Concentrate is a product containing sulphides with variable content of base and precious metals and are sold to smelters.

The amount of the Doré on hand at year-end included in products in process is US\$3,160,000 (2006: US\$1,393,000).

As part of the management's short-term financing policies, the Group acquires pre-shipment loans which are guaranteed by the inventory (refer to note 24(1)).

## 21 Derivative financial instruments

	As at 31 December	
	2007 US\$000	2006 US\$000
<b>Assets</b>		
Warrants on Fortuna Silver Mine Inc. shares <sup>1</sup>	6,990	2,660
Warrants on Mirasol Resources Ltd.	1	—
Embedded derivatives <sup>2</sup>	1,048	3,362
<b>Total</b>	<b>8,039</b>	<b>6,022</b>

<sup>1</sup> At 31 December 2007 this item represented 2,475,355 (2006: 2,475,355) warrants over the same number of shares in Fortuna Silver Mine Inc. At 31 December 2006, expiry dates of the warrants were 27 June 2007 and 17 November 2007 (for 862,117 and 1,613,238 warrants, respectively). In January 2007, the expiry dates were changed to 27 June 2010 and 17 November 2010, respectively. Warrants are fair valued using the Black-Scholes option pricing model.

<sup>2</sup> Sales of concentrates and certain gold and silver volumes are provisionally priced at the time the sale is recorded. The price is then adjusted after an agreed period of time (usually linked to the length of time it takes the smelter to refine and sell the concentrate or refiner to process the Doré into gold and silver), with the Group either paying or receiving the difference between the provisional price and the final price.

This price exposure is considered to be an embedded derivative in accordance with IAS 39 'Financial Instruments: Recognition and Measurement'. This gain or loss that arises on the fair value of the embedded derivative is recorded in 'Revenue' (refer to note 6).

# NOTES TO THE GROUP FINANCIAL STATEMENTS (...cont'd)

## For the year ended 31 December 2007

### 22 Cash and cash equivalents

	As at 31 December	
	2007 US\$000	2006 US\$000
Cash at bank	539	997
Liquidity funds <sup>1</sup>	285,015	414,527
Current demand deposit accounts <sup>2</sup>	8,499	16,477
Time deposits <sup>3</sup>	7,373	3,542
<b>Cash and cash equivalents considered for the cash flow statement</b>	<b>301,426</b>	<b>435,543</b>

1 The liquidity funds are mainly invested in certificate of deposits, commercial papers and floating rate notes with weighted average annual effective interest rate of 5.09% and a weighted average maturity of 34 days as at 31 December 2007 (2006: 5.16% and 43 days) (refer to note 38(f)).

2 Relates to bank accounts which are freely available and do not bear interest.

3 The effective interest rates as at 31 December 2007 was 5.26% (2006: 4.45%). These deposits have an average maturity of five days (refer to note 38(f)).

The fair value of cash and cash equivalents approximates its book value.

### 23 Trade and other payables

	As at 31 December			
	2007		2006	
	Non-current US\$000	Current US\$000	Non-current US\$000	Current US\$000
Trade payables <sup>1</sup>	–	29,273	–	24,377
Professional fees	–	868	–	7,099
Deferred consideration	–	1,326	–	5,720
Interest payable	–	324	–	107
Taxes and contributions	847	6,938	1,062	2,042
Salaries and wages payable	–	7,205	–	4,256
Mining royalty (note 37)	–	1,024	–	929
Dividends payable <sup>2</sup>	–	578	–	16,843
Accrued expenses	8	1,386	–	1,178
Guarantee deposits	–	1,616	–	742
Other	4	1,638	2	847
<b>Total</b>	<b>859</b>	<b>52,176</b>	<b>1,064</b>	<b>64,140</b>

1 Trade payables are mainly for the acquisition of materials, supplies and contractors' services. These payables do not accrue interest and no guarantees have been granted. Trade payables are denominated in the following currencies:

The fair values of trade and other payables approximate their book values.

	2007 US\$000	2006 US\$000
US dollar	17,131	10,647
Peruvian nuevos soles	6,231	5,534
Argentinian pesos	4,651	2,722
Mexican pesos	846	–
Sterling pounds	266	5,413
Chilean pesos	106	61
Canadian dollar	42	–
<b>Total</b>	<b>29,273</b>	<b>24,377</b>

2 Corresponds to dividends payable to Dona Limited, a related party (refer to note 31), of US\$200,000 (2006: US\$16,460,000) and dividends payable to minority shareholders of US\$378,000 (2006: US\$383,000).

## 24 Borrowings

	As at 31 December			
	2007		2006	
	Non-current US\$000	Current US\$000	Non-current US\$000	Current US\$000
Secured bank loans <sup>1</sup>	–	23,750	296	28,017
Amount due to minority shareholders <sup>2</sup>	55,209	9,299	26,818	1,445
Amounts due to related parties (note 31)	–	120	–	320
<b>Total</b>	<b>55,209</b>	<b>33,169</b>	27,114	29,782

<sup>1</sup> As at 31 December 2007, the balance corresponds to:

- Pre-shipment loans for a total amount of US\$23,750,000 in Compañía Minera Suyamarca S.A.C. and Minera Santa Cruz. These obligations accrue an effective annual interest rate ranging from 6.00% to 7.50% and are guaranteed by the inventories of the company (refer to note 20).

As at 31 December 2006, the balance corresponds to:

- Pre-shipment loans for a total amount of US\$26,894,000 in Compañía Minera Ares. These obligations accrue an effective annual interest rate ranging from LIBOR + 0.45% to LIBOR + 0.65% and are guaranteed by the inventories of the company (refer to note 20).
- US\$1,123,000 of a promissory note with an effective annual interest rate of 8.75% and guaranteed by equipment with a total value of US\$3.4 million. Initial amount of US\$2.4 million was received by Compañía Minera Arcata S.A. in the first quarter of 2006.

<sup>2</sup> As at 31 December 2007 the balance mainly corresponds to a loan from Minera Andes Inc. to Minera Santa Cruz S.A. for an amount of US\$57,065,000 (2006: US\$25,804,000). There is also a loan of US\$7,358,000 to Minera Santa Cruz S.A. from Minera Andes S.A. (2006: US\$934,000). These loans have interest rates between Libor + 2.5% and + 12% (refer to note 38(f)).

The maturity of non-current borrowings is as follows:

	As at 31 December	
	2007 US\$000	2006 US\$000
Between 1 and 2 years	41,286	376
Between 2 and 5 years	13,923	26,738
<b>Total</b>	<b>55,209</b>	27,114

The carrying amount of short-term borrowings approximates their fair value. The carrying amount and fair value of the non-current borrowings are as follows:

	Carrying Amount		Fair Values	
	As at 31 December		As at 31 December	
	2007 US\$000	2006 US\$000	2007 US\$000	2006 US\$000
<b>Bank loans</b>				
Secured	–	296	–	296
Amounts due to minority interest and related parties (fixed rates)	55,209	26,818	60,158	28,913
<b>Total</b>	<b>55,209</b>	27,114	<b>60,158</b>	29,209

# NOTES TO THE GROUP FINANCIAL STATEMENTS (...cont'd)

For the year ended 31 December 2007

## 25 Provisions

	Provision for mine closure <sup>1</sup> US\$000	Workers' profit sharing US\$000	Contribution to Peruvian Government (note 26) US\$000	Executive long term incentive plan <sup>2</sup> US\$000	Other US\$000	Total US\$000
<b>At 1 January 2006</b>	36,939	2,903	–	–	–	39,842
Increase to existing provision	3,550	–	–	–	–	3,550
Accretion resulting from unwinding of discount rate	1,019	–	–	–	–	1,019
Change in discount rate	(1,158)	–	–	–	–	(1,158)
Change in estimate	(2,560)	–	–	–	–	(2,560)
Payments	(5,426)	(4,874)	–	–	–	(10,300)
Foreign exchange	–	93	–	–	–	93
Provision provided for the year	–	8,496	800	–	293	9,589
<b>At 31 December 2006</b>	32,364	6,618	800	–	293	40,075
Less current portion	(3,967)	(6,618)	(800)	–	–	(11,385)
<b>Non-current portion</b>	28,397	–	–	–	293	28,690
<b>At 1 January 2007</b>	32,364	6,618	800	–	293	40,075
Increase/(decrease) to existing provision	1,056	–	–	–	(13)	1,043
Accretion resulting from unwinding of discount rate	1,134	–	–	–	–	1,134
Change in discount rate	2,401	–	–	–	–	2,401
Change in estimate	(2,782)	–	–	–	–	(2,782)
Payments	(2,023)	(9,461)	(306)	–	–	(11,790)
Foreign exchange	–	418	–	–	(8)	410
Provision provided for the year	–	11,620	940	799	–	13,359
<b>At 31 December 2007</b>	32,150	9,195	1,434	799	272	43,850
Less current portion	(2,400)	(9,195)	(1,434)	–	–	(13,029)
<b>Non-current portion</b>	29,750	–	–	799	272	30,821

1 The provision represents the discounted values of the estimated cost to decommission and rehabilitate the mines at the expected date of depletion of each of the deposits. The present value of the provision has been calculated using a real pre-tax annual discount rate, based on a five-year US Treasury bond rate of 2.16% and 3.43% as at 31 December 2007 and 2006 respectively, and the cash flows have been adjusted to reflect the risk attached to these cashflows. Uncertainties in estimating these costs include potential changes in regulatory requirements, decommissioning, dismantling and reclamation alternatives and the levels of discount and inflation rates.

2 The plan comprises an amount to be paid in cash to participants depending on the achievement of the three-year performance measures during the performance period which ends on 31 December 2009. The cash award will be held for an additional period and delivered 50% on 31 December 2010 and the remaining 50% on 31 December 2011, accumulating notional interest at the prevailing inter-bank interest rate. Only employees who remain in the Company until this date will have right of the benefit, with some exemptions that have to be approved by the Remuneration Committee of the Board. As at 31 December 2007, the provision represents the discounted values of the estimated cost of the long-term employee benefit. The present value of the provision has been appropriately discounted and has been recorded as follows:

	Year ended 31 December 2007 US\$000
Administrative expenses	727
Exploration expenses	72
<b>Total</b>	<b>799</b>



## 26 Contribution to Peruvian Government

In 2006, based on negotiations with the Peruvian Government, various mining companies, including Compañía Minera Ares, agreed to enter into contracts with the Peruvian Government to make a voluntary contribution over five years for social programs. The draft of the agreement and the authorisation to the Ministry of Energy and Mines to sign these agreements on behalf of the Peruvian Government was approved by Supreme Decree No 071-2006-EM on 21 December 2006. According to the agreement, mining companies will pay voluntary contributions based on a fixed percentage of net income after tax after allowing an additional deduction of a portion of the mining royalties accrued in the period. The agreement also sets reference prices for different metals. Should the prices fall below these pre-agreed reference prices, companies will not be obliged to make payments. This contribution is not tax deductible and is to be used for the purpose of eradicating poverty, malnutrition and social exclusion in poor mining regions in Peru. At 31 December 2007, the Group recognised an obligation of US\$940,000 (2006: US\$800,000) in relation to these contributions, included in 'Administrative Expenses'.

## 27 Equity

### (a) Share capital and share premium

#### Authorised and issued share capital

The authorised and issued share capital of the Company as at 31 December 2007 and 2006 is as follows:

Class of shares	Authorised		Issued	
	Number	Amount	Number	Amount
Ordinary shares	500,000,000	£125,000,000	307,350,226	£76,837,557

At 31 December 2007 and 2006, all issued shares with a par value of 25p (weighted average of US\$0.476 per share) each were fully paid.

#### Rights attached to ordinary shares

At general meetings of the Company, on a show of hands, every member who is present in person has one vote and on a poll every member who is present in person or by proxy has one vote for every share of which he is the holder.

The changes in share capital are as follows:

	Number of shares	Share capital US\$000	Share premium US\$000
<b>Ordinary shares of £1 each issued and fully paid</b>			
Shares issued to the initial shareholder	1	–	–
Shares issued on 16 October 2006	49,999	93	–
Shares issued as at 16 October 2006	50,000	93	–
Share capital following the capital split:			
<b>Ordinary shares of 50p each issued</b>			
Shares in issue at 16 October 2006	100,000	93	–
Shares issued and paid pursuant to the Share Exchange Agreement dated 2 November 2006	229,900,000	219,233	–
Shares issued to employees on 11 November 2006	71,656	68	409
Shares issued and paid by Non-Executive Directors on 11 November 2006	28,570	27	163
Shares issued and paid pursuant to the global offer dated 11 November 2006	77,250,000	73,511	441,067
Transaction costs associated with issue of shares	–	–	(45,483)
Capital reduction from 50p each to 25p each	–	(146,466)	–
Shares issued as at 31 December 2006	307,350,226	146,466	396,156
Transaction costs associated with issue of shares <sup>1</sup>	–	–	(228)
Shares issued as at 31 December 2007	307,350,226	146,466	395,928

1 Corresponds to the underaccrual of transaction costs relating to the Company's listing on the London Stock Exchange in 2006.

# NOTES TO THE GROUP FINANCIAL STATEMENTS (...cont'd)

For the year ended 31 December 2007

## 27 Equity (...cont'd)

### (b) Other reserves

#### Unrealised gain/loss on available-for-sale financial assets

Under IAS 39, the Group classifies its investments in listed companies as available-for-sale financial assets which are carried at fair value. Consequently, the increase in carrying values, net of the related deferred tax liability, is taken directly to this account where it will remain until disposal or impairment of the investment, when the cumulative unrealised gains and losses are recycled through the income statement.

#### Cumulative translation adjustment

The cumulative translation adjustment account is used to record exchange differences arising from the translation of the financial statements of subsidiaries with a functional currency different to the reporting currency of the Group.

#### Merger reserve

The merger reserve represents the difference between the value of the net assets of Cayman Holding Companies acquired under the Share Exchange Agreement and the nominal value of the shares issued in consideration of such acquisition (refer to note 2(a)).

### (c) Acquisition of shares from minority shareholders

During the years reported, the Group purchased shares of Compañía Minera Arcata from minority shareholders as follows:

	Year ended 31 December	
	2007	2006
Number of shares	–	5,940
Amount paid US\$000	–	2

## 28 Deferred income tax

The changes in the net deferred income tax assets/(liabilities) are as follows:

	As at 31 December	
	2007 US\$000	(Restated) 2006 US\$000
Beginning of the year	3,894	(730)
Income statement credit	10,342	5,022
Deferred income tax arising on net unrealised gains on available-for-sale financial assets recognised in equity	(927)	(398)
End of the year	13,309	3,894

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to the same fiscal authority.

The movement in deferred income tax assets and liabilities before offset during the year considering the nature of the temporary differences is as follows:

	Differences in cost of PP&E US\$000	Mine development US\$000	Financial instruments US\$000	Others US\$000	Total US\$000
<b>Deferred income tax liabilities</b>					
<b>At 1 January 2006</b>	2,641	3,404	2,066	1,095	9,206
Income statement (credit) charge	(763)	(57)	(812)	2,501	869
Net deferred income tax from unrealised gain on available-for-sale financial assets	–	–	398	–	398
<b>At 31 December 2006</b>	1,878	3,347	1,652	3,596	10,473
Income statement (credit) charge	3,314	5,735	726	(983)	8,792
Net deferred income tax from unrealised gain on available-for-sale financial assets	–	–	927	–	927
<b>At 31 December 2007</b>	<b>5,192</b>	<b>9,082</b>	<b>3,305</b>	<b>2,613</b>	<b>20,192</b>

## 28 Deferred income tax (...cont'd)

	Difference in cost of PP&E US\$000	Provision for mine closure US\$000	Mine development US\$000	Tax losses US\$000	Interest payable US\$000	Others US\$000	Total US\$000
<b>Deferred income tax assets</b>							
<b>At 1 January 2006</b>	641	1,907	1,678	2,173	423	1,654	8,476
Income statement (credit) charge	1,070	(427)	820	3,291	84	1,053	5,891
Use of loss carry forward	—	—	—	—	—	—	—
<b>At 31 December 2006</b>	1,711	1,480	2,498	5,464	507	2,707	14,367
Income statement credit (charge)	2,396	3,375	(649)	8,688	3,121	2,203	19,134
<b>At 31 December 2007</b>	<b>4,107</b>	<b>4,855</b>	<b>1,849</b>	<b>14,152</b>	<b>3,628</b>	<b>4,910</b>	<b>33,501</b>

The amounts after offset, as presented on the face of balance sheet, are as follows:

	As at 31 December	
	2007 US\$000	(Restated) 2006 US\$000
Deferred income tax assets	<b>22,400</b>	7,920
Deferred income tax liabilities	<b>(9,091)</b>	(4,026)

Tax losses expire in the following years:

	As at 31 December	
	2007 US\$000	2006 US\$000
Recognised <sup>1</sup> :		
Expire in one year	<b>54</b>	6
Expire in two years	<b>502</b>	54
Expire in three years	<b>8,320</b>	502
Expire in four years	<b>12,232</b>	8,320
Expire after four years	<b>20,433</b>	7,109
	<b>41,541</b>	15,991
Unrecognised:		
Expire in one year	<b>188</b>	—
Expire in two years	<b>1,812</b>	188
Expire in three years	<b>1,831</b>	4,813
Expire in four years	<b>2,558</b>	6,012
Expire after four years	<b>38,947</b>	19,474
	<b>45,336</b>	30,487
<b>Total tax losses (recognised and unrecognised)</b>	<b>86,877</b>	46,478

<sup>1</sup> Deferred tax assets have been recognised in respect of tax losses to the extent that they are expected to be offset against taxable profit arising in the future periods, based on the projection prepared by management.

Other unrecognised deferred income tax asset comprises (gross amounts):

	As at 31 December	
	2007 US\$000	2006 US\$000
Provision for mine closure <sup>1</sup>	<b>16,777</b>	27,430

<sup>1</sup> This relates to provision for mine closure expenditure which is expected to be incurred in periods in which it is not expected that there will be taxable profits against which it can be offset.

# NOTES TO THE GROUP FINANCIAL STATEMENTS (...cont'd)

For the year ended 31 December 2007

## 28 Deferred income tax (...cont'd)

### Unrecognised deferred tax liability on retained earnings

Due to the statutory tax regime in the countries in which the Group's operating companies are tax residents, there are no temporary differences in respect of undistributed reserves for which a deferred tax liability should be recognised.

## 29 Dividends paid and proposed

	Amount US\$000
<b>Year ended 31 December 2006</b>	
Total dividends paid or provided for during the year <sup>1</sup>	73,440
Total dividends declared after year-end and not provided for <sup>2</sup>	2,275
<b>Year ended 31 December 2007</b>	
Total dividends paid during the year <sup>3</sup>	24,729
Total dividends declared after year-end and not provided for	22,184

1 Corresponds to dividends paid or provided to former shareholder Dona Limited.

2 Corresponds to dividends declared after 31 December 2006 to Pelham Investment Corporation, Navajo Overseas Corporation and public shareholders ('Parent company's shareholders').

3 Corresponds to dividends paid and provided during 2007 of US\$8,448,000 and the payment of accrued dividends as at 31 December 2006 of US\$16,281,000.

### Dividends per share

The dividends declared in 2007 were US\$6,173,000 (US\$0.0201 per share). A final dividend in respect of the year ended 31 December 2007 of US\$0.072 per share, amounting to US\$22,184,667 is to be proposed at the AGM on 9 May 2008. These financial statements do not reflect this final dividend payable.

## 30 Assets classified as held for sale

In 2004, management decided to sell the remaining plant of Compañía Minera Sipán. During 2007, it was decided that, following delays in the sales process, these assets no longer met the definition of assets held for sale, and accordingly was transferred to property, plant and equipment. The following represents the changes in the value of assets held for sale in 2007 and 2006:

	2007 US\$000	2006 US\$000
<b>Balance at 1 January</b>	<b>345</b>	3,844
Disposals	-	(516)
Transfers to property, plant and equipment	<b>(345)</b>	-
Provision for impairment	-	(2,983)
<b>Balance at 31 December</b>	<b>-</b>	345

### 31 Related-party balances and transactions

#### (a) Related-party accounts receivable and payable

The Group had the following related-party balances and transactions during the years ended 31 December 2007 and 2006. The related-parties are companies owned or controlled by the Major Shareholder of the parent company.

	Accounts receivable At 31 December		Accounts payable At 31 December	
	2007 US\$000	2006 US\$000	2007 US\$000	2006 US\$000
<b>Trade</b>				
Cementos Pacasmayo S.A.A.	-	648	119	302
Mauricio Hochschild & Cia. Ltda. S.A.	-	-	1	14
	-	648	120	316
<b>Other</b>				
Cementos Pacasmayo S.A.A.	-	242	-	3
Dona Ltd.	-	1	-	-
Other	-	-	-	1
	-	243	-	4
<b>Dividends payable</b>				
Dona Ltd <sup>1</sup>	-	-	200	16,460
	-	-	200	16,460
<b>Loans</b>				
Cementos Pacasmayo S.A.A.	-	200	-	-
	-	200	-	-
<b>Total</b>	-	1,091	320	16,780
Comprised of:				
Dividends payable to Dona Ltd. <sup>1</sup>	-	-	200	16,460
Current related party balances	-	1,091	120	320
<b>Total</b>	-	1,091	320	16,780

<sup>1</sup> On 16 October 2006, the Group declared a dividend of US\$20 million to its former shareholder Dona Limited (Dona). On 31 October 2006, the Group agreed with Dona to partially settle this dividend owing, along with net liabilities owing to Dona totalling US\$16.3 million (including dividends declared prior to this date) by transferring certain financial instruments classified as 'other financial assets at fair value through profit and loss' to Dona. These financial instruments were transferred at their fair value of US\$19.8 million. Of the remaining balance amount of US\$16.5 million, an amount of US\$16.3 million was paid in cash on 4 January 2007.

As at 31 December 2007 and 2006 all other accounts are, or were, non-interest bearing.

No security has been granted or guarantees given by the Group in respect of these related-party balances.

# NOTES TO THE GROUP FINANCIAL STATEMENTS (...cont'd)

For the year ended 31 December 2007

## 31 Related-party balances and transactions (...cont'd)

Principal transactions between affiliates are as follows:

	Year ended 31 December	
	2007 US\$000	2006 US\$000
<b>Income</b>		
Interest on loans to Farragut Holding	–	1,226
Services provided	24	30
<b>Proceeds from sale</b>		
Sale of shares of Inversiones Pacasmayo to Greystone Corporation	–	6,350
Sale of shares held in MHC to Greystone Corporation	–	1,000
Sale of Inmobiliaria CNP shares to Cementos Pacasmayo	–	200
Sales of Colorada shares to Cementos Pacasmayo	14	–
<b>Expenses</b>		
Interest expenses	–	5
Services received	28	–

Transactions between the Group and these companies are on an arm's length basis.

## (b) Compensation of key management personnel of the Group

Key management personnel include the members of the senior management team and Directors who receive remuneration.

	Year ended 31 December	
	2007 US\$000	2006 US\$000
Salaries and bonuses	9,910	5,714
Total compensation paid to key management personnel	9,910	5,714

This amount includes the remuneration paid to the Directors of the parent company of the Group of US\$6,268,000 (2006: US\$2,860,000). In 2006, the amount of US\$739,000 represented remuneration earned in their capacity as the directors of the parent company.

## (c) Sale of shares of Colorada

On 30 September 2007, the Group sold its shares in Colorada for US\$14,000 to Cementos Pacasmayo. The value of this investment was impaired in 2006.

## 32 Auditor's remuneration

The auditor's remuneration for services provided to the Group during the years ended 31 December 2007 and 2006 is as follows:

	Ernst & Young Year ended 31 December		Others Year ended 31 December	
	2007 US\$000	2006 US\$000	2007 US\$000	2006 US\$000
Audit fees pursuant to legislation <sup>1</sup>	1,756	1,150	–	6
Other services relating to taxation	443	9	–	3
Services relating to corporate finance transactions <sup>2</sup>	501	8,267	–	–
Other services	110	33	–	–
<b>Total</b>	<b>2,810</b>	<b>9,459</b>	<b>–</b>	<b>9</b>

<sup>1</sup> Includes US\$1,164,000 (2006: US\$873,000) relating to the audit fees of the parent company together with a proportion of the fees in relation to the consolidated Group audit, which has been incurred by the parent company.

<sup>2</sup> The 2006 amount corresponds to fees relating to the listing of the company which are presented as a reduction in the share premium account (refer to note 27).

All fees are included in administrative expenses, within the professional fees caption (refer to note (8)), except for (1) above.



### 33 Notes to the cash flow statement

	Year ended 31 December	
	2007 US\$000	(Restated) 2006 US\$000
<b>Reconciliation of profit for the year to net cash generated from operating activities</b>		
Profit for the year	80,915	35,903
<b>Adjustments to reconcile Group operating profit to net cash inflows from operating activities:</b>		
Depreciation (note 4(f))	25,139	18,690
Amortisation of software licences	71	–
Loss/(gain) on sale/disposal of property, plant and equipment	467	(94)
Impairment of Sipán assets held for sale	–	2,983
Impairment of available-for-sale financial assets	71	–
Impairment of Colorada assets	–	343
Loss on sale of available-for-sale financial assets	–	2,291
Loss on sale of MHC (subsidiary)	–	991
Loss on sale of Sipán (subsidiary)	1,034	–
Decrease in provision for mine closure	(3,097)	(2,812)
Finance income	(25,257)	(6,906)
Finance costs (excluding impairment of available-for-sale financial assets)	7,517	12,037
Income tax expense	35,752	28,893
Provision for claims	27	292
Other	(185)	2,938
<b>Increase (decrease) of cash flows from operations due to changes in assets and liabilities:</b>		
Trade and other receivables	(74,420)	28,963
Income tax receivable	–	(625)
Derivative financial instruments	2,314	3,845
Inventories	(30,479)	(5,629)
Trade and other payables	10,480	5,135
Provisions	3,989	4,808
<b>Cash generated from operations</b>	<b>34,338</b>	<b>132,046</b>

#### Transactions that did not affect cash flows

The main transactions that did not affect cash flows were the following:

	Year ended 31 December	
	2007 US\$000	2006 US\$000
Realised gain from sale of available-for-sale financial assets	–	22,844
Capital reduction	–	146,466
Transfer of financial instruments to Dona Limited (note 31(a)(1))	–	19,766
Capitalisation of loans from minority shareholders to equity share capital in Minera Santa Cruz S.A.	–	12,185
Transfer of loan to EXMIN to available-for-sale financial assets	1,572	–
Write-off goodwill of Colorada (previously impaired)	230	–

# NOTES TO THE GROUP FINANCIAL STATEMENTS (...cont'd)

For the year ended 31 December 2007

## 34 Commitments

### (a) Gold and silver futures contracts

#### Gold

Organisation	Quantity as at 31 December		Type of contract	Quotation (US\$/oz)	Quotation period	
	2007 (ounces)	2006 (ounces)			From	To
Citibank	-	23,450	Flat Forward	415.93	Aug 2006	Jun 2007
Citibank	-	36,600	Flat Forward	419.20	Jan 2007	Jun 2007
<b>Total</b>	<b>-</b>	<b>60,050</b>				

#### Silver

Organisation	Quantity as at 31 December		Type of contract	Quotation (US\$/oz)	Quotation period	
	2007 (ounces)	2006 (ounces)			From	To
Standard Bank	-	772,000	Min/Max	8.40,10.65	Oct 2006	Mar 2007
<b>Total</b>	<b>-</b>	<b>772,000</b>				

Management had previously entered into fixed price sale contracts in accordance with the terms and conditions of the loan agreements with the banks. These contracts all expired during 2007 and management has decided not to renew these fixed price sales contracts.

The contracts and commitments mentioned above are not fair valued in the books as they were entered into for the purpose of the delivery of a non-financial item in accordance with the Group's expected sales requirements.

### (b) Mining rights purchase options

During the ordinary course of business, the Group enters into agreements to carry out exploration under concessions held by third parties. Generally, under the terms of these agreements, the Group has the option to acquire the concession or invest in the entity holding the concession. In order to exercise these options the Group must satisfy certain financial and other obligations during the term of the agreement. The options lapse in that the event the Group does not meet the financial requirements. At any point in time, the Group may cancel the agreements without penalty, except where specified below.

The Group continually reviews its requirements under the agreements and determines, on an annual basis, whether to proceed with the financial commitment. Based on management's current intention regarding these projects, the commitments at the balance sheet date are as follows:

	As at 31 December	
	2007 US\$000	2006 US\$000
Commitment for the subsequent twelve months	<b>2,675</b>	1,210
More than one year	<b>59,355</b>	22,539

Some of the significant transactions are explained below:

### (i) San Felipe Project

On 13 May 2006 Minera Hochschild Mexico, S.A. de C.V. ('MHM') and Grupo Serrana S.A. de C.V. ('Serrana') entered into an option and joint venture agreement for the acquisition of a 70% interest in the mining concessions owned by Serrana which include San Felipe. MHM has invested US\$5.2 million as at 31 December 2007 and is committed to the remaining balance of the US\$6.7 million required to maintain the option. From the amount already invested, US\$0.6 million has been capitalised upon commencement of the feasibility study, in accordance with the accounting policy for exploration expenses (refer to note 3). If MHM decides not to continue to explore the mine, it will be subject to a penalty equivalent to the difference between US\$2 million and 30% of any investment already made in the mining concessions.

### 34 Commitments (...cont'd)

If MHM meets the investments schedule above, MHM has an option to transfer the exploration reports and works to a new company in exchange for 70% interest and Serrana will transfer the properties and rights in exchange for 30% interest. MHM will invest US\$26.6 million in the new company before end of the fifth year in order to complete cumulative US\$33.3 million required to exercise the option. If MHM decides not to continue to explore the mine, it will be subject to a penalty equivalent to the difference between US\$26.6 million and 30% of any investment already made in the mining concessions.

Investment already incurred on the project as at 31 December 2007 amounts to US\$5.2 million, of which US\$0.6 million has been capitalised upon commencement of the feasibility study, in accordance with the accounting policy for exploration expenses (refer to note 3).

#### (ii) Ventura Gold Corp.

On 8 January 2007, the Group granted an option to Ventura Gold Corp. ('Ventura') for the acquisition of an interest in the Immaculada property, located in Peru. Under the option and joint venture agreement signed on 13 August 2007, in order to acquire an initial 51% controlling interest, Ventura shall complete a total of 15,000 metres of drilling on the property and issue a total of one million of its common shares to the Group within a three year period.

Once Ventura acquires its 51% controlling interest, Ventura shall issue an additional two million of its common shares to the Group within the next five years. Additionally, the Group has the option to become the operator of the project and buy back 11%, giving the Group a controlling interest in the project in consideration for a payment to Ventura of three times the total investment made in drilling and related exploration work completed. If the Group does not exercise the aforementioned option, Ventura may elect to increase its controlling interest by an additional 19%, upon the completion of a feasibility study on the project.

During the year, the Group received 100,000 shares of Ventura which are disclosed as 'available-for-sale financial assets'.

#### (iii) Mirasol Resources Ltd.

On 21 February 2007, the Group signed an option and joint venture agreement with Mirasol Resources Ltd. ('Mirasol') under the arrangements set out in the letter of intent signed on 18 September 2006. The Group has the right to acquire a 51% interest in the Santa Rita and Claudia projects by investing, over a period of four years, at least US\$3.5 million and US\$6 million, respectively, and making payments to Mirasol of US\$0.9 million within four years. In this regard, as at 31 December 2007 the Group withdrew from the agreement in respect of Santa Rita and has invested US\$0.8 million in Claudia. In addition, the Group made payments of US\$0.35 million to Mirasol.

On 13 March 2007, Mirasol constituted, under the laws of Argentina, two companies named Cabo Sur S.A. and Punta Verde S.A., which will hold the rights of Claudia and Santa Rita properties, respectively. Until the exercise of Claudia's option, Mirasol and the Group will own 99% and 1% of the new company, respectively.

#### (iv) Cardero Resource Corp.

On 12 March 2007, the Group entered into a letter of intent with Cardero Resource Corp. ('Cardero') in respect of an option and joint venture agreement to explore and develop minerals at the Los Manantiales property in Argentina. Under the arrangements, the Group will have the right to acquire a 60% interest by incurring expenditure on exploration activities of US\$3.5 million over a four-year period.

Whilst the option and joint venture agreement has not been finalised, during 2007 the Group has paid US\$321,000 in order to permit Cardero to acquire the properties from its former owner. This payment will be considered as part of the US\$3.5 million commitment.

The option and joint venture agreement has not been signed.

#### (v) Silver Standard Resources Inc.

On 31 May 2007, the Group entered into a letter of intent with Silver Standard Resources Inc. in respect of an option and joint venture agreement to explore and develop minerals in properties located in Chubut province, Argentina.

Under the arrangements, the Group will have the right to acquire a 51% interest by investing in exploration activities an amount of US\$1 million over a three year period. As at 31 December 2007, the option and joint venture agreement had not been signed.

#### (vi) IAMGOLD Corporation

On 20 December 2007, the Group entered into an option and joint venture agreement with IAMGOLD Corporation ('IAMGOLD') to explore and develop minerals in the two groups of properties located in Argentina, which comprise the projects Santa Cruz-Río Negro and Cañón del Moro.

# NOTES TO THE GROUP FINANCIAL STATEMENTS (...cont'd)

## For the year ended 31 December 2007

### 34 Commitments (...cont'd)

Under the arrangements, the Group will have the right to acquire a 70% interest in each group of properties by investing US\$0.2 million and US\$1.5 million within two years and completing a pre-feasibility study on the properties before the end of the seventh and sixth year for Santa Cruz and Cañón del Moro, respectively. The Group can withdraw from the agreement without the obligation to make any further expenditures or penalties.

#### (vii) Minera de Suroeste (Paca Pausa Project)

On 21 June 2005, Minera Oro Vega S.A.C. ('Minorva', the Group's partner in Minera Suyamarca S.A.C.) and Minera del Suroeste ('Misosa') entered into an option and joint venture agreement ('Framework Agreement') in respect of the Paca Pausa properties located in Peru. In compliance with the terms of the agreement, Minorva earned an initial 50% interest in the properties in exchange for an investment of US\$1 million, and has the right to obtain a 50% interest in the New Joint Venture Company ('Newco') that will hold the properties upon the contribution of all technical reports and other assets obtained by Minorva as a result of its exploration activities.

On 16 November 2007, Minera Suyamarca S.A.C. ('Suyamarca') signed an amendment to the Framework Agreement with Misosa and Minorva, incorporating the terms under which Suyamarca would acquire Minorva's contractual position. Under the arrangements, Suyamarca paid US\$0.2 million to Minorva in exchange for its contractual position in the Framework Agreement. Within 30 days following the incorporation of the Newco, Suyamarca will make a capital contribution in Newco (solely funded by the Group) of US\$1.1 million in exchange for a 50% interest in Newco. Subsequently, Minorva will transfer to Newco all technical reports and other assets obtained as a result of its exploration activities in the properties in exchange for US\$1.1 million in cash. The Newco (Minas Pacapausa S.A.C.) was incorporated on 4 March 2008.

#### (viii) Sociedad Legal Minera Amapola (Tres Chepas Project)

On 17 August 2007 the Group entered into an option agreement with Sociedad Legal Minera Amapola de Plan de Hornos ('Amapola') to acquire the mining rights for the Tres Chepas Property in Chile. Under the arrangements, the Group will have the right to acquire the mining rights by making payments of US\$1.5 million to Amapola within four years and can withdraw from the agreement without any penalty.

#### (ix) Andina Minerals Chile Limitada (Encrucijada Project)

On 21 December 2007 the Group entered into a letter of intent with Andina Minerals Chile Limitada ('Andina') relating to an option and joint venture agreement to earn a 51% interest in respect of Encrucijada project located in Chile.

Under the arrangements, the Group will have the right to acquire 51% interest by investing US\$3 million within three years and making a payment of US\$0.5 million to Andina upon signing of the final agreement.

On 31 January 2008, the final option and joint venture agreement was signed and payment of US\$0.5 million was made.

#### (x) Ricardo Flores Property (Gavilanes II Project)

On 5 October 2007 the Group entered into an exploration and option agreement with Ricardo Flores Rodriguez to acquire the mining rights for the Gavilanes II Property, located in Mexico. Under the arrangements, the Group will have the right to acquire 100% of the mining rights by making payments of US\$2.3 million to Ricardo Flores Rodriguez within three years and the Group can withdraw from the agreement without any penalty. If the Group exercises the option it shall pay a 2% Net Smelter Return once commercial production begins.

#### (xi) Jorge de la Torre Property (Gavilanes I Project)

On 5 October 2007 the Group entered into an exploration and option agreement with Jorge de la Torre Robles to acquire the mining rights for the Gavilanes I Property, located in Mexico. Under the arrangements, the Group will have the right to acquire 100% of the mining rights by making payments of US\$3.5 million to Jorge de la Torre Robles within three years. The Group can withdraw from the agreement without any penalty, except in the event that, after six months of signing this agreement Jorge de la Torre Robles receives any debt notice from the Trust for Mining Promotion ('FIFOMI' as abbreviated in Spanish). In such case, any payment to FIFOMI (currently estimated at US\$0.3 million) will be enforceable to the Group and will be subtracted from the payments required to exercise the option. If the Group exercises the option it shall pay a 2% Net Smelter Return once commercial production begins until a maximum of US\$2 million is reached.

#### (xii) Industrial Minera Mexico (Peñon Blanco Project)

On 22 October 2007 the Group entered into an exploration and option agreement with Industrial Minera Mexico S.A. de C.V. ('Industrial') in order to acquire the mining rights for the Peñon Blanco Property, located in Mexico. Under the arrangements, the Group will have the right to acquire the mining rights by investing US\$3 million in exploration expenditures and making payments of US\$3 million to Industrial within 30 months. The Group can withdraw from the agreement without any penalty. If the Group exercises the option it shall pay a 2% Net Smelter Return once commercial production begins.

### 34 Commitments (...cont'd)

#### (c) Operating lease contract

The Company has a number of operating lease agreements. The largest part of the commitment is related to the Compañía Minera Ares S.A.C. office.

The lease expenditure charge to the income statement during the years 2007 and 2006 are included in the production costs and administrative expenses.

As at 31 December 2007 and 2006, the future aggregate minimum lease payments under the operating lease agreements are as follows:

	For the year ended 31 December	
	2007 US\$000	2006 US\$000
Not later than one year	<b>1,541</b>	1,990
Later than one year and not later than five years	<b>744</b>	2,272

#### (d) Capital commitments

	As at 31 December	
	2007 US\$000	2006 US\$000
Peru	<b>15,113</b>	21,366
Argentina	–	14,153
	<b>15,113</b>	35,519

### 35 Contingencies

As at 31 December 2007, the Group has the following contingencies:

#### (a) Value added tax and income tax refund due

As at 31 December 2006, the Group's subsidiary Compañía Minera Sipan ('Minera Sipan') was in dispute with Peruvian Tax Authorities over the tax treatment of a leasing arrangement entered into in 2000 with Credito Leasing S.A. The authorities had issued an assessment of US\$3.1 million and a fine of approximately US\$6.6 million. The Group appealed this assessment. In addition to these exposures, the Group had receivable of US\$1.3 million representing overpayment of tax made in 2000, the repayment of which had not been made by the authorities as a result of the dispute.

On 28 December 2007, the Group sold Minera Sipan to Avignon Business Corporation ('Avignon') (refer to note 12(6)). Avignon has expressly assumed the contingency liabilities in respect to the tax disputes in respect to the 2000 and 2002 corporate income tax and fines; and the 2000, 2001 and 2002 VAT and fines. As a consequence, the risk of these exposures and the benefit of the receivable have been assumed by Avignon. Should the courts decide in the favour of the tax authorities in relation to these exposures, the Group retains joint liability up to a maximum of US\$1.2 million. The Company has already provided for US\$0.3 million of the tax exposures which has been deemed probable.

In the event that the court decides in favour of Minera Sipan in relation to the tax disputes outlined above, an amount of 70% of the US\$1.3 million receivable representing overpayment of tax made by Minera Sipan in 2000, as outline above, including interest, will be paid back to the Group. At 31 December 2007, the receivable, including interest, amounts to approximately US\$2.0 million. As this receipt is contingent upon the success of Minera Sipan in the dispute, it has not been recognised in the balance sheet as receivable

#### (b) Taxation

Fiscal periods remain open to review by the tax authorities for four years in Peru and five years in Argentina and Mexico, preceding the year of review. During this time the authorities have the right to raise additional tax assessments including penalties and interest. Under certain circumstances, reviews may cover longer periods.

# NOTES TO THE GROUP FINANCIAL STATEMENTS (...cont'd)

For the year ended 31 December 2007

### 35 Contingencies (...cont'd)

Because a number of fiscal periods remain open to review by the tax authorities, coupled with the complexity of the Group and the transactions they have undertaken, there remains a risk that significant additional tax liabilities may arise. Notwithstanding this risk, the Directors believe that management's interpretation of the relevant legislation and assessment of taxation is appropriate and that it is probable that the Group's tax and customs positions will be sustained in the event of a challenge by the tax authorities. Consequently, the Directors consider that they have made adequate provision for any future outflow of resources and no additional provision is required in respect of these claims or risks.

#### (c) Other

The Group has conducted its operations in the ordinary course of business in accordance with its understanding and interpretation, and based on advice of legal counsel, of applicable legislation in the countries where the Group has operations. In certain specific transactions, however, the relevant authorities could have a different interpretation of those laws and regulations that could lead to contingencies or additional liabilities for the Group. Having consulted the legal counsel, management believes that it has reasonable grounds to support its position.

### 36 Guarantees and tax stability agreements

#### (a) Compañía Minera Ares

On 28 October 1999, the Ministry of Energy and Mines granted legal stability for the Ares operating unit, starting 1 January 1999 for a ten year term.

Under this agreement, the Peruvian Government is obliged to guarantee legal stability to the Ares operating unit of the Company covering the following areas:

- Free trade of its products.
- Removal of currency restrictions.
- Stability of tax rates.
- Fixed rate on the annual validity fee or good standing payment for mining concessions.

As a result of the Ares stability agreement currently in force, Ares pays income tax in Peru at a rate of 30% in respect of income generated by the Ares operating unit, and the annual validity fee or good standing payment for mining concessions are fixed at the rate of US\$2.00 per hectare per year. The Ares operating unit is exempt from paying the governmental royalties covered by Law 28258—Mining Royalties Law with respect to revenues generated at the Ares operating unit for so long as the stability agreement remains in effect.

#### (b) Minera Santa Cruz

Minera Santa Cruz has been granted two tax stability certificates in relation to provincial and national taxes in Argentina dated 21 November 2005 in respect of the San José development project. The stability certificates run for a 30-year period commencing on 20 June 2006 in respect of provincial taxes and 15 May 2006 in respect of national taxes.

Under this agreement, Minera Santa Cruz's tax stability in respect to the San José operating unit covers the following areas:

- For San José, the mining royalty is fixed at 1.85% of the pit-head value per year when the final product is Doré and 2.55% when the final product are mineral concentrates or precipitates.
- The National Export Tax is 5% when the final product is Doré and 10% when the final product are gold or silver concentrates although rebates are available for the first three years, if shipped from a port (3%, 2% and 1% rebate for years 2007, 2008 and 2009, respectively).

### 37 Mining royalty

#### (a) Peru

In accordance with Peruvian legislation, a mining royalty that owners of mining concessions must pay for the exploitation of metallic and non-metallic resources has been enacted. Mining royalties are calculated with rates ranging from 1% to 3% of the value of mineral concentrates or equivalent, based on the quoted market prices published by the Ministry of Energy and Mines. As at 31 December 2007, the amount payable as mining royalties for the mining units of Selene and Arcata amounted to approximately US\$1,024,000 (US\$929,000 at 31 December 2006), and is recorded in the caption 'Trade and other payables' of the balance sheet. Management, having consulted with legal counsel, is of the opinion that the Ares mining unit has not been affected by this law and therefore need not make any royalty payments or provisions for such payments due to the fact that it has the legal stability agreement (refer to note 36).



### 37 Mining royalty (...cont'd)

#### (b) Argentina

In accordance with Argentinian legislation, provinces (being the legal owners of the mineral resources) are entitled to request royalties from mine operators. San José mining unit has not been affected by this law due to the Minera Santa Cruz tax stability agreement in respect of San José operating unit (refer to note 36).

### 38 Financial risk management

The Group is exposed to a variety of risks and uncertainties which may have a financial impact on the Group and which also impact the achievement of social, economic and environmental objectives. These risks include strategic, commercial, operational and financial risks and are further categorised into risk areas to facilitate consolidated risk reporting across the Group.

#### (a) Foreign currency risk

The Group principally produces silver and gold which are typically priced in US dollars. A proportion of the Group's costs are incurred in pounds sterling, Peruvian nuevos soles, Argentinian pesos and Mexican pesos. Accordingly, the Group's financial results may be affected by exchange rate fluctuations between the US dollar and the local currency. The long-term relationship between commodity prices and currencies in the countries in which the Group operates provides a certain degree of natural protection. The Group does not use derivative instruments to manage its foreign currency risks.

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate, with all other variables held constant, of the Group's profit before tax and the Group's equity.

Year	Increase/decrease in US\$/other currencies rate	Effect on profit before tax US\$000	Effect on equity US\$000
2007			
Pounds sterling	+/-10%	+/-42	—
Argentinian pesos <sup>1</sup>	+/-10%	-/+11,730	—
Mexican pesos	+/-10%	-/+166	—
Peruvian nuevos soles	+/-10%	+/-2,539	—
Canadian dollars	+/-10%	-/+699	-/+1,509
2006			
Pounds sterling	+/-10%	-/+1,632	—
Argentinian pesos <sup>1</sup>	+/-10%	-/+5,645	—
Peruvian nuevos soles	+/-10%	+/-1,621	—
Mexican pesos	+/-10%	-/+658	—
Canadian dollars	+/-10%	-/+266	-/+626

<sup>1</sup> Minera Santa Cruz, one of the Group's subsidiaries which is the legal owner of the San José mine, had debts denominated in US dollars. As Minera Santa Cruz's functional currency was the peso during 2006 and 2007, the translation of this loan into pesos created a loss. Following the commencement of operations during the year, the Group is required to change the functional currency in Minera Santa Cruz to US dollars from 2008 therefore these loans will no longer be exposed to foreign currency risk.

#### (b) Commodity price risk

Silver and gold prices have a material impact on the Group's results of operations. Prices are significantly affected by changes in global economic conditions and related industry cycles. Generally, producers of silver and gold are unable to influence prices directly; thus, the Group's profitability is ensured through the control of its cost base and the efficiency of its operations.

The Group has in the past managed its commodity price risk through fixed price sale contracts or through the inclusion of cap and floor prices in sale contracts. The Group ended its fixed price sale contracts during the first six-month period of 2007 (refer to note 34(a)). Management has decided that the Group will not enter into additional contracts in order to obtain full benefit from possible price increases in the future. However, management will continue to consider the merits of entering into these types of contracts in the future.

# NOTES TO THE GROUP FINANCIAL STATEMENTS (...cont'd)

For the year ended 31 December 2007

## 38 Financial risk management (...cont'd)

The Group has embedded derivatives arising from the sales of concentrates and Doré bars which were provisionally priced at the time the sale is recorded (refer to notes 6 and 21(b)). For these derivatives, the sensitivity of the fair value to an immediate 10% favourable or adverse change in the price of gold and silver (taking all other variables held constant), is as follows:

Year	Increase/decrease price of ounces of:	Effect on profit before tax US\$000
2007	Gold +/-10%; Silver +/-10%	+/-630
2006	Gold +/-10%; Silver +/-10%	+/-987

### (c) Credit risk

Credit risk arises from debtors' inability to make payment of their obligations to the Group as they become due (without taking into account the fair value of any guarantee or pledged assets); and by non-compliance by the counterparties in transactions in cash, which is limited to balances deposited in banks and accounts receivable at the balance sheet date. To manage this risk, the Group deposits its surplus funds in highly-rated financial institutions, performs frequent credit checks on counterparties and constantly evaluates the conditions of the market in which it conducts its activities. Consequently, the Group does not expect to incur significant losses on account of credit risk.

Credit risk concentrations exist when changes in economic, industrial or geographic factors take place, affecting in the same manner the Group's counterparties whose added risk exposure is significant to the Group's total credit exposure. The Group is exposed to credit risk concentrations in respect of trade receivables as the Group's portfolio of customers has been concentrated in a limited number. In 2007, the Group expanded both the number of customers to eight (excluding financial institutions involved in hedge cover sales) and their geographical spread. The Group analyses each customer and manages credit risk by adjusting the level of prepayment required (ranging between 85–95%) at time of receipt of goods. Receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. The maximum exposure is the carrying amount as disclosed in note 19.

### (d) Equity risk on financial instruments

The Group acquires financial instruments in connection with strategic alliances with third parties. The Group constantly monitors the fair value of these instruments in order to decide whether or not it is convenient to dispose of these investments. The disposal decision is also based on management's intention to continue with the strategic alliance, the tax implications and changes in the share price of the investee.

The following table demonstrates the sensitivity to a reasonably possible change in the share price of available-for-sale financial assets and derivative financial instruments (excluding embedded derivatives from provisionally priced sales), with all other variables held constant:

Year	Increase/decrease in prices	Effect on profit before tax US\$000	Effect on equity US\$000
2007	+10%	+780	+1,500
	-10%	-2,534	-1,126
2006	+10%	+350	+600
	-10%	-350	-600

### (e) Liquidity risk

Liquidity risk arises from the Group's inability to obtain the funds it requires to comply with its commitments, including the inability to sell a financial asset quickly enough and at a price close to its fair value. Management constantly monitors the Group's level of short- and medium-term liquidity, and their access to credit lines, in order to ensure appropriate financing is available for its operations.

### 38 Financial risk management (...cont'd)

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet as at 31 December 2007 to the contractual maturity date:

	Less than 1 year US\$000	Between 1 and 2 years US\$000	Between 2 and 5 years US\$000	Over 5 years US\$000	Total US\$000
<b>At 31 December 2007</b>					
Trade and other payables (note 23)	52,176	274	585	–	53,035
Borrowings (note 24)	33,169	41,286	13,923	–	88,378
<b>Total</b>	<b>85,345</b>	<b>41,560</b>	<b>14,508</b>	<b>–</b>	<b>141,413</b>
<b>At 31 December 2006</b>					
Trade and other payables (note 23)	64,140	255	721	88	65,204
Borrowings (note 24)	29,782	376	26,738	–	56,896
<b>Total</b>	<b>93,922</b>	<b>631</b>	<b>27,459</b>	<b>88</b>	<b>122,100</b>

#### (f) Interest rate risk

The Group has financial assets and liabilities which are exposed to interest rate risk. Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). The Group does not have a formal policy of determining how much of its exposure should be at fixed or at variable rates. However, at the time of taking new loans or borrowings, management uses its judgement to decide whether it believes that a fixed or variable rate borrowing would be more favourable to the Group over the expected period until maturity. It is important to note that all existing financial obligations are at fixed rates.

	As at 31 December 2007				
	Within 1 year US\$000	Between 1 and 2 years US\$000	Between 2 and 5 years US\$000	Over 5 years US\$000	Total US\$000
<b>Fixed rate</b>					
Cash at bank (note 22)	539	–	–	–	539
Time deposits (note 22)	7,373	–	–	–	7,373
Loans to minority shareholders (note 19)	15,100	19,110	–	–	34,210
Assigned funds (note 19)	–	30	–	–	30
Amounts due to minority shareholders (note 24)	(9,299)	(41,286)	(13,923)	–	(64,508)
Secured bank loans (note 24)	(23,750)	–	–	–	(23,750)
<b>Floating rate</b>					
Liquidity funds (note 22)	285,015	–	–	–	285,015
<b>As at 31 December 2006</b>					
<b>Fixed rate</b>					
Amounts due to minority shareholders (note 24)	(1,445)	(80)	(26,738)	–	(28,263)
<b>Floating rate</b>					
Cash at bank (note 22)	997	–	–	–	997
Liquidity funds (note 22)	414,527	–	–	–	414,527
Time deposits (note 22)	3,542	–	–	–	3,542
Loans to minority shareholders (note 19)	2,436	8,166	–	–	10,602
Assigned funds (note 19)	–	6	–	–	6
Secured bank loans (note 24)	(28,017)	(296)	–	–	(28,313)

## NOTES TO THE GROUP FINANCIAL STATEMENTS (...cont'd)

For the year ended 31 December 2007

### 38 Financial risk management (...cont'd)

Interest on financial instruments classified as floating rate is re-priced at intervals of less than one year. Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument. The other financial instruments of the Group that are not included in the above tables are non-interest bearing and are therefore not subject to interest rate risk.

The following table demonstrates the sensitivity to a reasonably possible change in the interest rate, with all other variables held constant, of the financial instruments with a floating rate. This assumes that the amount remains unchanged from that in place at 31 December 2007 and 2006 and that the change in interest rates is effective from the beginning of the year. In reality, the floating rate will fluctuate over the year and interest rates will change accordingly.

Year	Increase/decrease interest rate	Effect on profit before tax US\$000
2007	+/-50 bps	+/-1,430
2006	+/-50 bps	+/-2,072

### (g) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders, benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. Management considers as part of its capital, the financial sources of funding from shareholders and third parties. In order to ensure an appropriate return for shareholder's capital invested in the Company, management thoroughly evaluates all material projects and potential acquisitions and approves them at its Executive Committee before submission to the Board for ultimate approval, where applicable.

### 39 Subsequent events

On 28 January 2008 ('Execution Date'), the Group signed a Secured Term Loan Facility with a syndicate of lenders with JP Morgan Chase Bank N.A. acting as the Administrative Agent. Under the arrangements, the Group has a total secured term loan facility up to US\$200 million with an effective interest rate of LIBOR + 1% and a maturity date of five years beginning on the Execution Date. The loans may be incurred in up to five draw-downs available during 180 days since the Execution Date and the Group has the option to increase the facility by US\$150 million before the fifth anniversary of the Execution Date.

In relation to this Secured Term Loan Facility, the Group has granted a first-priority security interest over all of the equity share capital, free and clear of any liens, of Compañía Minera Ares S.A.C.

- On 31 January 2008 the option and joint venture agreement with Andina Minerals Chile Limitada ('Andina') (refer to note 34(b)(ix)) was signed and in accordance with the agreement, a payment of US\$0.5 million was made to Andina upon signing of the agreement.
- On 15 February 2008 the Group received 200,000 shares of Ventura in connection with the option and joint venture agreement signed with this entity (refer to note 34(b)(ii)).
- On 19 February 2008, the Group acquired 19.99% interest in Lake Shore Gold Corp. ('Lake Shore'), a gold company listed on the Toronto Stock Exchange, with prime exploration and development projects in the Abitibi Belt of the Timmins Region in Ontario, Canada. The consideration paid for the acquisition amounted to CAD\$64.6 million (approximately US\$64.6 million). The contract allows the Group to purchase additional shares from existing shareholders or from the open market to increase the interest up to 40% by the end of 2008. This increase is subject to the approval of Lake Shore's shareholders who will be asked to vote on this matter by not later than 19 April 2008. On 14 March 2008, the Group and Lake Shore Gold agreed to extend the date to vote on this matter by not later than 15 May 2008.
- On 4 March 2008, the Group entered into an option agreement with Santos Bahamondes Latorre Compañía Minera in order to acquire the mining rights of three groups of properties (Juana I, Juana II and Casualidad) located in Chile. Under the arrangements, the Group will have the right to acquire the mining rights by making payments of US\$1 million, US\$1 million and US\$1.5 million for Juana I, Juana II and Casualidad, respectively. If the Group exercises the option it shall pay a 1.5% Net Smelter Return once commercial production begins.
- On 27 March 2008, the Remuneration Committee agreed to revise the Group's long-term incentive arrangements and to extend participation, subject to shareholder approval at the forthcoming AGM, to the Executive Directors.

# PARENT COMPANY INCOME STATEMENT

For the year ended 31 December 2007

	Notes	Year ended 31 December 2007 US\$000	Period from date of incorporation to 31 December 2006 US\$000
Administrative expenses	3	(12,703)	(1,729)
<b>Operating loss</b>		<b>(12,703)</b>	<b>(1,729)</b>
Finance income	5, 15	17,177	3,777
Finance costs	5, 15	(417)	(1)
Foreign exchange gain		232	553
<b>Profit before income tax</b>		<b>4,289</b>	<b>2,600</b>
Income tax expense	6	(1,372)	(789)
<b>Profit for the year/period attributable to equity shareholders of the Company</b>		<b>2,917</b>	<b>1,811</b>

# PARENT COMPANY BALANCE SHEET

As at 31 December 2007

	Notes	As at 31 December	
		2007 US\$000	2006 US\$000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	7	85	4
Investments in subsidiaries	8	1,734,831	1,608,452
Available-for-sale financial assets	9	380	—
Deferred income tax assets	14	21	—
		<b>1,735,317</b>	1,608,456
<b>Current assets</b>			
Other receivables	10	3,755	10,344
Cash and cash equivalents	11	285,036	421,344
		<b>288,791</b>	431,688
<b>Total assets</b>		<b>2,024,108</b>	2,040,144
<b>EQUITY AND LIABILITIES</b>			
Equity share capital		146,466	146,466
Share premium		416,154	416,191
Other reserves		1,315,396	1,315,396
Retained earnings		142,746	148,277
<b>Total equity</b>	12	<b>2,020,762</b>	2,026,330
<b>Non-current liabilities</b>			
Provision for Executive Long Term Incentive Plan	4	32	—
<b>Current liabilities</b>			
Trade and other payables	13	3,146	13,025
Income tax payable		168	789
<b>Total liabilities</b>		<b>3,314</b>	13,814
<b>Total equity and liabilities</b>		<b>2,024,108</b>	2,040,144

The accompanying accounting policies and notes on pages 113 to 126 are an integral part of these financial statements. The financial statements on pages 109 to 112 were approved by the Board of Directors on 1 April 2008 and signed on its behalf by:

**Roberto Dañino**  
Executive Director & Deputy Chairman  
1 April 2008

# PARENT COMPANY CASH FLOW STATEMENT

## For the year ended 31 December 2007

	Year ended 31 December 2007	Period ended 31 December 2006
	Notes US\$000	US\$000
<b>Reconciliation of profit for the year/period to net cash (used in)/generated from operating activities</b>		
Profit for the year/period	2,917	1,811
<b>Adjustments to reconcile Company operating profit to net cash outflows from operating activities:</b>		
Depreciation	24	–
Impairment of available-for-sale financial assets	71	–
Income tax expense	1,372	789
Finance income	(17,177)	(3,777)
Finance costs (excluding impairment of available-for-sale financial assets)	346	1
Foreign exchange gain	(232)	(553)
<b>Increase (decrease) of cash flows from operations due to changes in assets and liabilities:</b>		
Other receivables	(60)	(694)
Trade and other payables	(4,644)	1,127
Provision for Executive Long Term Incentive Plan	32	–
<b>Cash used in operating activities</b>	<b>(17,351)</b>	<b>(1,296)</b>
Interest received	18,211	1,620
Interest paid	15(a) (325)	–
Tax paid	(1,972)	–
<b>Net cash (used in)/generated from operating activities</b>	<b>(1,437)</b>	<b>324</b>
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment	7 (105)	(4)
Investments in subsidiaries	8 (126,379)	(67,217)
Purchase of available-for-sale financial assets	9 (451)	–
Loan to Minera Hochschild Mexico, S.A. de C.V.	15 –	(7,000)
Loan to Minera Hochschild Chile, S.C.M. (formerly Minera MH Chile Ltda.)	15 (1,385)	(500)
Repayment of loan from Minera Hochschild Mexico, S.A. de C.V.	7,000	–
<b>Net cash used in investing activities</b>	<b>(121,320)</b>	<b>(74,721)</b>
<b>Cash flows from financing activities</b>		
Dividends paid	16 (8,448)	–
Capital contribution	12 –	93
Proceeds from issue of ordinary shares under Global offer	12 –	515,245
Transaction costs associated with issue of shares	12 (5,335)	(20,150)
<b>Cash flows (used in)/generated from financing activities</b>	<b>(13,783)</b>	<b>495,188</b>
Net (decrease)/increase in cash and cash equivalents during the year/period	(136,540)	420,791
Foreign exchange gain	232	553
<b>Cash and cash equivalents at beginning of year/period</b>	<b>421,344</b>	<b>–</b>
<b>Cash and cash equivalents at end of year/period</b>	<b>11 285,036</b>	<b>421,344</b>
<b>Transactions that did not affect cash flows</b>		
Shares issued under Global Offer	12 –	1,534,629
Capital reduction	12 –	146,466
Disposal of shares in subsidiaries	8 1,606,860	–
Acquisition of shares in subsidiary	8 (1,606,860)	–



# PARENT COMPANY STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2007

	Equity share capital US\$000	Share premium US\$000	Other reserves		Retained earnings US\$000	Total equity US\$000
			Merger reserve US\$000	Total other reserves US\$000		
Profit for the period	–	–	–	–	1,811	1,811
Total recognised income for 2006	–	–	–	–	1,811	1,811
Shares issued	93	–	–	–	–	93
Shares issued pursuant to Share Exchange Agreement	219,233	–	1,315,396	1,315,396	–	1,534,629
Shares issued under Global offer	73,606	441,639	–	–	–	515,245
Capital reduction	(146,466)	–	–	–	146,466	–
Transaction costs associated with issue of shares	–	(25,448)	–	–	–	(25,448)
<b>Balance at 31 December 2006</b>	<b>146,466</b>	<b>416,191</b>	<b>1,315,396</b>	<b>1,315,396</b>	<b>148,277</b>	<b>2,026,330</b>
Profit for the year	–	–	–	–	2,917	2,917
Total recognised income for 2007	–	–	–	–	2,917	2,917
Transaction costs associated with issue of shares	–	(37)	–	–	–	(37)
Dividends	–	–	–	–	(8,448)	(8,448)
<b>Balance at 31 December 2007</b>	<b>146,466</b>	<b>416,154</b>	<b>1,315,396</b>	<b>1,315,396</b>	<b>142,746</b>	<b>2,020,762</b>

# NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

Year ended 31 December 2007

## 1 Corporate information

Hochschild Mining plc (hereinafter the 'Company') is a public limited company incorporated on 11 April 2006 under the Companies Act 1985 as a Limited Company and registered in England and Wales with registration number 05777693. The Company's registered address is 18 Hanover Square, London W1S 1HX, United Kingdom. The Company was incorporated to serve as a holding company to be listed on the London Stock Exchange. The Company acquired its interest in a group of companies to constitute the Hochschild Mining Group (the 'Group') pursuant to a share exchange agreement ('Share Exchange Agreement') dated 2 November 2006.

The ultimate controlling party of the Company is Mr. Eduardo Hochschild whose beneficial interest in the Company is held through Pelham Investment Corporation.

On 8 November 2006 the Company's shares were admitted to the Official List of the UKLA (United Kingdom Listing Authority) and to trading on the London Stock Exchange.

## 2 Significant accounting policies

### (a) Basis of preparation

The Company's financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union as they apply to the financial statements of the Company for the year ended 31 December 2007. The Group's financial statements are also consistent with IFRS issued by the IASB. In addition, the financial statements have been prepared in accordance with those parts of the Companies Act 1985 applicable to companies reporting under IFRS.

The financial statements of the Company have been prepared on a historical cost basis, except for derivatives and available-for-sale financial instruments which have been valued at fair value. The financial statements are presented in US dollars (US\$) and all monetary amounts are rounded to the nearest thousand (US\$000) except when otherwise indicated.

### (b) Judgements in applying accounting policies and key sources of estimation uncertainty

Certain amounts included in the financial statements such as the recoverability of accounts receivable and the valuation of investments in subsidiaries involves the use of judgement and/or estimation. These judgements and estimates are based on management's best knowledge of the relevant facts and circumstances, having regard to prior experience, but actual results may differ from the amounts included in the financial statements. Information about such judgements and estimation is contained in the accounting policies and/or the notes to the financial statements.

### (c) Changes in accounting policy and disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the following new and amended IFRS and IFRIC interpretations. The adoption of these revised standards and interpretations did not have any effect on the financial performance or position of the Company. They did however give rise to additional disclosures, including in some cases, revisions to accounting policies.

- IFRS 7 Financial Instruments: Disclosures
- IAS 1 Amendment – Presentation of Financial Statements

The principal effects of these changes are as follows:

#### IFRS 7 Financial Instruments: Disclosures

This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Company's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results, comparative information has been revised where needed.

#### IAS 1 Presentation of Financial Statements

This amendment requires the Company to make new disclosures to enable users of the financial statements to evaluate the Company's objectives, policies and processes for managing capital. These new disclosures are shown in note 17(e).

# NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS (...cont'd) Year ended 31 December 2007

## 2 Significant accounting policies (...cont'd)

### (d) Currency translation

The functional currency for the Company is the US dollar and is determined by the currency of the primary economic environment in which it operates.

Transactions denominated in currencies other than the functional currency of the Company are initially recorded in the functional currency using the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are remeasured at the rate of exchange ruling at the balance sheet date. Exchange gains and losses on settlement of foreign currency transactions which are translated at the rate prevailing at the date of the transactions, or on the translation of monetary assets and liabilities which are translated at period-end exchange rates, are taken to the income statement. Non-monetary assets and liabilities denominated in foreign currencies that are stated at historical cost are translated to the functional currency at the foreign exchange rate prevailing at the date of the transaction.

### (e) Investments in subsidiaries

Subsidiaries are entities over which the Company controls operating and financial policies, generally by owning more than 50% of voting rights. Investments in subsidiaries are recognised at acquisition cost less any provision for impairment.

The dividends are recognised when the Company's right to receive payments is established. Dividends received out of pre-acquisition profits of a subsidiary are recorded as a reduction to the carrying value of the investment. Dividends received out of post-acquisition profits are recorded in the income statement.

### (f) Other receivables

Current receivables are carried at the original amount less provision made for impairment of these receivables. A provision for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivable. The amount of the provision is the difference between the original carrying amount and the recoverable amount and this difference is recognised in the income statement.

### (g) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the balance sheet, cash and cash equivalents comprise cash on hand and deposits held with banks that are readily convertible into known amounts of cash within three months or less and which are subject to insignificant risk of changes in value. For the purposes of the cash flow statement, cash and cash equivalents as defined above are shown net of outstanding bank overdrafts.

### (h) Share capital

Ordinary shares issued by the Company are recorded at the net proceeds received, which is the fair value of the consideration received less costs that are incurred in connection with the share issue. The nominal par value of the shares issued is taken to the share capital account and any excess is recorded in the share premium account, including the costs that were incurred with the share issue.

### (i) Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

### Share based payments

The fair value of cash-settled share plans is recognised as a liability over the vesting period of the awards. Movements in that liability between accounting dates are recognised as an expense. The fair value of the awards is taken to be the market value of the shares at the date of award adjusted by a factor for anticipated relative Total Shareholder Return ('TSR') performance. Fair values are subsequently remeasured at each accounting date to reflect the number of awards expected to vest based on the current and anticipated TSR performance.

### (j) Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

## 2 Significant accounting policies (...cont'd)

### (k) Finance income and costs

Finance income and costs mainly comprise interest income on funds invested, interest expense on borrowings, foreign exchange gains and losses, gains and losses from the change in fair value of derivative instruments and gains and losses on the disposal of available-for-sale investments.

Interest income and costs are recognised as they accrue, taking into account the effective yield on the asset and liability, respectively.

### (l) Income tax

Income tax for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items charged or credited directly to equity, in which case it is recognised in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes:

- where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based on the tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

### (m) Financial instruments

Financial assets and liabilities are recognised when the Company becomes party to the contracts that give rise to them and are classified as loans, receivables or as available-for-sale financial assets, as appropriate. The Company determines the classification of its financial assets and liabilities at initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end. When financial assets and liabilities are recognised initially, they are measured at fair value, being the transaction price, in the case of financial assets not at fair value through profit or loss, plus directly attributable transaction costs. The Company considers whether a contract contains an embedded derivative when the entity first becomes a party to it. The embedded derivatives are separated from the host contract if it is not measured at fair value through profit or loss and when the economic characteristics and risks are not closely related to those of the host contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

All regular way purchases and sales of financial assets are recognised on the trade date, being the date that the Company commits to purchase or sell the asset. Regular way transactions require delivery and receipt of assets within the timeframe generally established by regulation or convention in the market place. The subsequent measurement of financial assets depends on their classification, as follows:

#### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, do not qualify as trading assets and have not been designated as either fair value through profit and loss or available-for-sale. Such assets are carried at amortised cost using the effective interest method if the time value of money is significant. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

#### Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as such or are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit and loss. After initial recognition, available-for-sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the income statement.

# NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS (...cont'd) Year ended 31 December 2007

## 2 Significant accounting policies (...cont'd)

### Fair values

The fair value of quoted investments is determined by reference to bid prices at the close of business on the balance sheet date. Where there is no active market, fair value is determined using valuation techniques. These include: using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; discounted cash flow analysis and pricing models. Otherwise assets will be carried at cost.

### Impairment of financial assets

The Company assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

### Assets carried at amortised cost

If there is objective evidence that an impairment loss on assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced, through the use of an allowance account. The amount of the loss shall be recognised in administration costs.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date. In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Company will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are derecognised when they are assessed as irrecoverable.

### Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

### Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its fair value is transferred from equity to the income statement. Reversals of impairment losses on debt instruments are reversed through the income statement; if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in profit or loss. Reversals in respect of equity instruments classified as available-for-sale are not recognised in the income statement.

### Derecognition of financial assets and liabilities

A financial asset or liability is generally derecognised when the contract that gives rise to it is settled, sold, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, such that the difference in the respective carrying amounts together with any costs or fees incurred are recognised in profit or loss.

### (n) Dividends distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

### 3 Administrative expenses

	Year ended 31 December 2007 US\$000	Period ended 31 December 2006 US\$000
Professional fees	4,383	103
Directors' fees	1,775	264
Legal fees	1,204	–
Audit fees	1,164	873
Personnel expenses	1,185	–
Taxes and contributions	178	27
Travel expenses	994	–
Lease rentals	508	37
Tax advisory fees	290	125
Depreciation	24	–
Training expenses	6	194
Insurance	232	33
Other	760	73
<b>Total</b>	<b>12,703</b>	1,729

### 4 Personnel expenses

	Year ended 31 December 2007 US\$000	Period ended 31 December 2006 US\$000
Salaries and wages	870	–
Other legal contributions	283	–
Executive Long-Term Incentive Plan <sup>1</sup>	32	–
<b>Total</b>	<b>1,185</b>	–

<sup>1</sup> The plan comprises an amount to be paid in cash to participants depending on the achievement of the three year performance measures during the performance period which ends on 31 December 2009. The cash award will be held for an additional period and delivered 50% on 31 December 2010 and the remaining 50% on 31 December 2011, accumulating notional interest at the prevailing inter-bank interest rate. Only employees who remain in the Company until this date will have right of the benefit, with some exemptions that have to be approved by the Remuneration Committee of the Board. As at 31 December 2007, the provision of US\$32,000 represents the discounted values of the estimated cost of the long-term employee benefit. The present value of the provision has been appropriately discounted.

The average number of employees for 2007 and 2006 were 11 and 1, respectively.

# NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS (...cont'd)

Year ended 31 December 2007

## 5 Finance income and finance costs

	Year ended 31 December 2007 US\$000	Period ended 31 December 2006 US\$000
<b>Finance income:</b>		
Interest received on liquidity funds	16,860	3,671
Interest on loans to related parties (note 15)	280	42
Interest received on short-term deposits	22	–
Interest received on current account	15	64
<b>Total</b>	<b>17,177</b>	<b>3,777</b>
<b>Finance costs:</b>		
Interest on loans from related parties (note 15)	(325)	–
Impairment of available-for-sale financial assets	(71)	–
Bank commissions	(21)	(1)
<b>Total</b>	<b>(417)</b>	<b>(1)</b>

Interest income and expense from financial assets and liabilities that are not at fair value through the profit and loss are as follows:

	Year ended 31 December 2007 US\$000	Period ended 31 December 2006 US\$000
Interest income from financial assets that are not at fair value through the profit and loss	17,177	3,777
Interest expense from financial liabilities that are not at fair value through the profit and loss	(325)	–
	<b>16,852</b>	<b>3,777</b>

## 6 Income tax expense

	Year ended 31 December 2007 US\$000	Period ended 31 December 2006 US\$000
Current tax charge	1,351	783
Deferred tax credit	(21)	–
Withholding taxes	42	6
<b>Total</b>	<b>1,372</b>	<b>789</b>

The statutory income tax rate in the United Kingdom is 30% for 2007 and 2006. The tax on the Company's profit before tax differs from the theoretical amount that would arise using the statutory tax rate as follows:

	Year ended 31 December 2007 US\$000	Period ended 31 December 2006 US\$000
Profit before tax	4,289	2,600
At statutory income tax rate (30%)	1,287	780
Expenses not deductible for tax purposes	96	5
Other	(11)	4
<b>Total taxation charge in the income statement</b>	<b>1,372</b>	<b>789</b>



## 7 Property, plant and equipment

	Office equipment US\$000	Total US\$000
<b>Period ended 31 December 2006</b>		
<b>Cost</b>		
Incorporation date	–	–
Additions	4	4
At 31 December 2006	4	4
Net book amount at 31 December 2006	4	4
<b>Year ended 31 December 2007</b>		
<b>Cost</b>		
At 1 January 2007	4	4
Additions	105	105
At 31 December 2007	109	109
<b>Accumulated depreciation</b>		
At 1 January 2007	–	–
Depreciation	24	24
At 31 December 2007	24	24
Net book amount at 31 December 2007	85	85

## 8 Investments in subsidiaries

	As at 31 December	
	2007 US\$000	2006 US\$000
<b>Beginning balance</b>	<b>1,608,452</b>	–
Additions	1,733,239	1,608,452
Disposals	(1,606,860)	–
<b>Ending balance</b>	<b>1,734,831</b>	1,608,452

The breakdown of the investments in subsidiaries is as follows:

Name	As at 31 December 2007			As at 31 December 2006		
	Country of incorporation	Equity interest %	Carrying value US\$000	Country of incorporation	Carrying value %	Equity interest US\$000
Hochschild Mining Holdings Limited	United Kingdom	100	1,734,831	United Kingdom	100	45,618
Hochschild Mining (Mexico) Corporation (formerly Port Chester Ltd.)	Cayman Islands	–	–	Cayman Islands	100	575,752
Hochschild Mining (Argentina) Corporation S.A. (formerly Hochschild Mining (Argentina) Corporation) <sup>1</sup>	Argentina	–	–	Cayman Islands	100	253,756
Hochschild Mining (Peru) S.A. (formerly Hochschild Mining (Peru) Corporation) <sup>1</sup>	Peru	–	–	Cayman Islands	100	447,125
Ardsley S.A. (formerly Ardsley Corporation) <sup>1</sup>	Peru	–	–	Cayman Islands	100	247,337
Garrison S.A. (formerly Garrison Corporation) <sup>1</sup>	Peru	–	–	Cayman Islands	100	1
Larchmont S.A. (formerly Larchmont Corporation) <sup>1</sup>	Peru	–	–	Cayman Islands	100	38,863
<b>Total</b>			1,734,831			1,608,452

<sup>1</sup> These subsidiaries were previously domiciled in Cayman Islands. In 2007, the place of domicile of these subsidiaries was transferred to Peru and Argentina.

## NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS (...cont'd) Year ended 31 December 2007

### 8 Investments in subsidiaries (...cont'd)

On 2 November 2006, the Company entered into a Share Exchange Agreement to acquire the above companies (together referred to as the 'Cayman Holding Companies').

In relation to this transaction, the Company issued 229,900,000 ordinary shares with a nominal value of 50p and a fair value of £3.50 to the former shareholders of the Cayman Holding Companies in exchange for the share capital on these companies.

The list of subsidiaries of the Group is presented in note 1 (Corporate information) of the notes to the Group's financial statements.

In May 2007, the Company purchased 433,246,926 issued shares of £1.00 each of Hochschild Mining Holdings Limited ('HM Holdings') and paid for such shares by transferring the 100% of the issued and outstanding shares of Hochschild Mining (Argentina) and Hochschild Mining (Mexico) to HM Holdings at a cost of US\$261,276,000 and US\$584,422,000, respectively.

In December 2007, the Company purchased 100 issued shares of £1.00 each of HM Holdings and paid for such shares by transferring the 100% of the issued and outstanding shares of the Cayman Holding Companies (Ardsley, Garrison, Larchmont and Hochschild Mining (Peru)) to HM Holdings at a cost of US\$761,162,000.

During 2007, the Company subscribed 33,315,351 shares of £1.00 each in HM Holdings through capital contributions paid in cash of US\$82,353,000.

### 9 Available-for-sale financial assets

	Year ended 31 December	
	2007 US\$000	2006 US\$000
<b>Beginning balance</b>	–	–
Additions	451	–
Impairment recorded in the income statement	(71)	–
<b>Ending balance</b>	<b>380</b>	–

On 4 May 2007, the Company purchased 500,000 shares in Mirasol Resources Ltd and paid CAD\$500,000 (approximately US\$451,000). The fair value of the listed shares is determined by reference to published price quotations in the active market. Together with the purchase of shares, the Company obtained 500,000 warrants. At 31 December 2007, the expiry date of the warrants is 31 May 2009. Warrants are fair valued using the Black-Scholes option pricing method and the balance at 31 December 2007 was nil.

At 31 December 2007, the investment in Mirasol Resources Ltd. was impaired. The impairment of US\$71,000 was transferred from equity and recorded under 'Finance costs'.

### 10 Other receivables

	Year ended 31 December	
	2007 US\$000	2006 US\$000
Amounts receivable from subsidiaries (note 15)	1,886	7,536
Prepayments	664	616
Accrued income	1,122	2,121
Other debtors	83	71
<b>Total</b>	<b>3,755</b>	10,344

## 10 Other receivables (...cont'd)

The fair values of other receivables approximate their book value.

As at 31 December, the ageing analysis of other receivables is as follows:

Year	Neither past due nor impaired US\$000	More than 30 days US\$000	30 to 60 days US\$000	Over 60 days US\$000	Total US\$000
2007	3,755	–	–	–	3,755
2006	10,344	–	–	–	10,344

## 11 Cash and cash equivalents

	As at 31 December	
	2007 US\$000	2006 US\$000
Bank current account	352	6,817
Liquidity funds <sup>1</sup>	284,684	414,527
<b>Cash and cash equivalents considered for the cash flow statement</b>	<b>285,036</b>	<b>421,344</b>

<sup>1</sup> The liquidity funds are mainly invested in certificate of deposits, commercial papers and floating rate notes with weighted average annual effective interest rate of 5.09% and a weighted average maturity of 34 days as at 31 December 2007 (2006: 5.16% and 43 days) (refer to note 17(d)).

## 12 Equity

### (a) Share capital and share premium

#### Authorised and issued share capital

The authorised and issued share capital of the Company as at 31 December 2007 and 2006 is as follows:

Class of shares	Authorised		Issued	
	Number	Amount	Number	Amount
Ordinary shares	500,000,000	£125,000,000	307,350,226	£76,837,557

At 31 December 2007 and 2006, all issued shares with a par value of 25p (weighted average of US\$0.476 per share) each are fully paid.

#### Rights attached to Ordinary Shares

At general meetings of the Company, on a show of hands, every member who is present in person has one vote and on a poll every member who is present in person or by proxy has one vote for every share of which he is the holder.

# NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS (...cont'd)

Year ended 31 December 2007

## 12 Equity (...cont'd)

The changes in share capital are as follows:

	Number of shares	Equity share capital US\$000	Share premium US\$000
<b>Ordinary shares of £1 each issued and fully paid</b>			
Shares issued to the initial shareholder	1	–	–
Shares issued on 16 October 2006	49,999	93	–
Shares issued as at 16 October 2006	50,000	93	–
Share capital following the capital split:			
<b>Ordinary shares of 50p each issued</b>			
Shares in issue at 16 October 2006	100,000	93	–
Shares issued and paid pursuant to the Share Exchange Agreement dated 2 November 2006	229,900,000	219,233	–
Shares issued to employees on 11 November 2006	71,656	68	409
Shares issued and paid by Non-Executive Directors on 11 November 2006	28,570	27	163
Shares issued and paid pursuant to the global offer dated 11 November 2006	77,250,000	73,511	441,067
Transaction costs associated with issue of shares	–	–	(25,448)
Capital reduction from 0.50p each to 0.25p each	–	(146,466)	–
Shares issued as at 31 December 2006	307,350,226	146,466	416,191
Transaction costs associated with issue of shares <sup>1</sup>	–	–	(37)
Shares issued as at 31 December 2007	307,350,226	146,466	416,154

<sup>1</sup> Corresponds to the underaccrual of transaction costs relating to the Company's Listing.

## (b) Other reserves

### Merger Reserve

The merger reserve represents the difference between the value of the net assets of Cayman Companies acquired under the Share Exchange Agreement and the nominal value of the shares issued in consideration of such acquisition.

## 13 Trade and other payables

	As at 31 December	
	2007 US\$000	2006 US\$000
Trade payables	241	5,413
Loan from subsidiaries (note 15)	1,914	6,606
Professional fees	221	89
Boards' member remuneration	320	–
Remunerations payable	116	–
Audit fees	236	873
Taxes and contributions	98	44
<b>Total</b>	<b>3,146</b>	<b>13,025</b>

Trade payables mainly relate to the purchase of third-party services. These payables do not accrue interest and no guarantees have been granted. The fair value of trade and other payables approximate to their book values.

Trade payables are denominated in the following currencies:

	2007 US\$000	2006 US\$000
Pound sterling	192	5,413
US dollar	49	–
<b>Total</b>	<b>241</b>	<b>5,413</b>

#### 14 Deferred income tax

The changes in the net deferred income tax assets are as follows:

	2007 US\$000	2006 US\$000
Beginning of the year/period	–	–
Income statement credit	21	–
End of the year/period	21	–

The 2007 amount relates to deferred income tax from impairment of available-for-sale financial assets (refer to notes 5 and 9).

#### 15 Related-party balances and transactions

##### (a) Related-party accounts receivable and payable

The Company had the following related-party balances and transactions during the year ended 31 December 2007 and the period ended 31 December 2006.

	As at 31 December 2007		As at 31 December 2006	
	Accounts receivable US\$000	Accounts payable US\$000	Accounts receivable US\$000	Accounts payable US\$000
<b>Subsidiaries</b>				
Minera Hochschild Mexico, S.A. de C.V.	–	–	7,035	–
Compañía Minera Ares S.A.C.	–	1,908	–	–
Minera Hochschild Chile, S.C.M. (formerly Minera MH Chile Ltda.)	1,886	–	501	–
Larchmont S.A. (formerly Larchmont Corporation)	–	1	–	1
Hochschild Mining (Argentina) S.A. (formerly Hochschild Mining (Argentina) Corporation)	–	1	–	1
Hochschild Mining (Mexico) Corporation	–	1	–	1
Ardsley S.A. (formerly Ardsley Corporation)	–	1	–	1
Garrison S.A. (formerly Garrison Corporation)	–	1	–	1
Hochschild Mining (Peru) S.A. (formerly Hochschild Mining (Peru) Corporation)	–	1	–	6,601
<b>Total</b>	<b>1,886</b>	<b>1,914</b>	7,536	6,606

Accounts receivable mainly corresponds to loans given to subsidiaries to acquire assets and support their exploration activities. In 2007 the loans given to Minera Hochschild Chile bears no interest (2006: interest at an annual rate of 8.85% recognising a finance income of US\$1,000) and the loan given to Minera Hochschild Mexico of US\$7,000,000 bore interest at an annual rate of 14.95% recognising a finance income of US\$280,000 which was collected during the year (2006: US\$41,000) (refer to note 17(d)).

In addition, the Company accrued and paid interests of US\$325,000 to HM Holdings in respect of an account payable which was settled at the year end.

The fair values of the receivables and payables approximate their book value.

Transactions between the Company and these companies are on an arm's length basis.

##### (b) Compensation of key management personnel of the Company

Key management personnel includes the Directors who receive remuneration. The amount of this remuneration was US\$1,775,000 (2006: US\$264,000).

# NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS (...cont'd)

## Year ended 31 December 2007

### 16 Dividends paid and proposed

	Amount US\$000
<b>Year ended 31 December 2006</b>	
Total dividends declared after year end and not provided for <sup>1</sup>	2,275
<b>Year ended 31 December 2007</b>	
Total dividends paid or provided for during the year	8,448
Total dividends declared after year end and not provided for	22,184

<sup>1</sup> Corresponds to dividends declared after 31 December 2006 to Pelham Investment Corporation, Navajo Overseas Corporation and public shareholders.

#### Dividends per share

The dividends declared in 2007 were US\$6,173,000 (US\$0.0201 per share). A final dividend in respect of the year ended 31 December 2007 of US\$0.072 per share, amounting to US\$22,184,667 is to be proposed at the AGM on 9 May 2008. These financial statements do not reflect this dividend payable.

### 17 Financial risk management

The Company is exposed to a variety of risks and uncertainties which may have an impact on the achievement of financial and economic objectives. These risks include strategic, operational and financial risk and are further categorised into risks areas to facilitate risk reporting across the Company.

#### (a) Foreign currency risk

A proportion of the Company's costs are incurred in pounds sterling. Accordingly, the Company's financial results may be affected by exchange rate fluctuations between the US dollar and pounds sterling. The Company does not use derivative instruments to manage its foreign currency risks. The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate, with all other variables held constant, of the Company's profit before tax and the Company's equity.

Year	Increase/ decrease in US\$ rate	Effect on profit before tax
2007	+/-10%	+/-42
2006	+/-10%	-/+1,632

#### (b) Credit risk

Credit risk arises from debtors' inability to make payment of their obligations to the Company as they become due (without taking into account the fair value of any guarantee or pledged assets); and by non-compliance by the counterparties in transactions in cash, which is limited to balances deposited in banks and accounts receivable at the balance sheets date. To manage this risk, the Company deposits its surplus funds in highly-rated financial institutions, performs frequent credit checks on counterparties and constantly evaluates the conditions of the market in which it conducts its activities. Consequently, the Company does not expect to incur significant losses on account of credit risk.

Credit risk concentrations exist when changes in economic, industrial or geographic factors take place, affecting in the same manner the Company's counterparties whose added risk exposure is significant to the Company's total credit exposure. Receivable balances are monitored on an ongoing basis with the result that the Company's exposure to bad debts is not significant. The maximum exposure is the carrying amount as disclosed in note 10.

## 17 Financial risk management (...cont'd)

### (c) Liquidity risk

Liquidity risk arises from the Company's inability to obtain the funds it requires to comply with its commitments including the inability to sell a financial asset quickly enough and at a price close to its fair value. Management constantly monitors the Company's level of short- and medium-term liquidity and their access to credit lines on reasonable terms in order to ensure appropriate financing is available for its operations.

The table below analyses the Company's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date:

	Less than 1 year US\$000	Between 1 and 2 years US\$000	Between 2 and 5 years US\$000	Over 5 years US\$000	Total US\$000
<b>At 31 December 2007</b>					
Trade and other payables (refer to note 13)	3,146	–	–	–	3,146
<b>At 31 December 2006</b>					
Trade and other payables (refer to note 13)	13,025	–	–	–	13,025

### (d) Interest rate risk

The Company has financial assets which are exposed to interest rate risk. Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). The Company does not have a formal policy of determining how much of its exposure should be at fixed or at variable rates. However, at the time of taking new loans or borrowings management uses its judgement to decide whether it believes that a fixed or variable rate borrowing would be more favourable to the Company over the expected period until maturity.

	As at 31 December 2007				
	Within 1 year US\$000	Between 1 and 2 years US\$000	Between 2 and 5 years US\$000	Over 5 years US\$000	Total US\$000
<b>Fixed rate</b>					
Bank current account (refer to note 11)	352	–	–	–	352
<b>Floating rate</b>					
Liquidity funds (refer to note 11)	284,684	–	–	–	284,684
	As at 31 December 2006				
	Within 1 year US\$000	Between 1 and 2 years US\$000	Between 2 and 5 years US\$000	Over 5 years US\$000	Total US\$000
<b>Fixed rate</b>					
Bank current account (refer to note 11)	6,817	–	–	–	6,817
Amounts receivable from subsidiaries (refer to note 10)	7,536	–	–	–	7,536
<b>Floating rate</b>					
Liquidity funds (refer to note 11)	414,527	–	–	–	414,527



# NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS (...cont'd)

Year ended 31 December 2007

## 17 Financial risk management (...cont'd)

Interest on financial instruments classified as floating rate is re-priced at intervals of less than one year. Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument. The other financial instruments of the Company that are not included in the above tables are non-interest bearing and are therefore not subject to interest rate risk.

The table below demonstrates the sensitivity to a reasonably possible change in the interest rate with all other variables held constant, of the financial instruments with a floating rate. This assumes that the amount remains unchanged from that in place at 31 December 2007 and 2006 and that the change in interest rates is effective from the beginning of the year. In reality, the floating rate will fluctuate over the year and interest rates will change accordingly.

Year	Increase/ decrease in US\$ rate	Effect on profit before tax
2007	+/-50 bps	+/-1,430
2006	+/-50 bps	+/-2,072

## (e) Capital risk management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. Management considers as part of its capital, the financial sources of funding from shareholders and third parties. In order to ensure an appropriate return for shareholders' capital invested in the Company, management monitors capital thoroughly and evaluates all material projects and potential acquisitions and approves them at its Executive Committee before submission to the Board for ultimate approval, where applicable.

## 18 Subsequent events

- On 28 January 2008 ('Execution Date'), the Company signed a Secured Term Loan Facility with a syndicate of lenders with JP Morgan Chase Bank N.A. acting as the Administrative Agent. Under the arrangements, the Group has a total secured term loan facility up to US\$200 million with an effective interest rate of LIBOR + 1% and a maturity date of five years beginning on the Execution Date. The loans may be incurred in up to five draw-downs available during 180 days since the Execution Date and the Group has the option to increase the facility by US\$150 million before the fifth anniversary of the Execution Date.

In relation to this Secured Term Loan Facility, the Group has granted a first-priority perfected security interest over all of the equity share capital, free and clear of any liens, of Compañía Minera Ares S.A.C.

- On 27 March 2008, the Remuneration Committee agreed to revise the Group's long-term incentive arrangements and to extend participation, subject to shareholder approval at the forthcoming AGM, to the Executive Directors.

## RESERVES AND RESOURCES

## Ore reserves and mineral resources estimates

Hochschild Mining plc reports its mineral resources and reserves estimates in accordance with the *Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves 2004 edition* ('the JORC Code'). This establishes minimum standards, recommendations and guidelines for the public reporting of exploration results and mineral resources and reserves estimates. In doing so it emphasises the importance of principles of transparency, materiality and confidence. The information on ore reserves and mineral resources on pages 127 to 130 were prepared by or under the supervision of Competent Persons (as defined in the JORC Code). Competent Persons are required to have sufficient relevant experience and understanding of the style of mineralisation, types of deposits and mining methods in the area of activity for which they are qualified as a Competent Person under the JORC Code. The Competent Person must sign off their respective estimates of the original mineral resource and ore reserve statements for the various operations and consent to the inclusion of that information in this report, as well as the form and context in which it appears.

Hochschild Mining plc employs its own Competent Person who has audited all the estimates set out in this report. Hochschild Mining Group companies are subject to a comprehensive programme of audits which aim to provide assurance in respect of ore reserve and mineral resource estimates. These audits are conducted by Competent Persons provided by independent consultants. The frequency and depth of an audit depends on the risks and/or uncertainties associated with that particular ore reserve and mineral resource, the overall value thereof and the time that has lapsed since the previous independent third party audit.

The JORC Code requires the use of reasonable economic assumptions. These include long-term commodity price forecasts (which, in the Group's case, are prepared by ex-house specialists largely using estimates of future supply and demand and long-term economic outlooks). Ore reserve estimates are dynamic and are influenced by changing economic conditions, technical issues, environmental regulations and any other relevant new information and therefore these can vary from year to year. Mineral resource estimates can also change and tend to be influenced mostly by new information pertaining to the understanding of the deposit and secondly the conversion to ore reserves.

The estimates of ore reserves and mineral resources are shown as at 31 December 2007, unless otherwise stated. Mineral resources that are reported include those mineral resources that have been modified to produce ore reserves. All tonnage and grade information has been rounded to reflect the relative uncertainty in the estimates; there may therefore be small differences. The prices used for the reserves calculation were: Au Price: US\$600 per ounce and Ag Price: US\$10.50 per ounce.

Table 01 – Attributable metal reserves at 31 December 2007 (Audited by IMC)

Operation	Reserve category	Proved	Probable	Proved and probable	Ag	Au	Ag	Au
		(t)	(t)	(t)	(g/t)	(g/t)	(moz)	(koz)
Arcata 100%	Proved	1,283,099			449	1.17	18.5	48.3
	Probable		555,353		538	1.23	9.6	22.0
	Total			1,838,452	476	1.19	28.1	70.3
Ares 100%	Proved	560,318			205	6.15	3.7	110.8
	Probable		283,828		140	5.52	1.3	50.4
	Total			844,146	183	5.94	5.0	161.2
Selene 100%	Proved	611,153			250	1.68	4.9	33.0
	Probable		197,774		327	1.67	2.1	10.6
	Total			808,926	269	1.68	7.0	43.7
Pallancata 60%	Proved	1,543,537			279	1.22	13.8	60.5
	Probable		584,225		315	1.31	5.9	24.6
	Total			2,127,763	289	1.24	19.8	84.8
San José 51%	Proved	410,556			418	5.59	5.5	73.8
	Probable		963,971		396	6.19	12.3	191.8
	Total			1,374,527	403	6.01	17.8	265.6
Moris 70%	Proved	1,658,663			4.7	1.51	0.3	80.7
	Probable		115,018		5.3	1.37	0.0	5.1
	Total			1,773,681	4.8	1.50	0.3	85.8
<b>Total</b>	<b>Proved</b>	<b>6,067,326</b>			<b>240</b>	<b>2.09</b>	<b>46.7</b>	<b>407.1</b>
Mines and Projects	<b>Probable</b>		<b>2,700,170</b>		<b>359</b>	<b>3.51</b>	<b>31.2</b>	<b>304.5</b>
	<b>Total</b>			<b>8,767,495</b>	<b>277</b>	<b>2.52</b>	<b>77.9</b>	<b>711.4</b>

Note: Includes discounts for ore loss and dilution. Reserves = Resources – Ore Loss + Dilution. Where reserves are attributable to joint venture partner, reserve figures reflect the Company's ownership only.

## RESERVES AND RESOURCES (...cont'd)

Table 02 – Metal resources at 31 December 2007 (Audited by IMC)

Resource category	Measured	Indicated	Measured and indicated	Inferred	Ag	Au	Ag	Au	Zn	Pb	Cu
	(t)	(t)	(t)	(t)	(g/t)	(g/t)	(moz)	(koz)	(kt)	(kt)	(kt)
<b>Arcata</b>											
Measured	1,193,648				521	1.36	20.0	52.2	–	–	–
Indicated		511,258			630	1.44	10.4	23.7	–	–	–
Total			1,704,905		554	1.38	30.4	75.6	–	–	–
Inferred				1,873,220	501	1.44	30.2	86.7	–	–	–
<b>Ares</b>											
Measured	581,496				214	6.37	4.0	119.1	–	–	–
Indicated		286,511			149	5.86	1.4	54.0	–	–	–
Total			868,006		192	6.20	5.4	173.0	–	–	–
Inferred				93,193	179	3.01	0.5	9.0	–	–	–
<b>Selene</b>											
Measured	607,662				269	1.79	5.3	35.0	–	–	–
Indicated		204,728			340	1.74	2.2	11.5	–	–	–
Total			812,391		287	1.78	7.5	46.5	–	–	–
Inferred				979,451	202	0.98	6.4	30.9	–	–	–
<b>Pallancata</b>											
Measured	1,385,395				321	1.40	14.3	62.4	–	–	–
Indicated		543,097			394	1.60	6.9	27.9	–	–	–
Total			1,928,492		342	1.46	21.2	90.5	–	–	–
Inferred				1,292,442	479	1.35	19.9	56.1	–	–	–
<b>San José</b>											
Measured	408,835				467	8.45	6.1	111.1	–	–	–
Indicated		860,854			505	6.92	14.0	191.5	–	–	–
Total			1,269,689		493	7.41	20.1	302.5	–	–	–
Inferred				320,735	395	5.81	4.1	59.9	–	–	–
<b>Moris</b>											
Measured	2,276,681				4.6	1.34	0.3	98.3	–	–	–
Indicated		145,381			5.0	1.22	0.0	5.7	–	–	–
Total			2,422,062		4.6	1.34	0.4	104.0	–	–	–
Inferred				20,133	3.6	0.84	0.0	0.5	–	–	–
<b>San Felipe</b>											
Measured	1,149,902				72	10.98 <sup>1</sup>	2.7	0.7	85.3	36.1	4.8
Indicated		476,135			68	10.80 <sup>1</sup>	1.0	0.3	33.7	15.8	2.0
Total			1,626,037		71	10.93 <sup>1</sup>	3.7	0.9	119.0	51.9	6.7
Inferred				282,072	49	9.50 <sup>1</sup>	0.4	0.1	17.6	8.4	0.8
<b>Total</b>											
Measured	<b>7,603,619</b>				<b>216</b>	<b>1.96</b>	<b>52.7</b>	<b>478.6</b>	<b>85.3</b>	<b>36.1</b>	<b>4.8</b>
Indicated		<b>3,027,964</b>			<b>369</b>	<b>3.23</b>	<b>33.5</b>	<b>314.6</b>	<b>33.7</b>	<b>15.8</b>	<b>2.0</b>
Total			<b>10,631,583</b>		<b>259</b>	<b>2.32</b>	<b>88.6</b>	<b>793.1</b>	<b>119.0</b>	<b>51.9</b>	<b>6.7</b>
Inferred				<b>4,861,246</b>	<b>393</b>	<b>1.56</b>	<b>61.5</b>	<b>243.3</b>	<b>17.6</b>	<b>8.4</b>	<b>0.8</b>

<sup>1</sup> A combined metal content of 7.16% zinc, 3.1% lead and 0.39% copper which are not included in totals and these metals represent 15.2 million ounces of equivalent silver.

Note: Resources include undiscounted reserves, where reserves are attributable to JV partner, reserve figures reflect the Company's ownership only, no ore loss or dilution has been included, and stockpiled ore excluded.

Table 03 – Change in reserves and resources from December 2006 to December 2007

Operation	Category	December 2006	Ag eq. content (million ounces)		December 2007	Net difference	%
			Depletion <sup>1</sup>	Addition			
<b>Peru</b>							
Arcata	Resource	60.6		9.7	70.3	9.7	16
	Reserve	20.4	-8.6	20.6	32.4	12.0	59
Ares	Resource	24.9		-8.0	16.8	-8.0	-32
	Reserve	22.3	-12.4	4.7	14.6	-7.7	-34
Selene	Resource	25.2		-6.7	18.5	-6.7	-26
	Reserve	12.3	-5.5	2.9	9.6	-2.7	-22
Pallancata	Resource	49.2		33.9	83.2	33.9	69
	Reserve	23.8	-1.0	18.6	41.4	17.6	74
<b>Peru totals</b>	<b>Resource</b>	<b>159.8</b>		<b>28.9</b>	<b>188.8</b>	<b>28.9</b>	<b>18</b>
	<b>Reserve</b>	<b>78.8</b>	<b>-27.6</b>	<b>46.8</b>	<b>98.0</b>	<b>19.2</b>	<b>24</b>
<b>Argentina</b>							
San José	Resource	70.4		19.7	90.1	19.7	28
	Reserve	55.6	-2.9	13.5	66.2	10.6	19
<b>Argentina total</b>	<b>Resource</b>	<b>70.4</b>		<b>19.7</b>	<b>90.1</b>	<b>19.7</b>	<b>28</b>
	<b>Reserve</b>	<b>55.6</b>	<b>-2.9</b>	<b>13.5</b>	<b>66.2</b>	<b>10.6</b>	<b>19</b>
<b>Mexico</b>							
Moris	Resource	12.3		-2.8	9.5	-2.8	-23
	Reserve	8.9	-1.1	0.0	7.7	-1.2	-13
San Felipe	Resource	25.0		2.6	27.6	2.6	11
	Reserve	0.0	0.0	0.0	0.0	0.0	0
<b>Mexico totals</b>	<b>Resource</b>	<b>37.3</b>		<b>-0.2</b>	<b>37.1</b>	<b>-0.2</b>	<b>-1</b>
	<b>Reserve</b>	<b>8.9</b>	<b>-1.1</b>	<b>0.0</b>	<b>7.7</b>	<b>-1.2</b>	<b>-13</b>
<b>Totals</b>	<b>Resource</b>	<b>267.5</b>		<b>48.4</b>	<b>316.0</b>	<b>48.4</b>	<b>18</b>
	<b>Reserve</b>	<b>143.3</b>	<b>-31.6</b>	<b>60.2</b>	<b>172.0</b>	<b>28.7</b>	<b>20</b>

<sup>1</sup> Depletion: reduction in reserves based on ore delivered to the mine plant.

## RESERVES AND RESOURCES (...cont'd)

Table 04 – Change in attributable reserves and resources from December 2006 to December 2007

Operation	Category	% attributable	Ag eq. content (million ounces)		Net difference	% change
			December 2006 Att. <sup>1</sup>	December 2007 Att. <sup>1</sup>		
<b>Peru</b>						
Arcata	Resource	100	60.6	70.3	9.7	16
	Reserve		20.4	32.4	12.0	59
Ares	Resource	100	24.9	16.8	-8.0	-32
	Reserve		22.3	14.6	-7.7	-34
Selene	Resource	100	25.2	18.5	-6.7	-26
	Reserve		12.3	9.6	-2.7	-22
Pallancata	Resource	60	29.5	49.9	20.4	69
	Reserve		14.3	24.9	10.6	74
<b>Peru totals</b>	<b>Resource</b>		<b>140.2</b>	<b>155.5</b>	<b>15.4</b>	<b>11</b>
	<b>Reserve</b>		<b>69.3</b>	<b>81.5</b>	<b>12.2</b>	<b>18</b>
<b>Argentina</b>						
San José	Resource	51	35.9	45.9	10.0	28
	Reserve		28.3	33.7	5.4	19
<b>Argentina totals</b>	<b>Resource</b>		<b>35.9</b>	<b>45.9</b>	<b>10.0</b>	<b>28</b>
	<b>Reserve</b>		<b>28.3</b>	<b>33.7</b>	<b>5.4</b>	<b>19</b>
<b>Mexico</b>						
Moris	Resource	70	8.6	6.6	-2.0	-23
	Reserve		6.2	5.4	-0.8	-13
San Felipe	Resource	70	17.5	19.3	1.8	11
	Reserve		0.0	0.0	0.0	0
<b>Mexico totals</b>	<b>Resource</b>		<b>26.1</b>	<b>26.0</b>	<b>-0.1</b>	<b>-1</b>
	<b>Reserve</b>		<b>6.2</b>	<b>5.4</b>	<b>-0.8</b>	<b>-13</b>
<b>Totals</b>	<b>Resource</b>		<b>202.2</b>	<b>227.4</b>	<b>25.3</b>	<b>12</b>
	<b>Reserve</b>		<b>103.9</b>	<b>120.6</b>	<b>16.8</b>	<b>16</b>

<sup>1</sup> Attributable reserves and resources based on the Group's percentage ownership at its joint venture projects.

# PRODUCTION

## Total<sup>1</sup>

### Silver Production

	koz
2007	14,343
2006	11,604
2005	10,550
2004	10,657

### Gold Production

	koz
2007	211
2006	196
2005	233
2004	227

<sup>1</sup> Includes total production from San José, Moris and Pallancata which commenced part way through the year.

## Arcata

### Silver Production

	koz
2007	6,553
2006	4,754
2005	4,271
2004	5,004

### Gold Production

	koz
2007	16.5
2006	11.9
2005	7.2
2004	5.2

## Ares

### Silver Production

	koz
2007	2,701
2006	2,688
2005	2,944
2004	2,742

### Gold Production

	koz
2007	150.0
2006	155.5
2005	198.6
2004	193.2

## Selene

### Silver Production

	koz
2007	3,414
2006	4,162
2005	3,335
2004	2,911

### Gold Production

	koz
2007	21.6
2006	28.3
2005	27.5
2004	28.1

## PRODUCTION (...cont'd)

### TOTAL PRODUCTION<sup>1</sup>

	Year ended 31 December 2007	Year ended 31 December 2006	% change
Silver production (Koz)	14,343	11,604	24%
Gold production (Koz)	211.36	195.73	8%
Total silver equivalent (Koz)	27,025	23,348	16%
Total gold equivalent (Koz)	450.41	389.13	16%
Silver sold (Koz)	13,717	10,403	32%
Gold sold (Koz)	202.10	189.56	7%

<sup>1</sup> Total production includes 100% of all production, including production attributable to joint venture partners at Moris, San José and Pallancata.

#### Arcata (total)

	Year ended 31 December 2007	Year ended 31 December 2006	% change
Ore production (tonnes)	415,400	313,688	32%
Average head grade silver (g/t)	560.04	536.62	4%
Average head grade gold (g/t)	1.43	1.39	3%
Concentrate produced (tonnes)	16,665	12,407	34%
Silver grade in concentrate (kg/t)	12.12	11.90	2%
Gold grade in concentrate (kg/t)	0.03	0.03	2%
Silver produced (oz)	6,553	4,754	38%
Gold produced (oz)	16.47	11.89	39%
Silver sold (oz)	6,544	4,046	62%
Gold sold (oz)	15.50	9.78	58%

#### Ares (total):

	Year ended 31 December 2007	Year ended 31 December 2006	% change
Ore production (tonnes)	333,800	289,138	15%
Average head grade silver (g/t)	279.25	310.61	(10%)
Average head grade gold (g/t)	14.57	17.37	(16%)
Doré produced total (Koz)	2,593	2,850	(9%)
Silver produced (koz)	2,701	2,688	0%
Gold produced (koz)	149.98	155.50	(4%)
Net silver sold (koz)	2,880	2,651	9%
Net gold sold (koz)	157.77	152.85	3%

#### Selene (total):

	Year ended 31 December 2007	Year ended 31 December 2006	% change
Ore production (tonnes)	413,622	359,686	15%
Average head grade silver (g/t)	295.78	397.76	(26%)
Average head grade gold (g/t)	2.01	2.85	(29%)
Concentrate produced (tonnes)	4,010	3,842	4%
Silver grade in concentrate (kg/t)	26.83	33.70	(20%)
Gold grade in concentrate (kg/t)	0.17	0.23	(28%)
Silver produced (koz)	3,414	4,162	(18%)
Gold produced (koz)	21.62	28.34	(24%)
Net silver sold (koz)	3,644	3,705	(2%)
Net gold sold (koz)	22.03	26.93	(18%)



**Pallancata (total):**

Year ended 31 December 2007

Ore production (tonnes)	78,335
Average head grade silver (g/t)	310.02
Average head grade gold (g/t)	1.50
Concentrate produced (tonnes)	638
Silver grade in concentrate (kg/t)	34.28
Gold grade in concentrate (kg/t)	0.13
Silver produced (koz)	704
Gold produced (koz)	2.76
Net silver sold (koz)	550
Net gold sold (koz)	2.03

**San José (total):**

Year ended 31 December 2007

Ore production (tonnes)	92,974
Average head grade silver (g/t)	538.39
Average head grade gold (g/t)	7.08
Silver produced (koz)	958
Gold produced (koz)	14.95
Net silver sold (koz) <sup>1</sup>	92
Net gold sold (koz) <sup>1</sup>	1.49

<sup>1</sup> Total ounces of gold and silver sold include 0.86 koz and 42 koz respectively, that were produced during the construction phase of the plant and hence the corresponding revenue has been recorded as a reduction to the capitalised cost of the plant

**Moris (total):**

Year ended 31 December 2007

Ore production (tonnes)	338,304
Average head grade silver (g/t)	4.70
Average head grade gold (g/t)	1.65
Silver produced (koz)	13
Gold produced (koz)	5.58
Net silver sold (koz) <sup>1</sup>	6
Net gold sold (koz) <sup>1</sup>	3.26

<sup>1</sup> Total ounces of gold and silver sold include 2.8 koz and 4.5 koz, respectively, that were produced during the construction phase of the plant and hence corresponding revenue has been recorded as a reduction to the capitalised cost of the plant.

# GLOSSARY

### Adjusted EBITDA

Adjusted EBITDA is calculated as profit from continuing operations before exceptional items, net finance income/(cost), foreign exchange (loss)/gain and income tax plus depreciation, amortisation and exploration costs other than personnel and other expenses

### Ag

Silver

### Annual Report

The annual report of Hochschild Mining plc for the year ended 31 December 2007 and comprising a review of the business for the year, financial statements, compliance reports and shareholder information

### Annual Report 2006

The annual report of Hochschild Mining plc for the year ended 31 December 2006

### Au

Gold

### Average head grade

Average ore grade fed into the mill

### Board

The Board of Directors of the Company

### Combined Code on Corporate Governance or the Code

The Combined Code on Corporate Governance issued by the Financial Reporting Council in June 2006

### Company

Hochschild Mining plc

### Controlling Shareholders

The Major Shareholder, Eduardo Hochschild and Alberto Beeck collectively

### Cu

Copper

### DNV

Det Norske Veritas, a global provider of services for managing risk, established in 1864

### Doré

Doré bullion is an impure alloy of gold and silver and is generally the final product of mining and processing; the doré bullion will be transported to be refined to high purity metal

### EPS (pre-exceptionals)

The per-share (using the weighted average number of shares outstanding for the period) profit available to equity shareholders of the Group from continuing operations before exceptional items and after minority interest

### eq

equivalent

### ETF

Exchange Traded Fund

### Gold by-product cash costs

Defined as total cash costs multiplied by the percentage of revenue from gold, divided by the number of gold ounces sold. Cash costs include cost of sales, commercial deductions and selling expenses less depreciation included in cost of sales. This metric allows us to benchmark ourselves versus our peer group in a consistent manner over time; however, we must consider any revenue contribution shift

### Group

Hochschild Mining plc and its subsidiary undertakings

### g/t

Grammes per metric tonne

### IASB

International Accounting Standards Board

### IFRIC

International Financial Reporting Interpretations Committee

### IFRS

International Financial Reporting Standards

### ISO 14001

An international environmental management system standard published by the International Organisation for Standardisation

### JORC

Joint Ore Reserves Committee

### JORC Code

Code developed by the Australian Joint Ore Reserves Committee for reporting mine reserves and resources

### kg/t

Kilogrammes per metric tonne

### koz

Thousand ounces

### kt

Thousand metric tonnes

### ktpa

Thousand metric tonnes per annum

### Listing or IPO

The global offer of ordinary shares and the associated admission to the Official List and to trading on the London Stock Exchange on 8 November 2006

**LIBOR**

London Inter Bank Offer Rate

**Lost Time Injury or LTI**

An occupational injury or illness that results in days away from work

**Lost time Injury Frequency Rate or LTIFR**

Lost Time Injury Frequency Rate = LTI x 1,000,000/hours worked

**Major Shareholder**

Pelham Investment Corporation

**moz**

Million ounces

**Mt**

Million tonnes

**NW-SE**

North-West to South-East

**OHSAS 18001**

Occupational Health and Safety Assessment Series (standards for occupational health and safety management systems)

**Ordinary Shares**

Ordinary Shares of 25 pence each in the Company

**Pb**

Lead

**Q3 Production Report**

The quarterly production report, released by Hochschild Mining plc on 17 October 2007, in respect of the three months to 30 September 2007

**Q4 Production Report**

The 2007 production report (incorporating the outlook for 2008) released by Hochschild Mining plc on 8 January 2008

**Relationship Agreement**

An agreement between Pelham Investment Corporation, Eduardo Hochschild, Alberto Beeck and the Company dated 20 October 2006.

**Secured Term Loan Facility**

A secured term loan facility for up to \$200 million pursuant to an agreement dated 28 January 2008 between Hochschild Mining plc and various lenders

**Share Exchange Agreement**

An agreement dated 2 November 2006 relating to the acquisition, by the Company, of the Cayman Island resident holding companies

**Silver co-product cash costs**

Defined as total cash costs multiplied by the percentage of revenue from silver, divided by the number of silver ounces sold. Cash costs include cost of sales, commercial deduction and selling expenses, less depreciation included in cost of sales. This metric allows us to benchmark ourselves versus our peer group in a consistent manner over time; however, we must consider any revenue contribution shift

**t**

tonne

**TECSUP**

The leading non-profit technical institute in Peru, substantially funded by Hochschild Mining

**Zn**

Zinc

# SHAREHOLDER INFORMATION

### As at 31 December 2007:

Number of shareholders: 617 (2006: 238)  
 Number of shares in issue: 307,350,226 (2006: 307,350,226)

### By size of holding:

	Shareholders %	Shares %
500 and under	13.45	0.01
501 to 1,000	10.86	0.02
1,001 to 10,000	47.16	0.32
10,001 to 100,000	17.02	1.08
100,001 to 1,000,000	8.43	6.2
Over 1,000,000	3.08	92.37
<b>Total</b>	<b>100.00</b>	<b>100.00</b>

### By category of shareholder:

Description	Shareholders		Shares	
	Number of holders	% of holders	Number of shares	% of capital
Private Shareholders	110	17.83	162,436	0.05
Pension Funds	2	0.32	10,001	0.01
Nominee Companies	475	76.99	297,035,592	96.64
Limited Companies	13	2.11	1,855,243	0.60
Bank & Bank Nominees	11	1.78	8,046,465	2.62
Other Institutions	6	0.97	240,489	0.08
<b>Total</b>	<b>617</b>	<b>100</b>	<b>307,350,226</b>	<b>100</b>

### Annual General Meeting ('AGM')

The AGM will be held at 10am on Friday 9 May 2008 at the offices of Linklaters LLP, One Silk Street, London, United Kingdom, EC2Y 8HQ. The Notice of Meeting and the Form of Proxy are enclosed with this Annual Report.

### Company website

Hochschild Mining plc Interim and Annual Reports and results announcements are available via the internet on our website at [www.hochschildmining.com](http://www.hochschildmining.com). Shareholders can also access the latest information about the Company and press announcements as they are released, together with details of future events and how to obtain further information.

### Registrars

The Registrars can be contacted for information about the AGM, shareholdings, dividends and to report changes in personal details.

### By post:

Shareholder Services Department, Capita Registrars Limited, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU

### By telephone:

If calling from the UK: 0871 664 0300 (Calls cost 10p per minute plus network extras)  
 If calling from overseas: +44 20 8639 3399

### By fax:

+44 (0)20 8639 2342

### Currency option and dividend mandate

Shareholders wishing to receive their dividend in US dollars should contact the Company's registrars to request a currency election form. This form should be completed and returned to the registrars by 22 April 2008.

The Company's registrars can also arrange for the dividend to be paid directly into shareholders' UK bank accounts. To take advantage of this facility, a dividend mandate form, also available from the Company's registrars, should be completed and returned to the registrars by 22 April 2008. This arrangement is only available in respect of dividends paid in UK pounds sterling. Shareholders who have already completed one or both of these forms need take no further action.

### Investor Relations

For investor enquiries please contact: Jane Flynn, Investor Relations Associate by writing to the Head Office address (see below), by phone on 020 7152 6023 or by email at [jane.flynn@hocplc.com](mailto:jane.flynn@hocplc.com)

### Financial calendar

Dividend payments:

Ex-dividend date	16 April 2008
Record date	18 April 2008
Deadline for return of currency election form	22 April 2008
Final dividend payable	13 May 2008
Interim dividend payable	Expected October 2008

### Other dates:

Annual General Meeting	9 May 2008
Interim results announced	August 2008
Interim report circulated	September 2008

### Head Office

1 Grosvenor Crescent  
 London  
 SW1X 7EF  
 United Kingdom

### Auditors

Ernst & Young LLP  
 1 More London Place  
 London SE1 2AF  
 United Kingdom

### Solicitors

Linklaters LLP  
 One Silk Street  
 London EC2Y 8HQ  
 United Kingdom

### Registered Office

18 Hanover Square  
 London W1S 1HX  
 United Kingdom

### Company Secretary

R D Bhasin

#### Forward looking statements

The constituent parts of this Annual Report, including those that make up the Directors' Report, contain certain forward looking statements, including such statements within the meaning of Section 27A of the US Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. In particular, such forward looking statements may relate to matters such as the business, strategy, investments, production, major projects and their contribution to expected production and other plans of Hochschild Mining plc and its current goals, assumptions and expectations relating to its future financial condition, performance and results.

Forward-looking statements include, without limitation, statements typically containing words such as "intends", "expects", "anticipates", "targets", "plans", "estimates" and words of similar import. By their nature, forward looking statements involve risks and uncertainties because they relate to events and depend on circumstances that will or may occur in the future. Actual results, performance or achievements of Hochschild Mining plc may be materially different from any future results, performance or achievements expressed or implied by such forward looking statements. Factors that could cause or contribute to differences between the actual results, performance or achievements of Hochschild Mining plc and current expectations include, but are

not limited to, legislative, fiscal and regulatory developments, competitive conditions, technological developments, exchange rate fluctuations and general economic conditions. These factors, risks and uncertainties are further discussed elsewhere in this Annual Report in the section entitled Risk Management. Past performance is no guide to future performance and persons needing advice should consult an independent financial adviser.

The forward looking statements reflect knowledge and information available at the date of preparation of this Annual Report. Except as required by the Listing Rules and applicable law, the Board of Hochschild Mining plc does not undertake any obligation to update or change any forward looking statements to reflect events occurring after the date of this Annual Report. Nothing in this Annual Report should be construed as a profit forecast.



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[www.hochschildmining.com](http://www.hochschildmining.com)

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Hochschild Mining plc