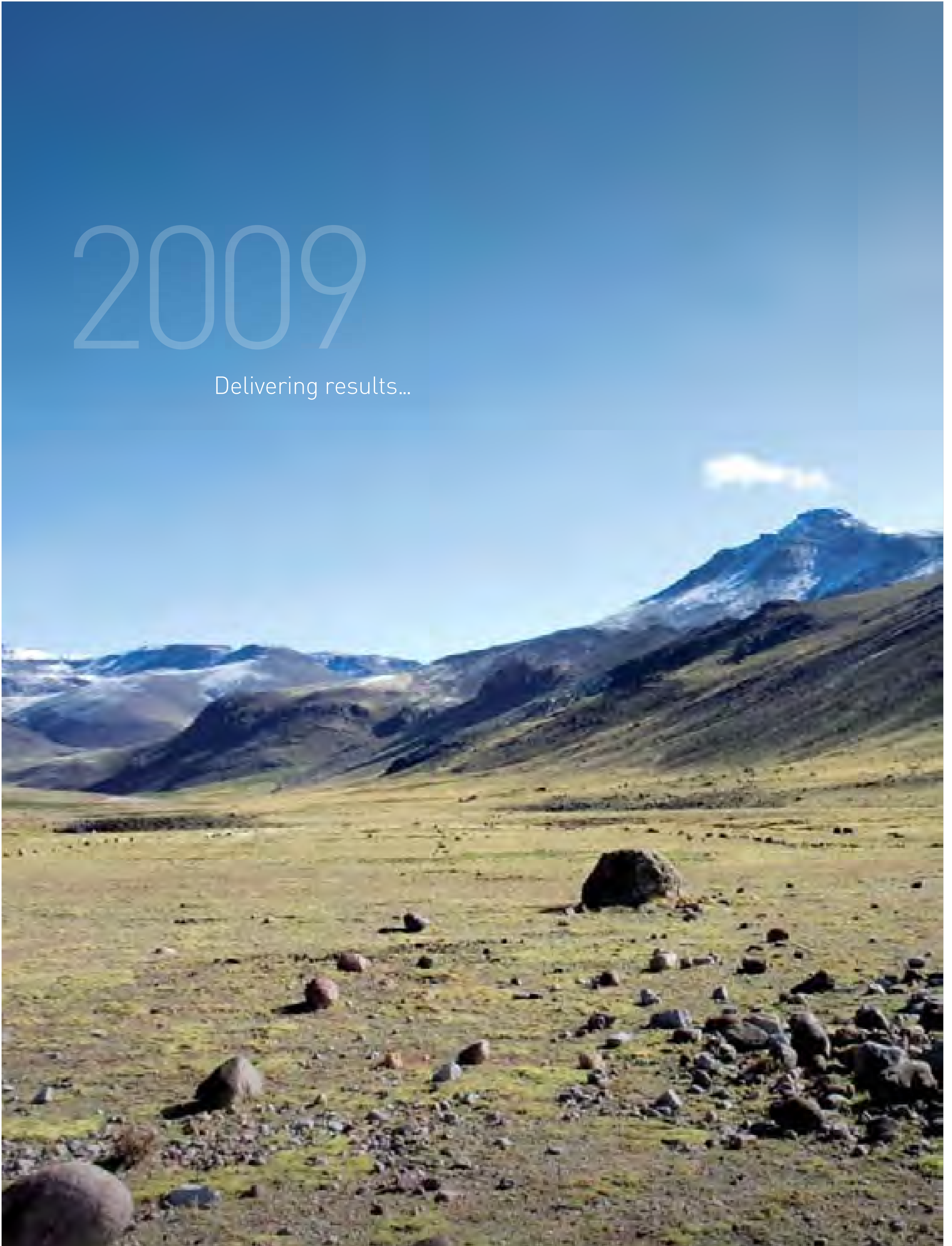
# HOCHSCHILD MINING PLC

Annual Report & Accounts 2009



# About us...

Hochschild Mining is a leading underground precious metals producer operating in the Americas with a primary focus on silver and gold.

## Financial & operational highlights

Revenue
$539.7m

Proposed total dividend
$0.04

Net profit
$98.1m

Earnings per share
$0.31

Operating cash flow
$200.5m

# What's in this annual report?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# A strong asset base and project pipeline

## ACQUISITIONS & INVESTMENTS

| Lake Shore Gold 38% | 6 |
|---|---|
| Production start | 2010 |
| Production target (silver equivalent) | 3.9moz |

| Gold Resource Corporation 29% | 7 |
|---|---|
| Production start | 2010 |
| Production target (silver equivalent) | 4.2moz |

| Southwestern Resources 100% | 8 |
|---|---|
| Hectares | 282,000 |
| Prospects | 38 |

## CURRENT OPERATIONS*

| Arcata 100% | 1 |
|---|---|
| Silver equivalent production | 11,260koz |
| Capacity | 1,750 tpd |

| Pallancata 60% | 2 |
|---|---|
| Silver equivalent production | 10,338koz |
| Capacity | 3,000 tpd |

| Ares 100% | 3 |
|---|---|
| Silver equivalent production | 3,455koz |
| Capacity | 940 tpd |

| San Jose 51% | 4 |
|---|---|
| Silver equivalent production | 9,622koz |
| Capacity | 1,500 tpd |

| Moris 100% | 5 |
|---|---|
| Silver equivalent production | 1,797koz |
| Capacity | 3,000 tpd |

* Silver equivalent production equals total gold production multiplied by 60 (historical gold/silver ratio) added to the total silver production.

Capacity is measured as tonnes per day ("tpd").

## EXPLORATION PROJECTS

| Azuca | 9 |
|---|---|
| Deposit | Silver/gold |
| Resources (inferred) | 3.7mt at 287.7g/t Ag 1.3g/t Au |

| Crespo | 10 |
|---|---|
| Deposit | Gold/silver |
| Resources (inferred) | 17.8mt at 38.8g/t Ag and 0.7g/t Au |

| Josnitoro | 11 |
|---|---|
| Deposit | Gold/silver |

| Mosquito | 12 |
|---|---|
| Deposit | Gold/silver |

| Victoria | 13 |
|---|---|
| Deposit | Gold/silver |

| San Felipe | 14 |
|---|---|
| Deposit | Zinc |
| Resources (inferred) | 1.3 mt |

1 Current operations
2 Acquisitions & investments
3 Exploration projects
● Other greenfield projects
● Exploration offices

# Our investment proposition

We are committed to delivering long term, sustainable value for shareholders and we are well placed to achieve this objective.

- We have a clear **strategy for growth** focused on:
  1. Current operations
  2. Acquisitions & investments
  3. Exploration projects

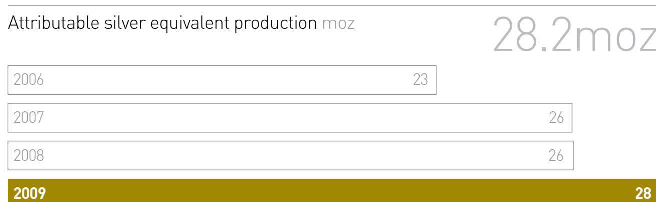
For further details see p08

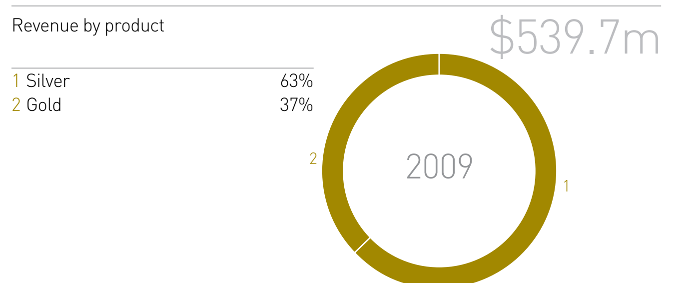
- We have a **solid track record**: all production targets and scheduled projects delivered since IPO

- We have over **40 years' experience** in underground mining and unrivalled regional knowledge of the Americas

- We have a significant and **diverse asset base and project pipeline**

For further details see p16



# Chairman's statement

## Delivering on our promises

### Production
Achieved 2009 target of 28 million attributable silver equivalent ounces.

### Acquisitions & investments
In Lake Shore Gold, Gold Resource Corporation, Southwestern Resources and others.

### Diversification
We now have operations and investments in five countries in the Americas: Peru, Argentina, Mexico, Canada and Chile.

## 2009 financial & operational highlights

Silver production up
+11%
18.8moz

Gold production up
+3%
156.8koz

Revenue up
+24%
$539.7m

Unit cost per tonne down
–11%
$71.2 per tonne

Administrative expenses down
–26%
$51.1m

Below: Arcata plant, Peru

After implementing a number of measures to deal with challenging market conditions in 2008, we entered 2009 with a firm focus on producing profitable ounces and a clear strategy for growth. Now, 12 months later, I am proud to say that 2009 has been a year of delivery for Hochschild Mining. Our strategy is supported by three pillars – organic, M&A, and exploration growth and we have delivered in each area with record production, continued strategic investments and an expanding portfolio of assets.

Operationally, we are as strong as ever with five mines in three countries, producing a total of 24.6 million ounces of silver and 211.6 thousand ounces of gold. Our results continue to benefit from the plant expansions completed at the end of 2008, which increased capacity by 29%. A continued focus on cost control has resulted in an impressive 11% decrease in unit cost per tonne at our underground mines, demonstrating management's ability to adapt quickly to changes in the price environment.

On the M&A side, we supported the merger between Lake Shore Gold Corporation ("Lake Shore Gold") and West Timmins Mining ("WTM") investing a further $91.1 million in the enlarged company[1] and bringing our ownership to 38% on an outstanding basis. We have also delivered on our strategy by continuing to invest in Gold Resource Corporation ("GRC"), which started production in early 2010. The two companies have impressive production targets and, in aggregate, have a market capitalisation of $1,463.3 million, valuing Hochschild's stakes at $504.5 million[2].

This has also been a year of delivery for our exploration team, with Azuca doubling resources to 44.1 million silver equivalent ounces and Crespo reporting resources of 44.7 million silver equivalent ounces, following extensive drilling campaigns. Azuca has the potential to be our next mine and an addition to our Peruvian operational cluster. We are in the process of initiating a scoping study at this project.

Resource life of mine (which includes reserves) for our three main operations; Arcata, Pallancata and San José increased by 20% from 5.9 to 7.1 years, whilst reserve life of mine has been maintained at 3.3 years. Our total attributable resource tonnage including all our operations, main projects and investments[3], has more than doubled from 20.7 million to 43.6 million whilst contained silver equivalent ounces, on an attributable basis, increased from 313.4 million to 402.8 million.

We have delivered a strong set of financial results with revenue for the year up 24% to $539.7 million. Operating profit more than doubled to $153.6 million and, as a consequence, pre-exceptional EPS has increased from $0.05 to $0.17.

Our results were also significantly impacted by $44.7 million of exceptional items, including a one-off gain of $42.3 million relating to the Lake Shore Gold/WTM transaction, bringing our post exceptional EPS to $0.31. Higher realised prices combined with lower costs allowed operating cash flow to more than double to $200.5 million.

In October 2009, we successfully raised $260 million[4] through an equity placing and bond offering which provided us with increased financial flexibility and funded some of the investments mentioned above. Our ability to raise capital during a time when financial markets have been relatively unstable reflects investor support for our strategy and confidence in our growth prospects.

We continue to enjoy a healthy balance sheet with a year end cash balance of $77.8 million. This, in conjunction with cash generated from our operations will allow us to pursue our growth strategy going forward.

### Organic growth

I am very proud to say that we have continued to deliver on our production targets since the IPO. 2009 was our best year so far, with record attributable production of 28.2 million attributable silver equivalent ounces – consolidating our position as the world's third largest primary silver producer. Results were particularly strong at Pallancata, where both silver and gold production doubled year-on-year and at San José, where silver and gold production increased 14% and 42% respectively.

Whilst we delivered on production, management were also particularly focused on cost control, and as mentioned above, unit cost per tonne decreased by 11% during the year. Including Moris, our only open pit mine, the reduction was even more impressive with a 15% saving. We have also lowered our administrative expenses by $17.7 million, including a 28% reduction in personnel expenses and a 34% decrease in professional fees.

### M&A growth

In 2009, we continued to execute our cluster consolidation strategy by securing bolt-on acquisitions, joint ventures and strategic investments in a number of key mining districts, investing a total of $239.5 million during the year.

As I mentioned earlier, Lake Shore Gold and GRC are important strategic investments for Hochschild and provide exposure to impressive production potential and long-term growth.

1 Amount invested from December 2009 to March 2010 following completion of the Lake Shore Gold/WTM transaction
2 As at 19 March 2010 on an outstanding basis
3 Arcata, Pallancata, San José, Moris, Ares, Azuca, Crespo, Lake Shore Gold, Inmaculada and San Felipe
4 Gross proceeds
5 On a fully diluted basis, Hochschild's equity interest at 31 December 2009 was 25.0%. In addition, during 2010, $9.5 million has been invested, increasing Hochschild's stake to 26.7%. On an outstanding basis, Hochschild's interest increased from 27.0% to 28.7% in 2010

# Chairman's statement
continued

Proposed total dividend

$0.04

We were fully supportive of Lake Shore Gold's merger with WTM which created the new large-scale, wholly-owned Timmins West Gold Mine Complex, an extension of the world-class Timmins gold mining trend. Lake Shore Gold has announced an updated production target of 65,000 ounces of gold (3.9 million silver equivalent ounces) in 2010, building production over the following three years with the potential to produce 350,000 ounces (21 million silver equivalent ounces) by 2013.

To date, we have invested $63.5 million in GRC, increasing our ownership to 29%[5]. Our investment in the company gives us access to high grade, low cost ounces expanding our operational cluster in southern Mexico, a mining friendly country with significant mineral potential. GRC started production in February 2010 with a production target of 70,000 ounces of gold (4.2 million silver equivalent ounces) in the first 12 months of operation.

During the year we have also completed the strategic acquisition of Southwestern Resources Corp ("SWG"), a Canadian mineral exploration company for $19.2 million. The acquisition consolidated our position in southern Peru by adding a number of early stage projects to our pipeline including Crespo and Josnitoro.

## Exploration growth

In addition to the exploration success achieved at our existing operations, we are also confident about a number of projects in our pipeline which are delivering positive results.

Azuca is a 3,000 hectare project located in southern Peru, only 50 kilometres northwest of Arcata and within Hochschild's operational cluster. During 2009, we undertook 26,240 metres of drilling and doubled resources, with 3.7 million tonnes at 287.7 g/t Ag and 1.3 g/t Au. As mentioned above, Azuca has the potential to be our next mine and in 2010 we have initiated a scoping study, with a feasibility study to follow.

We have also made progress in Crespo, a low-grade gold/silver disseminated deposit in our Peruvian cluster. Hochschild's drilling programme, which is focused on increasing resources, has identified significant high-grade ore bodies and as at 31 December 2009, Crespo reported resources of 44.7 million silver equivalent ounces, with 17.8 million tonnes at 38.8 g/t Ag and 0.7 g/t Au.

In 2009, we also made progress at Victoria in northern Chile, which is part of a partnership with Iron Creek Capital Corp. During the year, 28 drill holes totalling 7,626 metres were completed and anomalous gold and silver mineralisation was encountered in all drill holes with significant intercepts.

## Responsible mining

Efficient operations can only be achieved through good community support and we are dedicated to maintaining the highest standards of corporate and social responsibility. We are committed to the safety of all our employees and have made significant progress over the past year. In 2009, we reduced our accident frequency rate by 9% compared to 2008. Nonetheless, it is with deep regret that I report three mine fatalities in 2009. We have addressed the underlying safety deficiencies that led to the occurrence of these tragic events and we continue to view any fatalities as unacceptable.

## Board and management changes

During the year we welcomed a new Non-Executive Director, Fred Vinton, to the Board. Fred has over 30 years' banking and commercial experience and brings a wide range of knowledge and skills to Hochschild.

It is with sadness that the Board has accepted the resignation of Miguel Aramburú, who wishes to step down as CEO for personal reasons, with effect from 1 April 2010. I would like to thank Miguel for his enormous contribution to the Company over the last 15 years and particularly his successful tenure as CEO. I also want to thank him for his dedication to the business and, personally speaking, for his friendship over this period. Ignacio Bustamante, COO, will succeed Miguel Aramburú as CEO and as an Executive Director from 1 April 2010. Ernesto Balarezo, currently head of our Peruvian operations will assume the role of VP of Operations with effect from 1 April 2010.

The Board also regrettably announces that it has accepted the resignation of Ignacio Rosado, CFO, who is leaving the Company with effect from 31 May 2010 to develop his career further by pursuing a CEO role. During his tenure as CFO, Ignacio has played a key role in the execution of Hochschild's strategy ensuring a strong financial platform and the continued delivery of the Company's objectives. I would also like to thank Ignacio for his significant contribution over the years and I wish him well in his future career. Ignacio will be succeeded by Ramón Barúa, currently CEO of Fosfatos del Pacifico and previously General Manager of Hochschild's Mexican operations.

I would also like to take this opportunity to thank all our employees for the hard work that has enabled Hochschild to progress its strategic goals.

## Dividend

The Board recommends a final dividend of $0.02 per Ordinary Share resulting in a total dividend for the year of $0.04 per Ordinary Share. We will keep dividend policy under review in accordance with the capital availability and requirements of the business.

# Delivering our growth strategy ›

Over the next few pages we explain our three-part strategy for future growth.



## Outlook

We entered 2010 with a solid foundation for continued growth and a positive precious metals outlook. Our production target for 2010 is 29 million silver equivalent ounces. Production from existing operations is expected to be 26.3 million attributable silver equivalent ounces comprising approximately 17.6 million ounces of silver and 145,000 ounces of gold. The target also includes 2.7 million silver equivalent ounces from our interests in Lake Shore Gold and GRC.

In 2010, the Company expects Arcata's silver grades to be at similar levels to Q409 as accessible mine areas will continue to have narrower veins and changing geotechnical conditions. As anticipated, production and grades at the Company's ageing mine Ares will continue to decline, with closure expected in the second half of 2010.

We take an extremely rigorous approach to managing costs that are within our control and we are currently undertaking a number of initiatives which will contribute to cost containment. However, management expects an increase in unit cost per tonne at our underground mines of around 10% in 2010, mostly as a result of inflation related to labour and supply costs.

At Ares, given the ageing nature of the deposit, operating costs are expected to increase through to its expected closure in the second half of 2010.

The Company is pleased to announce that it is significantly increasing its exploration spend from $28.6 million in 2009 to $50 million in 2010. The exploration programme will focus on extending the life of Hochschild's existing operations and identifying high-quality, early stage precious metal projects which will provide cost effective growth.

With $77.8 million in cash at the end of 2009, we are in a sound financial position and well placed to deliver our long-term growth strategy. Our focus will continue to be on producing profitable ounces and expanding the business through appropriate investment and acquisition.

Eduardo Hochschild
Executive Chairman

23 March 2010

Below: Employees at Ares, Peru

Growth strategy:

1

# Extracting the maximum potential from our current operations

Since our IPO in 2006, we have met all of our annual production targets, entered new mineral rich regions and doubled the throughput capacity of our current operations. We have a solid, profitable production base with five operations in three countries producing 28.2 million attributable silver equivalent ounces* in 2009. We are committed to maximising our life of mine and invest in mine-site, brownfield exploration with the long-term objective of achieving a minimum eight-year total resource life including a four-year reserve life.

*469,339 attributable gold equivalent ounces

For further details see p16

Right: San José plant, Argentina.
Far right: Employees at Arcata, Peru.
Opposite page: The Selene plant, which processes ore from our Pallancata mine in Peru.

2007
Expanded from three mines in one country to **six mines** in three countries

2008
Increased plant capacity, **up 29%**

2009
Achieved record production of **28.2 million** attributable silver equivalent ounces

2010
Set production target of **29 million** silver equivalent ounces

2007

Focused on finding **new opportunities** in mineral-rich regions in the Americas

2008

Acquired initial stakes in **Lake Shore Gold** and **GRC**

2009

Further strategic investments with holdings of **38%** in Lake Shore Gold, **27%** in GRC and **100%** of Southwestern Resources

2010

Lake Shore Gold and GRC to **start production** with targets of 65 koz and 70 koz of gold respectively; further investment in GRC bringing ownership to **29%**

Above left: Lake Shore Gold's plant in Timmins, Canada
Above right: GRC's El Aguila plant in Wahaca, Mexico
Opposite page: Crespo exploration project in Peru, acquired as part of the Southwestern Resources transaction



Growth strategy:

2

# Realising growth opportunities through acquisitions & investments

We are focused on high-margin precious metals projects and continually evaluate opportunities across the Americas including specific geological regions; the highlands of southern Peru, the Argentine Patagonia, the Timmins region in Canada, southern Mexico and northern Chile. We take a highly selective, disciplined approach to ensure that all transactions are value accretive in the long term. Our core skill is identifying companies with positive growth potential and 2009 was a particularly active year for the Group, with over $239.5 million invested in strategic acquisitions and investments.

For further details see p20

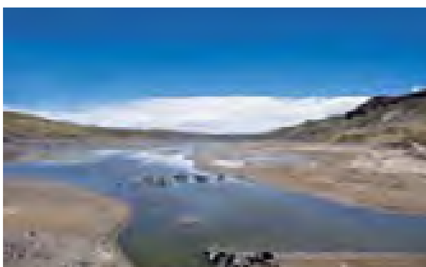
Growth strategy:

3

# Securing our future through exploration

Our exploration programme is focused on maximising the life of our existing operations and also on bringing new, profitable precious metals projects into production. We are extremely positive about the potential of our pipeline, which currently comprises numerous projects in four countries. Projects are at various stages of development and are subject to a rigorous evaluation process to ensure that investment is targeted towards quality assets that will ultimately contribute to the Group's long-term growth.

For further details see p22



Left: Laboratory testing at San José in Argentina
Far left: Exploration project in Peru
Opposite page: Geologist at Pallancata in Peru

2010
Exploration budget increased by **75%** to **$50 million**
2009
Azuca project reported resources of **3.7 million** tonnes at **288 g/t silver** and **1.3 g/t gold**
2008
**$24 million** spent on exploration, extending project portfolio
2007
Attributable reserves **increased by 25%**

# Questions & answers with management

### 1. How have you delivered on your strategy in 2009?

2009 was a strong year for Hochschild. We actively pursued our growth strategy: maximised our existing asset base, invested in selective acquisitions and developed our exploration pipeline for longer-term growth.

Regarding our asset base, we achieved our production target of 28 million attributable silver equivalent ounces, representing a record year of production for Hochschild, up 8% on 2008. We also exceeded our target of reducing unit cost per tonne by 5%, achieving a decrease of 11% for the full year, in line with our plan of producing profitable ounces.

Moving to acquisitions, we have delivered on our strategy of securing selective, value added investments with over $239.5 million spent in 2009, supported by funds from the $260 million we raised in October. We increased our ownership in strategic partners Lake Shore Gold and Gold Resource Corporation which are together adding 2.7 million silver equivalent ounces to our 2010 target.

Finally, we continued to invest in exploration and we are pleased to report that our brownfield programme generated solid results at the Company's key operations, supporting our long-term goal of achieving a minimum eight-year total resource life, including a four-year reserve life. In addition, we are progressing projects in our pipeline, notably, our 100% owned Peruvian projects Crespo and Azuca which have both reported significant mineral potential. For further details see p22

### 2. What was your greatest challenge in 2009?

Our greatest challenge was meeting our production target in a year in which we had industrial action at our San José operation in Argentina and at our mines in Peru. This was the first time in over two decades that we experienced labour related stoppages in Perú and it was a new and very challenging situation. We continue to work closely with employees and unions to ensure that we maintain good relations across our operations.

### 3. The Company raised $260 million in October 2009, what was the rationale for this?

Following an extremely active 18 months, where we had invested over $232 million in acquisitions, we raised additional funds so that we could continue to pursue our growth strategy and prepay existing debt. The $260 million gross proceeds raised reflects our track record and we are pleased to say that we have already delivered on our promise with further strategic investments in Lake Shore Gold and Gold Resource Corporation and the prepayment of $85.7 million of our debt.

### 4. What are the Company's key goals for 2010?

We have a number of goals in 2010. Operationally, we are focused on achieving our production target of 29 million silver equivalent ounces, up 4% year-on-year. This is a challenging target, particularly in light of the lower production at Arcata where we are experiencing higher dilution as a result of narrower veins, but we are confident that we can deliver. Other key operational areas will be cost management and further improving health and safety.

We are also planning for future growth, with particular focus on exploration, where we have announced an increase in spend from $28.6 million in 2009 to $50 million in 2010. Lastly, we will maintain our disciplined approach to acquisitions and evaluate high-margin precious metals projects in existing operational clusters and in new mineral rich regions of the Americas.

### 5. You mention costs, what is your outlook for 2010?

We implemented a cost reduction programme at the end of 2008 which delivered excellent results in 2009, achieving a 11% reduction in unit cost per tonne, above our guidance of 5%. Going forward, we are seeing inflationary pressure in labour and supply costs. However, we are extremely experienced at operating in different price environments and will continue to rigorously manage the costs that are under our control.

### 6. Why do you have a lower life of mine than your competitors?

We specialise in narrow vein, underground mining and, due to the geologic nature of our deposits, it is extremely costly to prove up reserves and resources beyond a certain number of years and not the most efficient use of financial resources. Our expertise is knowing and understanding the geology in the areas we operate. In 2009, we increased our resource life from 5.9 to 7.1 years and continue to maintain an extremely high conversion rate to reserves. We are confident about the longevity of our three main operations and are investing in brownfield exploration to extend their mine life.

### 7. Your production split is moving towards gold, do you see yourselves as a gold or silver producer?

Our production profile will change over time as new operations and projects move into production. For example, the contribution from our investments in gold producers, Lake Shore Gold and GRC is likely to increase the proportion of gold that we report. However, we very much see ourselves as a precious metals company, focused on producing profitable ounces in the Americas.

# Delivering our growth strategy ›

The following pages explain how we are delivering our strategy for future growth

### 8. How do you plan to compensate for your ageing mines, Ares and Moris?

We have known that Ares and Moris are ageing mines for some time and have therefore proactively identified and invested in near-term production opportunities which will more than replace their contribution to our production. For example, our production target this year includes 2.7 million silver equivalent ounces from Lake Shore Gold and GRC.

### 9. What is your policy on hedging?

Our goal is to be 100% unhedged. However, in response to the volatile market conditions in 2008, we sold forward a proportion of our 2009 production to ensure stable cashflow to fund acquisition opportunities. This enabled us to invest in Lake Shore Gold and GRC which have delivered significant returns and are also providing future growth potential.

### 10. 2009 was a strong year for precious metals, what is your view on future prices?

2009 was a very interesting year for gold and silver prices which, following the downturn in 2008, increased by 27% and 57% respectively. Whilst we are positive about the prospects for precious metals, our focus is on producing profitable ounces over the long term.

Below: Employee at the Arcata plant, Peru

# Operating review

## PRODUCTION

Hochschild successfully achieved its full year production target, producing a record 28.2 million attributable silver equivalent ounces in 2009, representing an 8% increase year-on-year. This comprises 18.8 million attributable ounces of silver, up 11% and 156.8 thousand attributable ounces of gold, up 3%.

Attributable silver production was primarily driven by strong performance at our main mines (Arcata, Pallancata and San José), which benefited from the expansions successfully completed in the second half of 2008. The increase in attributable gold production was also primarily a result of the above, partially offset by declining production at Ares.

Hochschild's production target for 2010 is 29 million silver equivalent ounces. Production from existing operations is expected to be 26.3 million attributable silver equivalent ounces comprising approximately 17.6 million ounces of silver and 145,000 ounces of gold. The target also includes 2.7 million silver equivalent ounces from Hochschild's 38% interest in Lake Shore Gold and its 29% interest in GRC. Both investments will be equity accounted in 2010 and will appear under the associates line in the Group's income statement.

In 2010, the Company expects higher production at San José and Pallancata, offset by lower production at Arcata and Ares. At Arcata, silver grades are expected to be at similar levels to Q409 as accessible mine areas will continue to have narrower veins and changing geotechnical conditions. As anticipated, production and grades at the Company's ageing mine Ares will continue to decline, with closure expected in the second half of 2010.

To view our full production tables see p159-161
To view our full reserve and resource tables see p154-158

Lake Shore Gold is progressing towards commercial gold production at its Timmins Mine, expected during the fourth quarter of 2010, and is advancing towards its objective of becoming a mid-tier gold producer. Lake Shore Gold has announced an updated production target of 65,000 ounces of gold (3.9 million silver equivalent ounces) in 2010, building production over the following three years with the potential to produce 350,000 ounces (21 million silver equivalent ounces) by 2013.

GRC commenced production from its El Aguila operation in February 2010 and has a stated production target of 70,000 ounces of gold (4.2 million silver equivalent ounces) in the first 12 months of operation.

### Life of mine

Hochschild remains committed to maximising the life of its main underground operations with the long-term objective of achieving a minimum eight-year total resource life, including a four-year reserve life[6]. To support this goal, the Company is increasing its investment in brownfield exploration to $20 million in 2010.

As at 31 December 2009, resource life of mine (which includes reserves) increased by 20% from 5.9 to 7.1 years, whilst reserve life of mine has been maintained at 3.3 years[7]. Our total attributable resource tonnage including all our operations, main projects and investments[8], has more than doubled from 20.7 million to 43.6 million whilst contained silver equivalent ounces, on an attributable basis, increased from 313.4 million to 402.8 million.

[6] Reserve life of mine relates to Hochschild's three main underground operations: Arcata, Pallancata and San José

[7] Reserve life of mine relates to Hochschild's three main underground operations: Arcata, Pallancata and San José. 2008 numbers have been restated to reflect 2009 capacity

[8] Arcata, Pallancata, San José, Moris, Ares, Azuca, Crespo, Lake Shore Gold, Inmaculada and San Felipe

Resource life of mine – main operations

+20%

"With a sound financial position, experienced management and a positive outlook for precious metals, we are well placed to continue to deliver our long-term growth strategy."

## Key performance indicators

**Attributable silver production** 18,754koz

koz

| Year | koz |
|---|---|
| 2006 | 11,604 |
| 2007 | 13,588 |
| 2008 | 16,941 |
| **2009** | **18,754** |

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 gold production** 157koz

koz

| Year | koz |
|---|---|
| 2006 | 196 |
| 2007 | 201 |
| 2008 | 153 |
| **2009** | **157** |

Attributable production is measured as the number of ounces produced multiplied by our ownership interest at each mine and summed together for all operations.

**Reserve life of mine** 3.3yrs

Years

| Year | Years |
|---|---|
| 2006 | 3.7 |
| 2007 | 4.6 |
| 2008 | 3.3 |
| **2009** | **3.3** |

Life of mine is based on reserves and 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. 2008 numbers have been restated to reflect 2009 capacity.

Below: Selene plant, Peru

# Operating review continued
# Current operations

1

## MAIN OPERATIONS

### Arcata: Peru

#### Production and sales

Arcata, Hochschild's flagship silver mine, enjoyed another successful year with silver and gold production up 6% and 19% respectively. These increases were driven primarily by the plant expansion completed in 2008 which increased capacity by 46% to 1,750 tonnes per day.

In 2009, Arcata's concentrate production was sold to Cormin, Louis Dreyfus, Teck, Korea Zinc, MRI Trading AG and a small fraction to Doe Run.

#### Exploration

The drilling programme at Arcata delivered positive results in 2009 with the discovery of three new mineralised structures in close proximity to the property's existing Mariana vein. The Company continues to increase resources at the Ramal, Julia and Soledad veins through diamond drilling.

The focus for the 2010 brownfield programme will be to evaluate new targets and develop resources in areas where potential mineralisation was identified in 2009.

### Pallancata: Peru

#### Production and sales

Pallancata, which commenced production in 2007, is a joint venture with International Minerals Corporation ("IMC") in which Hochschild controls 60% and is the mine operator. Ore from Pallancata is transported 22 kilometres to the Selene plant for processing, demonstrating the Company's cluster consolidation strategy.

Pallancata recorded strong results in 2009 with silver and gold production doubling year-on-year to 8,420 koz of silver and 31.97 koz of gold. This was mainly a result of the plant expansion completed in 2008 which increased Selene's processing capacity from 2,000 to 3,000 tonnes per day, as well as the use of Selene's full capacity to process the ore from Pallancata.

In 2009 the silver/gold concentrate from Pallancata was sold to Teck and Aurubis.

#### Exploration

At Pallancata in Peru, the Company is mainly focused on the newly discovered eastern extension of the main Pallacata vein and on the Virgen del Carmen vein. Wide spaced drilling at the Pallancata east vein defined mineralisation with intercepts including 3 metres at 829 g/t of silver and 2.5 g/t of gold. Underground mine preparation is progressing well with the Santa Angela ramp scheduled for completion in June 2010.

The focus for the 2010 brownfield programme will be to define resources along the Pallancata east vein and to explore new targets.

### San José: Argentina

#### Production and sales

The Group's operation in Argentina, San José, commenced production in 2007 and is a joint venture with Minera Andes in which Hochschild controls 51% and acts as the mine operator.

San José reported strong results in 2009, with production up 14% and 42% year-on-year, for silver and gold respectively. This is mainly a result of the plant expansion undertaken in 2008, which doubled capacity from 750 to 1,500 tonnes per day and also due to the high grade Kospi vein, which was brought into production at the end of June 2009. The Kospi vein contributed over 80,000 tonnes of ore to the mine's production and is positively impacting the grade profile of the operation.

In 2009, the doré produced at San José was sold to Argor Heraeus S.A. and Johnson Matthey Inc. The concentrate produced at the operation was sold to Cormin, Aurubis and LS-Nikko.

#### Exploration

In Argentina, the Company has discovered two new split vein systems of the Kospi and Ayelen structures at San José which are rapidly being drilled to increase the resource and reserve base of the operation. Results included 1.5 metres at 1,376 g/t silver and 60.9 g/t gold and 1 metre at 655 g/t silver and 5.8 g/t gold.

The focus for the 2010 brownfield programme will be to evaluate the new Aguas Vivas target located 10 kilometres from the San José operation, to develop resources at the Saavedra target and to extend knowledge of the vein geology.

## OTHER OPERATIONS

### Ares: Peru

Production and sales

As anticipated and previously disclosed, the average reserve grade at Ares is declining due to the geological nature of the deposit and the ageing of the mine and, as a consequence, gold and silver production decreased 34% and 41% respectively year-on-year. In line with the Company's focus on producing profitable ounces, Ares is expected to close in the second half of 2010.

Ares produces 100% doré, all of which was sold to Johnson Matthey in 2009.

### Moris: Mexico

Production and sales

Moris, which is 100% owned, is the Group's only open pit mine and provided a key stepping stone into Mexico, which is of key strategic importance to the Group. Moris produced 97 thousand ounces of silver and 28.34 thousand ounces of gold in 2009 and has an estimated one year mine life, with expected closure in 2011.

In 2009, all of the gold/silver doré produced at Moris was sold to Johnson Matthey.

### Selene: Peru

Production and sales

As previously reported, Selene's mine ceased production at the end of May 2009 due to the high level of capital expenditure required to extract profitable ounces. Selene's plant, which was upgraded during the year, continues to process ore from the Pallancata operation, which is located approximately 22 kilometres from Selene.

In 2009, approximately a quarter of Selene's production was converted into doré at the Ares plant and sold to Johnson Matthey. The remaining production was treated as concentrate and sold on a spot basis primarily to Aurubis and Teck.

To view our full production tables see p159-161
To view our full reserve and resource tables see p154-158

Left: San José power lines, Argentina
Top: Underground ramp at San José, Argentina

# Operating review continued
# Acquisitions & investments

2

## A SELECTIVE APPROACH

Growth through investment and acquisition is a key element of Hochschild's strategy. The Company has maintained its disciplined approach in 2009, focusing on high-grade, underground precious metals assets in the Americas, which have the potential to create long-term shareholder value. The Company is continually evaluating opportunities with particular interest in existing operational clusters: the highlands of southern Peru, southern Mexico, the Argentine Patagonia, northern Chile and the Timmins region in Canada, as well as in other new mineral rich regions of the Americas.

In October 2009, the Company undertook a successful capital raising to provide the increased financial flexibility to pursue its acquisition strategy and during the year secured a number of strategic investments with a total spend of $239.5 million:

### Lake Shore Gold

In August 2009, Lake Shore Gold Corp. ("Lake Shore Gold"), announced a definitive business combination agreement to acquire all of the outstanding common shares of West Timmins Mining Inc. ("WTM"). The transaction created the new large-scale, wholly-owned Timmins West Gold Mine Complex, an extension of the world-class Timmins gold mining trend which has supplied approximately 70 million ounces of gold over the last century. As a result of the business combination, Hochschild's 40% stake in Lake Shore Gold was diluted to approximately 27% (on an outstanding basis).

In line with its stated strategy, Hochschild invested a further $172.8 million[9] in Lake Shore Gold following the announcement of the WTM transaction, increasing its stake to 38% (36% on a fully diluted basis). This included the purchase of WTM shares totalling $63.8 million.

Lake Shore Gold is progressing towards commercial gold production at its Timmins Mine, expected during the fourth quarter of 2010, and is advancing towards its objective of becoming a mid-tier gold producer. Lake Shore Gold has announced an updated production target of 65,000 ounces of gold (3.9 million silver equivalent ounces) in 2010, building production over the following three years with the potential to produce 350,000 ounces (21 million silver equivalent ounces) by 2013.

Since its initial acquisition in February 2008, Hochschild has invested a total of $336.9 million in Lake Shore Gold reflecting its confidence in the significant production potential and long-term growth of the company. Lake Shore Gold has a current market capitalisation of approximately $936.4 million, valuing Hochschild's investment at $353.0 million.[10]

Below: GRC project in Wahaca, Mexico
Left: Lake Shore Gold's operation in Timmins, Canada

Total invested in 2009

# $239.5m

Lake Shore Gold is an important strategic investment for Hochschild and it maintains three positions on the company's board.

## Gold Resource Corp

In 2009, Hochschild invested $49.0 million in Gold Resource Corporation ("GRC"), increasing its ownership from 5% to 27% (on an outstanding basis). In March 2010, the Company further increased its ownership to 29% bringing its total investment in the Company to $63.5 million. GRC is an underground precious metals mining company with a number of prime development projects in Mexico's southern state of Oaxaca, including a 100% interest in five potential high-grade gold and silver properties. This additional investment increases Hochschild's exposure to GRC's high grade, low cost ounces and expands the Company's southern Mexico operational cluster.

GRC commenced production from its El Aguila operation in February 2010 and has a stated production target of 70,000 ounces of gold (4.2 million silver equivalent ounces) in the first year of operation. In addition, GRC is accelerating the underground mine development at Arista, a gold and silver polymetalic deposit which is one of three high-grade deposits discovered to date at the El Aguila project.

GRC has a current market capitalisation of approximately $526.9 million, valuing Hochschild's investment at $151.4 million[10]. GRC is also an important strategic investment for Hochschild and it maintains one position on the company's board.

## Southwestern Resources Corp

In March 2009, Hochschild completed the strategic acquisition of Southwestern Resources Corp ("SWG"), a Canadian mineral exploration company for $19.2 million. The acquisition consolidated the Company's position in southern Peru by adding a number of early stage gold, silver and base metals projects to its pipeline including 100% ownership of the Liam property, of which the Company originally acquired a 50% interest in August 2008. The 282,000 hectare land package is in close proximity to Hochschild's existing operational cluster: Arcata, Ares and Pallancata and therefore enables the Group to leverage existing infrastructure and knowledge of the regional geology.

Hochschild's exploration team is currently evaluating numerous exploration targets at Liam as well as other properties included in the acquisition, and is progressing drilling in areas which have reported positive results, including Crespo and Cristo Los Andes.

The SWG land package included an increased stake in the Pacapausa project which comprises 7,933 hectares of exploration concessions and is a potential satellite source of material for Hochschild's Pallancata operation as well as 50% of Millo, a high-grade deposit located adjacent to Hochschild's 100% owned Azuca project.

The SWG acquisition also included a 37% stake in Zincore Metals Inc ("Zincore"), a listed mining exploration company with zinc projects in Peru. On 5 March 2010, Hochschild divested its interest in Zincore for total proceeds of C$10.3 million as it did not constitute a core asset for the Company. The purchase of SWG also included minor stakes in Empire Petroleum, Northern Superior and Lara Exploration, which have a combined value of $2.0 million[11], as well as in copper projects Jasperoide and Alpacocha.

## Other acquisitions & investments

During the year, the Company also undertook a number of smaller investments in early stage exploration companies and joint ventures which provide the potential for cost effective future growth.

In October 2009, Hochschild signed an agreement with Mariana Resources in which it already holds an 11% stake following its $1.5 million investment in December 2008. The agreement builds on the relationship between the two companies and provides Hochschild with additional exposure to a number of Mariana's projects.

Under the terms of the agreement, Hochschild has the right to explore three adjoining prospective gold and silver properties totalling 13,455 hectares, located in the Santa Cruz area in the western sector of the Deseado Massif in southern Argentina. These tenements consist of Mariana's Amigos I and Amigos II licence areas and Hochschild's San Augustin joint venture property with Iamgold which are located approximately 110 kilometres south of the Company's San José operation. Hochschild can increase its interest to 70% by committing 60% of the $3 million exploration budget within two years and by taking the project to a pre-feasibility stage.

[9] Amount invested from August 2009 to March 2010 following announcement of the Lake Shore Gold/WTM merger. In 2009, the Company invested $168 million. In 2010, the Company invested $4.9 million.
[10] As at 19 March 2010 on an outstanding basis
[11] As at February 2010

# Operating review continued
# Exploration review

3

## STRONG PROJECT PIPELINE

Exploration is a vital part of Hochschild's growth strategy and the Company continues to commit significant investment to its geological programme. In 2009, the Company invested $28.6 million in this area and is increasing spend to $50 million in 2010.

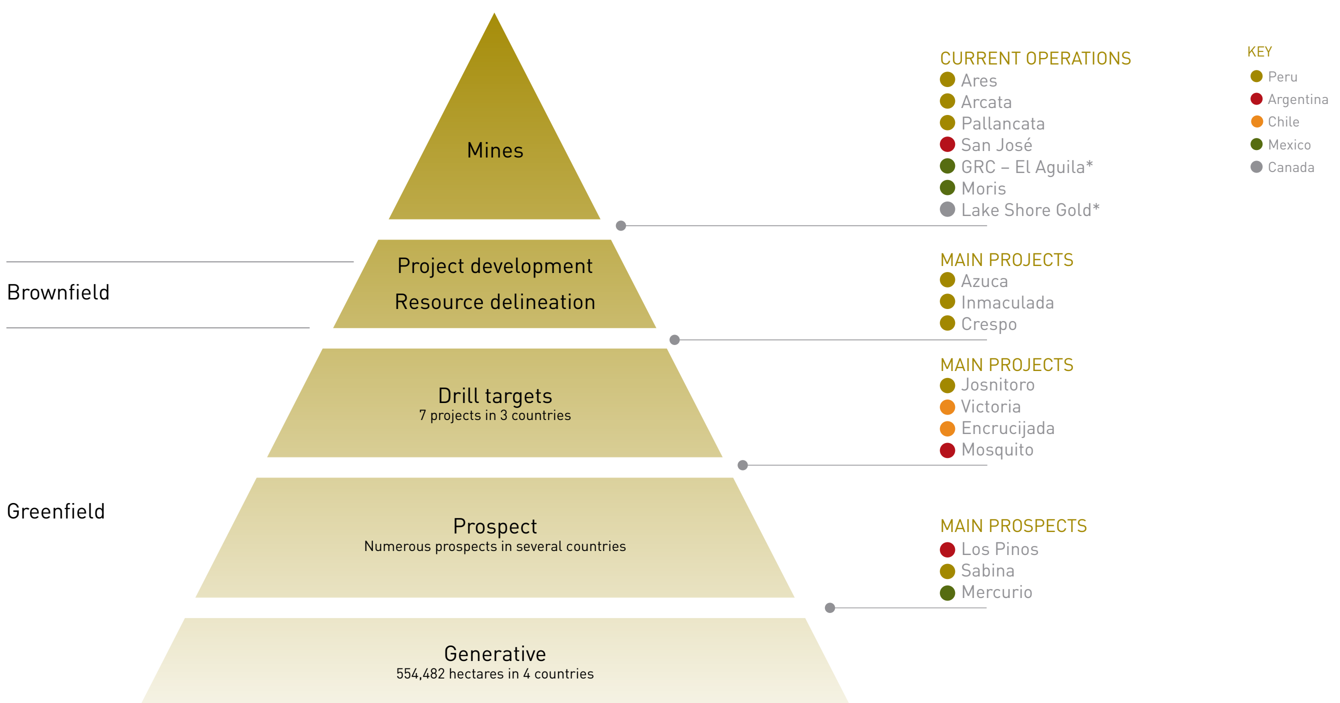
Hochschild's exploration is focused in two areas; mine-site exploration & advanced projects (brownfield), which is aimed at increasing reserves and resources at a low cost per ounce, and early stage exploration (greenfield), which focuses on finding new, high-quality deposits.

## BROWNFIELD EXPLORATION

In addition to Hochschild's mine-site exploration programme, which is focused in and around the Company's current mines, the Company also invests in other advanced stage projects, either located in or around one of the Group's existing clusters or in new mining friendly districts. The Company currently has two projects located within its southern Peru operational cluster:

### Azuca

Azuca is a 100% owned project located in southern Peru, near the Company's existing operational cluster. Mineralisation is present in intermediate sulfidation silver and gold epithermal quartz veins. The Company is moving the project towards a scoping study and during 2009 undertook 26,240 metres of drilling achieving a significant increase in its resource base to 3.7 million tonnes at 288 g/t silver and 1.3 g/t gold, corresponding to 44.1 million silver equivalent ounces. Azuca's location, 50 kilometres from Hochschild's Arcata operation, could realise economies of scale due to the close proximity of existing plant and transport infrastructure.




*Hochschild owns 38% of Lake Shore Gold and 29% of GRC (El Aguila)

## Crespo

The Crespo project in southern Peru is 100% owned as a result of the Southwestern acquisition in 2009. Crespo is a low-grade gold and silver disseminated deposit with 17.8 million tonnes at 38.8 g/t silver and 0.7 g/t gold, corresponding to 44.7 million silver equivalent ounces. Hochschild's drilling programme, which is focused on increasing resources, reported the best historical intercept of the project with 76 metres at 1.0 g/t Au and 95 g/t Ag, including 7.4 metres at 11.9 g/t Au and 1,050 g/t Ag. Further drilling will be undertaken in 2010 to increase resources along strike of this high-grade intercept. Underground workings will help delineate the ore geometry, evaluate the high-grade irregular ore bodies identified in the drilling and complete metallurgical testing towards a scoping study.

### GREENFIELD EXPLORATION

The Company is continually evaluating new opportunities throughout Argentina, Chile, Mexico and Peru and has an extremely active project pipeline.

Projects enter the Company's pipeline either by way of internal discovery or through joint venture and are subject to a strict evaluation process to ensure that investment is targeted towards quality assets that will ultimately be brought to production. All opportunities are ranked and prioritised based on specific criteria and any project that does not meet the Company's requirements is farmed out or dropped. Projects are either 100% owned or allow Hochschild to earn into majority ownership over time.

## Victoria

In Q409, Hochschild reported positive drilling results at the Vaquillas target in northern Chile, which is part of the Victoria project with Iron Creek Capital Corp where Hochschild has the right to earn-in 60% by completing $6 million of work on the property. The project lies along the prolific Domeyko fault zone in Region II, 120 kilometres east of the coastal town of Taltal. During 2009, 28 drill holes totalling 7,626 metres were completed which, together with previous drilling results, suggest that the Vaquillas project has potential for high-grade gold and silver veins, as well as bulk-tonnage low-grade gold and silver mineralisation. In December 2009, the Victoria project, which covers 29,050 hectares, was expanded to include Iron Creek's remaining properties in their adjoining porphyry copper project, representing an additional 17,000 hectares.

## Other

In addition, Hochschild will advance various early stage projects in southern Peru, such as Josnitoro, Astana Farallón and Cerro Blanco. In Argentina, the Company is focused in the Patagonia region and commenced drilling at the La Flora project in late 2009 with the Mosquito and Los Pinos vein systems following in 2010. In central Mexico, Hochschild is undertaking work in early exploration projects and is expecting to complete a first pass drilling programme at Mercurio.

Case study:

### ISO 17025 Accreditation

Following a rigorous audit process, Hochschild's laboratories in Peru have been awarded ISO 17025 accreditation by the Standards Council of Canada, in recognition of the high standards adopted by the Company and its ability to consistently produce valid results. ISO 17025 is an international standard that specifies the general requirements for the competence to carry out tests and/or calibrations, including sampling.

# Market & geographic overview

## 2009 MARKET OVERVIEW

Precious metals prices performed strongly in 2009, mainly due to ongoing global economic and financial uncertainty, continued inflationary concerns and weakness in the US dollar. Gold and silver once again proved their safe haven status, with price increases of 27% and 57% respectively.

Hochschild's aim is to be a 100% hedge free company, however, precious metals prices impact its financial results and in lower price environments the Company may take short/medium-term measures to ensure the production of profitable ounces. Following volatile prices last year, Hochschild secured a zero cost collar for 5.2 million ounces of its 2010 production with a cap at $19.7/oz and a floor at $12.7/oz.

For further details, please see page 37

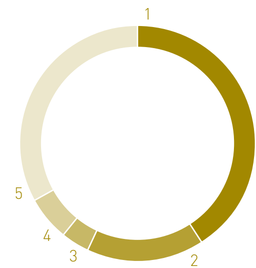
### Gold summary

2009 was a particularly strong year for gold which reached a record high of $1,218/oz in December with an annual average price of $972/oz, up 12% year-on-year. This was primarily driven by strong investment demand with implied net investment increasing by an impressive 483% to an estimated 1,375 tonnes. Continued global economic uncertainty, inflationary concerns and periods of dollar weakness supported investor interest during the year, both in physical form via the ETF and also through Comex and the OTC market.

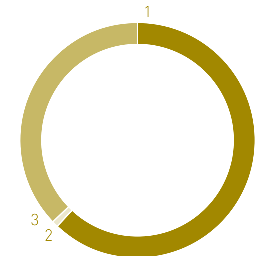
Also providing support to the gold price was the significant decline in government sales which were down to their lowest level in a decade at 24 tonnes (2008: 212 tonnes), with a shift to net purchasing in the second half of 2009. These effects offset the 23% decrease in jewellery demand (2009: 1,687 tonnes), which for the first time since 1980, was exceeded by total world investment demand (includes all investment). On the supply side, increased mine production and scrap supply which are up 6% and 27% respectively, also partly offset strong demand.

Going into 2010, macro conditions remain supportive for gold due to continued economic uncertainty and inflationary concerns which are likely to offset any negative pressure from the supply side. The speed at which the global economy moves out of recession and into growth will have a significant impact on future prices. Industry analysts, GFMS, have highlighted the potential for further volatility with the possibility of gold reaching $1,200/oz in the second quarter of 2010, driven by high levels of investment demand.

| 2009 forecast gold demand | |
|---|---|
| 1 Jewellery | 41% |
| 2 Other fabrication | 16% |
| 3 Bar hoarding | 4% |
| 4 Producer de-hedging | 6% |
| 5 Identifiable investment | 33% |



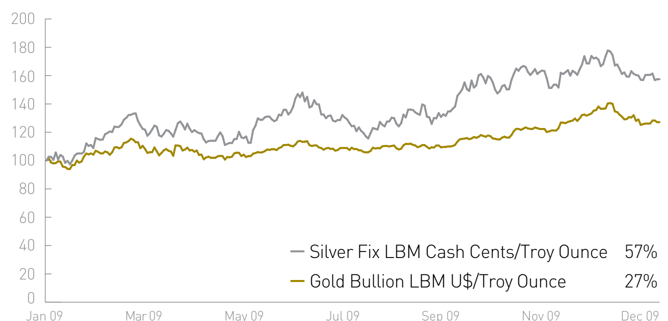

| 2009 forecast gold supply | |
|---|---|
| 1 Mine production | 62% |
| 2 Official sector sales | 1% |
| 3 Scrap supply | 37% |




### Drivers for gold in 2010

- Further fiscal and monetary loosening by major governments may create inflationary pressure
- US Government borrowing and large fiscal deficit should result in negative pressure on the dollar
- Increased demand from large, mainstream portfolio managers who are diversifying into commodities i.e. insurance companies and pension funds
- Strong retail demand for official coins, which is up an estimated 29% to a 23 year high in 2009
- Global economic recovery should positively impact demand for jewellery

2009 silver and gold performance



"We remain extremely confident about the outlook for silver and gold with prices up 57% and 27% respectively in 2009."

## Silver summary

Following an extremely volatile 2008, silver made strong gains in 2009, achieving record highs over $19/oz in December and closing the year up 57% at $16.99/oz. The rally in the silver price was a result of strong investment demand for the metal, proving its strong correlation to gold and role as a store of value during periods of macro economic uncertainty.

The significant increase in investment demand was partially offset by a fall in fabrication demand, primarily as a result of the global downturn which has negatively impacted industrial demand. Other areas of fabrication remained steady in 2009, including demand for jewellery and coins which are both expected to increase marginally year-on-year. On the supply side, mine production is forecast to increase by 2% partly counteracted by a fall in scrap supply and lower government sales.

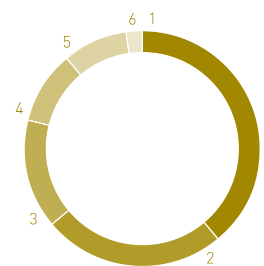
Silver's unique industrial properties and its role as a store of value mean that it is impacted by the drivers for both precious and base metals. GFMS are predicting a double digit recovery in industrial demand in 2010 and this, coupled with strong investment demand, creates positive conditions for silver. Supply is expected to remain broadly flat going forward with lower government sales and scrap supply generally offsetting increased mine production. GFMS are forecasting continued price volatility with a 'base case' average price scenario of around $14/oz in 2010.

## Drivers for silver in 2010

- Silver's link with gold as a safe haven asset
- Continued macro economic uncertainty which should support investment demand
- Consumers' improved economic outlook will have a positive impact on fabrication demand, particularly for industrial applications
- Substitution of gold for silver provides support to jewellery demand
- Robust demand for coins from retail investors
- Continued decline in scrap supply due to drop in photography recycling

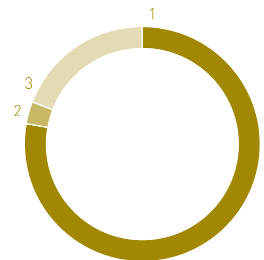
2009 forecast silver demand

| | |
|---|---|
| 1 Industrial | 39% |
| 2 Jewellery and silverware | 25% |
| 3 Investment | 15% |
| 4 Photography | 10% |
| 5 Coins | 9% |
| 6 Producer de-hedging | 2% |




2009 forecast silver supply

| | |
|---|---|
| 1 Mine production | 78% |
| 2 Official sector sales | 3% |
| 3 Scrap supply | 19% |




## GEOGRAPHIC OVERVIEW

Our strategy is focused in the Americas, a region with enormous mineral potential and a long and supportive history of mining.

We are the third largest producer of silver and a mid-sized gold company with operations, projects and investments in five of the top 20 precious metal producing countries globally, including Peru and Mexico which are the world's two largest producers of silver.

Country production rankings

| Country | 2008 silver ranking | 2008 gold ranking |
|---|---|---|
| Peru | 1 | 6 |
| Mexico | 2 | 13 |
| Chile | 5 | 16 |
| Canada | 10 | 7 |
| Argentina | 13 | 15 |

Sources: GFMS, Silver Institute, Bloomberg

# Corporate responsibility

## A COMMITTED APPROACH

Since the Group's listing in London in 2006, it has endeavoured to maintain its corporate culture of fostering respect for the wellbeing of its employees, the environment and the communities in which it operates.

To achieve this objective, the Group has adopted a number of policies demonstrating its commitment to:

- Take all necessary steps to ensure:
  - A safe and healthy workplace
  - The prevention of environmental contamination
  - Respect for, and commitment to, the communities in which it operates
- Comply with all relevant legislation and international standards
- Promote continuous improvement in its management systems incorporating best practice
- Adopt a proactive approach in preventing and, where this is not possible, managing, the risks that may hinder achievement of its CSR objectives
- Encourage employees to adopt the Group's values through the use of training and internal communications.

### Management

The Board has ultimate responsibility for establishing Group policies relating to CSR and ensuring that national and international standards are met. The Corporate Social Responsibility Committee has been established 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 appropriate systems and practices are in place Group-wide to ensure the effective management of CSR-related risks. The CSR Committee is chaired by Roberto Dañino (Deputy Chairman and Executive Director) who has Board-level responsibility for CSR issues.

During the year, the CSR Committee considered:

- The investigations into the fatalities that occurred during the year and oversaw the implementation of associated recommendations
- The execution of the yearly plan in each of the four areas of CSR focused on by the Group
- The implementation of recommendations from external consultants following health and safety, and environmental audits at the Group's operations
- Progress on the implementation of the safety-driven management information system designed in conjunction with Det Norske Veritas ('DNV') (detailed further in the Safety section of this report on page 27)
- Detailed presentations on the management of community and labour relations across the Group
- Revision of the Community Relations short-term and long-terms plans.

To support the CSR Committee, a working group of relevant personnel meets on a monthly basis to consider, at an operational level, local health and safety policies and environmental protection programmes and community relations matters. These meetings are attended by the CEO and COO.

### Monitoring performance

The Group continues to make progress in measuring its performance against its CSR objectives. Accordingly, performance indicators appear after each section of this Report and, where Group-wide information is not available, performance only in respect of the wholly-owned Peruvian operations has been disclosed which represents almost 70% of the Group's attributable production.

"Our commitment to the health and safety of our employees, respect for the environment and active engagement with local communities is an intrinsic part of Hochschild's culture"

Roberto Dañino, Chairman CSR Committee

## 1. WORKPLACE

### a) Safety

#### The Hochschild approach

Our people and their safety remain of paramount importance for the Group and is reflected in everything that we do. Ensuring safety of the Group's employees is considered a vital element in measuring the successful achievement of corporate strategy to which the Board and management are committed.

The Group has continued to invest, during 2009, in operating controls and processes to ensure that the highest standards of safety are met. As a testament to the Group's commitment to achieving an internationally recognised level of health and safety management, OHSAS18001 accreditation at all operations was maintained during the year.

However, it is with sadness that there were three fatalities during 2009. The Group has conducted investigations into the circumstances leading to each occurrence with steps taken to implement the associated recommendations.

#### Developments during the year

Notable developments during the year include:

- The attainment of Level 4 implementation of the DNV management information system which provides a framework to improve occupational health and safety performance including risk and opportunity identification, analysis, target setting, and measurement
- Following the successful launch of a Group-wide competition in 2008 for the Luis Hochschild Safety Prize, ten of the numerous practical suggestions to improve safety that were submitted were implemented during 2009 in all mining units
- The launch of numerous Group-wide initiatives to encourage safe working practices including:
  - The commissioning of a safety video focusing on dealing with hazards associated with particular aspects of the mining process
  - The award of two prizes every month at each mine to the individual and group that exemplify the Group's approach to safety
  - The production of a safe practices manual distributed to all mining personnel in the organisation.



Below: A safety briefing at the Arcata plant, Peru

# Corporate responsibility
continued

### Targets for 2010

- Safety Indices:
  - A 10% reduction in LTIFR
  - Severity index of less than 200
  - Accidentability index of less than 1
- Achieving Level 5 of the DNV Management Information System at the Peruvian and Argentinian operations
- The second launch of the Luis Hochschild Safety Prize.

### Safety indicators

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| Fatalities | 3 | 1 | 5 |
| Accidents resulting in absence of one day or more | 82 | 92 | 105 |
| LTIFR[1] | 5.22 | 5.75 | 7.59 |
| Accident Severity Index[2] | 1485 | 543 | 2,883 |
| Accidentability Index[3] | 7.76 | 3.13 | 21.8 |

1 Calculated as total number of accidents per million labour hours.
2 Calculated as total number of days lost per million labour hours.
3 Calculated as LTIFR x severity divided by 1000.

## b) Health

### The Hochschild approach

In the first instance, the Group strives to avoid occupational illnesses by taking all necessary steps to provide a working environment that does not pose any risk to the health of its workers. Given the risks inherent in mining activities however, the Group has a Health team charged with the provision of medical and occupational health services to assure the wellbeing of those employed by the Group as the need arises, and on an on-going basis.

### Developments during the year

Notable developments during the year include:

- Increased focus on the prevention of occupational health illnesses through audits, conducted by dedicated personnel, of the physical working environment ("the Hygiene Audit Programme"). This has resulted in the production of a baseline study in respect of the Group's Peruvian operations and an action plan to, amongst other things, prevent the incidence of illnesses associated with dust, noise and exposure to hazardous materials

Case study:
Mobile medical unit

The mobile medical unit commissioned by the Group as a means of providing healthcare services to remotely located communities.

- The launch of a pilot programme at the Peruvian operations aimed at assuring the emotional wellbeing of workers ("the Wellbeing Programme"). This initiative incorporates the use of consultations and workshops to assist employees to deal with issues relating to stress and work-life balance as well as promoting personal skills
- The establishment of on-site clinical laboratories at the Peruvian operations to perform occupational health examinations
- Group wide roll-out of routine occupational health examinations of mineworkers at the start and end of their employment and on an annual basis
- In partnership with the Community Relations team and local authorities, a study was undertaken on the provision of healthcare services to the communities located close to the Group's Peruvian operations which has led to the commissioning of a mobile medical unit.

### Targets for 2010

- Implementation of the Occupational Health module of SAP
- Implementing the Hygiene Audit Programme in Argentina and Mexico
- Establishing a blueprint for the Wellbeing Programme for roll-out to other parts of the Group.

### Health indicators

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| Average number of medical attendances at Peruvian operations and at San José per month | 2,690 | 2,851[1] | 2,505[2] |
| Average number of medical emergencies at Peruvian operations and at San José per month | 64 | 53.42[2] | 89.58[2] |
| Average number of occupational health examinations at the Group's wholly-owned Peruvian operations and Moris per month | 406 | 238[3] | 224 |

1 These figures do not include attendances and emergencies at the Moris mine which have only been monitored since August 2008.
2 These figures include attendances and emergencies at the Pallancata mine between May 2007 and December 2007 only.
3 Figures for Moris were not available for the whole of 2008 and hence have not been included.

## c) Corporate HR

### The Hochschild approach

The Corporate Human Resource Vice Presidency supports the execution of the Group's strategy by the recruitment and retention of employees through the use of innovation and best practice. The Group seeks to differentiate itself from its peers by emerging as an employer of choice. By taking this approach, the Group seeks to enhance its ability to attract and retain the necessary skills.

### Developments during the year

Notable developments during the year include:

- Development and implementation of a performance evaluation process focusing not only on the required skills and the achievement of objectives but also the practices employed to achieve set targets
- Initiatives to increase the Group's profile locally and internationally through partnerships with universities including the offer of scholarships at the Colorado School of Mining;
- The continuation of a graduate trainee programme where 16 of the best performing graduates from five Peruvian universities with relevant degrees (such as mine engineering, geology and chemistry) were trained and recruited by the Group.

### Targets for 2010

- 5% improvement in the measurement of the working environment as gauged by the "Organisational Climate" survey
- Implementation of the Hochschild Mining Leadership programme.

### General HR indicators

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| **General** | | | |
| Average number of Group employees | 4,969 | 5,012 | 4,132 |
| **Training** | | | |
| Average number of hours of training undertaken by each employee[1] | 14.03 | 19.62 | 13.59 |
| Percentage of workforce trained during the year[1] | 94% | 83% | 68% |
| **Labour relations** | | | |
| Number of production days lost as a result of industrial unrest | 40.5 | 0 | 1 |

1 In respect of Peruvian operations only

# Corporate responsibility
continued

## 2. COMMUNITY RELATIONS ('CR')

### The Hochschild approach

The Group strives to go beyond keeping a conflict-free relationship with surrounding communities by supporting community based organisations and interest groups in their many efforts aimed at improving quality of life. Sustainability of activities within the communities is continuously improved by promoting the participation of additional development agencies to implement local development plans. The Group's CR policy ensures the creation of new jobs at a local level and appropriate training programmes with priority given to community members.

2009 has also seen the CR team focus on establishing an improved long-term relationship with surrounding communities through open communication and dialogue. In this sense, CR members have promoted a closer relationship between operations personnel within the mining units with members of the surrounding communities and local authorities. Examples of this include guided visits of local leaders to the Group's mining operations, Group employees participating in various forms of voluntary work, by talks given by Engineers to school children on environmental and other issues of community interest, sponsorship of and participation at local and regional fairs, and organisation of trout fishing contests.

In order to emphasise the long-term nature of the relationship between the Group and the surrounding communities, five CR strategic objectives have been formulated.

1. Consolidate a culture of mutual respect and life together with communities;

2. Achieve and consolidate agreements that are mutually beneficial;

3. Promote improved and sustainable income generation for community inhabitants;

4. Contribute to the improvement of health, nutrition and education in surrounding communities of direct influence; and

5. Consolidate good relationships and co-ordinate activities with institutions for the promotion of sustainable development.

### Developments during the year

#### a) Health and nutrition

After two years of working together with Caritas del Peru, a specialised NGO, the Group is starting to witness significant results. Caritas works both by strengthening the local health institutions and by training community health promoters. As a result, in certain of the communities surrounding our Peruvian mines, the rate of acute diarrheic diseases in children under three years old has halved over the past two years. Protection against illnesses through vaccinations is also common practice and the incidence of child malnutrition is subsiding.

The Group has supported the efforts of improving the diets of families with young children living at very high altitude by assisting the construction of family greenhouses. Training on community and family hygiene practices range from maintenance of community water systems to promoting smokeless kitchen arrangements. The strategy of disease prevention through training and promotion of healthy practices at the family level, coupled with taking care of urgent health needs is the Group´s approach to improving sustainability of interventions of this kind.

#### b) Education and training

Education, particularly of primary school children, is essential for providing life opportunities to citizens at an early stage. The Group's school programme brings specialised training to school teachers and directors so they can improve the level of education they provide. School teachers received not only a variety of methodological tools but also the possibility of obtaining official diplomas through specialised courses. In addition, all supported schools now have their own institutional plan as well as information centres and other facilities. Moreover, teachers from different schools have formed networks to exchange experiences and facilitate self-learning. This collaboration has resulted in significant improvements in the standard of mathematics and integral communications skills achieved by the children.

The Group is also committed to assisting youngsters in pursuing professional careers. In this regard, more than 70 young community members participated in training programmes enabling them to apply for scholarships from the Group to study at TECSUP.

This page: A selection of photographs from our extensive range of community relations projects

# Corporate responsibility continued

### TECSUP
The Group's involvement in TECSUP has also continued during the year. This establishment, founded and substantially funded by the Hochschild Group is a leading non-profit technical institute with over 5,000 graduates. TECSUP offers careers in nine areas, including metallurgical and chemical processes, electronics and industrial automation, maintenance of heavy and industrial equipment, and agricultural technology. In 2008, TECSUP received accreditations from the German Agency for Accreditation of Engineering Education and from the European Network for Accreditation of Engineering Education, which will allow its graduates to pursue additional studies abroad.

### c) Improving living conditions
Income generation activities range from fish farming, agriculture, textile products manufacturing to alpaca breeding. However, many community members are employed by the Group and their work at the operation or exploration units is their main source of income. In the case of Selene, despite the closure of the mines section, the Group took extensive efforts to ensure that all community jobs were maintained.

Due to the high altitude where the communities are located, alpaca breeding is the most important non-mining income generating activity followed by fish farming. The Group provides support for both activities which has led to an increase in the incomes of numerous families.

Apart from promoting income generation activities, the Group has also endeavoured to better living conditions for communities. This has been demonstrated by the installations of over 100 solar panels at community schools, health centres and many of the households during 2009. This sustainable energy source brings new opportunities to improve living conditions and access to communications.

### Targets for 2010
- Zero "Loss of Production days" arising as a result of community conflicts.
- To achieve tangible improvements in the level of education, health and nutrition of local communities as assessed by NGO partners.

### Community relations indicators

| | 2009 | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|
| Community investment | $6.0m | $4.6m | $4.3m | $2.3m | $1.2m |
| Production days lost as a result of community conflicts | 1.5 | 0 | 0 | 0 | 0 |

## 3. THE ENVIRONMENT

### The Hochschild approach
The Group endeavours to minimise the impact of its business on the environment and to facilitate the on-going sustainability of the land where it develops operations and activities. In order to support its efforts, the Group is committed to using the highest standards of environmental management systems.

In addition to its primary responsibilities, the Environmental Department works together with the operational teams, community relations and the Legal Department on the application for, and on-going compliance with, mining permits, thereby assuring the continuity of operations.

Environmental management is facilitated through a reporting structure at mine level with accountability to the Corporate Environmental Manager reporting to the Chief Operating Officer.

The Group's environmental teams focus on the following areas:

- Tailings management
- Waste rock management
- Safe disposal of domestic and industrial waste
- Water treatment (mine, industrial, domestic water)
- Storage and handling of hazardous materials, principally cyanide
- Hydrocarbons management
- Management of new projects
- Closure and rehabilitation works
- Consumption of resources, principally water.

2009 community investment

# $6.0m

## Developments during the year

Notable developments during the year include:

- On-going certification of environmental management systems at the Group's operations at Ares, Arcata and Selene as ISO 14001 compliant
- Installation of internet-enabled equipment for the monitoring of water data at the Ares mine;
- Construction of water treatment plant at the former mine in Sipan;
- Implementation of key environmental procedures including:
  - Environmental Management Plan procedure to improve the time taken to obtain permits for new projects.
  - Management of environmental incidents and accident
  - Environmental Compliance Performance Indicators to evaluate the performance of each mine and department against their environmental objectives
- Environmental impact studies performed in connection with proposed expansion programmes and in the planning of new infrastructure projects, such as mine capacity increases and new tailings dam
- Group-wide initiatives to raise the general awareness of environmental issues amongst employees.

## Targets for 2010

- Group Compliance Performance Indicator of at least 70%
- Zero material environmental incidents across entire operations
- San José and Pallancata to achieve formal ISO 14001 certification.

## Environmental indicators

| | 2009[2] | 2008[1] | 2007[1] | 2006[1] |
|---|---|---|---|---|
| Average monthly fresh water consumption per metric tonne of treated ore (cubic metres) | 0.63 | 0.55 | 2.72 | 1.58 |
| Average monthly electricity consumption per metric tonne of treated ore (kWh) | 53.32 | 90.3 | 102.01 | 134.28 |
| Average monthly diesel consumption per metric tonne of treated ore (gallons) | 1.23 | 3.14 | 1.62 | 1.36 |
| Average monthly wood consumption per metric tonne of treated ore (kg) | 10.31 | 18.33 | 17.13 | 14.36 |
| Number of material environmental incidents across entire operations | 0 | 0 | 0 | 0 |
| Estimated volume of water withdrawn per day (cubic metres) | 29,668 | Not available | | |
| Estimated proportion of recycled water used (cubic metres) | 27% | Not available | | |
| Estimated volume of water discharged per day (cubic metres) | 35,606 | Not available | | |

1 Figures relate to the Group's mines in Ares, Arcata and Selene only, unless otherwise stated.
2 Figures relate to the Group's mines in Ares, Arcata, Selene, Pallancata and San José unless otherwise stated.

# Financial review

## INTRODUCTION

The reporting currency of Hochschild Mining plc is US dollars. In our discussion of financial performance we remove the effect of exceptional items, unless otherwise indicated, and in our income statement we show the results both pre and post such exceptional items. Exceptional items are those 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 to facilitate comparison with prior years.

### Revenue

Gross revenue: Gross revenue from continuing operations increased 27% to $589.9 million in 2009 (2008: $463.4 million) as a result of higher production and higher metal prices during the year.

Silver: Gross revenue from silver increased 32% in 2009 to $382.4 million (2008: $288.8 million) as a result of increased production following the H208 capacity expansions at Arcata, Pallancata and San José, as well as higher prices. The total amount of silver ounces sold in 2009 was 23,563 koz (2008: 20,593 koz).

Gold: Gross revenue from gold increased 19% in 2009 to $207.5 million (2008: $174.6 million) also as a result of increased production following capacity expansions at Arcata, Pallancata and San José as well as higher prices. The total amount of gold ounces sold in 2009 was 204.1 koz (2008: 198.3 koz).

Commercial discounts: Commercial discounts primarily refer to refinery charges for processing mineral ore and are discounted from revenue on a per tonne or per ounce basis. In 2009, the Group recorded commercial discounts of $50.4 million, up $20.3 million on 2008. This was as a result of the capacity expansions completed in 2008 which led to higher volumes and, consequently, higher commercial discounts at Pallancata and San José. In addition, the Company experienced higher treatment charges at Arcata. Consequently, the ratio of commercial discounts to gross revenue in 2009 increased to 8.5% (2008: 6.5%). For 2010, the company has secured improved commercial terms relating to concentrate sales.

Net revenue: Revenue from continuing operations, net of commercial discounts, increased by 24% to $539.7 million, comprising silver revenue of $341.5 million and gold revenue of $198.0 million. In 2009, silver accounted for 63% and gold 37% of the Company's consolidated revenue compared to 61% and 39% respectively in 2008.

### Key performance indicators

Revenue
$m
$539.7m

| Year | Value |
|---|---|
| 2006 | 211.2 |
| 2007 | 305.0 |
| 2008 | 433.8 |
| **2009** | **539.7** |

Silver cash costs
$/oz Ag co-product
$7.11/oz

| Year | Value |
|---|---|
| 2006 | 3.63 |
| 2007 | 4.40 |
| 2008 | 7.05 |
| **2009** | **7.11** |

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

Gold cash costs
$/oz Au co-product
$476/oz

| Year | Value |
|---|---|
| 2006 | 156 |
| 2007 | 212 |
| 2008 | 469 |
| **2009** | **476** |

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

2009 revenue up

+24%

## REVENUE BY MINE

| US$(000) unless otherwise indicated | Year ended 31 December 2009 | Year ended 31 December 2008 | % change |
|---|---|---|---|
| **Silver revenue** | | | |
| Arcata | 141,816 | 119,284 | 19% |
| Ares | 13,038 | 38,196 | (66%) |
| Selene | 8,805 | 29,168 | (70%) |
| Pallancata | 139,125 | 48,207 | 189% |
| San José | 78,352 | 52,942 | 48% |
| Moris | 1,245 | 992 | 26% |
| Commercial discounts | (40,904) | (24,712) | 66% |
| Net silver revenue | 341,477 | 264,077 | 29% |
| **Gold revenue** | | | |
| Arcata | 27,364 | 20,344 | 35% |
| Ares | 40,278 | 67,899 | (41%) |
| Selene | 2,819 | 8,714 | (68%) |
| Pallancata | 32,443 | 13,214 | 146% |
| San José | 79,430 | 40,095 | 98% |
| Moris | 25,195 | 24,380 | 3% |
| Commercial discounts | (9,492) | (5,423) | 75% |
| Net gold revenue | 198,037 | 169,223 | 17% |
| Other revenue[1] | 227 | 479 | (53%) |
| **Net revenue** | 539,741 | 433,779 | 24% |

1 Other revenue includes revenue from base metal components in the concentrate sold from the Arcata mine net of commercial discounts and revenue from sale of energy.

## Net average realised sale prices[1]

| | Year ended 31 December 2009 | Year ended 31 December 2008 | % change |
|---|---|---|---|
| Silver ($/oz) | $14.49 | $12.82 | 13% |
| Gold ($/oz) | $970.33 | $853.28 | 14% |

1 Net average realisable prices include commercial discounts.

### Costs

Hochschild is committed to producing profitable ounces and diligently controlling costs. The Company committed to reducing unit cost per tonne at its underground operations by 5% in 2009 and has exceeded this target with a full year reduction of 11%, bringing unit cost from $79.7 in 2008 to $71.2 in 2009. Including Moris, the Group's only open pit mine, unit cost per tonne decreased 15% to $51.1.

These savings are mainly a result of the economies of scale achieved by the capacity expansions completed last year and cost control measures implemented during the year, as well as external factors such as the devaluation of local currencies.

Depreciation and amortisation within production cost increased to $83.4 million (2008: $59.6 million) as a consequence of higher capital expenditure and higher throughput related to the significant expansions completed by the Group in the last three years. During the year the depreciation calculations were amended and the 2008 depreciation charge was restated.



Adjusted EBITDA $m — $249.9m

| Year | $m |
|---|---|
| 2006 | 107.6 |
| 2007 | 147.6 |
| 2008 | 142.3 |
| **2009** | **249.9** |

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 earning's growth achieved.

Cash flow from operating activities $m — $200.5m

| Year | $m |
|---|---|
| 2006 | 94.0 |
| 2007 | 21.4 |
| 2008 | 78.6 |
| **2009** | **200.5** |

Defined as net cash flow from operating activities. This is cash flow which can be used to fund dividend payments and invest in the future growth and development of the business.

Pro forma earnings per share $ — $0.31

| Year | $ |
|---|---|
| 2006 | 0.17 |
| 2007 | 0.28 |
| 2008 | 0.08 |
| **2009** | **0.31** |

Defined as the per share profit (using the number of shares outstanding of 338,085,226) available to the equity shareholders of the Group from continuing operations and after 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. 2008 EPS figures have been restated to reflect changes in the depreciation calculation (see note 3).

# Financial review continued

2009 adjusted EBITDA

$249.9m

## Cash costs

Co-product cash costs include cost of sales, commercial deductions and selling expenses before exceptional items, less depreciation included in cost of sales. Silver/gold cash costs are total cash costs multiplied by the percentage of revenue from silver/gold, divided by the number of silver/ gold ounces sold in the year.

Silver and gold cash costs increased from $7.05 to $7.11 per ounce and $469 to $476 per ounce respectively. The increase was mainly explained by higher commercial discounts and selling expenses and lower extracted grades.

By-product cash costs include cost of sales, commercial deductions and selling expenses before exceptional items, less depreciation included in cost of sales. Silver/gold cash costs are total cash costs less revenue from gold/silver, divided by the number of silver/gold ounces sold in the year. By-product cash costs for the period were $2.43 per silver ounce (2008: $3.08 per ounce) and ($576) per gold ounce (2008: ($256) per gold ounce).

## Administrative expenses

Administrative expenses before exceptional items decreased by 26% from $68.8 million to $51.1 million as a result of the measures undertaken by management at the end of 2008 to reduce expenses and preserve cash. These included a 28% reduction in personnel expenses, which decreased from $35.5 to $25.4 million and a 34% reduction in professional fees, decreasing from $10.0 to $6.6 million.

## Exploration expenses

Exploration expenses, which primarily relate to greenfield exploration, decreased to $19.9 million in 2009 (2008: $23.8 million) as a result of the Group's decision to reduce expenditure and preserve cash following the deterioration in market conditions at the end of 2008.

In addition to exploration expenses, the Group capitalises part of its brownfield exploration, which mostly relates to costs incurred converting potential resource to the inferred or measured and indicated category. In 2009, the Group capitalised $8.6 million relating to brownfield exploration compared to $6.7 million in 2008.

The Company is pleased to announce that it is significantly increasing its total exploration planned expenditure (including greenfield and brownfield investment) by 75% to $50 million in 2010. The exploration programme will focus on identifying high-quality, early stage precious metal projects which will provide cost effective growth and also on extending the life of Hochschild's existing operations.

## Selling expenses

Selling expenses increased to $21.0 million (2008: $11.3 million) mainly as a result of the higher volume of concentrate sold at San José and Pallancata. The increase was also a result of higher export duties relating to higher production and metal prices in San José (export duties in Argentina are levied at 10% of revenue for concentrate and 5% of revenue for doré).

## Other income/expenses

Other income before exceptional items decreased marginally from $5.0 million in 2008 to $4.5 million in 2009.

Other expenses before exceptional items increased to $19.3 million (2008: $8.2 million) and are mainly comprised of a non cash $11.8 million increase in the provision for mine closure relating to Selene and Sipan and other expenses such as a labour contingency ($1.8 million), a loss on sale of other assets ($1.6 million) and provision for obsolescence of supplies ($1.1 million).

## Profit from continuing operations

Profit from continuing operations before exceptional items, net finance costs and income tax increased to $153.6 million (2008: $70.1 million) as a result of the effects detailed above.

## Impact of the Group's investments in joint ventures and associates

An associate is an entity in which Hochschild has significant influence but not control. The Group accounts for the following entities as associates: Lake Shore Gold (35.7%)[1], GRC (25.0%)[1], Zincore (36.8%), Cabo Sur (51%) and Minas Pacapausa (80%). The Group's investments in associates are accounted for using the equity method of accounting.

Hochschild's share of the profit after tax of the associate totalled $7.6 million in 2009 compared to an $8.2 million loss in 2008. The 2009 profit included a $9.2 million gain in Lake Shore Gold mainly due to a progressive decrease in the statutory income tax rate in Canada and the subsequent impact on the deferred tax liability recognised on Hochschild's acquisitions of Lake Shore Gold and Lake Shore Gold's acquisition of WTM. This gain was partially offset by the share of net losses in GRC ($1 million) and Zincore ($0.4 million).

## Adjusted EBITDA

Adjusted EBITDA is calculated as profit from continuing operations before exceptional items, net finance costs and income tax excluding depreciation, amortisation and exploration costs other than personnel and other expenses. Adjusted EBITDA increased by 76% over the period to $249.9 million (2008: $142.3 million) primarily driven by higher sales, lower costs and lower administrative expenses, which were partially offset by higher selling and other expenses.

| US$(000) unless otherwise indicated | Year ended 31 December 2009 | Year ended 31 December 2008 | % change |
|---|---|---|---|
| Profit from continuing operations before exceptional items, net finance cost, foreign exchange loss and income tax | 153,600 | 70,101 | 119% |
| Operating margin | 28% | 16% | |
| Depreciation and amortisation in cost of sales | 85,789 | 57,540 | 49% |
| Depreciation and amortisation in administrative expenses | 796 | 1,125 | (29)% |
| Exploration expenses | 19,941 | 23,841 | (16)% |
| Personnel and other exploration expenses | 10,257 | 10,315 | (1)% |
| Adjusted EBITDA | 249,869 | 142,292 | 76% |
| Adjusted EBITDA margin | 46% | 33% | |

## Finance income

Finance income before exceptional items decreased by 32% to $6.4 million (2008: $9.4 million) mainly as a result of the lower rate of interest on the Company's liquidity funds. In 2009, the Company reported a weighted average annual effective interest rate of 0.71% on these funds compared to 3.98% in 2008.

## Finance costs

Finance costs before exceptional items of $46.0 million (2008: $18.8 million) include a realised loss of $26.0 million relating to the Group's 2009 forward sales contracts. It also includes an unrealised loss of $2.5 million relating to the Company's 2010 'zero cost collar' which was secured in mid 2009 to ensure an ongoing level of cash flow stability. The collar relates to 5.2 million ounces of the Company's 2010 silver production with an average 'floor' at $12.7/oz and an average 'cap' at $19.7/oz.

The company recorded an interest expense of $15.6 million related mainly to the outstanding syndicated loan ($114.3 million) and the convertible bond issued in August 2009 ($115 million). In July 2009, the Group fixed the interest rate on the syndicated loan at 2.75%.

## Foreign exchange losses

The Group recognised a foreign exchange loss of $0.3 million (2008: $7.2 million loss) as a result of transactions in currencies other than the functional currency.

## Income tax

The Company's pre-exceptional effective tax rate decreased to 36.8% in 2009 (2008: 54.7%) mainly as a result of:

(i) A lower proportion of non-deductible expenses and non-recognised tax losses to profit before income tax

(ii) A lower negative tax effect from the conversion of the tax bases of local currencies to US dollars

(iii) A non taxable gain of $6.8 million in Hochschild's share on results of associates

(iv) A gain of $4.2 million as a result of tax restructuring in Mexico

These effects were partially offset by:

(v) A $2.4 million provision related to tax credits in the Project Finance loan in Santa Cruz. (See note 14, (7) for further details).

(vi) A negative tax effect of $5.5 million due to lower expenses allowed for double deductions in Argentina. (See note 14, (i) for further details).

(vii) A negative impact of $3.5 million related to the increase in mine closure provision.

In addition, the post-exceptional effective tax rate decreased to 21.6% (2008: 847.6%) primarily driven by a non-taxable income of $74.4 million in 2009 including a $42.3 million gain from the merger between Lake Shore Gold and WTM, a $12.1 million gain on the exchange of WTM shares for Lake Shore Gold shares, a $7.7 million gain on the Southwestern acquisition and finance income of $7.4 million relating to GRC.

1 On a fully diluted basis.

# Financial review continued

## Exceptional items

Exceptional items totalled $44.7 million after tax (2008: ($42.0 million). This mainly includes:

Positive exceptional items principally include:

| | $ million | Description of main items |
|---|---|---|
| Impact of the Group's investments in joint ventures and associates | 39.6 | In November 2009, Lake Shore Gold acquired all of the outstanding common shares of WTM creating a new large-scale, wholly-owned Timmins West Gold Mine Complex. As a consequence of this all-share transaction, Hochschild's 40.0% stake in Lake Shore Gold was diluted to approximately 26.1%. Upon completion of the business combination between Lake Shore Gold and WTM, Lake Shore Gold's equity value increased by $386 million. As a result, Hochschild recognised an exceptional gain of $42.3 million in 2009, reflecting its share of the increased equity value of Lake Shore Gold, net of the loss on the dilution of Hochschild's interest in Lake Shore Gold.<br><br>In December, after the Group acquired an additional interest in Lake Shore Gold of 3.9%, Lake Shore Gold issued a package of shares, options and warrants. As a result, Hochschild's stake of 36.1% was diluted to 35.7% and the Group recognised an exceptional loss of $4.5 million. |
| Finance Income | 22.3 | The Company reported finance income of $28.7 million (2008: $13.3 million) due to the $12.1 million gain generated from the exchange of shares held in West Timmins Mining for shares in Lake Shore Gold and the $7.4 million gain realised from the exercise of options held in GRC. (See note 13 for further details). |
| Other income | 8.8 | Other income increased to $13.3 million (2008: $5.3 million). This was mainly generated due to a gain of $7.7 million arising from the acquisition of Southwestern Resources as a result of the difference between the total acquisition cost of $19.3 million and the fair value of the net assets of $26.9 million on the acquisition date. |

Negative exceptional items principally include:

| | $ million | Description of main items |
|---|---|---|
| Impairment of fixed assets[1] | 26.7 | In 2009, Hochschild has recorded a total impairment charge before tax of $26.7 million, mainly as a result of:<br><br>Ares – The Group has impaired the carrying amount of the assets related to the Ares mine by $15.3 million, due to the mine's expected closure in the second half of 2010 and the resulting revision to the remaining recoverable reserves and resources.<br><br>Liam – In the first half of 2009, the Liam property was written down by $10.0 million following a reassessment of the value of the property which was acquired in August 2008 for a total consideration of $33.3 million.<br><br>Selene – As a result of the closure of the Selene mine in June 2009, the Company has written down the remaining net book value of assets of $4.8 million.<br><br>Reversal of impairment – In June 2009, the Company reported an impairment charge of $5.7 million for Moris due to the small reserve and resource base at the operation. However, following the positive price environment during the year, this impairment has been reversed and the Company is therefore reporting an exceptional gain of $3.4 million.<br><br>After tax, the total impairment charge was $17.7 million representing an impact of $0.06 on EPS. |
| Cost of sales | 6.9 | One-off bonus paid to workers at the Peruvian mines as a result of the negotiations with workers which were successfully resolved in March 2009. |

1 Impairment testing should be performed at an individual asset or cash-generating unit level. As required by IFRS, the Group conducts an impairment review on an annual basis every time any goodwill was allocated to an asset and every time indicators of impairment exist. Impairment indicators include: declines in metal prices; increases in costs, royalties or taxes; falling grades; lower reserves; production cut backs and significant project development over-runs. The presence of one or more indicators does not necessarily mean that the asset would be impaired but that it must be tested for impairment. See notes 16 and 17 for further details.

## Cash flow & balance sheet review: Cash flow

| $ thousands | Year ended 31 December 2009 | Year ended 31 December 2008 | Change |
|---|---|---|---|
| Net cash generated from operating activities | 200,524 | 78,641 | 155% |
| Net cash used in investing activities | (373,021) | (475,790) | (22%) |
| Cash flows generated/(used) in financing activities | 134,443 | 212,728 | (37%) |
| Net (decrease)/increase in cash and cash equivalents during the period | (38,054) | (184,421) | (79%) |

Total cash decreased to $38.1 million (2008: $184.4 million) driven by significant M&A activity. This was partially offset by strong operating cashflow as well as the capital raising undertaken in October 2009.

Cash flow from operating activities increased 155% to $200.5 million (2008 $78.6 million) as a consequence of higher production and prices and lower production costs and administrative expenses.

Cash outflows used in investing activities of $373.0 million (2008: $475.8 million) were comprised of investment in M&A, which totalled $239.5 million including $168.0 million in Lake Shore Gold, $49.0 million in Gold Resource Corp and $19.2 million in Southwestern Resources. In addition, the Company invested ($141.0 million) in PP&E.

Cash generated from financing activities increased to $134.4 million (2008: $212.7 million) as a result of the capital raising completed in October 2009 which included gross proceeds of $145 million from the equity placing and $115 million from the convertible bond offering. This was partially offset by Hochschild's repayment of $85.7 million of its $200 million syndicated loan.

## Working capital

| $ millions | Year ended 31 December 2009 | Year ended 31 December 2008 |
|---|---|---|
| Trade and other receivables | 168.0 | 162.0 |
| Inventories | 45.8 | 51.9 |
| Derivative financial instruments | (1.9) | 5.6 |
| Income tax | (10.8) | 14.3 |
| Trade and other payables | (135.2) | (124.9) |
| Working capital | 66.0 | 108.8 |

The Company's working capital position decreased to $66.0 million (2008: $108.8 million), primarily as a result of higher trade and income tax payables.

## Net debt

| US$(000) unless otherwise indicated | As at 31 December 2009 | As at 31 December 2008 |
|---|---|---|
| Cash and cash equivalents | 77,844 | 116,147 |
| Long-term borrowings | 219,681 | 231,692 |
| Short-term borrowings less pre-shipment loans | 84,158 | 48,410 |
| Net debt/(net cash) | 225,995 | 163,955 |

Net debt increased to $226.0 million (2008: $164.0 million) as a result of the issuance of the $115 million convertible bond, partially offset by the $85.7 million repayment of the Company's $200 million syndicated loan and lower cash balance as a consequence of a strong M&A activity.

## Capital expenditure[1]

| US$(000) unless otherwise indicated | Year ended 31 December 2009 | Year ended 31 December 2008 |
|---|---|---|
| Arcata | 29,688 | 43,977 |
| Ares | 3,484 | 10,438 |
| Selene | 16,579 | 47,226 |
| Pallancata[1] | 24,117 | 14,619 |
| San José[1] | 26,113 | 80,398 |
| Moris[1] | 480 | 2,234 |
| San Felipe[1] | 150 | 63,318 |
| Other | 7,924 | 49,061 |
| Total | 108,535 | 311,271 |

1 Includes additions in property, plant and equipment and evaluation and exploration assets and excludes increases in closure of mine assets.

2009 capital expenditure of $108.5 million (2008: $311.3 million) includes mine developments of $51.0 million, equipment of $48.9 million and exploration of $8.6 million. The year-on-year decrease is mainly explained by the completion of capacity expansions at the Company's Arcata, Pallancata and San José operations in 2008.

## Mine closure provision

The Group has updated its mine closure provision from $39.0 million to $61.3 million, partly as a result of the plant expansions completed in 2008 and also to ensure that it continues to fully comply with government requirements. From the $22.3 million increase, $11.8 million refers to mines that are already closed and is recorded under other expenses in the income statement, whilst $15.2 million refers to current operations and is recorded under provisions in the statement of financial position. These effects were partially offset by the expenditure in mine rehabilitation during the year and the change in discount rate (see note 27 for further details).

## Dividends

The Directors recommend a final dividend of $0.02 per Ordinary Share which, subject to shareholder approval at the 2010 AGM, will be paid on 27 May 2010 to those shareholders appearing on the register on 30 April 2010. If approved, this will result in a total dividend for the year of $0.04 per share. Dividends are 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 converted into pounds sterling at exchange rates prevailing at the time of payment. 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 flow.

| Dividend dates | 2010 |
|---|---|
| Ex-dividend date | 28 April |
| Record date | 30 April |
| Deadline for return of currency election forms | 4 May |
| Payment date | 27 May |

# 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. The Group has made significant developments in the management of the Group's risk environment which seeks to identify and, where appropriate, implement the controls to mitigate the impact of the Group's significant risks. This effort is supported by a Risk Committee with the participation of the CEO, the Vice Presidents, the Country General Managers and the head of the internal audit function.

The Risk Committee is responsible for implementing the Group's policy on risk management and internal control in support of the Company's business objectives, and monitoring the effectiveness of risk management within the organisation. A review of the most significant risks is carried out by the Audit Committee, further details of which are given in the Corporate Governance Report on pages 49 to 53.

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

| TYPE OF RISK | DESCRIPTION OF RISK | MITIGATING STEPS |
|---|---|---|
| **FINANCIAL RISKS** | | |
| Commodity price risk | Adverse movements in precious metals' prices could have a material impact on the Group's results of operations. | Whilst committed to being unhedged, management continuously monitors silver and gold prices and, where appropriate, shall take the necessary action, within Board approved parameters. |
| Credit | Loss of revenue resulting from defaulting customers | As a result of the global economic downturn, management has taken a number of steps to protect the Group against defaulting customers, by amending sales contracts to provide for advance payment and delaying the transfer of title to goods sold, by obtaining parent company guarantees and implementing risk profiling of key and new customers. |
| Liquidity | The Group may be unable to raise funds to meet its financial commitments as they fall due. | The Board and the Executive Committee monitor the Group's requirements for short- and medium-term liquidity and access to credit lines to ensure appropriate level of financing. In 2009 the Group increased its short-term bank lines by over 30% in addition to accessing further long-term financing through the issue of equity and convertible bonds |
| Foreign currency | The combination of US dollar denominated sales and a cost base spread across local currencies may impact the Group's results in the event of adverse currency movements against the US dollar. | The relationship between the US dollar and local currencies, and gold and silver prices provide the company with a natural hedge. Management periodically reviews this relationship to ensure the company is properly protected. |
| Interest rate | Movements in interest rates could impact the Group's results from financings. | Given the low interest rate environment, management has taken measures to fix the interest rate exposure of the Group stemming from its debt balance. |

Further information on financial risks can be found in note 38 to the Consolidated Financial Statements.

| TYPE OF RISK | DESCRIPTION | MITIGATING STEPS |
|---|---|---|
| OPERATIONAL RISKS | | |
| Costs | Increase in production costs will impact on the Group's profitability. | The Group seeks to enter into long-term supply contracts where possible, and at favourable prices. |
| Business interruption | Assets used in operations may break down and insurance policies may not cover against all forms of risks due to certain exclusions and limitations. | The Group has combined property damage and business interruption insurance policies for all operations, and adequacy of coverage is regularly reviewed in conjunction with consultants to ensure appropriate level of cover for the industry and for operations in Latin America. Contingency planning has also led to the Group compiling stock of critical parts and access to back-up power supplies |
| Reserve and resource replacement | The Group's future profitability and operating margins depend upon its ability to replenish reserves with geological characteristics to enable mining at competitive costs. Reserves stated in this Annual Report are estimates. | The Group has an annual drilling plan which is revised on a quarterly basis. Exploration targets are continuously being defined with new targets incorporated. |
| Personnel | Loss of key senior management and personnel; in particular, highly skilled engineers and geologists. Lack of availability of individuals with relevant mining experience situated in the locality of the Group's operations, or the inability of the Group to obtain all necessary services or expertise locally or to conduct operations on projects at reasonable rates. | The Group seeks to provide competitive compensation arrangements and well-defined career plans for positions of strategic importance. In respect of mining personnel, a dedicated labour relations strategy has been developed to meet employees' needs and to facilitate open dialogue between key stakeholders. |
| MACRO ECONOMIC RISKS | | |
| Political, legal and regulatory | Costs associated with ensuring compliance with all relevant laws and regulations are substantial and future changes may require additional expense, restrictions on or suspensions of, the Group's operations and may result in delays in the development of its properties. | Regional risk assessments are performed when investment in new countries are considered. These incorporate reviews of political environments and likelihood of changes in relevant royalties and taxes. Local teams in each country of operation monitor and react, as necessary, to policy changes impacting on the business. Further mitigation is achieved through broadening of the geographic spread of the Group's assets, ensuring risk is diversified across a number of countries. |
| CORPORATE SOCIAL RESPONSIBILITY RISKS | | |
| Health and safety | Group employees working in the mines may be exposed to health and safety risks. Failure to manage these risks may result in a work slowdown, stoppage or strike and/or may damage the reputation of the Group and hence its ability to operate. | Attainment of Level 4 of the DNV safety management information system at all operating units. |
| Environmental | The Group may be liable for losses arising from environmental hazards associated with the Group's activities and production methods, or may be required to undertake extensive remedial clean-up action or pay for governmental remedial clean-up actions. | As part of the Group's approach to environmental risk management, periodic audits of the Group's operations are carried out with findings reported to senior management, and corresponding recommendations implemented under agreed action plans. Air and water quality is monitored on a weekly and monthly basis. |
| Social | Communities living in the localities of the Group's operations may oppose the activities carried out by the Group at existing mines or development projects and prospects which may also impact on the Group's ability to obtain concessions for current or future projects. | The Group's Community Relations Department maintains continuous dialogue and cooperation with communities surrounding the Group's operations. New high impact plans have been developed focusing on health, education and technical assistance. Tailored risk matrices are monitored on a monthly basis. |

# Board of Directors

## EXECUTIVE DIRECTORS

### Eduardo Hochschild
### Executive Chairman

Eduardo Hochschild joined Hochschild Mining in 1987 as Safety Assistant at the Arcata unit, becoming Head of the Hochschild Mining Group in 1998 and Chairman in 2006. Eduardo has numerous directorships, amongst them, Cementos Pacasmayo S.A.A., COMEX Peru, Banco de Crédito del Perú and a number of positions with non-profit entities such as the Sociedad Nacional de Minería y Petróleo and the Conferencia Episcopal Peruana.

### Roberto Dañino
### Deputy Chairman and Executive Director

Roberto Dañino joined Hochschild Mining 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 and founding General Counsel of the Inter-American Investment Corporation. Roberto is one of Hochschild's representatives on the Board of Lake Shore Gold Corp and is also a Non-Executive Director of a number of companies including Gold Fields Limited.

### Miguel Aramburú
### Chief Executive Officer

Miguel Aramburú joined Hochschild in 1995 when he was appointed General Manager of Compañia 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 was appointed Chief Executive Officer in January 2008 and an Executive Director from January 2009. Miguel also serves as a director of Pacífico Vida.

### Ignacio Rosado
### Chief Financial Officer

Ignacio Rosado has been the Chief Financial Officer of the Group since 2005 and an Executive Director since January 2009. He is one of Hochschild's representatives on the board of Lake Shore Gold Corp. Prior to joining the Group, Ignacio was Senior Engagement Manager for McKinsey & Company from 2000 to 2005. Ignacio began his career in banking, having worked for Banco Wiese Sudameris in Peru between 1992 and 1994 and at Banco de Crédito del Perú.

## NON-EXECUTIVE DIRECTORS

### Sir Malcolm Field
### Senior Non-Executive Director

Sir Malcolm Field is a Non-Executive Director of Petropavlovsk plc and Ray Berndtson. Between 2002 and 2006 Sir Malcolm served as Chairman of Tube Lines Limited, one of the London Underground consortia, and from 2001 to 2006, as an external policy adviser to the UK's Department of Transport. Sir Malcolm served as Group Managing Director of WH Smith plc between 1982 and 1993 and as Chief Executive from 1993 to 1996. From 1996 to 2001 Sir Malcolm served as Chairman of the Civil Aviation Authority. Sir Malcolm as has held non-executive directorships with numerous companies, including Scottish and Newcastle plc and Evolution Beeson Gregory.

### Jorge Born Jr.
### Non-Executive Director

Jorge Born Jr. joined Bomagra S.A. in 1997 initially as Chief Executive Officer and since 2001, as President and Chief Executive Officer. Jorge is also a Director of Caldenes S.A., a subsidiary of Bomagra. Previously, Jorge served as Head of Bunge's European operations from 1992 to 1997 and as Head of Bunge's UK operations from 1989 to 1992. He has been a Director and Deputy Chairman of Bunge Limited since 2001 and a 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.

### Nigel Moore
### Non-Executive Director

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

### Dionisio Romero
### Non-Executive Director

Dionisio Romero retired as Chairman and Chief Executive Officer of the financial services holding company, Credicorp Ltd in April 2009 after more than 13 years. Dionisio is a Director of Banco de Credito e Inversiones de Chile and is President of TECSUP Trujillo, a higher education institution.

### Fred Vinton
### Non-Executive Director

Fred Vinton holds directorships in a number of companies including European Goldfields plc, Unipart Group of Companies UK, MBA Latin America Opportunity Fund, GP Investments Ltd, Dinamia SCR S.A. and EQMC Europe Development Capital Fund plc. Between 1995 and 2006 Fred served as Chairman/ Chief Executive Officer of Electra Partners Limited and prior to that he was Chief Executive of Quilvest Ltd between 1992 and 1995. Formerly, Fred spent 25 years at J.P. Morgan where he was responsible for the bank's business in Latin America, the UK and Scandinavia before joining N M Rothschild & Sons Ltd as Chief Operating Officer in 1988. Fred was appointed to the Board from 1 August 2009.

# Senior management

Isac Burstein
VP 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 Ingenieria, an MSc in Geology from the University of Missouri and an MBA from Krannert School of Management, Purdue University. Isac is on the Board of Gold Resource Corp.

Ignacio Bustamante
Chief Operating Officer
Ignacio Bustamante joined Hochschild in 1992 and assumed his current role in January 2008. Previously, he has served as General Manager of the Peruvian operations and between 1998 and 2003 as Chief Financial Officer of Cementos Pacasmayo. Whilst at Cementos, Ignacio served as Chief Financial Officer and Vice President of Business Development and later as President at Zemex Corporation, a group subsidiary. Ignacio is also one of Hochschild's representatives on the Board of Lake Shore Gold Corp. He holds a BSc in Business and a BSc in Accounting from the Universidad del Pacífico in Peru and an MBA from Stanford University.

Raymond Jannas
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' 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
Vice President and General Counsel
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 subsequently, at 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. Prior to his current role José served as Senior Adviser to the Executive Committee.

Eduardo Villar
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 their report for the year ended 31 December 2009.

## 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.

The Group has four underground mines in production supported by fully developed infrastructure, three of which are located in southern Peru and the fourth in Argentina. The Group also has one open pit mine in Mexico and numerous 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.

In addition, the Group has strategic investments in a number of mining companies including Lake Shore Gold Corporation and Gold Resource Corporation.

The "growth strategy", "corporate responsibility" and "financial review and risk" sections of this Annual Report on pages 4 to 41 contain the information required to be disclosed in this report under section 417 of the Companies Act 2006 which, together with the Corporate Governance Report, are incorporated into this report by reference.

## RESULTS AND DIVIDEND

The Group's adjusted EBITDA[1] for the year amounted to $249.9 million (2008: $142.3 million). Revenue for the year was $539.7 million (2008: $433.8 million) and attributable profit to equity shareholders after tax (before exceptional items) was $52.9 million (2008: $15.8 million).

An interim dividend of $0.02 per share was paid to shareholders of the Company on 22 September 2009. The Directors recommend the payment of a final dividend of $0.02 per share (2008: $0.02 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 27 May 2010 to shareholders on the register at the close of business on 30 April 2010. Shareholders may elect to receive their dividend 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 at the date of this report are given on page 42.

All directors were in office for the duration of the year under review except for Fred Vinton who was appointed by the Board on 1 August 2009. As such, Mr Vinton will stand for election by shareholders at the forthcoming AGM in accordance with the Company's Articles of Association. In addition, Eduardo Hochschild and Dionisio Romero will be retiring by rotation at this year's AGM and, being eligible, offer themselves for re-election by shareholders.

1 Calculated as profit from continuing operations before exceptional items, net finance income/cost and income tax plus depreciation, amortisation and exploration expenses excluding "Personnel" and "Other" expenses.

## DIRECTORS' INTERESTS

Details of the interests of those Directors serving at 31 December 2009 in (i) the Company's shares or (ii) derivatives or financial instruments relating to such shares, are shown below:

| | No of ordinary shares as at 31 December 2009 | No of ordinary shares as at 1 January 2009 |
|---|---|---|
| Eduardo Hochschild[1] | 182,415,206 | 181,350,426 |
| Roberto Dañino[2] | 1,725,000 | 1,725,000 |
| Miguel Aramburú | 0 | 0 |
| Ignacio Rosado | 0 | 0 |
| Sir Malcolm Field | 14,285 | 14,285 |
| Jorge Born Jr. | 0 | 0 |
| Nigel Moore | 14,285 | 14,285 |
| Dionisio Romero | 100,000 | 100,000 |
| Fred Vinton | 0 | 0 |

1 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.
2 Roberto Dañino's interest is held by Navajo Overseas Corporation.

There have been no changes in the above interests in the period from 31 December 2009 to 23 March 2010.

## RELATIONSHIP AGREEMENT

Prior to the Company's IPO, Pelham Investment Corporation, Eduardo Hochschild and the Company (amongst others) 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 on the Relationship Agreement are set out in the Corporate Governance Report on pages 49 to 53.

## CORPORATE SOCIAL RESPONSIBILITY ("CSR")

The Directors are committed to ensuring the health and safety of the Group's employees, operating the Group's business with respect for the environment and by actively engaging with local communities. The Group has sought to reinforce this commitment by allocating resources and undertaking numerous initiatives over many years.

The CSR Committee has continued to discharge its responsibilities during the year by:

- monitoring the Group's performance against agreed policy on all CSR-related issues, particularly on safety and occupational health, community relations, and the environment;
- reviewing management's investigation of incidents or accidents that occur, in order to assess whether policy improvements are required; and

- reviewing 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.

Further details on the Group's activities in this area are given in the corporate responsibility report on pages 26 to 33.

## 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 $61.3 million, which includes amounts estimated for ongoing maintenance of sites. A provision for this amount was made as at 31 December 2009 (2008: $38.9 million) which was calculated following a review of the mines' estimated closure costs by external consultants and which has been updated by management.

## EMPLOYEES

Employees of Minera Santa Cruz, S.A. are voluntarily affiliated to the Asociación Obrera Minera Argentina (the Argentine Mineworkers Union). The Group's employees at the Peruvian operations became members of unions which were formed during 2008. Details of how the Group engages with its employees are provided in the corporate responsibility report (on pages 26 to 33).

## SUPPLIER PAYMENT POLICY

It is the Company's policy that, subject to compliance with trading terms by the supplier, payments to suppliers are made in accordance with terms and conditions agreed in advance.

At 31 December 2009, the Company had an average of 42 days' purchases owed to trade creditors (2008: 23 days).

## POLITICAL AND CHARITABLE DONATIONS

The Company does not make political donations. During the year, the Group expended $6 million (2008: $4.6 million) on social and community welfare activities surrounding its mining units.

## EVENTS SINCE THE BALANCE SHEET DATE

Details of events occurring since 31 December 2009 are set out in note 39 to the Group's financial statements on page 133.

## SHARE CAPITAL

The issued share capital of the Company as at 1 January 2009 was 307,350,226 Ordinary Shares of 25p each. During the year to 31 December 2009 this increased by 30,735,000 Ordinary Shares as a result of shares issued by way of a placing on 7 October 2009 at a price of 295p each.

## SHARE REPURCHASE AUTHORITY

The Company obtained shareholder approval at the AGM held in May 2009 for the repurchase of up to 30,735,022 Ordinary Shares which represents 9.09% of the Company's current issued share capital ("the 2009 Authority"). Whilst no purchases were made by the Company pursuant to the 2009 Authority, it is intended that shareholder consent will be sought on similar terms at this year's AGM when the 2009 Authority expires.

## SUBSTANTIAL SHAREHOLDINGS

As at 23 March 2010 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:

| | Number of Ordinary Shares | Percentage of issued share capital |
|---|---|---|
| Eduardo Hochschild | 182,415,206 | 53.96 |
| Vanguard Group Inc. | 27,840,000 | 8.23 |
| Blackrock Global Funds | 15,442,182 | 4.57 |
| Altima Global Special Situations Master Fund Limited | 12,003,175 | 3.55 |

## RELATED PARTY TRANSACTIONS

Details of related party transactions undertaken during the year under review are given in note 31 to the Group's financial statements on page 120.

## ADDITIONAL STATUTORY INFORMATION

This section provides information as at 31 December 2009 which is required to be disclosed in the Directors' report.

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.

References below to "the Companies Act" are to the Companies Act 2006.

### (a) Structure of share capital

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

Further information on the Company's share capital is provided in note 38 to the Group financial statements.

### (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.

# Directors' report continued

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. A member that is a corporation is entitled to appoint more than one individual to act on its behalf at a general meeting or class meetings as a corporate representative.

### (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, 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, 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 Act after failure to provide the Company with information concerning interests in those shares required to be provided under the Companies Act.

### (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 Act.

### (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 Articles, 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.

### (f) Shareholder Agreements

The Relationship Agreement entered into prior to the IPO between, amongst others, the Major Shareholder (as defined in the Relationship Agreement) and Eduardo Hochschild (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 will 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 Act) 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 Act 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 inaccordance with the provisions of the Companies Act by way of special resolution.

### (i) Powers of the Directors

Subject to the Company's Memorandum of Association, the Articles, the Companies Act 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 Act. 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 30,735,022 Ordinary Shares and which will expire at the 2010 AGM. The minimum price which must be paid for such shares is specified in the relevant shareholder resolution.

(k) Dividends and distributions
Subject to the provisions of the Companies Act, 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, to take effect, alter or terminate. Such agreements include commercial trading contracts, joint venture agreements and banking arrangements. Further details are given below of those arrangements where the impact may be considered to be significant in the context of the Group.

- Under the terms of the $200 million syndicated secured term loan facility agreement dated 28 January 2008, a change of control entitles JP Morgan Chase Bank N.A. ("JPMCB") (as the administrative agent) to take certain actions. In summary, if so directed by a majority of the lenders, JPMCB may cancel the facility and declare all outstanding loans, together with accrued interest and all other amounts accrued under the facility documentation immediately due and payable. Furthermore, a change of control entitles JPMCB to direct the enforcement of all liens and security interests created under the facility documentation.
- Under the terms and conditions of the $115,000,000 5.75% Convertible Bonds due 2014, condition 5(a) sets out the conversion rights of the holders of the bonds and the calculation of the conversion price payable. The conversion price will decrease if a "Change of Control" occurs. "Change of Control" is defined in Condition 3 and Condition 5(b)(x) sets out the consequential adjustment to the conversion price.

  In summary, a Change of Control occurs if (i) an offer is made to all (or as nearly as may be practicable all) shareholders other than the offeror and/or any of its associate to acquire all or a majority of the issued ordinary shares of the Company or if any person proposes a scheme with regard to such acquisition (other than an Exempt Newco Scheme (as defined)) and (such offer or scheme having become unconditional in all respects or having become effective) the right to cast more than 50% of the votes which may ordinarily be cast on a poll at a general meeting of the Company ("Voting Rights") has or will become unconditionally vested in the offeror and/or an associate (as defined) of the offeror; or (ii) the right to cast more than 60% of the Voting Rights has or will become unconditionally vested in the ultimate controlling shareholder of the Company at the time of issue and/or an associate (as defined); or (iii) the right to cast more than 50% of the Voting Rights has or will become unconditionally vested in any person or persons acting together by reason of the acquisition of the Company's ordinary shares or Voting Rights from the ultimate controlling shareholder of the Company at the time of issue. Condition 6(d) of the terms and conditions of the bonds gives bondholders an early redemption option (early repayment at face value plus accrued interest) upon a Change of Control occurring.
- Awards made under the Group's Long-Term Incentive Plan shall, upon a change of control of the Company, vest early unless a replacement award is made. Vesting will be prorated to take account of the proportion of the period from the award date to the normal vesting date falling prior to the change of control and the extent to which performance conditions (and any other conditions) applying to the award have been met.
- Certain arrangements in respect of derivative instruments entered into by the Group would terminate on the occurrence of a change of control thereby triggering an event of default vis a vis the counterparty.

## ESSENTIAL CONTRACTUAL AND OTHER ARRANGEMENTS

The Directors consider that the following are the contractual and other arrangements to which group companies are a party and which are considered to be essential to the business:

- the mining concessions and operating permits granted by the governmental authorities in the jurisdiction of the Group's operations; and
- collective agreements with trade unions in respect of the workers at the Group's mines in Peru.

## 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 prices, credit, equity, liquidity, interest rates and capital risks can be found in this note.

# Directors' report continued

## 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 Articles contain a provision whereby each of the Directors is indemnified by the Company in respect of liability in relation to: (i) any negligence, default, breach of duty or breach of trust relating to the Company or any associated company; (ii) execution of their duties as Directors of the Company; and (iii) the activities of the Company or any associated company as trustee of an occupational pension scheme. For these purposes, associated company has the meaning given to it by section 256 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.

The Company has purchased and maintains liability insurance for its Directors and officers as permitted by section 233 of the Companies Act 2006.

## CONFLICTS OF INTEREST

The Companies Act 2006 allows Directors of public companies to authorise conflicts and potential conflicts of interest of directors where the Company's Articles of Association contain a provision to that effect. Shareholders approved amendments to the Company's Articles of Association at the AGM held on 9 May 2008 which included provisions giving the Directors authority to authorise matters which may result in the Directors breaching their duty to avoid a conflict of interest.

The Board has established effective procedures to enable the directors to notify the Company of any actual or potential conflict situations and for those situations to be reviewed and, if appropriate, to be authorised by the Board, subject to any conditions that may be considered appropriate. In keeping with the approach agreed by the Board, Directors' conflicts were reviewed during the year under review.

Directors of the Company who have an interest in matters under discussion at Board meetings are required to declare this interest and to abstain from voting on the relevant matters. Any related party transactions are approved by a committee of the Board consisting solely of Independent Directors. In addition, the Directors will be able to impose limits or conditions when giving any authorisation, if they think this is appropriate.

## 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 fourth AGM of the Company will be held at 10 am on 26 May 2010 at the offices of Goldman Sachs, River Court, 120 Fleet Street, London EC4A 2QQ. The shareholder circular incorporating the Notice of AGM is available at www.hochschildmining.com

The shareholder circular contains details on, amongst other things, the business to be considered at the meeting and the biographical details of the Directors standing for re-election at the AGM.

## 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 relevant audit information 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.

This confirmation is given, and should be interpreted, in accordance with the provisions of section 418(2) of the Companies Act 2006.

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors confirm that to the best of their knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the Management report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

## DISCLAIMER

Neither the Company nor the Directors accept any liability to any person in relation to this Annual Report except to the extent that such liability could arise under English law. Accordingly, any liability to a person who has demonstrated reliance on any untrue or misleading statement or omission shall be determined in accordance with section 90A of the Financial Services and Markets Act 2000.

The names and functions of the current Directors of the Company are set out on page 42 of this Annual Report.

On behalf of the Board

**Raj Bhasin**
Company Secretary

23 March 2010

# Corporate governance report

## INTRODUCTION & STATEMENT OF COMPLIANCE

The Board of Hochschild Mining plc 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 intends to comply, wherever possible, in the interests of shareholders and other stakeholders, with the Combined Code on Corporate Governance 2008 Edition ("the Code") a copy of which is available on the website of the Financial Reporting Council.

This report sets out how the Company has applied the Main Principles set out in the Code in respect of the year under review. The information required to be included in the Corporate Governance Report in relation to share structure pursuant to the Disclosure and Transparency Rules is provided in the section of the Directors' Report entitled "Additional Statutory Information".

The Board confirms that in respect of the year ended 31 December 2009, the Group complied fully with the provisions contained in Section 1 of the Code.

## 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 senior 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 four Executive Directors: Eduardo Hochschild (Chairman), Roberto Dañino (Deputy Chairman), Miguel Aramburú (Chief Executive Officer) and Ignacio Rosado (Chief Financial Officer), and five Non-Executive Directors: Sir Malcolm Field (Senior Independent Non-Executive Director), Jorge Born Jr., Nigel Moore, Dionisio Romero and Fred Vinton.

Eduardo Hochschild, who controls the major shareholder of the Company, Pelham Investment Corporation ("the Major Shareholder"), has considerable knowledge and experience in the Latin American gold and silver mining industry. As a result, it is the Board's belief that Eduardo Hochschild's membership of the Board and participation in the management of the Company is vital to its continued success and growth. Prior to the Company's Listing, the Major Shareholder, its Controlling Shareholders at the time including Eduardo Hochschild, and the Company, entered into an agreement regulating their ongoing relationship. Further details concerning this agreement are set out on page 50.

There is an agreed schedule of matters reserved for the Board which includes the approval of annual and half-yearly results, the Group's strategy, the annual budget and major items of capital expenditure.

During the year under review, there were four scheduled meetings of the Board and five ad hoc meetings which were convened at short notice to deal with operational issues and matters relating to the Company's capital raising which was completed in October 2009.

Attendance by Directors at the scheduled Board meetings held during the year is summarised in the table below.

| Director | Possible attendance | Actual attendance |
|---|---|---|
| Eduardo Hochschild | 4 | 4 |
| Roberto Dañino | 4 | 4 |
| Miguel Aramburú | 4 | 4 |
| Ignacio Rosado | 4 | 4 |
| Sir Malcolm Field | 4 | 4 |
| Nigel Moore | 4 | 4 |
| Jorge Born Jr. | 4 | 3 |
| Dionisio Romero | 4 | 3 |
| Fred Vinton | 2 | 2 |

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

- the Group's strategic plan and annual budget.
- corporate development opportunities.
- the raising of additional capital through a placing and issue of convertible bonds.
- a review of directors' conflicts of interest.
- various matters relating to health & safety, environmental management and community relations.

Directors receive a full pack of papers for consideration in advance of each Board meeting and, in the event that a Director is unable to attend, comments are relayed to the Chairman who seeks to ensure that all views are represented on any given matter.

In addition, Directors are kept abreast of latest developments through monthly reports on the Company's operations and financial situation.

## CHAIRMAN AND CHIEF EXECUTIVE

In respect of the year under review, the Company was led by Eduardo Hochschild as Executive Chairman, and Miguel Aramburú, the Chief Executive Officer. A document setting out the division of responsibilities between these postholders is set out in writing and has been approved by the Board. Eduardo Hochschild, as Chairman, is responsible for the running and leadership of the Board and, in conjunction with the Chief Executive Officer, for the formulation of the vision and long-term corporate strategy of the Group. The approval of the Group's strategy is a matter for approval by the Board.

The Chief Executive Officer is responsible for leading an executive team in the day-to-day management of the Group's business.

# Corporate governance report continued

## SENIOR INDEPENDENT DIRECTOR

Sir Malcolm Field has been appointed as the Senior Independent Director and, as such, is available to meet with major shareholders if their concerns have not been resolved by the Chairman or the other Executive Directors.

## BOARD BALANCE AND INDEPENDENCE

During 2009 the composition of the Board complied with the provision of the Code which requires that a majority of the Board (excluding the Chairman) should comprise Non-Executive Directors who are considered by the Board to be independent.

The Board believes that its membership during the year was, and continues to be, well balanced and capable of managing the Company in an effective and successful manner. Whilst the Chairman is not considered to be independent, the Board is satisfied that decisions can be made without any one Director exercising undue influence. This sentiment has been further reiterated by the views expressed as part of the board evaluation process. The Board considers 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.

Moreover, the undertakings given in the Relationship Agreement by the Major Shareholder and Eduardo Hochschild, 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.

The Board is of the opinion that all five independent Directors enhance the Board's capacity to oversee and grow the Company's operations. This notwithstanding, the membership of each main Board committee is reviewed by the Board on an on-going basis 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 private discussions with the Chairman.

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 and its controlling shareholders at the time including Eduardo Hochschild (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 continues for so long as the Company's shares are traded on the London Stock Exchange or until such times as the Controlling Shareholders (including Eduardo Hochschild) cease to own or control in aggregate a minimum of 15% or more of the issued share capital or voting rights of the Company.

## APPOINTMENTS TO THE BOARD AND RE-ELECTION OF DIRECTORS

Board nominations are recommended to the Board by the Nominations Committee which met during the year under review to consider the appointment of Fred Vinton as a Non-Executive Director of the Company.

In accordance with the provisions of the Articles of Association, Fred Vinton will be subject to election by shareholders at the forthcoming AGM. In addition, Eduardo Hochschild and Dionisio Romero will retire by rotation and, being eligible, offer themselves for re-election by shareholders also at the forthcoming AGM. Biographical details of these Directors are given on page 42.

## BOARD DEVELOPMENT

The Directors receive 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. An induction programme for new Board appointees incorporates 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.

## BOARD EVALUATION

The Board is committed to the process of self evaluation as a means of ensuring continued improvement in fulfilling its responsibilities. With this in mind, the approach to board evaluation was refreshed for 2009 by replacing questionnaires with one-on-one interviews undertaken by the Senior Independent Director and the Company Secretary. The questioning sought to elicit the Directors' views on, amongst other things, the workings of the Board, Committees as well as board composition and process. The findings were considered by the Chairman and the Senior Independent Director and a number of recommendations arising from the process were considered and approved by the Board. The recommendations principally relate to the continuation of efforts in respect of contingency planning at Board level and Board process.

A section of the interviews carried out was dedicated to evaluating the Chairman's performance, the outcome of which was collated by the Senior Independent Director and collectively considered by the Non-Executive Directors before the recommendations were relayed to the Chairman.

## 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

## AUDIT COMMITTEE

The role of the Audit Committee is to:

- monitor the integrity of the Company's financial statements;
- monitor the effectiveness of the Company's internal controls and risk management systems;
- oversee the relationship with the Company's external auditors; and
- review the effectiveness of the external audit process.

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 and acts as Audit Committee Chairman for four other listed companies. Further details are given in the biography on page 42. During the year under review, the other members of the Audit Committee were Sir Malcolm Field and Jorge Born Jr., both of whom are considered to be independent Directors.

The lead partner of the external auditors, the Executive Directors and the Head of Internal Audit attend each Audit Committee meeting by invitation.

During the year under review, there were four meetings of the Audit Committee which were attended by all members with the exception that Jorge Born Jr. was unable to attend one meeting.

The following matters featured among those considered by the Committee during the year:

- Financial reporting – The Audit Committee reviewed the 2008 Annual Report and Accounts and the 2009 Half-yearly Report before recommending them to the Board for approval. As part of its review of each, the Audit Committee reviewed accounting policies, estimates and judgements applied in preparing the relevant report and accounts and the transparency and clarity of disclosures contained within them.
- Risk management – Risk matrices detailing the significant risks at each of the Group's operations were considered by the Audit Committee together with the accompanying evaluation and action plans to manage the identified high risk areas.
- Internal audit – The Audit Committee has continued to oversee the Group's adoption of a risk-based approach to internal audit.
- Internal control – The Audit Committee has continued to review, amongst other things, the adequacy of the Group's internal control environment. The Group continues to operate arrangements under which staff may raise, in confidence, concerns about possible improprieties in matters of financial reporting or other matters and which enables proportionate and independent investigation of any such improprieties with suitable follow-up action.
- External audit – The Audit Committee considered the reappointment 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.

The Audit Committee continues to oversee the implementation of specific policies designed to safeguard the independence and objectivity of the auditors including a policy on the provision of non-audit services. This document specifies those non-audit services that the external auditor may provide (in the absence of any threat to its independence) which include support in relation to M&A, and Joint Ventures and tax advisory services which are not incompatible with the auditors' statutory responsibilities. The policy also sets out those services which the auditors are prohibited from rendering (and where it is not in the best interests of the Group for the work to be undertaken by the external auditor). Such services include management of, or significant involvement in internal audit services, advice to the Remuneration Committee and valuation services.

Details on the fees paid to the external auditors during the year in respect of audit and non-audit work are provided in note 32 to the consolidated financial statements.

# Corporate governance report continued

## 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 Remuneration Committee comprises the following independent Non-Executive Directors: Jorge Born Jr. (Committee Chairman until 1 June 2009), Sir Malcolm Field (Committee Chairman from 1 June 2009) and Nigel Moore. The Committee held three meetings during the year under review at which all members were in attendance with the exception that Jorge Born Jr. 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 54.

## 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 three meetings held during the year under review.

The matters considered by the Nominations Committee during the year were:

- the consideration of any potential conflicts of interests relating to, and the subsequent appointment of, Fred Vinton as a Non-Executive Director; and
- the relevant recommendations arising from the Board evaluation process.

Mr Vinton was identified by the Board as an ideally suited candidate for a non-executive directorship of the Company in light of his extensive capital markets and Latin American business experience. For these reasons, the Board did not consider it necessary to either appoint an external search consultancy nor to conduct open advertising in the search for further candidates.

## CORPORATE SOCIAL RESPONSIBILITY COMMITTEE

The role of the CSR Committee is to oversee and to make all necessary recommendations to the Board in connection with 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 three meetings which were attended by all members. In addition, detailed updates on CSR related matters were presented at two of the Board meetings held during the year.

Further details concerning the CSR Committee and the Group's activities in this area are set out in the corporate responsibility report on pages 26 to 33.

## 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 progress against strategic objectives.
- Monitoring the risks faced by the Group's operations through reports from the Head of the Internal Audit function.
- Review of accounting and financial reporting processes together with the internal control environment existing at Group level.

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 further details of which are given in the risk management section of this Annual Report.

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 page 48.

## 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 half-yearly 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 Half-yearly Reports (which are available on request). The Company also uses the AGM as an opportunity to communicate with its shareholders.

Notice of the 2009 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. A poll vote was taken on each of the resolutions put before shareholders. It is intended that this approach will also be taken at the 2010 AGM with results of the voting at the AGM announced and published on the Company's website as soon as possible after the meeting.

Further information on matters of particular interest to investors is available on page 163 and on the Company's website at 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 2009. This report has been prepared in accordance with the relevant regulations made under the Companies Act 2006 and the requirements of the Financial Services Authority's Listing Rules.

As required by law, the information provided in the table in the section entitled "Long-Term Incentive Plan" and the table on Directors' total remuneration and accompanying notes 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.

## REMUNERATION COMMITTEE

The Remuneration Committee was chaired by Jorge Born Jr. until 1 June 2009 and, from that date by Sir Malcolm Field. Jorge Born Jr. and Sir Malcolm Field served as members of the Committee throughout 2009, together with Nigel Moore. All of 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

The Remuneration Committee was advised during the year on remuneration matters generally by Kepler Associates who did not provide any other services to the Group during the year.

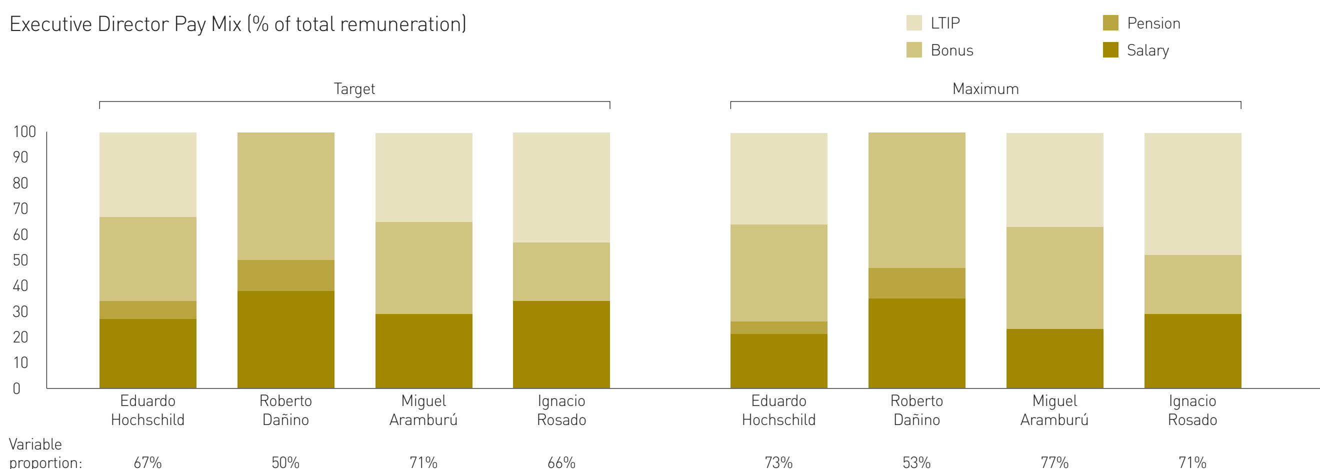
## REMUNERATION POLICY

The Remuneration Policy of the Group as applied by the Remuneration Committee did not change in the year under review. The principal objectives of the Group's policy are to attract, retain, and motivate its executives and senior management and to align management incentives with the creation of shareholder value. The Group seeks to achieve this alignment over both the short and long term through the use of annual performance-related bonuses which reward the achievement of a balanced mix of financial and operational performance measures, and Total Shareholder Return ("TSR") which measures performance for the awards made under the Long-Term Incentive Plan. This policy will continue to be applied by the Remuneration Committee in respect of the current financial year.

## FIXED AND VARIABLE PAY

The following chart sets out the split between fixed and variable pay of the Executive Directors at both target and maximum performance as at 31 December 2009. The maximum bonus percentages are set out in each Executive Director's service contract and/or as subsequently determined by the Remuneration Committee and have been set to ensure that the majority of the remuneration is performance based.

Executive Director Pay Mix (% of total remuneration)



Components of fixed pay for the Executive Directors in office as at 31 December 2009:

| Director | Annual Entitlements | | |
|---|---|---|---|
| | Base Salary[1] US$000 | Pension Supplement US$000 | Total US$000 |
| Eduardo Hochschild | 800 | 200 | 1,000 |
| Roberto Dañino | 600 | 200 | 800 |
| Miguel Aramburú | 370[2] | 0 | 370 |
| Ignacio Rosado | 300[2] | 0 | 300 |

1 Eduardo Hochschild and Roberto Dañino each has service contracts with Hochschild Mining plc and Compañía Minera Ares S.A.C. ("Ares"), a Group subsidiary. Salary paid by Ares includes all legal labour benefits and compensation such as, but not restricted to, family allowance, vacation salaries and compensation for time services (ruled by Peruvian Legislative Decree 6500) but excludes legal profit sharing.
2 Miguel Aramburú and Ignacio Rosado each has a service contract with Ares. In both cases, salary includes all legal labour benefits and compensation such as, but not restricted to, family allowance, vacation salaries but excludes legal profit sharing and compensation for time services (ruled by Peruvian Legislative Decree 6500).

Note: Miguel Aramburú's annual base salary was increased from $350,000 to the current level with effect from 1 April 2009.

## BASE SALARIES

Eduardo Hochschild and Roberto Dañino have service contracts with Hochschild Mining plc and Compañía Minera Ares S.A.C. ("Ares"), a Group subsidiary. Under these arrangements, one-fifth of their base salaries is paid by the Company and four-fifths is paid by Ares.

As Miguel Aramburú and Ignacio Rosado have service contracts with Ares only, their base salaries are paid entirely by that company.

## SHORT-TERM INCENTIVES

Each year the Remuneration Committee approves objectives for each of the Executive Directors based on individual roles and responsibilities and are intended to reward strong financial performance of the Group and achievement of key operational targets within the individual's scope of responsibilities. The level of bonus paid depends on performance against these objectives and are subject to the discretion of the Remuneration Committee.

The maximum bonus opportunities (expressed as a percentage of the base salaries detailed in the table above) for the Executive Directors in respect of the year under review are as follows:

Eduardo Hochschild – 175%

Roberto Dañino – 150%

Miguel Aramburú – 175%

Ignacio Rosado – 80%

## 2009 BONUS AWARDS

A summary of the objectives set in respect of 2009 is given below:

- the Group's total shareholder return ranked first relative to a comparator group;
- target EBITDA was exceeded, with 2009 seeing an increase of 76% year on year with strong cost control despite challenging labour conditions;
- production target of 28m silver equivalent ounces was met;
- Reserves and Resources targets in respect of two out of three mines were met; and
- Acceptance by the Board of a clear strategic plan.

# Directors' remuneration report continued

For Miguel Aramburú and Ignacio Rosado, additional objectives relating to the raising of $260m through a convertible bond issuance and equity placing were set and recognition given to its advantageous timing and terms, and the successful execution of further ownership of Lake Shore Gold Corp and Gold Resource Corporation. For these achievements, extraordinary bonuses were awarded as follows:

Miguel Aramburú – $165,000

Ignacio Rosado – $64,000

Roberto Dañino waived his entitlement to a bonus in respect of 2009 to support further the future development of the communities located close to the Group's operations.

The total bonuses paid to the Executive Directors in respect of the year under review are detailed in the table on page 59.

### Pensions, statutory profit sharing and benefits-in-kind

The Group does not provide pension benefits to the Directors but does pay Eduardo Hochschild and Roberto Dañino with a pension supplement of $200,000 each per year in lieu of pension. Of this supplement, $160,000 is paid by Ares and $40,000 is paid by the Company.

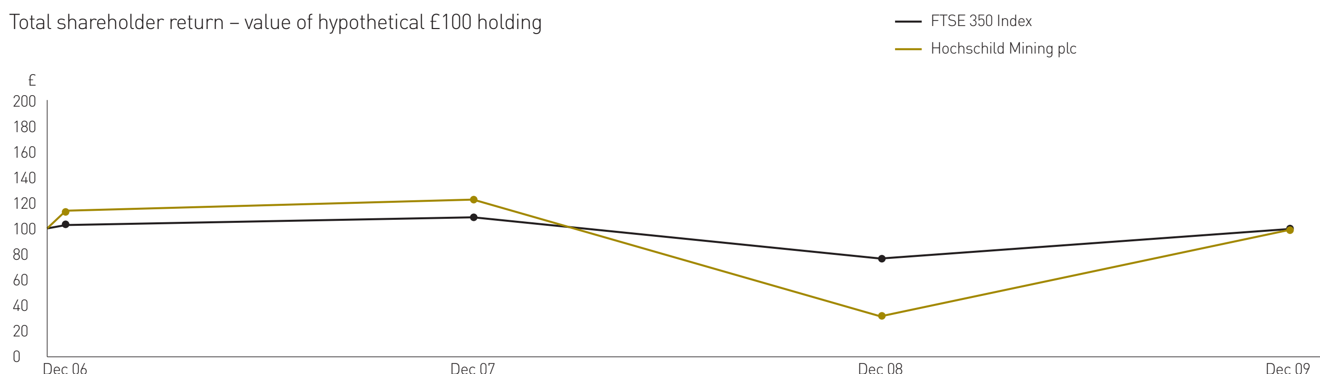
In addition, under Peruvian law, mining companies with more than 20 employees must pay to employees an annual share of profits, in an amount equal to 8% of the company's taxable income for the year.

The Group also provides all of the Executive Directors with medical insurance and, in the case of Eduardo Hochschild and Roberto Dañino, allowances in respect of cars and personal security.

### Performance graph

The following graph shows the TSR (Total Shareholder Return) for the Company compared to the FTSE 350 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 index currently represents the most appropriate of the published indices for these purposes as it provides a view of performance against the broad equity market index of which the Company is a constituent.

Total shareholder return – value of hypothetical £100 holding




Source: Bloomberg

## LONG-TERM INCENTIVE PLAN ("LTIP")

In order to achieve its policy objective to motivate Executive Directors and senior employees over the long-term, the Company has adopted a cash-based LTIP which further aligns selected executives' and senior employees' long-term interests with those of shareholders.

Awards made under the Plan to Executive Directors are subject to a normal limit, capping awards to an annual value not exceeding six times salary at the date of grant (excluding interest on the deferred proportion of the award).

Details of LTIP awards held by Executive Directors as at 31 December 2009 are given in the table below.

| | Interests in the LTIP at 31/12/2008 | Maximum awards made during the year | Awards vested during the year | Interests in the LTIP at 31/12/2009 |
|---|---|---|---|---|
| Eduardo Hochschild | $4m | – | – | $4m |
| Miguel Aramburú | $1.8m | – | – | $1.8m |
| Ignacio Rosado | $1.5m | – | – | $1.5m |

Going forward, the Committee intends to make LTIP awards on an annual basis in keeping with established market practice, subject to the limit specified above.

The vesting of initial awards under the Plan is subject to the Company's TSR over a three-year period to 31 December 2010, relative to a tailored peer group of listed international gold and silver mining companies ("the Comparator Index"). At the start of the plan, the comparator index comprised the following companies: Agnico-Eagle Mines Ltd, Alamos Gold, AngloGold Ashanti Ltd, Apex Silver Mines Ltd, Barrick Gold Corp, Cia des Minas Buenaventura SA, Couer d'Alene Mines Corp, Eldorado Gold Corp, Gold Fields Ltd, Goldcorp Inc, Highland Gold Mining Ltd, Iamgold Corp, Kinross Gold Corp, Minefinders Corp, Newmont Mining Corp, PAN American Silver Corp, Petropavlovsk Plc, Polymetal and Silver Standard Resources Inc. During the year, one of these companies, Apex Silver Mines was de-listed and was therefore removed from the comparator index. 25% of the maximum cash payment vests if the Company achieves median TSR performance, 75% of the maximum cash payment vests at upper quartile TSR performance and the whole award vests at upper decile TSR performance. Vesting occurs on a straight-line basis for TSR performance between median and upper quartile and between upper quartile and upper decile.

Awards are subject to two clawbacks (in relation to a whole, or part of an, award); firstly, if based on a discretionary assessment by the Remuneration Committee, the overall underlying business performance of the Company during the performance period is not satisfactory; and secondly, if there are failures relating to safety, environment, community and legal compliance that the Remuneration Committee considers would entitle it to exercise its discretion.

On a change of control, awards made under the LTIP may vest early (unless a replacement award is made), but would be pro-rated to take account of the proportion of the period from the award date to the normal vesting date completed prior to the change of control, and the extent to which performance conditions applying to the award have been met.

In respect of the year under review, the Company's TSR was above the median of that of the Comparator Index. In respect of the period from 1 January 2008 to 31 December 2009, the Company's TSR is below the median of the Comparator Index.

## REVISED REMUNERATION ARRANGEMENTS FOR EDUARDO HOCHSCHILD

In early 2010, after the end of the financial year, the Remuneration Committee agreed revised remuneration arrangements for Eduardo Hochschild. Under these new arrangements, Eduardo Hochschild is paid an annual base salary of $1.1m (excluding any entitlement to statutory profit sharing under Peruvian law) and an annual pension supplement of $200,000. In consideration for this increase in base salary, Eduardo Hochschild has agreed to waive his current and future participation in the LTIP and entitlement to an annual bonus in respect of 2010 and subsequent years. These arrangements take effect from 1 January 2010.

## DIRECTORS' SERVICE CONTRACTS

As previously described, the contractual arrangements for those Executive Directors appointed prior to the IPO in 2006 differ to those for the Executive Directors appointed since the IPO.

Eduardo Hochschild and Roberto Dañino are employed under contracts of employment with the Company and Compañía Minera Ares S.A.C. ("Ares"), a Group company, dated 16 October 2006 (as subsequently amended). 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 termination at the Company's behest 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.

Miguel Aramburú and Ignacio Rosado were appointed Directors of the Company with effect from 1 January 2009 and are employed under contracts of employment with Ares effective 1 August 2002 and 25 January 2005 respectively. The contracts are subject to Peruvian law and, as such, have no fixed term and may be terminated (i) by the executive on 30 days' notice and (ii) by Ares without notice. Under Peruvian law, termination by Ares other than termination for certain prescribed reasons (such as gross negligence) gives rise to an entitlement to compensation of no less than 1.5 times the monthly base salary for each year of service completed, up to a maximum of twelve months' base salary.

# Directors' remuneration report continued

## EXTERNAL APPOINTMENTS

The Group recognises that certain Executive Directors are, in addition, directors of other companies and that such appointments can bring benefits to the Group. Fees received from external appointments are retained by the Directors. Details of the directorships of those Executive Directors in office as at 31 December 2009 are given in the table below, together with the amounts received by them during the year under review.

| Name of Director | Company | Fees received |
|---|---|---|
| Eduardo Hochschild | Banco Crédito del Perú | Peruvian Nuevo Sol ("PEN") 300,725 (US$99,842) |
| | Cementos Pacasmayo S.A.A. | PEN 2,116,592[1] (US$702,720) |
| | Cementos Selva | PEN 485,879 (US$161,314) |
| | Inversiones Pacasmayo SA | PEN 197,290 (US$65,501) |
| Roberto Dañino | AFP Integra | PEN 33,874 (US$11,246) |
| | Cementos Pacasmayo S.A.A. | PEN 248,033 (US$82,348) |
| | Grupo RPP | PEN 32,521 (US$10,797) |
| | Mibanco | PEN 178,797 (US$59,362) |
| | Lake Shore Gold Corporation | CAD 6,383 (US$5,589) |
| | Gold Fields Limited | ZAR 233,056 (US$27,669) |
| | Gold Fields La Cima | PEN 45,850 (US$15,222) |
| Miguel Aramburú | Pacifico Vida | US$3,000 |
| Ignacio Rosado | Lake Shore Gold Corporation | CAD 32,325 (US$28,306) |

1 The amount disclosed includes salary received by Eduardo Hochschild in his capacity as Executive Director of Cementos Pacasmayo S.A.A., a company of which he is the controlling shareholder.

## NON-EXECUTIVE DIRECTORS

The Group's Non-Executive Directors serve under Letters of Appointment as detailed in the table below. In accordance with their terms, the 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 | Letter of Appointment dated | Director's fee |
|---|---|---|
| Sir Malcolm Field | 16 October 2006 | £100,000 ($156,000) |
| Jorge Born Jr. | 16 October 2006 | £100,000 ($156,000) |
| Nigel Moore | 16 October 2006 | £120,000 ($187,000) |
| Dionisio Romero | 16 October 2006 | £100,000 ($156,000) |
| Fred Vinton | 9 July 2009 | £100,000 ($156,000) |

## TABLE OF DIRECTORS' TOTAL REMUNERATION

The following table sets out the remuneration of the Directors serving during the year in respect of the years ended 31 December 2009 and 31 December 2008.

| Director | Base salary/fees US$000 | Pension supplement US$000 | Statutory profit share US$000 | Benefits in kind[1] US$000 | Performance related bonus US$000 | Total remuneration from 1 January 2009 (or date of appointment, if later) to 31 December 2009 US$000 | Total remuneration from 1 January 2008 to 31 December 2008 US$000 |
|---|---|---|---|---|---|---|---|
| Eduardo Hochschild[2,3,4] | 800 | 200 | 16 | 244 | 1,400[5] | 2,660 | 1,283[6] |
| Roberto Dañino[2,3,4] | 600 | 200 | 18 | 50 | 0[7] | 868 | 1,354 |
| Miguel Aramburú[8] | 393 | 0 | 18 | 4 | 813[9] | 1,228 | n/a |
| Ignacio Rosado[8] | 324 | 0 | 13 | 3 | 304[9] | 644 | n/a |
| Sir Malcolm Field | 156 | 0 | 0 | 0 | 0 | 156 | 184 |
| Jorge Born Jr. | 156 | 0 | 0 | 0 | 0 | 156 | 184 |
| Nigel Moore[10] | 187 | 0 | 0 | 0 | 0 | 187 | 220 |
| Dionisio Romero | 156 | 0 | 0 | 0 | 0 | 156 | 184 |
| Fred Vinton[11] | 65 | 0 | 0 | 0 | 0 | 65 | n/a |
| Total | 2,837 | 400 | 65 | 301 | 2,517 | 6,120 | 3,862 |

1 Amounts disclosed include sums paid by way of expense allowances.
2 Eduardo Hochschild and Roberto Dañino each has a service contract with both Hochschild Mining plc and Compañía Minera Ares S.A.C., a Group subsidiary.
3 In respect of Eduardo Hochschild and Roberto Dañino, 20% of each of their base salaries is paid by the Company and the balance is paid by Compañía Minera Ares S.A.C. In addition, $40,000 of their total annual pension supplements is paid by the Company and the balance is paid by Compañía Minera Ares S.A.C.
4 Salary paid by Compañía Minera Ares S.A.C. includes all legal labour benefits and compensation such as, but not restricted to, family allowance, vacation salaries and compensation for time services (ruled by Peruvian Legislative Decree 6500) but excluding legal profit sharing.
5 Performance-related bonus is paid by the Company and Compañía Minera Ares S.A.C. in the proportion each company pays Eduardo Hochschild's base salary.
6 Eduardo Hochschild waived his entitlement to a bonus in respect of 2008 – see section of the 2008 Remuneration Report entitled "2008 Bonus Awards".
7 Roberto Dañino waived his entitlement to a bonus in respect of 2009 to support further the future development of the communities located close to the Group's operations.
8 Miguel Aramburú and Ignacio Rosado were appointed directors of the Company with effect from 1 January 2009. The base salaries disclosed above include all legal labour benefits and compensation such as, but not restricted to, family allowance, vacation salaries and compensation for time services (ruled by Peruvian Legislative Decree 6500) but excluding legal profit sharing.
9 The amounts disclosed comprise (i) an extraordinary bonus and (ii) an annual bonus with reference to performance against Group and personal objectives. For further details see section of this Report entitled "2009 Bonus Awards".
10 Nigel Moore's fees are higher than those of the other Non-Executive Directors as it includes an additional element for services as Chairman of the Audit Committee.
11 Fred Vinton was appointed a director of the Company with effect from 1 August 2009.

## DIRECTORS' INTERESTS IN SHARES

The interests of the Directors in the Company's shares are set out in the Directors' report on page 44.

## APPROVAL

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

**Sir Malcolm Field**
Chairman, Remuneration Committee

23 March 2010

# Statement of directors' responsibilities

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

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

- select suitable accounting policies in accordance with IAS 8: "Accounting Policies, Changes in Accounting Estimates and Errors" and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group and parent company's financial position and financial performance;
- state that the Group and parent company has complied with IFRS, subject to any material departures disclosed and explained in the financial statements; and
- prepare the accounts on a going concern basis unless, having assessed the ability of the Group and the parent company to continue as a going concern, management either intends to liquidate the entity or to cease trading, or have no realistic alternative but to do so.

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

Under applicable UK law and regulations the Directors are responsible for the preparation of a Directors' Report, Directors' Remuneration Report and Corporate Governance Report that comply with that law and regulations. In addition the Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# Independent auditor's report

We have audited the group financial statements of Hochschild Mining plc for the year ended 31 December 2009 which comprise the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated statement of financial position, the Consolidated statement of cash flows, the Consolidated statement of changes in equity and the related notes 1 to 39. We have also audited the parent company financial statements of Hochschild Mining plc for the year ended 31 December 2009 which comprise the Parent company statement of financial position, Parent company statement of comprehensive income, Parent company statement of cash flows, Parent company statement of changes in equity and the related notes 1 to 18. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

### Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

### Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2009 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

### Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the Corporate Governance Statement set out in the Corporate Governance Report with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

# Independent auditor's report continued

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

Under the Listing Rules we are required to review:

- the directors' statement, set out in the Directors' Report, in relation to going concern; and
- the part of the Corporate Governance Statement in the Corporate Governance Report relating to the company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

**Richard Murray (Senior statutory auditor)**
for and on behalf of Ernst & Young LLP, Statutory Auditor
London

23 March 2010

# Consolidated income statement

For the year ended 31 December 2009

| | Notes | Year ended 31 December 2009 | | | Year ended 31 December 2008 | | |
|---|---|---|---|---|---|---|---|
| | | Before exceptional items US$000 | Exceptional items US$000 | Total US$000 | (Restated)[1] Before exceptional items US$000 | (Restated)[1] Exceptional items US$000 | (Restated)[1] Total US$000 |
| Continuing operations | | | | | | | |
| Revenue | 4, 6 | 539,741 | – | 539,741 | 433,779 | – | 433,779 |
| Cost of sales | 7 | (279,298) | (6,918) | (286,216) | (256,608) | (234) | (256,842) |
| Gross profit | | 260,443 | (6,918) | 253,525 | 177,171 | (234) | 176,937 |
| Administrative expenses | 8 | (51,068) | – | (51,068) | (68,751) | (1,127) | (69,878) |
| Exploration expenses | 9 | (19,941) | (1,049) | (20,990) | (23,841) | (69) | (23,910) |
| Selling expenses | 10 | (21,005) | – | (21,005) | (11,257) | – | (11,257) |
| Other income | 12 | 4,501 | 8,782 | 13,283 | 5,025 | 252 | 5,277 |
| Other expenses | 12 | (19,330) | (1,247) | (20,577) | (8,246) | (1,984) | (10,230) |
| Impairment and write-off of assets (net) | 16,17 | – | (26,713) | (26,713) | – | (30,212) | (30,212) |
| Profit from continuing operations before net finance income/(cost), foreign exchange loss and income tax | | 153,600 | (27,145) | 126,455 | 70,101 | (33,374) | 36,727 |
| Share of post tax profit/(losses) of associates and joint ventures accounted under equity method | 19 | 7,617 | 39,606 | 47,223 | (8,214) | – | (8,214) |
| Finance income | 13 | 6,384 | 22,300 | 28,684 | 9,382 | 3,914 | 13,296 |
| Finance costs | 13 | (46,040) | (1,256) | (47,296) | (18,833) | (18,088) | (36,921) |
| Foreign exchange loss | | (256) | – | (256) | (7,161) | – | (7,161) |
| Profit/(loss) from continuing operations before income tax | | 121,305 | 33,505 | 154,810 | 45,275 | (47,548) | (2,273) |
| Income tax expense | 14 | (44,688) | 11,218 | (33,470) | (24,767) | 5,500 | (19,267) |
| Profit/(loss) for the year from continuing operations | | 76,617 | 44,723 | 121,340 | 20,508 | (42,048) | (21,540) |
| Attributable to: | | | | | | | |
| Equity shareholders of the Company | | 52,892 | 45,188 | 98,080 | 15,782 | (40,500) | (24,718) |
| Minority shareholders | | 23,725 | (465) | 23,260 | 4,726 | (1,548) | 3,178 |
| | | 76,617 | 44,723 | 121,340 | 20,508 | (42,048) | (21,540) |
| Basic earnings per Ordinary Share from continuing operations and for the year (expressed in US dollars per share) | 15 | 0.17 | 0.14 | 0.31 | 0.05 | (0.13) | (0.08) |
| Diluted earnings per Ordinary Share from continuing operations and for the year (expressed in US dollars per share) | 15 | 0.17 | 0.14 | 0.31 | 0.05 | (0.13) | (0.08) |

1 Certain figures shown here do not correspond to the 2008 financial statements and reflect adjustments made as detailed in note 3.

# Consolidated statement of comprehensive income

For the year ended 31 December 2009

| | Notes | Year ended 31 December 2009 US$000 | Year ended 31 December 2008 US$000 |
|---|---|---|---|
| Profit for the year | | 121,340 | (21,540)[1] |
| Other comprehensive income | | | |
| Exchange differences on translating foreign operations | | 25,707 | (43,079) |
| Change in fair value of available-for-sale financial assets | | 4,313 | (1,454) |
| Recycling of the gain on Fortuna Silver Mines | 13(3) | (623) | (1,613) |
| Change in fair value of cash flow hedges taken to equity | | (13) | – |
| Share in gains directly recognised in equity by associates | | – | 620 |
| Income tax relating to components of other comprehensive income | | 71 | 664 |
| Other comprehensive income for the period, net of tax | | 29,455 | (44,862) |
| Total comprehensive income for the year | | 150,795 | (66,402) |
| Total comprehensive income attributable to | | | |
| Equity shareholders of the Company | | 127,558 | (69,373) |
| Minority interests | | 23,237 | 2,971 |
| | | 150,795 | (66,402) |

1 The figure shown here does not correspond to the 2008 financial statements and reflects adjustments made as detailed in note 3.

# Consolidated statement of financial position

As at 31 December 2009

| | Notes | As at 31 December 2009 US$000 | (Restated)[1] As at 31 December 2008 US$000 | (Restated)[1] As at 1 January 2008 US$000 |
|---|---|---|---|---|
| ASSETS | | | | |
| Non-current assets | | | | |
| Property, plant and equipment | 16 | 438,958 | 416,565 | 243,027 |
| Evaluation and exploration assets | 17 | 55,828 | 44,726 | 6,034 |
| Intangible assets | 18 | 22,425 | 2,668 | 2,896 |
| Investments accounted under equity method | 19 | 450,665 | 136,019 | – |
| Available-for-sale financial assets | 20 | 19,181 | 17,794 | 15,100 |
| Trade and other receivables | 21 | 3,150 | 38,304 | 25,518 |
| Income tax receivable | | 1,302 | 802 | 616 |
| Deferred income tax assets | 29 | 15,852 | 21,811 | 26,162 |
| | | 1,007,361 | 678,689 | 319,353 |
| Current assets | | | | |
| Inventories | 22 | 45,813 | 51,855 | 47,628 |
| Trade and other receivables | 21 | 164,864 | 123,726 | 134,180 |
| Income tax receivable | | 9,280 | 14,470 | 1,003 |
| Financial assets at fair value through profit and loss | 23 | 695 | 5,569 | 8,039 |
| Cash and cash equivalents | 24 | 77,844 | 116,147 | 301,426 |
| | | 298,496 | 311,767 | 492,276 |
| Total assets | | 1,305,857 | 990,456 | 811,629 |
| EQUITY AND LIABILITIES | | | | |
| Capital and reserves attributable to shareholders of the Parent | | | | |
| Equity share capital | 28 | 158,637 | 146,466 | 146,466 |
| Share premium | 28 | 395,928 | 395,928 | 395,928 |
| Other reserves | | (212,921) | (250,831) | (205,556) |
| Retained earnings | | 385,700 | 167,767 | 220,072 |
| | | 727,344 | 459,330 | 556,910 |
| Minority interest | | 76,126 | 66,293 | 49,769 |
| Total equity | | 803,470 | 525,623 | 606,679 |
| Non-current liabilities | | | | |
| Trade and other payables | 25 | 81 | 627 | 859 |
| Borrowings | 26 | 219,681 | 231,692 | 55,209 |
| Provisions | 27 | 55,176 | 37,687 | 30,821 |
| Deferred income tax liabilities | 29 | 10,662 | 9,192 | 8,837 |
| | | 285,600 | 279,198 | 95,726 |
| Current liabilities | | | | |
| Trade and other payables | 25 | 68,501 | 82,291 | 52,176 |
| Financial liabilities at fair value through profit and loss | 23 | 2,640 | – | – |
| Borrowings | 26 | 112,908 | 98,070 | 33,169 |
| Provisions | 27 | 11,405 | 4,277 | 13,029 |
| Income tax payable | | 21,333 | 997 | 10,850 |
| | | 216,787 | 185,635 | 109,224 |
| Total liabilities | | 502,387 | 464,833 | 204,950 |
| Total equity and liabilities | | 1,305,857 | 990,456 | 811,629 |

1 Certain figures shown here do not correspond to the 2008 financial statements and reflect adjustments made as detailed in note 3.

These financial statements were approved by the Board of Directors on 23 March 2010 and signed on its behalf by:

**Ignacio Rosado**
Chief Financial Officer

23 March 2010

# Consolidated statement of cash flows

For the year ended 31 December 2009

| | Notes | Year ended 31 December 2009 US$000 | (Restated)[1] 2008 US$000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash generated from operations | 33 | 215,698 | 102,167 |
| Interest received | | 1,041 | 7,512 |
| Interest paid | | (12,902) | (4,302) |
| Payments of mine closure costs | | (2,831) | (1,476) |
| Tax paid | | (482) | (25,260) |
| **Net cash generated from operating activities** | | 200,524 | 78,641 |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | | (116,009) | (296,027) |
| Purchase of evaluation and exploration assets | | (8,636) | – |
| Acquisition of subsidiary | 5(a) | (19,246) | – |
| Investment in an associate | 5(b) | (216,943) | (164,211) |
| Purchase of available-for-sale financial assets | | (1,857) | (19,240) |
| Purchase of intangibles | | (16,330) | (37) |
| Proceeds from sale of available-for-sale financial assets | 13, 20 | 3,861 | 3,321 |
| Proceeds from sale of property, plant and equipment | | 2,139 | 392 |
| Other | | – | 12 |
| **Net cash used in investing activities** | | (373,021) | (475,790) |
| **Cash flows from financing activities** | | | |
| Proceeds of borrowings | | 285,461 | 484,041 |
| Repayment of borrowings | | (277,185) | (257,300) |
| Transaction costs associated with borrowing | | (3,568) | (2,408) |
| Acquisition of minority interest | 5(c) | (1,500) | – |
| Dividends paid | 30 | (20,048) | (28,531) |
| Proceeds from issue of ordinary shares under Global offer | | 143,621 | – |
| Transaction costs associated with issue of shares | | (3,453) | – |
| Capital contribution from minority shareholders | | 11,115 | 16,926 |
| **Cash flows generated from financing activities** | | 134,443 | 212,728 |
| Net decrease in cash and cash equivalents during the year | | (38,054) | (184,421) |
| Exchange difference | | (249) | (858) |
| Cash and cash equivalents at beginning of year | | 116,147 | 301,426 |
| **Cash and cash equivalents at end of year** | 24 | 77,844 | 116,147 |

1 Certain figures shown here do not correspond to the 2008 financial statements and reflect adjustments made as detailed in note 3.

# Consolidated statement of changes in equity

For the year ended 31 December 2009

| | Notes | Equity share capital US$000 | Share premium US$000 | Other reserves: Unrealised gain/(loss) on available-for-sale financial assets and initial valuation of hedging US$000 | Other reserves: Bond equity component US$000 | Other reserves: Cumulative translation adjustment US$000 | Other reserves: Merger reserve US$000 | 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 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Balance at 1 January 2008 as reported | | 146,466 | 395,928 | 1,862 | – | 2,628 | (210,046) | (205,556) | 229,202 | 566,040 | 50,008 | 616,048 |
| Adjustments due to restatement of financial statements | | – | – | – | – | – | – | – | (9,130) | (9,130) | (239) | (9,369) |
| Balance at 1 January 2008, restated | | 146,466 | 395,928 | 1,862 | – | 2,628 | (210,046) | (205,556) | 220,072 | 556,910 | 49,769 | 606,679 |
| Other comprehensive income/(loss) | | – | – | (2,272) | – | (43,003) | – | (45,275) | 620 | (44,655) | (207) | (44,862) |
| Profit for the year | | – | – | – | – | – | – | – | (24,718) | (24,718) | 3,178 | (21,540) |
| Total comprehensive loss for 2008 | | – | – | (2,272) | – | (43,003) | – | (45,275) | (24,098) | (69,373) | 2,971 | (66,402) |
| Dividends | 30 | – | – | – | – | – | – | – | (28,331) | (28,331) | – | (28,331) |
| Adjustment to deferred consideration[1] | | – | – | – | – | – | – | – | – | – | 1,220 | 1,220 |
| Expiration of dividends payable | | – | – | – | – | – | – | – | 124 | 124 | 4 | 128 |
| Capital contribution from minority shareholders | | – | – | – | – | – | – | – | – | – | 12,329 | 12,329 |
| Balance at 31 December 2008, restated | | 146,466 | 395,928 | (410) | – | (40,375) | (210,046) | (250,831) | 167,767 | 459,330 | 66,293 | 525,623 |
| Other comprehensive income/(loss) | | – | – | 3,736 | – | 25,742 | – | 29,478 | – | 29,478 | (23) | 29,455 |
| Profit for the year | | – | – | – | – | – | – | – | 98,080 | 98,080 | 23,260 | 121,340 |
| Total comprehensive loss/income for 2009 | | – | – | 3,736 | – | 25,742 | – | 29,478 | 98,080 | 127,558 | 23,237 | 150,795 |
| Issuance of shares | 28 | 12,171 | – | – | – | – | 127,997 | 127,997 | – | 140,168 | – | 140,168 |
| Transfer to retained earnings | | – | – | – | – | – | (127,997) | (127,997) | 127,997 | – | – | – |
| Issuance of convertible bond | | – | – | – | 8,432 | – | – | 8,432 | – | 8,432 | – | 8,432 |
| Purchase of shares from minority interest | 5(c) | – | – | – | – | – | – | – | 4,150 | 4,150 | (5,650) | (1,500) |
| Dividends declared during the year | 30 | – | – | – | – | – | – | – | (12,294) | (12,294) | – | (12,294) |
| Dividends paid to minority interest | 30 | – | – | – | – | – | – | – | – | – | (7,754) | (7,754) |
| Balance at 31 December 2009 | | 158,637 | 395,928 | 3,326 | 8,432 | (14,633) | (210,046) | (212,921) | 385,700 | 727,344 | 76,126 | 803,470 |

1 This amount represents the increase in the minority interests share of the assets of Pallancata, following the Group's investment during the year 2008 in accordance with the agreement signed with Minera Oro Vega S.A.C.

# Notes to the consolidated financial statements

For the year ended 31 December 2009

## 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 office is located at 46 Albemarle Street, London W1S 4JL, 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 three operating mines (Ares, Arcata and Pallancata) and a plant (Selene used to treat ore from the Pallancata mine), located in southern Peru, one operating mine (San José) located in Argentina and one operating mine (Moris) located in Mexico. The Group also has a portfolio of projects located across Peru, Argentina, Mexico, Chile and Canada at various stages of development.

These consolidated financial statements were approved for issue by the Board of Directors on 23 March 2010.

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

| Company | Principal activity | Country of incorporation | Equity interest at 31 December 2009 % | Equity interest at 31 December 2008 % |
|---|---|---|---|---|
| Hochschild Mining (Argentina) Corporation S.A. (formerly Hochschild Mining (Argentina) Corporation) | Holding company | Argentina | 100 | 100 |
| Hochschild Mining (Peru) S.A. (formerly Hochschild Mining (Peru) Corporation) | Holding company | Peru | 100 | 100 |
| Hochschild Mining Mexico, S.A. de C.V. (formerly Hochschild Mining (Mexico) Corporation) | Holding company | Mexico | 100 | 100 |
| Hochschild Mining Holdings Limited | Holding company | England & Wales | 100 | 100 |
| Compañía Minera Ares S.A.C. | Production of gold & silver | Peru | 100 | 100 |
| Compañía Minera Arcata S.A. | Production of gold & silver | Peru | 96.8 | 96.8 |
| Empresa de Transmisión Callalli S.A.C. | Power transmission | Peru | 100 | 100 |
| Asociación Sumac Tarpuy[1] | 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 & silver | Peru | 60 | 60 |

## 1 CORPORATE INFORMATION (CONTINUED)

| Company | Principal activity | Country of incorporation | Equity interest at 31 December 2009 % | 2008 % |
|---|---|---|---|---|
| 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 & silver | Mexico | 100 | 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 | 100 |
| Hochschild Mining (US) Inc. (formerly MH Nevada, Inc.) | Subsidiary | USA | 100 | 100 |
| Minera Santa Cruz S.A. | Production of gold & silver | Argentina | 51 | 51 |
| Hochschild Mining Chile S.A. | Holding company | Chile | 100 | 100 |
| HMX, S.A. de C.V. | Exploration office | Mexico | 100 | 100 |
| Inmaculada Holdings S.A.C. | Holding company | Peru | 100 | 100 |
| Liam Holdings S.A.C. | Holding company | Peru | 100 | 100 |
| 0848818 BC Ltd[2] | Subsidiary | Canada | 100 | – |
| Southwestern Gold (Bermuda) Limited[2] | Holding company | Bermuda | 100 | – |
| Southwest Mining Inc.[2] | Subsidiary | Mauritius | 100 | – |
| Southwest Minerals Inc.[2] | Subsidiary | Mauritius | 100 | – |
| Southwestern Gold (China) Inc.[2] | Subsidiary | Bahamas | 100 | – |
| Cerro Mining Corp.[2] | Subsidiary | Bahamas | 100 | – |
| Southwest Minerals (Yunnan) Inc.[2] | Subsidiary | China | 100 | – |
| MInera del Suroeste S.A.C.[2] | Exploration office | Peru | 100 | – |
| Hochschild Mining Ares (UK) Ltd. | Subsidiary | England & Wales | 100 | 100 |
| Minas Pacapausa S.A.C. | Exploration office | Peru | 100 | 50 |
| Minera Minasnioc S.A.C. | Subsidiary | Peru | 100 | 100 |

1 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 Companies incorporated due to the purchase of shares of Southwestern Resources Group on 21 May 2009.

# Notes to the consolidated financial statements continued

## 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 (EU) and with the Companies Act 2006. 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 2009 and 2008 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 the retrospective restatement of the depreciation calculation (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 revalued at 1 January 2003 to determine the deemed cost (refer to note 2(f)), available-for-sale financial instruments and financial assets at fair value through profit and loss which have been measured at fair value. The financial statements are presented in US dollars ($) and all monetary amounts are rounded to the nearest thousand ($000) except when otherwise indicated.

#### Standards, interpretations and amendment to existing standards that are not yet effective and have not been early adopted 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 2010 or later periods but which the Group has not early adopted. Those that are applicable to the Group are as follows:

- IFRS 3 "Business Combinations (revised January 2008)", applicable for annual periods beginning on or after 1 July 2009.

  IFRS 3 introduces a number of changes in the accounting for business combinations occurring after this date that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results.
- IAS 27 "Consolidated and Separate Financial Statements (revised January 2008)", applicable for annual periods beginning on or after 1 July 2009.

  IAS 27 requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as an equity transaction. Therefore, such transactions will no longer give rise to goodwill, nor will they give rise to gains or losses. Furthermore, the amended standard changes the accounting for losses incurred by partially-owned subsidiaries as well as the loss of control of a subsidiary.
- IFRIC 17 "Distributions of Non-cash Assets to Owners", applicable for annual periods beginning on or after 1 July 2009.

  This clarifies that a dividend payable should be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity. It also clarifies that an entity should measure the dividend payable at the fair value of the net assets to be distributed and that an entity should recognise the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss.
- IAS 39 "Financial Instruments: Recognition and Measurement – Eligible Hedged Items", applicable for annual periods beginning on or after 1 July 2009.

  The amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item.

The Directors do not anticipate that the adoption of the above standards and interpretations will have a material impact on the Group's financial statements in the period of initial application. Other standards and interpretations not included above are not expected to have an impact on the financial statements.

### (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 managements' 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 estimates are contained in the accounting policies and/or the notes to the financial statements. The key areas are summarised below.

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Significant areas of estimation uncertainty and critical judgements made by management in preparing the consolidated financial 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(h).
- Review of asset carrying values and impairment charges – notes 2(i), (l), (v) and note 16 and 17.
- Estimation of the amount and timing of mine closure costs – notes 2(p) and 27.
- Income tax – notes 2(t), 14 and 29.
- Contingent liabilities regarding claims from tax authorities – note 35.
- Judgement in deciding if a company is a subsidiary of the Group – note 2(d).

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

The accounting policies adopted are consistent with those of the previous financial year except for the 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.

- IFRS 8 "Operating Segments" applicable for annual periods beginning on or after 1 January 2009.

  The Group concluded that the operating segments determined in accordance with IFRS 8 were different in comparison with 2008 segments reported. The new segments are disclosed in note 4.

- IAS 23 Amendment, "Borrowing Costs", applicable for annual periods beginning on or after 1 January 2009.

  The Group has adopted the standard on a prospective basis. It did not have an impact on the financial position or performance of the Group.

- IAS 1 "Presentation of Financial Statements", applicable for annual periods beginning on or after 1 January 2009.

  The most important change was the obligation to include the statement of comprehensive income.

- IFRS 2 "Amendment to IFRS 2 – Vesting Conditions and Cancellations", applicable for annual periods beginning on or after 1 January 2009.

  This did not have an impact on the financial position or performance of the Group.

- IAS 32 and IAS 1 Amendment "Puttable Financial Instruments and Obligations Arising on Liquidation", applicable for annual periods beginning on or after 1 January 2009.

  This did not have an impact on the financial position or performance of the Group.

- IFRS 1 and IAS 27 Amendment "Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate", applicable for annual periods beginning on or after 1 January 2009.

  This did not have an impact on the financial position or performance of the Group.

- 2008 Annual Improvements to IFRS, applicable for annual periods beginning on or after 1 January 2009.

  These amendments had no impact on the financial performance of the Group as they only affected the disclosure of financial information.

- IFRIC 16 "Hedges of a Net Investment in a Foreign Operation", applicable for annual periods beginning on or after 1 October 2008.

  This did not have an impact on the financial position or performance of the Group.

- IFRS 7 "Financial Instruments: Disclosures", applicable for annual periods beginning on or after 1 January 2009.

  The main change was related to the disclosure of hierarchy of financial instruments at fair value. It is included in note 38 (d).

- IFRIC 13 "Customer Loyalty Programmes", applicable for periods beginning on or after 1 July 2008.

  This did not have an impact on the financial position or performance of the Group.

- IFRIC 15 "Agreements for the Construction of Real Estate", applicable for periods beginning on or after 1 January 2009.

  This did not have an impact on the financial position or performance of the Group.

# Notes to the consolidated financial statements continued

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

– IFRIC 18 "Transfer of Assets from Customers", applicable to assets transferred on or after 1 July 2009.

  This did not have an impact on the financial position or performance of the Group.

– IAS 39 & IFRS 7 Amendments "Reclassification of Financial Instruments", applicable for periods beginning on or after 1 July 2008.

  This did not have an impact on the financial position or performance of the Group.

– IAS 39 Amendment "Reclassification of Financial Assets: Effective Date and Transition", applicable for periods beginning on or after 1 July 2008.

  This did not have an impact on the financial position or performance of the Group.

– IFRIC 9 & IAS 39 Amendments "Embedded Derivatives", applicable for periods ending on or after 30 June 2009.

  This did not have an impact on the financial position or performance of the Group.

### (d) Basis of consolidation

The consolidated financial statements set out the Group's financial position, performance and cash flows as at 31 December 2009 and 31 December 2008 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. However, minority shareholders' rights to safeguard their interest are fully considered in assessing whether the Group controls a subsidiary.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. The 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 and Minera Suyamarca 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 within 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 this currency 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 statement of financial position 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 statement 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.

The source of uncertainty is related to the change of exchange rates in the future. This change could affect the Group's results.

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (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 the condition necessary for the asset to be capable of operating in the manner intended by management. 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 and 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.

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 to 10 |
| Vehicles | 5 |

Borrowing costs directly attributable to the acquisition or construction of an asset that necessarily takes a substantial period of time to be ready for its intended use are capitalised as part of the cost of the asset. All other borrowing costs are expensed where incurred. The Group capitalises borrowing costs for those assets where construction commenced on or after 1 January 2009 and continues to expense borrowing costs related to construction projects that commenced prior to 1 January 2009. For borrowings associated with a specific asset, the actual rate on that borrowing is used. Otherwise, a weighted average cost of borrowing is used. The Group capitalises the borrowings cost related to qualifying assets with a value of US$1,000,000 or more, considering that the substantial period of time to be ready is 6 or more months.

#### Mining properties and development costs

Expenditure on exploration of mining properties is expensed during the exploration phase of a project and capitalised during their development phase when incurred. Purchased mining properties are recognised as assets at their cost of acquisition or at fair value if purchased as part of a business combination. Costs associated with developments of mining properties 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 and capital advances

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.

# Notes to the consolidated financial statements continued

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (g) Evaluation and exploration assets

Evaluation and exploration expenses shall be capitalised when the future economic benefit of the project can reasonably be regarded as assured.

For this purpose, the future economic benefit of the project can reasonably be regarded as assured when any of the following conditions are met:

- The Board authorises management to conduct the feasibility study of a project:
- Mine-site exploration is being conducted to convert resources into reserves; or
- Mine-site exploration is being conducted to confirm resources.

Projects in the development phase – Exploration and evaluation costs are capitalised as assets from the date that the Board authorises the management to conduct a feasibility study.

Identification of resources – Costs incurred in converting inferred resources to indicated and measured resources (of which reserves are a component) are capitalised as incurred. Costs incurred in identifying inferred resources are expensed as incurred.

### (h) 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 each year and are stated in conformity with the Joint Ore Reserves Committee (JORC) code. It is the Group's policy to have the report audited by a Competent Person.

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.

### (i) Investment in associates

The Group's investment in an associate is accounted for using the equity method of accounting. An associate is an entity in which the Group has significant influence.

Under the equity method, the investment in the associate is carried in the statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is not amortised or separately tested for impairment. The income statement reflects the share of the results of operations of the associate. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The share of profit of associates is shown on the face of the income statement. This is the profit attributable to equity holders of the associate and therefore is profit after tax and minority interests in the subsidiaries of the associate.

The financial statements of the associate are prepared for the same reporting period as the parent company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associates. The Group determines at each statement of financial position date whether there is any objective evidence that the investment in the associate is impaired. If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the income statement.

### (j) Interest in a joint venture

The Group has an interest in a joint venture which is a jointly controlled entity, whereby the venturers have a contractual arrangement that establishes joint control over the economic activities of the entity. The Group recognises its interest in the joint venture using the equity method of accounting and presents its aggregate share of the profit or loss of joint ventures on the face of its income statement. The investment is presented as non-current assets on the face of the statement of financial position. The financial statements of the joint venture are prepared for the same reporting period as the parent company. Adjustments are made where necessary to bring the accounting policies in line with those of the Group.

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (k) Intangible assets

#### 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 the business combination in which the goodwill arose.

#### Right to use energy transmission line

Transmission line represents the investment made by the Group during the period of its use. This is an asset with a finite useful life that is amortised applying the units of production method.

#### Other intangible assets

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.

### (l) 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 and evaluation and exploration assets 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.

The assessment requires the use of estimates and assumptions such as long-term commodity prices, discount rates, future capital requirements, exploration potential and operating performance. Changes in these assumptions will affect the recoverable amount of the property, plant and equipment.

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.

### (m) 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. When the production process takes a substantial period of time, borrowing costs are included in the production cost.

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.

# Notes to the consolidated financial statements continued

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (n) 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.

### (o) Share capital
Ordinary Shares are classified as equity. Excess to par value of shares received upon issuance of shares is classified as share premium.

### (p) 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.

#### 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.

Significant estimates and assumptions are made in determining the provision for mine closure costs as there are numerous factors that will affect the ultimate liability payable. These factors include estimates of the extent and costs of rehabilitation activities, technological changes, regulatory changes, cost increases, and changes in discount rates. Those uncertainties may result in future actual expenditure differing from the amounts currently provided. The provision at year-end represents management's best estimate of the present value of the future rehabilitation costs required. Changes to estimated future costs are recognised in the statement of financial position by adjusting the rehabilitation asset and liability. If, for mature mines, the revised mine assets net of rehabilitation provisions exceeds the carrying value, that portion of the increase is charged directly to expenses. For closed sites, changes to estimated costs are recognised immediately in the income statement.

#### Workers' profit sharing and other employee benefits
In accordance with Peruvian Legislation, companies in Peru must provide for workers' profit sharing equivalent to 8% of taxable income of each year. Mexican Law also requires Mexican companies to provide for workers' profit sharing equivalent to 10% of the profit of 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.

Uncertainties in estimating the award include potential changes in the TSR, the number of participants in the plan, and levels of interest rates.

#### 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.

### (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 are disclosed in the notes if their recovery is deemed probable.

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (r) Revenue recognition

The Group is involved in the production and sale of gold and silver from doré 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 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 the 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.

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 revaluation 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 costs 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 statement of financial position 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 statement of financial position 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.

Judgement is required in determining whether deferred tax assets are recognised on the statement of financial position. Deferred tax assets, including those arising from unutilised tax losses require management to assess the likelihood that the Group will generate taxable earnings in future periods, in order to utilise recognised deferred tax assets. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Group to realise the net deferred tax assets recorded at the statement of financial position date could be impacted.

Additionally, future changes in tax laws in the jurisdictions in which the Group operates could limit the ability of the Group to obtain tax deductions in future periods.

# Notes to the consolidated financial statements continued

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (u) Leases
Finance leases, which transfer to the Group substantially all the risks and rewards incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and the reduction of the lease liability so as to achieve a constant periodic rate of interest on the remaining balance of the liability. Finance charges are reflected in the income statement. The depreciation policy for leased assets is consistent with that for similar assets owned.

A lease is classified as an operating lease if it does not transfer substantially all of the risks and rewards incidental to ownership. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

### (v) 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 or borrowings, receivables, payables, financial instruments fair valued through profit and loss, available-for-sale financial assets or as derivatives designated as hedging instruments in an effective hedge (refer to note 2(aa)), 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 and borrowings, 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 marketplace. The subsequent measurement of financial assets depends on their classification, as follows:

#### Financial assets at fair value through profit and loss
Financial assets at fair value through profit and loss includes financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit and loss.

The Group considers whether a contract contains an embedded derivative when the entity first becomes a party to it. Embedded derivatives are separated from the host contract which is not measured at fair value through profit and loss when the analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract.

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments or a financial guarantee contract. Gains or losses on financial assets held for trading are recognised in the income statement.

#### 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 unrealised 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.

#### Loans and borrowings
Borrowings are recognised initially at fair value. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

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 statement of financial position date.

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Fair values

The fair value of quoted investments is determined by reference to bid prices at the close of business on the statement of financial position 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.

The Group assesses at each statement of financial position 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.

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.

### Derecognition of financial instruments

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either: (a) the Group has transferred substantially all the risks and rewards of the asset; or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, a new asset is recognised to the extent of the Group's continuing involvement in the asset.

Continuing involvement that takes the form of a guarantee over the transferred asset, is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

A financial liability is generally derecognised when the contract that gives rise to it is discharged or 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.

# Notes to the consolidated financial statements continued

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (w) 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.

### (x) Cash and cash equivalents
Cash and cash equivalents are carried in the statement of financial position at cost. For the purposes of the statement of financial position, 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.

### (y) 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, property, plant and equipment and evaluation and exploration assets.
- 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 impact of the above items.

### (z) Comparatives
Where applicable, certain comparatives have been reclassified to present them in a comparable manner to the current period's figures.

### (aa) Hedging
The Group uses interest rate swaps to hedge its interest rate risks. These derivative financial instruments are initially recognised at fair value on the date on which the derivative contract is entered into and are subsequently remeasured at fair value. The fair value of interest rate swap contracts is determined by reference to market values for similar instruments.

For the purpose of hedge accounting, these hedges are classified as cash flow hedges as they are hedging the Group's exposure to variability in cash flows that is attributable to a particular risk associated with a highly probable forecast transaction.

At the inception of a hedging relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine their effectiveness in the financial reporting periods for which they were designated.

Where the interest rate swaps meet the strict criteria for hedge accounting, the effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while any ineffective portion is recognised immediately in the income statement.

Amounts taken to equity are transferred to the income statement when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognised or when a forecast transaction or firm commitment occurs.

If the forecast transaction or firm commitment is no longer expected to occur, amounts previously recognised in equity are transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognised in equity remain in equity until the forecast transaction or firm commitment occurs.

## 3 RETROSPECTIVE RESTATEMENT FOR CHANGE TO DEPRECIATION CALCULATION

The Group applies the unit of production depreciation methodology in the calculation of depreciation of its mine assets. When this approach was adopted in connection with the Group's listing during 2006, as the future capital expenditure associated with developing the undeveloped reserves and resources was not significant to the calculation, these depreciation calculations included only the future costs of converting resources to reserves. Since the listing, the Group has extended both the life, and throughput, of certain mines, and has opened, and subsequently expanded, two new mines. These actions, which were completed in 2009, have led to an increase in the amount of undeveloped resources, and a disproportionate increase in the associated future capital expenditure required to develop and access these reserves and resources.

As a result of these changed circumstances, during the year management identified that the existing depreciation calculations were no longer effectively matching costs to production in the manner in which the unit of production approach is designed. Consequently, the depreciation calculations were revised to include all the future capital expenditure associated with developing these reserves and resources. Management believes that this revision will enable improved matching of costs to production in the relevant period, and thereby will better reflect the Group's economic performance.

As required by IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors", the Group has retrospectively applied this revised depreciation methodology by adjusting the comparative financial information contained in these financial statements. The effect of this prior year, non-cash restatement on each of the primary financial statements is as follows:

| Pre-exceptional consolidated income statement | (Reported) Year ended 31 December 2008 US$000 | (Restated) Year ended 31 December 2008 US$000 | Effect of restatement US$000 |
|---|---|---|---|
| Continuing operations | | | |
| Cost of sales | (240,441) | (256,608) | (16,167) |
| Gross profit | 193,338 | 177,171 | (16,167) |
| Profit from continuing operations before net finance income/(cost), foreign exchange (loss)/gain and income tax | 86,268 | 70,101 | (16,167) |
| Profit from continuing operations before income tax | 61,442 | 45,275 | (16,167) |
| Income tax expense | (29,762) | (24,767) | 4,995 |
| Profit/(loss) for the year from continuing operations | 31,680 | 20,508 | (11,172) |
| Attributable to: | | | |
| Equity shareholders of the Company | 24,643 | 15,782 | (8,861) |
| Minority shareholders | 7,037 | 4,726 | (2,311) |
| Basic and diluted earnings per ordinary share from continuing operations and for the year (expressed in US dollars per share) | 0.08 | 0.05 | (0.03) |

| Consolidated income statement | (Reported) Year ended 31 December 2008 US$000 | (Restated) Year ended 31 December 2008 US$000 | Effect of restatement US$000 |
|---|---|---|---|
| Continuing operations | | | |
| Cost of sales | (240,675) | (256,842) | (16,167) |
| Gross profit | 193,104 | 176,937 | (16,167) |
| Impairment of property, plant and equipment | (34,706) | (30,212) | 4,494 |
| Profit from continuing operations before net finance income/(cost), foreign exchange (loss)/gain and income tax | 48,400 | 36,727 | (11,673) |
| Profit/(loss) from continuing operations before income tax | 9,400 | (2,273) | (11,673) |
| Income tax expense | (22,914) | (19,267) | 3,647 |
| Loss for the year from continuing operations | (13,514) | (21,540) | (8,026) |
| Attributable to: | | | |
| Equity shareholders of the Company | (19,003) | (24,718) | (5,715) |
| Minority shareholders | 5,489 | 3,178 | (2,311) |
| Basic and diluted earnings per ordinary share from continuing operations and for the year (expressed in US dollars per share) | (0.06) | (0.08) | (0.02) |

# Notes to the consolidated financial statements continued

## 3 RETROSPECTIVE RESTATEMENT FOR CHANGE TO DEPRECIATION CALCULATION (CONTINUED)

| Consolidated statement of financial position | (Reported) As at 31 December 2008 US$000 | (Restated) As at 31 December 2008 US$000 | Effect of restatement US$000 |
|---|---|---|---|
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment (including evaluation and exploration assets) | 488,984 | 461,291 | (27,693) |
| Deferred income tax assets | 20,795 | 21,811 | 1,016 |
| Total non-current assets | 705,366 | 678,689 | (26,677) |
| Current assets | | | |
| Inventories | 49,220 | 51,855 | 2,635 |
| Total current assets | 309,132 | 311,767 | 2,635 |
| Total assets | 1,014,498 | 990,456 | (24,042) |
| EQUITY AND LIABILITIES | | | |
| Capital and reserves attributable to shareholders of the Parent | | | |
| Retained earnings | 182,612 | 167,767 | (14,845) |
| Minority interest | 68,843 | 66,293 | (2,550) |
| Total equity | 543,018 | 525,623 | (17,395) |
| Non-current liabilities | | | |
| Deferred income tax liabilities | 15,839 | 9,192 | (6,647) |
| Total equity and liabilities | 1,014,498 | 990,456 | (24,042) |

| Consolidated statement of financial position | (Reported) As at 1 January 2008 US$000 | (Restated) As at 1 January 2008 US$000 | Effect of restatement US$000 |
|---|---|---|---|
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment (including evaluation and exploration assets) | 263,062 | 249,061 | (14,001) |
| Deferred income tax assets | 22,400 | 26,162 | 3,762 |
| Total non-current assets | 329,592 | 319,353 | (10,239) |
| Current assets | | | |
| Inventories | 47,012 | 47,628 | 616 |
| Total current assets | 491,660 | 492,276 | 616 |
| Total assets | 821,252 | 811,629 | (9,623) |
| EQUITY AND LIABILITIES | | | |
| Capital and reserves attributable to shareholders of the Parent | | | |
| Retained earnings | 229,202 | 220,072 | (9,130) |
| Minority interest | 50,008 | 49,769 | (239) |
| Total equity | 616,048 | 606,679 | (9,369) |
| Non-current liabilities | | | |
| Deferred income tax liabilities | 9,091 | 8,837 | (254) |
| Total equity and liabilities | 821,252 | 811,629 | (9,623) |

## 3 RETROSPECTIVE RESTATEMENT FOR CHANGE TO DEPRECIATION CALCULATION (CONTINUED)

| Consolidated statement of comprehensive income | (Reported) Year ended 31 December 2008 US$000 | (Restated) Year ended 31 December 2008 US$000 | Effect of restatement US$000 |
|---|---|---|---|
| Loss for the year | (13,514) | (21,540) | (8,026) |
| Total comprehensive income for the year | (58,376) | (66,402) | (8,026) |
| Total comprehensive income attributable to | | | |
| Equity shareholders of the Company | (63,658) | (69,373) | (5,715) |
| Minority interest | 5,282 | 2,971 | (2,311) |

This restatement was non-cash in nature, and therefore had no impact on the consolidated cash flow statement.

The impact on the Consolidated statement of changes in equity is set out in that statement.

## 4 SEGMENT REPORTING

The Group's activities are principally related to mining operations which involve the 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. Transfer prices between segments are set on an arm's length basis in a manner similar to that used for third parties. Segment revenue, segment expense and segment results include transfers between segments. Those transfers are eliminated on consolidation.

For internal reporting purposes, management takes decisions and assesses the performance of the Group through consideration of the following reporting segments:

- Operating unit – Ares, which generates revenue from the sale of gold and silver
- Operating unit – Arcata, which generates revenue from the sale of gold, silver and concentrate
- Operating unit – Selene, which generates revenue from the sale of gold, silver and concentrate (the Selene mine was closed in June 2009. The Selene plant continues to process the ore from Pallancata).
- Operating unit – Pallancata, which generates revenue from the sale of concentrate
- Operating unit – San José, which generates revenue from the sale of gold, silver and concentrate
- Operating unit – Moris, which generates revenue from the sale of gold and silver
- Exploration, which explores and evaluates areas of interest in brownfield and greenfield sites with the purpose of extending the life of mine of existing operations and to assess the feasibility of new mines. The exploration segment includes expenses reflected through profit and loss and capitalised as assets.

The Group's administration, financing, other activities (including other income and expense), and income taxes are managed at a corporate level and are not allocated to operating segments.

Segment information is consistent with the accounting policies adopted by the Group. Management evaluates the financial information based on International Financial Reporting Standards (IFRS) as adopted for use in the European Union.

The Group measures the performance of its operating units by the segment profit or loss that comprises gross profit and selling expenses.

Segment assets include the items that could be allocated directly to the segment.

# Notes to the consolidated financial statements continued

## 4 SEGMENT REPORTING (CONTINUED)

### (a) Reportable segment information

| | Ares US$000 | Arcata US$000 | Selene US$000 | Pallancata US$000 | San José US$000 | Moris US$000 | Exploration US$000 | Other US$000 | Adjustment and eliminations US$000 | Total US$000 |
|---|---|---|---|---|---|---|---|---|---|---|
| Year ended 31 December 2009 | | | | | | | | | | |
| Revenue for external customers | 53,312 | 141,574 | 10,757 | 160,416 | 147,102 | 26,440 | – | 140 | – | 539,741 |
| Inter segment revenue | – | – | – | – | – | – | – | 3,027 | (3,027) | – |
| Total revenue | 53,312 | 141,574 | 10,757 | 160,416 | 147,102 | 26,440 | – | 3,167 | (3,027) | 539,741 |
| Profit/(loss) from continuing operations before impairment and income tax[1,2] | 18,907 | 74,922 | (2,874) | 84,810 | 41,767 | 7,674 | (24,558) | (54,560) | 8,722 | 154,810 |
| Other segment information | | | | | | | | | | |
| Depreciation[3] | (5,362) | (19,292) | (8,235) | (15,324) | (29,510) | (4,868) | (202) | (1,129) | – | (83,922) |
| Non-cash expenses | – | – | – | – | – | – | – | (6,185) | – | (6,185) |
| Impairment of assets | (15,263) | – | (4,805) | – | – | 3,446 | (10,091) | – | – | (26,713) |
| Assets | | | | | | | | | | |
| Current assets | 5,239 | 21,004 | 2,708 | 51,228 | 33,190 | 8,307 | – | 1,118 | – | 122,794 |
| Capital expenditure | 3,484 | 29,688 | 16,579 | 24,117 | 26,113 | 480 | 5,778 | 2,296 | – | 108,535 |
| Other non-current assets[4] | 3,630 | 43,291 | 43,995 | 31,765 | 174,057 | 9,009 | 91,322 | 11,265 | – | 408,334 |
| Total segment assets | 12,353 | 93,983 | 63,282 | 107,110 | 233,360 | 17,796 | 97,100 | 14,679 | – | 639,663 |
| Not reportable assets | – | – | – | – | – | – | – | 666,194 | – | 666,194 |
| Total assets | 12,353 | 93,983 | 63,282 | 107,110 | 233,360 | 17,796 | 97,100 | 680,873 | – | 1,305,857 |

1 The profit for each operating segment does not include administrative expenses of US$51,068,000, other income of US$13,283,000, other expenses of US$20,577,000, impairment of property, plant and equipment of US$26,713,000, share of gains of associates and joint ventures of US$47,223,000, finance income of US$28,684,000, finance cost of US$47,296,000, foreign exchange loss of US$256,000 and the positive effect of others of US$2,160,000.
2 The profit for the operating segments Ares, Arcata, Selene and Pallancata includes an exceptional item in cost of sales of US$6,918,000 (refer to note 7(1)).
3 Includes US$11,000 of depreciation capitalised in Minera Hochschild Mexico S.A. de C.V. due to the San Felipe project.
4 Includes the goodwill of San José unit amounting to US$2,091,000.

## 4 SEGMENT REPORTING (CONTINUED)

### (a) Reportable segment information (continued)

| | Ares US$000 | Arcata US$000 | Selene US$000 | Pallancata US$000 | San José US$000 | Moris US$000 | Exploration US$000 | Other US$000 | Adjustments and eliminations US$000 | Total US$000 |
|---|---|---|---|---|---|---|---|---|---|---|
| Year ended 31 December 2008 | | | | | | | | | | |
| Revenue for external customers | 105,998 | 119,945 | 37,142 | 56,307 | 88,891 | 25,372 | – | 124 | – | 433,779 |
| Inter segment revenue | – | – | 163 | 1,381 | 22,805 | – | – | 5,270 | (29,619) | – |
| Total revenue | 105,998 | 119,945 | 37,305 | 57,688 | 111,696 | 25,372 | – | 5,394 | (29,619) | 433,779 |
| Profit/(loss) from continuing operations before impairment and income tax[1,2,3] | 44,936 | 60,045 | 4,358 | 18,544 | 31,751 | 2,314 | (24,077) | (139,308) | (836) | (2,273) |
| Other segment information | | | | | | | | | | |
| Depreciation[3,4] | (5,381) | (16,842) | (6,837) | (9,428) | (15,763) | (5,013) | (111) | (1,154) | – | (60,529) |
| Non-cash expenses | – | – | – | – | – | – | – | (23,975) | – | (23,975) |
| Impairment of assets[3] | – | – | (9,157) | – | – | (5,652) | (15,403) | – | – | (30,212) |
| Assets | | | | | | | | | | |
| Current assets | 9,149 | 22,944 | 6,859 | 27,671 | 26,580 | 4,867 | – | 1,133 | – | 99,203 |
| Capital expenditure | 10,438 | 43,977 | 47,226 | 14,619 | 80,398 | 2,234 | 63,386 | 48,993 | – | 311,271 |
| Other non-current assets[3,5] | 9,271 | 15,010 | 12,681 | 22,745 | 106,102 | 7,354 | 11,714 | (32,766) | – | 152,111 |
| Total segment assets | 28,858 | 81,931 | 66,766 | 65,035 | 213,080 | 14,455 | 75,100 | 17,360 | – | 562,585 |
| Not reportable assets | – | – | – | – | – | – | – | 427,871 | – | 427,871 |
| Total assets | 28,858 | 81,931 | 66,766 | 65,035 | 213,080 | 14,455 | 75,100 | 445,231 | – | 990,456 |

1 The profit for each operating segment does not include administrative expenses of US$69,878,000, other income of US$5,277,000, other expenses of US$10,230,000, impairment of assets of US$30,212,000, share of losses of associates and joint ventures of US$8,214,000, finance income of US$13,296,000, finance cost of US$36,921,000, foreign exchange loss of US$7,161,000 and the positive effect of others of US$4,735,000.
2 The profit for the operating segments Ares, Arcata, Selene and Pallancata includes an exceptional item in cost of sales of US$234,000 (refer to note 7(1)).
3 The amounts presented have been restated due to the retrospective restatement for change to depreciation calculation disclosed in note 3.
4 Includes US$111,000 of depreciation capitalised in Minera Hochschild Mexico S.A. de C.V. due to the San Felipe project.
5 Includes the goodwill of San José unit amounting to US$2,091,000.

# Notes to the consolidated financial statements continued

## 4 SEGMENT REPORTING (CONTINUED)

### (b) Geographical segment reporting

Based on the entity-wide disclosure stated in IFRS 8, the revenue for the period based on the country in which the customer is located is as follows:

| | Year ended 31 December | |
|---|---|---|
| | 2009 US$000 | 2008 US$000 |
| External customer | | |
| USA | 130,126 | 130,631 |
| Peru | 159,339 | 125,171 |
| Mexico | – | 15 |
| Belgium | – | 6,011 |
| Canada | 98,960 | 50,465 |
| Germany | 84,121 | 54,570 |
| Switzerland | 57,549 | 66,883 |
| United Kingdom | 1,925 | – |
| Korea | 7,721 | – |
| Chile | – | 33 |
| Total | 539,741 | 433,779 |
| Inter-segment | | |
| Peru | 1,161 | 25,164 |
| Mexico | 1,866 | 4,455 |
| Total | 542,768 | 463,398 |

In the periods set out below, certain customers accounted for greater than 10% of the Group's total revenues as detailed in the following table:

| | Year ended 31 December 2009 | | | Year ended 31 December 2008 | | |
|---|---|---|---|---|---|---|
| | US$000 | % Revenue | Segment | US$000 | % Revenue | Segment |
| International Commodities Inc | 61,979 | 11% | Ares, Arcata, Selene, Moris | 18,729 | 4% | Ares, Arcata, Selene, Moris |
| Teck Metals Ltd. (formerly Teck Cominco Metals Ltd) | 98,960 | 18% | Arcata, Selene, Pallancata | 50,465 | 12% | Arcata, Selene, Pallancata |
| Consorcio Minero S.A. | 155,182 | 29% | Arcata, Pallancata, San José | 87,281 | 20% | Arcata, Pallancata |
| Aurubis AG (formerly Nordeutsche Affinerie AG) | 84,121 | 16% | Selene, Pallancata, San José | 54,570 | 13% | Selene, Pallancata, San José, Ares |

## 4 SEGMENT REPORTING (CONTINUED)

Based on the entity-wide disclosure requirements set out in IFRS 8, non-current assets, excluding financial instruments and income tax assets, were allocated based on the geographical area where the assets are located as follows:

| | As at 31 December | |
|---|---|---|
| | 2009 US$000 | (Restated) 2008 US$000 |
| Peru | 242,170 | 228,466 |
| Argentina | 200,384 | 186,646 |
| Mexico | 49,328 | 47,979 |
| Chile | 54 | 59 |
| Canada | 24,902 | – |
| USA | – | 26 |
| United Kingdom | 451,038 | 136,802 |
| Total non-current segment assets | 967,876 | 599,978 |
| Available-for-sale financial assets | 19,181 | 17,794 |
| Trade and other receivables | 3,150 | 38,304 |
| Deferred income tax assets | 15,852 | 21,811 |
| Income tax receivable | 1,302 | 802 |
| Total non-current assets | 1,007,361 | 678,689 |

## 5 ACQUISITIONS

### (a) Acquisition of subsidiaries

Southwestern Resources Corporation

On 21 May 2009, the Group acquired a 100% interest of Southwestern Resources Corp. ("Southwestern"), a mineral exploration company with a number of gold, silver and base metals projects adjacent to the Group's operations in southern Peru. The acquisition has been accounted for using the purchase method of accounting.

As at 30 June 2009, net assets were determined on a provisional basis. During the second half of 2009 the determination of fair value has been finalised and adjustments have been made to the balances previously reported.

The net assets acquired in the transaction and the negative goodwill arising were as follows:

| | Provisional fair value US$000 | Adjustments to fair value US$000 | Updated fair value US$000 |
|---|---|---|---|
| Cash and cash equivalents | 5,349 | – | 5,349 |
| Available-for-sale financial assets | 949 | – | 949 |
| Investment in associate | 1,669 | (1,308) | 361 |
| Property, plant and equipment | 24,266 | – | 24,266 |
| Other assets | 360 | (160) | 200 |
| Deferred income tax liability | (2,959) | (704) | (3,663) |
| Other current liabilities | (581) | 59 | (522) |
| Net assets | 29,053 | (2,113) | 26,940 |
| Negative goodwill arising on acquisition (refer to note 12) | (9,807) | 2,113 | (7,694) |
| Total acquisition cost | 19,246 | – | 19,246 |

The total acquisition cost of US$19,246,000 comprised a cash payment of US$19,056,000 and cost of US$190,000 directly attributable to the acquisition.

The revenue of the entity, if the acquisition date was the start of the period, was nil.

The loss of the entity, if the acquisition date was the start of the period, was US$75,073.

# Notes to the consolidated financial statements continued

## 5 ACQUISITIONS (CONTINUED)

### (b) Acquisition of associates

Lake Shore Gold Corp.

During 2008, the Group acquired a 39.99% interest in Lake Shore Gold Corp. ("Lake Shore Gold"), a gold mining company listed on the Toronto Stock Exchange for a total consideration of US$163,997,000. The acquisition was made in the following tranches:

– 19.99% acquired through a share issue on 19 February 2008 for US$64,806,000.

– 15.00% acquired through a share issue on 13 June 2008 for US$78,029,000.

– 5.00% acquired from a third party on 23 June 2008 for US$21,162,000.

The interest in Lake Shore Gold gives the Group the right to exercise significant influence over that company. In compliance with the Group's policy and IAS 28, the investment has been treated as an associate and accounted for using the equity method.

On 9 March 2009 the Group acquired 14,900,000 shares of Lake Shore for US$18,003,000 as part of its commitment to participate in the bought-deal financing agreement entered into by Lake Shore. After completion of the transaction, the Group's ownership in Lake Shore was maintained at 39.99%.

On 6 November 2009 Lake Shore Gold acquired all of the outstanding common shares of West Timmins Mining Inc. ("West Timmins") by issuing 103,951,125 common shares and 8,550,264 options and warrants. At the date of the transaction the Group held an interest of 18.40% in West Timmins (acquired between August and November of 2009 for a total consideration of US$63,782,000). As a consequence of the transaction the Group's interest in Lake Shore Gold was diluted from 39.99% to 26.10% and a net gain of US$42,279,000 was recognised as an exceptional item in the consolidated income statement within the caption "Share on post tax profit/loss of associates" (refer to note 19 (a)). On the same day, 28.3 million shares held by the Group in West Timmins were converted into 20.7 million shares in Lake Shore Gold, increasing the Group's interest in Lake Shore Gold to 32.20%.

During December 2009 the Group acquired an additional interest of 3.88% in Lake Shore Gold for a total consideration of US$86,168,000. Also, at 31 December 2009 the accumulated interest held by the Group of 36.09% was diluted to 35.69% due to the issuance of a package of shares, options and warrants by Lake Shore Gold. The total loss recognised in connection with the dilution of US$4,493,000 is recognised as an exceptional item in the consolidated income statement within the caption "Share on post tax profit/loss of associates" (refer to note 19 (a)).

Gold Resource Corporation

In connection with the Strategic Alliance Agreement signed with Gold Resource Corporation, an underground precious metals mining company with a number of development projects in Mexico, the Group purchased 1,670,000 common shares (4.9%) for US$5,010,000 on 5 December 2008. The Group also acquired an option to purchase a further 4,330,000 common shares for US$12,990,000 (US$3 per share).

On 25 February 2009, the Group exercised its option to purchase a further 4,330,000 common shares. As a result of the acquisition of the second tranche, the Group held a 13.6% interest in Gold Resource Corporation and appointed one of the four directors, giving the Group significant influence over that company. In compliance with the Group's policy and IAS 28, the investment has been treated as an associate and accounted for using the equity method since 25 February 2009.

On 30 June 2009, the Group exercised its option to purchase an additional 5,000,000 common shares for a total cash consideration of US$20,000,000.

The purchase was completed in two tranches: US$5,000,000 which closed on 30 June 2009 and a second tranche of US$15,000,000 which closed on 20 July 2009.

On 16 December 2009, the Group purchased 1,954,795 common shares for a total cash consideration of US$16,000,000. As at 31 December 2009 the Group owns a 25.0% interest in Gold Resource Corporation.

### (c) Acquisition of minority interest

Minas Santa Maria de Moris

On 5 June 2009, the Group acquired the remaining 30% interest in Minas Santa Maria de Moris from its former partner Exmin S.A. de C.V., obtaining full ownership of its subsidiary for a total cash consideration of US$1,500,000.

In compliance with the Group's accounting policy, the difference between the consideration paid of US$1,500,000 and the carrying value of the minority interest at the acquisition date of US$5,650,000 has been recognised as an increase of retained earnings.

The revenue of the entity in the period, if the acquisition date was the start of the period was US$26,440,000.

The profit of the entity in the period, if the acquisition date was the start of the period was US$9,074,000.

## 6 REVENUE

| | As at 31 December | |
|---|---|---|
| | 2009 US$000 | 2008 US$000 |
| Gold (from doré) | 107,521 | 124,772 |
| Silver (from doré) | 71,546 | 98,738 |
| Concentrate | 360,534 | 210,145 |
| Services | 140 | 124 |
| Total | 539,741 | 433,779 |

The concentrate sold contained:

| | As at 31 December | |
|---|---|---|
| | 2009 US$000 | 2008 US$000 |
| Gold | 90,516 | 44,451 |
| Silver | 269,930 | 165,339 |
| Other minerals | 88 | 355 |
| Total concentrate | 360,534 | 210,145 |

Included within revenue is a gain of US$27,538,526 relating to provisional pricing adjustments representing the change in the fair value of embedded derivatives (2008: loss of US$14,561,723) arising on sales of concentrates and doré (refer to notes 2(r) and 23(3)).

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

| | As at 31 December | |
|---|---|---|
| | 2009 | 2008 |
| Total in thousands of ounces: | | |
| Gold | 204 | 198 |
| Silver | 23,563 | 20,593 |

## 7 COST OF SALES

Included in cost of sales are:

| | Year ended 31 December 2009 | | | Year ended 31 December 2008 | | |
|---|---|---|---|---|---|---|
| | Before exceptional items US$000 | Exceptional items US$000 | Total US$000 | (Restated) Before exceptional items US$000 | Exceptional items US$000 | (Restated) Total US$000 |
| Depreciation | 83,426 | – | 83,426 | 59,559 | – | 59,559 |
| Personnel expenses[1] | 51,284 | 6,918 | 58,202 | 47,286 | 234 | 47,520 |
| Mining royalty | 9,458 | – | 9,458 | 5,935 | – | 5,935 |
| Change in products in process and finished goods | 8,066 | – | 8,066 | 7,291 | – | 7,291 |

1 The exceptional item corresponds to a one-off bonus paid to the mining workers in Peru (2008: The exceptional item corresponds to termination benefits paid to employees due to the restructuring undertaken by the Group at the end of 2008).

# Notes to the consolidated financial statements continued

## 8 ADMINISTRATIVE EXPENSES

| | Year ended 31 December 2009 | | | Year ended 31 December 2008 | | |
|---|---|---|---|---|---|---|
| | Before exceptional items US$000 | Exceptional items US$000 | Total US$000 | Before exceptional items US$000 | Exceptional items US$000 | Total US$000 |
| Personnel expenses[1] | 25,381 | – | 25,381 | 35,504 | 1,127 | 36,631 |
| Professional fees | 6,637 | – | 6,637 | 10,012 | – | 10,012 |
| Social and community welfare expenses[2] | 5,971 | – | 5,971 | 4,635 | – | 4,635 |
| Lease rentals | 1,653 | – | 1,653 | 1,447 | – | 1,447 |
| Travel expenses | 1,435 | – | 1,435 | 2,696 | – | 2,696 |
| Communications | 125 | – | 125 | 732 | – | 732 |
| Indirect taxes | 2,283 | – | 2,283 | 3,159 | – | 3,159 |
| Depreciation | 485 | – | 485 | 859 | – | 859 |
| Amortisation of software licences | 311 | – | 311 | 266 | – | 266 |
| Contribution to Peruvian Government | 870 | – | 870 | 944 | – | 944 |
| Technology and systems | 1,192 | – | 1,192 | 1,204 | – | 1,204 |
| Security | 286 | – | 286 | 587 | – | 587 |
| Supplies | 303 | – | 303 | 466 | – | 466 |
| Other | 4,136 | – | 4,136 | 6,240 | – | 6,240 |
| Total | 51,068 | – | 51,068 | 68,751 | 1,127 | 69,878 |

1 The exceptional item corresponds to termination benefits paid to employees due to the restructuring undertaken by the Group at the end of 2008.
2 Represents amounts expended by the Group on social and community welfare activities surrounding its mining units.

## 9 EXPLORATION EXPENSES

| | Year ended 31 December 2009 | | | Year ended 31 December 2008 | | |
|---|---|---|---|---|---|---|
| | Before exceptional items US$000 | Exceptional items US$000 | Total US$000 | Before exceptional items US$000 | Exceptional items US$000 | Total US$000 |
| Mine site exploration[1] | | | | | | |
| Arcata | 1,345 | – | 1,345 | 1,333 | – | 1,333 |
| Ares | – | – | – | 869 | – | 869 |
| Selene | – | – | – | 859 | – | 859 |
| Pallancata | 701 | – | 701 | 151 | – | 151 |
| San José | 451 | – | 451 | 547 | – | 547 |
| Moris | – | – | – | 527 | – | 527 |
| | 2,497 | – | 2,497 | 4,286 | – | 4,286 |
| Prospects[2] | | | | | | |
| Peru | 93 | – | 93 | 286 | – | 286 |
| Argentina | 1,016 | – | 1,016 | 193 | – | 193 |
| Mexico | 222 | – | 222 | 2,676 | – | 2,676 |
| Chile | 1,501 | – | 1,501 | 2,450 | – | 2,450 |
| | 2,832 | – | 2,832 | 5,605 | – | 5,605 |
| Generative[3] | | | | | | |
| Peru | 3,142 | – | 3,142 | 501 | – | 501 |
| Argentina | 122 | – | 122 | 126 | – | 126 |
| Mexico | 580 | – | 580 | 902 | – | 902 |
| Chile | 280 | – | 280 | 1,708 | – | 1,708 |
| China | 231 | – | 231 | – | – | – |
| | 4,355 | – | 4,355 | 3,237 | – | 3,237 |
| Mining rights | 537 | – | 537 | 398 | – | 398 |
| Personnel[4] | 6,085 | 1,049 | 7,134 | 6,498 | 69 | 6,567 |
| Other | 3,635 | – | 3,635 | 3,817 | – | 3,817 |
| Total | 19,941 | 1,049 | 20,990 | 23,841 | 69 | 23,910 |

1 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.
2 Prospects expenditure relates to detailed geological evaluations in order to determine zones which have mineralisation potential that is economically viable for exploration. Exploration expenses are generally incurred in the following areas: detail mapping, detail sampling, geophysics, identification of local targets and reconnaissance drilling.
3 Generative expenditure is very early stage exploration expenditure related to the basic evaluation of the region to identify prospects areas that have the 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.
4 The exceptional item corresponds to the termination benefits paid to the workers of the companies of the Southwestern Group (2008: corresponds to termination benefits paid to employees due to the restructuring undertaking by the Group at the end of 2008).

# Notes to the consolidated financial statements continued

## 9 EXPLORATION EXPENSES (CONTINUED)

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 the exploration activities of these companies from their operating liabilities.

| | As at 31 December | |
|---|---|---|
| | 2009 US$000 | 2008 US$000 |
| Liabilities related to exploration activities | 965 | 1,247 |

Cash flows of exploration activities are as follows:

| | As at 31 December | |
|---|---|---|
| | 2009 US$000 | 2008 US$000 |
| Payments | 7,469 | 8,304 |

## 10 SELLING EXPENSES

| | As at 31 December | |
|---|---|---|
| | 2009 US$000 | 2008 US$000 |
| Transportation of doré, concentrate and maritime freight[1] | 7,493 | 4,636 |
| Sales commissions | 1,145 | 1,144 |
| Personnel expenses | 270 | 97 |
| Warehouse services[2] | 10,223 | 4,022 |
| Other | 1,874 | 1,358 |
| Total | 21,005 | 11,257 |

1 Increase compared to 2008 mainly due to more tonnes of concentrate sold.
2 Increase compared to 2008 mainly due to more tonnes of concentrate sold and higher prices, leading to higher export duties paid.

## 11 PERSONNEL EXPENSES

| | As at 31 December | |
|---|---|---|
| | 2009 US$000 | 2008 US$000 |
| Salaries and wages[1] | 67,770 | 65,984 |
| Workers' profit sharing[2] | 2,073 | 4,273 |
| Other legal contributions[3] | 8,859 | 12,873 |
| Termination benefits[4] | 3,989 | 4,096 |
| Statutory holiday payments | 3,867 | 3,683 |
| Executive Long-Term Incentive Plan (note 27(2)) | – | 302 |
| Other | 6,804 | 3,260 |
| Total | 93,362 | 94,471 |

1 Included in salaries and wages is the Directors' remuneration (refer to note 31(b)) and defined pension contributions of US$440,169 (2008: US$524,869).
2 In accordance with Peruvian Legislation, companies in Peru must provide for workers' profit sharing equivalent to 8% of taxable income of each year. Mexican Law also requires Mexican companies to provide for workers' profit sharing equivalent to 10% of the profit of each year.
3 Corresponds to legal obligations as the deposit of compensation for services rendered, pension plans and contributions to Government entities.
4 The amount includes US$1,049,000 termination benefits paid to the workers of the companies of the Southwestern Group (2008: Includes US$1,430,000 termination benefits paid to employees due to the restructuring undertaking by the Group at the end of 2008).

Personnel expenses are distributed as follows:

| | As at 31 December | |
|---|---|---|
| | 2009 US$000 | 2008 US$000 |
| Cost of sales (refer to note 7) | 58,202 | 47,520 |
| Administrative expenses (refer to note 8) | 25,381 | 36,631 |
| Exploration expenses (refer to note 9) | 7,134 | 6,567 |
| Selling expenses (refer to note 10) | 270 | 97 |
| Property, plant and equipment | 2,375 | 3,656 |
| Total | 93,362 | 94,471 |

Average number of employees for 2009 and 2008 were as follows:

| | As at 31 December | |
|---|---|---|
| | 2009 | 2008 |
| Peru | 2,282 | 2,084 |
| Argentina | 838 | 699 |
| Mexico | 158 | 217 |
| Chile | 13 | 21 |
| United Kingdom | 8 | 12 |
| Total | 3,299 | 3,033 |

# Notes to the consolidated financial statements continued

## 12 OTHER INCOME AND OTHER EXPENSES

| | Year ended 31 December 2009 | | | Year ended 31 December 2008 | | |
|---|---|---|---|---|---|---|
| | Before exceptional items US$000 | Exceptional items US$000 | Total US$000 | Before exceptional items US$000 | Exceptional items US$000 | Total US$000 |
| Other income: | | | | | | |
| Export incentive (refer to note 21(2)) | 1,921 | – | 1,921 | 2,622 | – | 2,622 |
| Gain on recovery of expenses | 472 | – | 472 | 225 | – | 225 |
| Gain on sale of property, plant and equipment | – | 153 | 153 | – | 252 | 252 |
| Lease rentals | 302 | – | 302 | 217 | – | 217 |
| Recovery of impairment of deposits in Kaupthing, Singer and Friedlander Bank[1] | – | 584 | 584 | – | – | – |
| Negative goodwill on acquisition of subsidiary (refer to note 5) | – | 7,694 | 7,694 | – | – | – |
| Reversal of Electroperú contingency[2] | – | 351 | 351 | – | – | – |
| Other | 1,806 | – | 1,806 | 1,961 | – | 1,961 |
| Total | 4,501 | 8,782 | 13,283 | 5,025 | 252 | 5,277 |
| Other expenses: | | | | | | |
| Increase in provision for mine closure[3] | (11,526) | – | (11,526) | (3,216) | – | (3,216) |
| Impairment of deposits in Kaupthing, Singer and Friedlander Bank[1] | – | – | – | – | (1,292) | (1,292) |
| Electroperú contingency[2] | – | – | – | – | (692) | (692) |
| Cost of maintenance of equipment | – | – | – | (1,165) | – | (1,165) |
| Termination benefits[4] | – | (662) | (662) | – | – | – |
| Loss on sale of other assets | (1,635) | – | (1,635) | – | – | – |
| Compensation claims provision[5] | (1,850) | – | (1,850) | (354) | – | (354) |
| Provision for obsolescence of supplies[6] | (1,128) | (585) | (1,713) | (634) | – | (634) |
| Impairment of trade receivables[7] | (1,116) | | (1,116) | (336) | – | (336) |
| Other | (2,075) | – | (2,075) | (2,541) | – | (2,541) |
| Total | (19,330) | (1,247) | (20,577) | (8,246) | (1,984) | (10,230) |

1 Most of those funds were recovered during 2009 and therefore an exceptional gain recognised to reverse part of the impairment recorded during 2008. In 2008, this amount represented the impairment of cash deposits with Kaupthing, Singer and Friedlander Bank which went into administration in October 2008.

2 Compañía Minera Ares has a dispute with Electroperú S.A. regarding the electric power during November and December 2002, and January, February and March 2003 which was simultaneously billed by Electroperú and Sociedad Eléctrica del Sur Oeste S.A. (SEAL). Compañía Minera Ares has filed a claim with Osinergim (the Peruvian power regulator) claiming that the billing should be only for the actual power consumed by the company and that Electroperú and SEAL should each have half the billing. Electroperú has filed an administrative court action against the resolution issued by Osinergim and initiated an arbitration process seeking to additionally collect S/.832,135 (US$264,842) plus interest. Management, having consulted legal counsel, considered that there was a reasonable possibility that the outcome of these proceedings would not be favourable for Compañía Minera Ares, and accordingly had provided in full for the claim during 2008. At the end of 2009 the calculation was updated, determining a reversal of US$351,000 to reflect the actual estimation of the claim amount.

3 In 2009 corresponds to changes in the estimated mine closure costs of closed operations in Peru of US$11,800,000 (2008: US$2,288,000), refer to note 27 (1); net of the gain generated due to the change in the discount rate of US$274,000 (2008: loss of US$928,000).

4 Represents the termination benefits paid to the employees due to the closing of the Selene mine.

5 Corresponds to compensation claims provisions related to the Peruvian companies.

6 Mainly corresponds to the write-off of supplies at the Sipan mine that could not be sold or used in the other mining units of Peru and the obsolescence of supplies at the Selene mine due to the closure of the mine.

7 Mainly corresponds to the impairment of a trade receivable from a customer in Peru. In 2008, mainly corresponds to the amount accrued for impairment of other receivables.

## 13 FINANCE INCOME AND FINANCE COSTS

| | Year ended 31 December 2009 | | | Year ended 31 December 2008 | | |
|---|---|---|---|---|---|---|
| | Before exceptional items US$000 | Exceptional items US$000 | Total US$000 | Before exceptional items US$000 | Exceptional items US$000 | Total US$000 |
| Finance income: | | | | | | |
| Interest on time deposits[1] | 819 | – | 819 | 5,934 | – | 5,934 |
| Gain from changes in the fair value of financial instruments[2] | – | 9,045 | 9,045 | 304 | 2,301 | 2,605 |
| Gain on sale of available-for-sale financial assets[3] | – | 623 | 623 | – | 1,613 | 1,613 |
| Gain on exchange of available-for-sale financial assets[4] | – | 12,632 | 12,632 | – | – | – |
| Interest on loans to minority shareholders (note 21) | 2,609 | – | 2,609 | 2,623 | – | 2,623 |
| Change in discount rate[5] | 2,837 | – | 2,837 | – | – | – |
| Interest on loans to third parties | – | – | – | 47 | – | 47 |
| Other | 119 | – | 119 | 474 | – | 474 |
| Total | 6,384 | 22,300 | 28,684 | 9,382 | 3,914 | 13,296 |
| Finance costs: | | | | | | |
| Interest on bank loans and long-term debt | (13,976) | – | (13,976) | (13,387) | – | (13,387) |
| Interest on convertible bond (note 26) | (1,663) | – | (1,663) | – | – | – |
| Unwind of discount rate[6] | (278) | – | (278) | (4,590) | – | (4,590) |
| Loss from changes in the fair value of forward contracts[7] | (25,962) | – | (25,962) | – | – | – |
| Loss from changes in the fair value of financial instruments[8] | (2,452) | (1,256) | (3,708) | – | (6,246) | (6,246) |
| Impairment of available-for-sale financial assets[9] | – | – | – | – | (11,421) | (11,421) |
| Premium paid on purchase of available-for-sale financial assets[10] | – | – | – | – | (421) | (421) |
| Other | (1,709) | | (1,709) | (856) | – | (856) |
| Total | (46,040) | (1,256) | (47,296) | (18,833) | (18,088) | (36,921) |

1 Mainly corresponds to interest on liquidity funds (refer to note 24).

2 In 2009, the amount mainly corresponds to the gain realised upon the exercise of an option over shares in Gold Resource Corp. on 25 February 2009 of US$5,493,000, the gain of the option contract to buy 3,750,000 shares of Gold Resource Corp. of US$1,912,500 and the change in the fair value of Fortuna Silver Mine Inc. warrants of US$1,639,000. In 2008, the amount corresponds to the change in the fair value of the option over 4,330,000 shares of Gold Resource Corp. of US$2,301,000 and a gain of US$304,000 due to changes in the fair value of derivative instruments according to the contracts signed in December 2008 with Citibank and INTL Commodities Inc. with the intention of removing the risk of fluctuations in metal prices (refer to note 23(4)).

3 In 2009, corresponds to the sale of 3,287,570 shares in Fortuna Silver Mines Inc. resulting in a realised gain of US$623,000 which has been recycled from equity into the income statement. In 2008, corresponds to the sale of 1,660,150 shares in Fortuna Silver Mines Inc. at a price of CAD$2 per share for a total consideration of CAD$3,320,300 (US$3,321,450) resulting in a realised gain of US$1,613,000 which has been recycled from equity into the income statement.

4 Mainly corresponds to the gain from change in the fair value of West Timmins Mining Inc. shares. Between August and November of 2009 the Group acquired 18.4% interest in West Timmins Mining Inc. for a total consideration of US$63,782,000. These shares were subsequently exchanged for Lake Shore Gold shares on 6 November 2009 realising a gain of US$12,129,000 (includes transaction costs of US$394,000). In addition includes the gain for receiving shares of Dia Bras Exploration due to the merger with EXMIN Resources Inc. of US$391,000 and for receiving shares of Lara Exploration Ltd. due to the merger with Maxy Gold Corp. of US$112,000.

5 Corresponds to the gain arising on the reduction in the discount rate used to the calculation of the recoverable amount of VAT of Minera Santa Cruz of US$2,837,000 (2008: Nil).

6 In 2009, corresponds to the unwind of the discount on the provision for mine closure of US$278,000. In 2008 corresponds to the unwind of the discount on the provision for mine closure of US$669,000 (refer to note 27) and the unwind of discount on VAT of Minera Santa Cruz of US$3,921,000.

7 Corresponds to the realised loss due to changes in the fair value of derivative instruments, being the future contracts of gold and silver signed with Citibank, JP Morgan and INTL Commodities Inc. with the intention to remove the risk of the fluctuations in metal prices.

8 In 2009, corresponds to the loss due to changes in the fair value of the zero cost collar contracts signed by Cia. Minera Ares during the period. These contracts relate to 5,200,000 ounces of silver, with a cap of US$17/oz for 1,400,000 ounces, US$19.5/oz for 400,000 ounces and US$19.95/oz for 400,000 ounces, and a floor of US$11.00/oz and contracts with a cap of US$20.92/oz and floor of US$13.80/oz for 1,500,000 ounces, and a cap of US$21/oz and a floor of US$14/oz for 1,500,000 ounces. The contracts expire between January and December 2010. In addition it includes a loss of US$1,256,000 relating to the fair value of the swap contract signed with BBVA and Citibank to fix the interest rate of the JP Morgan led syndicated loan in 1.75% (refer to note 26). In 2008, mainly corresponds to the change in fair value of warrants in Fortuna Silver Mines Inc. of US$6,245,000 (refer to note 23(1)).

9 Corresponds to the impairment of the investment in the shares of EXMIN (US$8,229,000), Mirasol Resources Inc. (US$323,000), Electrum Capital Inc. (US$2,637,000), Fortuna River (US$157,000) and Ventura Gold Corp. (US$75,000).

10 Corresponds to the premium paid on the acquisition of the shares of Iron Creek Capital Corp. and Mariana Resources Ltd. amounting to US$173,000 and US$248,000 respectively.

# Notes to the consolidated financial statements continued

## 13 FINANCE INCOME AND FINANCE COSTS (CONTINUED)

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

| | As at 31 December | |
|---|---|---|
| | 2009 US$000 | 2008 US$000 |
| Interest income from financial assets that are not at fair value through the profit and loss | 3,428 | 8,604 |
| Interest expense from financial liabilities that are not at fair value through the profit and loss | (15,639) | (13,387) |
| Total | (12,211) | (4,783) |

## 14 INCOME TAX EXPENSE

| | Year ended 31 December 2009 | | | Year ended 31 December 2008 | | |
|---|---|---|---|---|---|---|
| | Before exceptional items US$000 | Exceptional items[1] 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 | 30,946 | (2,275) | 28,671 | 13,058 | (56) | 13,002 |
| | 30,946 | (2,275) | 28,671 | 13,058 | (56) | 13,002 |
| Deferred taxation: | | | | | | |
| Origination and reversal of temporary differences from continuing operations (note 29) | 12,486 | (8,943) | 3,543 | 10,814 | (5,444) | 5,370 |
| | 12,486 | (8,943) | 3,543 | 10,814 | (5,444) | 5,370 |
| Withholding taxes | 1,256 | – | 1,256 | 895 | – | 895 |
| Total taxation charge in the income statement | 44,688 | (11,218) | 33,470 | 24,767 | (5,500) | 19,267 |

1 This amount corresponds to the related tax impact of exceptional items (refer to note 2(y)). This principally relates to a current tax credit of US$2,076,000 in connection with the one-off bonus paid to the mining workers in Peru (2008: Nil) and US$9,048,000 deferred tax credit in connection with an impairment loss recognised in the period (2008: US$3,736,000).

The weighted average statutory income tax rate was 30.1% for 2009 and 7.5% for 2008. 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 Group companies in their 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 (CONTINUED)

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

| | As at 31 December | |
|---|---|---|
| | 2009 US$000 | (Restated) 2008 US$000 |
| Profit from continuing operations before income tax | 154,810 | (2,273) |
| At average statutory income tax rate of 30.1% (2008: (7.5)%) | 46,702 | 171 |
| Expenses not deductible for tax purposes | 2,049 | 5,315 |
| Non-taxable income | (6,662) | (2,055) |
| Non-taxable negative goodwill[1] | (2,308) | – |
| Deferred tax recognised on special investment regime[2] | (629) | (6,063) |
| Recognition of previously unrecognised deferred tax assets[3] | (4,222) | (1,102) |
| Non-taxable share of (gains)/losses of associates | (13,276) | 2,534 |
| Net deferred tax assets generated in the year not recognised | 11,204 | 13,871 |
| Change in tax regime[4] | (2,002) | (1,544) |
| Change in statutory Income Tax Rate[5] | (786) | 786 |
| Foreign exchange rate effect[6] | 25 | 7,731 |
| Derecognition of deferred tax assets previously recognised[7] | 4,790 | – |
| Other | (1,415) | (377) |
| At average effective income tax rate of 21.62% (2008: 847.65%) | 33,470 | 19,267 |
| Taxation charge attributable to continuing operations | 33,470 | 19,267 |
| Total taxation charge in the income statement | 33,470 | 19,267 |

1 Corresponds to non-taxable negative goodwill on acquisition of Southwestern Group.
2 Corresponds to the deferred tax income asset recognised for the additional tax losses generated during the year arising from the double deduction claimed for tax purposes by Minera Santa Cruz during the year (refer to note (i)).
3 Increase in 2009 mainly corresponds to recognised tax losses upon tax restructuring in Mexican companies of US$7,392,000 and the use of previously unrecognised tax losses in 2009 of US$7,687,000. In 2008, mainly corresponds to the tax effect of certain mine closure expenses which are now expected to be deductible against taxable income, when incurred.
4 Corresponds to the effect of the change in the Mexican tax regime (refer to note (ii)).
5 Corresponds to an increase in the statutory corporate income tax rate for the Arcata mining unit from 30% to 32% with effect from 1 January 2009. This increase was reversed during 2009 as the Group opted out of certain clauses of the stability agreement, including the increase of 2% in income tax (refer to note 36).
6 Mainly corresponds to the foreign exchange effect from converting tax bases and monetary items from local currency to the functional currency.
7 Relates to the reversal of a deferred tax asset previously recognised as the ability to utilise this potential deferred tax asset against future taxable profits is now uncertain.

# Notes to the consolidated financial statements continued

## 14 INCOME TAX EXPENSE (CONTINUED)

**(i) Special investment regime**
Minera Santa Cruz benefits from a special investment regime that allows for a double deduction in the calculation of its corporate income tax liability for all costs relating to prospecting, exploration and metallurgical analysis, pilot plants and other expenses incurred for the feasibility studies for mining projects. The investment recognised under this regime amounted to US$1,800,000 in 2009 (2008: US$17,300,000). No significant further deduction under this special investment regime is expected in 2010 and subsequent years.

**(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 from 1 January 2008, the tax reform requires companies to pay tax equal to the greater of the tax charge calculated under the new flat rate business tax ("IETU" as abbreviated in Spanish) or the tax charge calculated under the current income corporate tax regime ("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 Santa Maria de Moris S.A. de C.V. (the operator of the Moris mine) will be required to pay ISR Tax instead of IETU in each period until the end of the mine's life. Therefore, at 31 December 2009 the Group reversed the deferred tax liability of US$2,002,000 recognised at 31 December 2008 in connection with IETU.

## 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.

The Company has dilutive potential ordinary shares.

As at 31 December 2009 and 2008, EPS has been calculated as follows:

| | As at 31 December | |
|---|---|---|
| | 2009 | 2008 |
| Profit/(loss) for the year and from continuing operations attributable to equity holders of the Company US$000 | 98,080 | (24,718) |
| Weighted average number of ordinary shares in issue (thousands) | 314,043 | 307,350 |
| Weighted average number of ordinary shares in issue and dilutive potential ordinary shares (thousands) | 317,607 | 307,350 |
| Basic and earning/(loss) per share from: | | |
| Before exceptional items US$ | 0.17 | 0.05 |
| Exceptional items US$ | 0.14 | (0.13) |
| Total for the year and from continuing operations US$ | 0.31 | (0.08) |
| Diluted earning/(loss) per share from: | | |
| Before exceptional items US$ | 0.17 | 0.05 |
| Exceptional items US$ | 0.14 | (0.13) |
| Total for the year and from continuing operations US$ | 0.31 | (0.08) |

## 16 PROPERTY, PLANT AND EQUIPMENT

| | Mining properties and development costs US$000 | Land and buildings US$000 | Plant and equipment[1] US$000 | Vehicles US$000 | Mine closure asset US$000 | Construction in progress and capital advances US$000 | Total US$000 |
|---|---|---|---|---|---|---|---|
| Year ended 31 December 2008 | | | | | | | |
| Cost | | | | | | | |
| At 1 January 2008 | 157,711 | 65,435 | 105,946 | 2,824 | 38,288 | 14,021 | 384,225 |
| Additions | 79,496 | 4,253 | 9,375 | 77 | – | 149,759 | 242,960 |
| Change in discount rate | – | – | – | – | 3,113 | – | 3,113 |
| Disposals | – | – | (120) | (158) | – | – | (278) |
| Write-off | – | – | (24) | – | – | – | (24) |
| Change in mine closure estimate | – | – | – | – | 280 | – | 280 |
| Transfers and other movements | (2,192) | 30,748 | 68,535 | 746 | – | (97,837) | – |
| Transfers from Evaluation and exploration assets | 2,960 | – | – | – | – | – | 2,960 |
| Sales during preoperating stage in Minera Santa Cruz | (125) | – | – | – | – | – | (125) |
| Foreign exchange | (32) | (43) | (467) | (69) | – | (10) | (621) |
| At 31 December 2008 | 237,818 | 100,393 | 183,245 | 3,420 | 41,681 | 65,933 | 632,490 |
| Accumulated depreciation and impairment | | | | | | | |
| At 1 January 2008 | 50,027 | 12,858 | 31,749 | 860 | 31,703 | – | 127,197 |
| Restatement of depreciation | 14,001 | – | – | – | – | – | 14,001 |
| At 1 January 2008, as restated | 64,028 | 12,858 | 31,749 | 860 | 31,703 | – | 141,198 |
| Depreciation for the year | 37,918 | 7,697 | 13,729 | 455 | 730 | – | 60,529 |
| Impairment[2] | 5,582 | 754 | 6,286 | 105 | 943 | 788 | 14,458 |
| Disposals | – | – | (54) | (84) | – | – | (138) |
| Write-off | – | – | (4) | – | – | – | (4) |
| Sales during preoperating stage in Minera Santa Cruz | (12) | – | – | – | – | – | (12) |
| Foreign exchange | – | 2 | (78) | (30) | – | – | (106) |
| At 31 December 2008 | 107,516 | 21,311 | 51,628 | 1,306 | 33,376 | 788 | 215,925 |
| Net book amount at 31 December 2008, as restated | 130,302 | 79,082 | 131,617 | 2,114 | 8,305 | 65,145 | 416,565 |

# Notes to the consolidated financial statements continued

## 16 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

| | Mining properties and development costs US$000 | Land and buildings US$000 | Plant and equipment[1] US$000 | Vehicles US$000 | Mine closure asset US$000 | Construction in progress and capital advances US$000 | Total US$000 |
|---|---|---|---|---|---|---|---|
| Year ended 31 December 2009 | | | | | | | |
| Cost | | | | | | | |
| At 1 January 2009 | 237,818 | 100,393 | 183,245 | 3,420 | 41,681 | 65,933 | 632,490 |
| Additions | 50,969 | 381 | 16,032 | 160 | – | 32,357 | 99,899 |
| Acquisition of subsidiary | 23,800 | – | 347 | 119 | – | – | 24,266 |
| Change in discount rate | – | – | – | – | (1,770) | – | (1,770) |
| Disposals | (1,148) | – | (1,639) | (96) | – | (169) | (3,052) |
| Write-off | (27,718) | (1,894) | (5,496) | (162) | – | 62 | (35,208) |
| Change in mine closure estimate | – | – | – | – | 15,220 | – | 15,220 |
| Reclassification to intangibles | – | – | (5,891) | – | – | – | (5,891) |
| Transfers and other movements | – | 10,244 | 28,433 | 255 | – | (38,932) | – |
| Transfer to Evaluation and exploration assets | (1,921) | – | – | – | – | – | (1,921) |
| Foreign exchange | 2,087 | 3 | 546 | 12 | – | 33 | 2,681 |
| At 31 December 2009 | 283,887 | 109,127 | 215,577 | 3,708 | 55,131 | 59,284 | 726,714 |
| Accumulated depreciation and impairment | | | | | | | |
| At 1 January 2009 | 107,516 | 21,311 | 51,628 | 1,306 | 33,376 | 788 | 215,925 |
| Depreciation for the year | 45,229 | 13,719 | 23,345 | 375 | 1,254 | – | 83,922 |
| Write-off[2] | (26,666) | (1,147) | (2,924) | (80) | 130 | – | (30,687) |
| Impairment[3] | 9,671 | 4,390 | 5,093 | 50 | 2,172 | 310 | 21,686 |
| Disposals | – | – | (956) | (110) | – | – | (1,066) |
| Reclassification to intangibles | – | (606) | (1,559) | – | – | – | (2,165) |
| Foreign exchange | – | – | 141 | – | – | – | 141 |
| At 31 December 2009 | 135,750 | 37,667 | 74,768 | 1,541 | 36,932 | 1,098 | 287,756 |
| Net book amount at 31 December 2009 | 148,137 | 71,460 | 140,809 | 2,167 | 18,199 | 58,186 | 438,958 |

1 The carrying value of plant and equipment held under finance leases at 31 December 2009 was US$11,177,000 (2008: US$7,482,000). Additions during the year included US$6,058,000 (2008: US$7,872,000) of plant and equipment under finance leases. Leased assets are pledged as security for the related finance lease.
2 As a result of the cessation of mining activities at the Selene mine unit, the remaining net book value of assets of US$4,523,000 was written off.
3 The amount of impairment losses recognised in profit and loss during the period was US$21,686,000. As a result of the impairment testing, the Group has impaired the Ares mine unit by US$15,041,000, the Liam property by US$10,091,000 and reversed the impairment loss of the Moris unit of US$3,446,000. The trigger for the impairment was the proximity of the closing of Ares and the resulting revision to the remaining recoverable reserves and resources. In addition the company reassessed the fair value of the Liam properties, following the acquisition of Southwestern (refer to note 5). The Group tested for impairment the following mining units: Ares, San José and Moris. In assessing whether impairment is required to the carrying value of the assets related to each mining unit, its carrying value is compared with its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and the value in use. The recoverable amount used in assessing the impairment charges described below is value in use. The Group generally estimates value in use using a discounted cash flow model for each mining unit covering its remaining useful life. During the year ended 31 December 2008, the Group recognised impairments totalling US$14,458,000, related to the Selene mine unit (US$8,208,000), the Moris mine unit (US$5,652,000) and the San Felipe project (US$598,000). These impairments were triggered primarily by the effect of the economic environment at that time, and the significantly reduced gold, silver and zinc prices.

There were no borrowing costs capitalised in property, plant and equipment as no significant qualifying assets were constructed during 2009.

## 16 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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

- Commodity prices – Commodity prices of gold and silver are based on external market consensus forecasts. Gold prices range from $1,015/oz to $837.5/oz (2008: from $750/oz to $879/oz) and silver prices range from $16.0/oz to $13.22/oz (2008: from $11.84/oz to $13/oz).
- Estimation of reserves and resources – Reserves and resources are based on management's estimates using appropriate exploration and evaluation techniques.
- Production volumes and grades – Tonnage produced was estimated at plant capacity with 19 days of maintenance per year (2008: 12 days).
- Capital expenditure – The cash flows for each mining unit include capital expenditures to maintain the mine and to convert resources to reserves.
- Operating costs – Costs are based on historical information from previous years and current mining conditions.
- Discount rates – The cash flows are discounted at real pre-tax rates that reflect the current market assessments of the time value of money and the risks specific to the cash-generating unit. These rates are based on the weighted average cost of capital specific to each cash-generating unit.

| Mining unit | 2009 Real pre-tax discount rate % | 2009 Real post-tax % |
|---|---|---|
| Ares | 3.21 | 3.21 |
| San José | 14.3 | 8.43 |
| Moris | 5.43 | 3.91 |

| Mining unit | 2008 Real pre-tax discount rate % | 2008 Real post-tax % |
|---|---|---|
| Ares | 28.5 | 5.1 |
| San José | 17.0 | 9.2 |
| Moris | 5.97 | 4.3 |

Cash flows used for impairment tests were based on the annual 2010 budget presented and approved by the board in December 2009. The starting point in all cases was January 2010. Individual cash flows are based on the annual 2010 budget and an estimated set of reserves and resources as of December 2009 provided by Explorations and Operations. In addition, for the following years, the Group includes any conservative adjustment to reflect the nature of each operation in an accurate manner. In the case of revenue, production figures were estimated considering reserve grade (after extracted tonnage) and full capacity. In the case of operating expenses, all figures are based on the 2010 budget and the main assumption was that any change in the foreign exchange rate would be offset by a change in the inflation rate. Future capital expenditure is based on the 2010 budget, excluding one off expenses and considering operation's view on developments and infrastructure, according to the estimated set of reserves and resources.

# Notes to the consolidated financial statements continued

## 17 EVALUATION AND EXPLORATION ASSETS

| | 2009 US$000 | 2008 US$000 |
|---|---|---|
| At 1 January | 44,726 | 6,034 |
| Additions | 8,636 | 68,311 |
| Impairments[1] | (222) | (15,754) |
| Write-off | (284) | – |
| Transfers and other movements | 1,921 | (2,960) |
| Foreign exchange | 1,051 | (10,905) |
| At 31 December | 55,828 | 44,726 |

1 The amount of impairment losses recognised in profit and loss during the period was US$222,000. As a result of the impairment testing, the Group has impaired the Ares mine unit by US$222,000. The trigger for the impairment was the proximity of the closing of Ares and the resulting revision to the remaining recoverable reserves and resources. The Group tested for impairment the following mining units: Ares, San José and Moris. In assessing whether impairment is required to the carrying value of the assets related to each mining unit, its carrying value is compared with its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and the value in use. The recoverable amount used in assessing the impairment charges is value in use. The Group generally estimates value in use using a discounted cash flow model for each mining unit covering its remaining useful life. During the year ended 31 December 2008, the Group recognised impairments totalling US$15,754,000, related to the Selene mine unit (US$949,000) and the San Felipe project (US$14,805,000). Refer to note 16 for the assumptions considered in the impairment calculation.
2 There were no borrowing costs capitalised in evaluation and exploration assets.
3 From the net book value at 31 December 2009, US$37,825,000 corresponds to the investment in San Felipe (2008: US$36,552,000) (refer to note 39).

## 18 INTANGIBLE ASSETS

| | Goodwill US$000 | Transmission line US$000 | Software licences US$000 | Total US$000 |
|---|---|---|---|---|
| **Cost** | | | | |
| Balance at 1 January 2008 | 2,091 | – | 876 | 2,967 |
| Additions | – | – | 37 | 37 |
| Balance at 31 December 2008 | 2,091 | – | 913 | 3,004 |
| Additions | – | 16,266 | 76 | 16,342 |
| Reclassification | – | 5,891 | – | 5,891 |
| Balance at 31 December 2009 | 2,091 | 22,157 | 989 | 25,237 |
| **Accumulated amortisation** | | | | |
| Balance at 1 January 2008 | – | – | 71 | 71 |
| Amortisation for the year | – | – | 266 | 266 |
| Foreign exchange difference | – | – | (1) | (1) |
| Balance at 31 December 2008 | – | – | 336 | 336 |
| Amortisation for the year | – | 2,078 | 311 | 2,389 |
| Reclassification | – | 87 | – | 87 |
| Foreign exchange difference | – | – | – | – |
| Balance at 31 December 2009 | – | 2,165 | 647 | 2,812 |
| Net book value as at 31 December 2008 | 2,091 | – | 577 | 2,668 |
| Net book value as at 31 December 2009 | 2,091 | 19,992 | 342 | 22,425 |

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 mine, by discounting the expected cash flows estimated by management over the life of the mine. The Group has tested the San José mining unit for impairment, refer to note 16(3) for the key assumptions used in calculating the mine's value in use.

## 18 INTANGIBLE ASSETS (CONTINUED)

Management believes that the following changes to the main assumptions would cause the carrying value of the goodwill to equal its recoverable amount. Therefore, any higher deviation would cause the carrying value of goodwill to exceed its recoverable amount and an impairment provision would be required.

| Assumption | Variation |
|---|---|
| Gold price | (6.8)% |
| Silver price | (6.3)% |
| Reserves and resources | (17.0)% |
| Costs | 7.9% |
| Discount rates | 4.3% |

## 19 INVESTMENTS ACCOUNTED UNDER EQUITY METHOD

| | Year end 31 December | |
|---|---|---|
| | 2009 US$000 | 2008 US$000 |
| Lake Shore Gold Corp[a] | 386,190 | 136,376 |
| Minas Pacapausa S.A.C.[b] | – | (170) |
| Cabo Sur[c] | (57) | (187) |
| Gold Resource Corp.[d] | 62,467 | – |
| Zincore Metals Inc.[e] | 2,065 | – |
| Total | 450,665 | 136,019 |

### (a) Lake Shore Gold Corp

The following table summarises the financial information of the Group's investment in Lake Shore Gold Corp:

| | Year ended 31 December | |
|---|---|---|
| | 2009 US$000 | 2008 US$000 |
| Share of the associate's statement of financial position: | | |
| Current assets | 47,520 | 29,217 |
| Non-current assets | 345,948 | 128,913 |
| Current liabilities | (7,663) | (5,839) |
| Non-current liabilities | (50,758) | (28,428) |
| Net assets | 335,047 | 123,863 |
| Goodwill on acquisition | 51,143 | 12,513 |
| Carrying amount of the investment | 386,190 | 136,376 |
| Share of the associate's revenue and losses: | | |
| Revenue | – | – |
| Profit/(losses)[1] | 46,951 | (3,925) |
| Carrying amount of the investment | 386,190 | 136,376 |

1 Share of the associate's profit in 2009 includes (1) a gain of US$101,503,000 from the Group's share in Lake Shore Gold's acquisition of 100% of West Timmins' net assets, (2) a gain from the Group's share in the results of the period of Lake Shore Gold of US$9,165,000, (3) a loss from dilution of the Group's interest from 39.99% to 26.1% at 6 November 2009 of US$59,224,000, and (4) a loss from dilution of the Group's interest from 36.09% to 35.69% at 31 December 2009 of US$4,493,000.

# Notes to the consolidated financial statements continued

## 19 INVESTMENTS ACCOUNTED UNDER EQUITY METHOD (CONTINUED)

### (b) Minas Pacapausa S.A.C.

On 21 June 2005, Minera Oro Vega S.A.C. ("Minorva", the partner of the Group's Minera Suyamarca S.A.C. subsidiary) and Minera del Suroeste ("Misosa") entered into an option and joint venture agreement ("Framework Agreement") in respect of the Pacapausa properties located in Peru.

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 arrangement, Suyamarca paid US$200,000 to Minorva in exchange for its contractual position in the Framework Agreement. The new joint venture company, Minas Pacapausa S.A.C. ("Pacapausa"), was incorporated on 4 March 2008 and Suyamarca contributed US$1,200,000 (solely funded by the Group) in exchange for a 50% interest in Pacapausa. Subsequently, Minorva transferred to Pacapausa all technical reports and other assets obtained as a result of its exploration activities in the properties in exchange for a cash payment of US$1,200,000.

In compliance with the Group's policy, Pacapausa recognises all expenses related to the project within exploration expenses as the project has not yet reached the inferred mineral resource category.

On 21 May 2009, the Group acquired a 100% interest of Southwestern Resources Corp., the parent company of Misosa and consequently, started to consolidate the financial results of Pacapausa.

The following table summarises the financial information relating to the Group's investment in Pacapausa:

| | Year ended 31 December | |
|---|---|---|
| | 2009 US$000 | 2008 US$000 |
| Share of the joint venture's statement of financial position: | | |
| Current assets | – | 10 |
| Non-current assets | – | – |
| Current liabilities | – | (180) |
| Non-current liabilities | – | – |
| Net assets | – | (170) |
| Share of the joint venture's revenue and loss: | | |
| Revenue | – | – |
| Loss | (131) | (2,132) |
| Carrying amount of the investment | – | (170) |

### (c) Cabo Sur

On 21 February 2007, the Group signed an option and joint venture agreement with Mirasol Resources Ltd. ("Mirasol"). Under the terms of the agreement, the Group has the right to acquire a 51% interest in the Claudia project by investing, over a period of four years, at least US$6,000,000 and making payments to Mirasol of US$650,0000 within four years.

On 13 March 2007, Mirasol incorporated Cabo Sur S.A. ("Cabo Sur") and during 2008 transferred all the rights of the Claudia property into Cabo Sur. Until the exercise of the Claudia's option, Mirasol and the Group will own 99% and 1% of Cabo Sur, respectively. However, the Group exercises joint control over Cabo Sur as the strategic financial and operating decisions require the consent of both parties. Accordingly, in compliance with the Group's policy and IAS 31, the investment has been treated as a jointly controlled entity accounted for using the equity method.

In compliance with the Group's policy, Cabo Sur recognises all expenses related to the project within exploration expenses as the project has not yet reached the inferred mineral resource category.

## 19 INVESTMENTS ACCOUNTED UNDER EQUITY METHOD (CONTINUED)

The following table summarises the financial information of the Group's investment in Cabo Sur:

| | Year ended 31 December | |
|---|---|---|
| | 2009 US$000 | 2008 US$000 |
| Share of the joint venture's statement of financial position: | | |
| Current assets | 6 | 32 |
| Non-current assets | 6 | 2 |
| Current liabilities | (69) | (221) |
| Non-current liabilities | – | – |
| Net assets | (57) | (187) |
| Share of the joint venture's revenue and loss: | | |
| Revenue | – | – |
| Loss | (61) | (2,157) |
| Carrying amount of the investment | (57) | (187) |

### (d) Gold Resource Corp.

The following table summarises the financial information of the Group's investment in Gold Resource Corp:

| | Year ended 31 December | |
|---|---|---|
| | 2009 US$000 | 2008 US$000 |
| Share of the joint venture's statement of financial position: | | |
| Current assets | 5,671 | – |
| Non-current assets | 46,873 | – |
| Current liabilities | (181) | – |
| Non-current liabilities | (11,609) | – |
| Net assets | 40,754 | – |
| Goodwill on acquisition | 21,713 | – |
| Share of the joint venture's revenue and loss: | | |
| Revenue | – | – |
| Loss | (1,240) | – |
| Carrying amount of the investment | 62,467 | – |

### (e) Zincore Metals Inc.

On 21 May 2009 the Group acquired 100% of Southwestern Resources Corporation. Within the assets of the group was 38,100,000 shares of Zincore Metals Inc. equivalent to a 48.2% interest. On September 2009 Zincore Metals Inc. issued 24,060,000 shares resulting in a dilution of the Group's interest to 36.8%. Zincore Metals Inc. raised US$5,596,000 that generated a Group gain of US$2,065,000.

The following table summarises the financial information of the Group's investment in Zincore Metals Inc:

| | Year ended 31 December | |
|---|---|---|
| | 2009 US$000 | 2008 US$000 |
| Share of the joint venture's statement of financial position: | | |
| Current assets | 2,110 | – |
| Non-current assets | 67 | – |
| Current liabilities | (96) | – |
| Non-current liabilities | (16) | – |
| Net assets | 2,065 | – |
| Share of the joint venture's revenue and profit: | | |
| Revenue | – | – |
| Profit | 1,704 | – |
| Carrying amount of the investment | 2,065 | – |

# Notes to the consolidated financial statements continued

## 20 AVAILABLE-FOR-SALE FINANCIAL ASSETS

| | Year ended 31 December | |
|---|---|---|
| | 2009 US$000 | 2008 US$000 |
| Beginning balance | 17,794 | 15,100 |
| Additions[1] | 70,022 | 18,902 |
| Increase in value of available-for-sale financial assets due to merger of companies[2] | 357 | – |
| Fair value change recorded in equity | 22,592 | (2,914) |
| Impairment recorded in the income statement[3] | – | (9,442) |
| Foreign exchange | 427 | (519) |
| Disposals[4] | (4,749) | (3,333) |
| Reclassification to investments accounted under equity method[5] | (87,262) | – |
| Ending balance | 19,181 | 17,794 |

1 The amount represents the fair value of shares at the date of acquisition and mainly includes the purchase of shares of Fortuna Silver Mines Inc. of US$3,196,000, Ventura Gold Corp. of US$158,000, Pembrook Mining Corp. of US$1,857,000, West Timmins Mining Inc. of US$63,782,000, Northern Superior Resources Inc. of US$705,000, Empire Petroleum Corp. of US$82,000, and Maxy Gold Corp at of US$243,000.
2 Corresponds to the transfer of shares due to the merger between EXMIN Resources Inc. and Dia Bras Exploration (US$325,000) and the merge between Maxy Gold Corp. and Lara Explorations Ltd. (US$32,000). The net effect was recognised in profit and loss.
3 The amount corresponds to the decrease in the fair value of the investment in the shares of EXMIN Resources Inc., Ventura Gold Corp., Fortuna River and Mirasol Resources Inc. assessed as an impairment loss during the year and consequently transferred from equity to the income statement (refer to note 13). It also includes the impairment of the shares of Electrum Capital Inc. of US$2,637,000.
4 Corresponds to the sale of 3,287,570 shares in Fortuna Silver Mines Inc. (refer to note 13).
5 Corresponds to the reclassification to investments accounted under the equity method of the West Timmins Mining Inc. shares of US$82,252,000 and Gold Resource Corp. of US$5.010,000 on the date they became associates of the Group.

Available-for-sale financial assets include the following:

| | Year ended 31 December | |
|---|---|---|
| | 2009 US$000 | 2008 US$000 |
| Equity securities – quoted Canadian companies | 4,225 | 1,631 |
| Equity securities – quoted US companies | 119 | 5,845 |
| Equity securities – quoted British companies | 3,086 | 422 |
| Equity securities – unquoted[1] | 11,743 | 9,888 |
| Bonds | 8 | 8 |
| Total | 19,181 | 17,794 |

1 Includes Pembrook Mining Corp and Electrum Capital Inc. shares.

## 20 AVAILABLE-FOR-SALE FINANCIAL ASSETS (CONTINUED)

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

| | Number of shares held at 1 January 2008 | Additions | Disposals | Number of shares held at 31 December 2008 | Additions | Transfer | Disposals | Number of shares held at 31 December 2009 |
|---|---|---|---|---|---|---|---|---|
| Fortuna River | 663,600 | – | – | 663,600 | | | | 663,600 |
| Rio Fortuna Silver Mine | 2,472,365 | – | 1,660,150 | 812,215 | 2,475,355 | – | (3,287,570) | – |
| Mirasol Resources Ltd | 500,000 | – | – | 500,000 | – | – | – | 500,000 |
| Pembrook Mining Corp[1] | – | 5,714,286 | – | 5,714,286 | 1,111,111 | – | – | 6,825,397 |
| Gold Resource Corp[2] | – | 1,670,000 | – | 1,670,000 | – | (1,670,000) | – | – |
| Electrum Capital Inc[3] | – | 4,205,462 | – | 4,205,462 | – | – | – | 4,205,462 |
| Iron Creek Capital Corp[4] | – | 2,000,000 | – | 2,000,000 | – | – | – | 2,000,000 |
| Mariana Resources Ltd[5] | – | 11,002,948 | – | 11,002,948 | – | – | – | 11,002,948 |
| EXMIN Resources Inc[6] | 18,387,487 | – | – | 18,387,487 | – | (18,387,487) | – | – |
| Ventura Gold Corp[7] | 100,000 | 200,000 | – | 300,000 | 700,000 | | – | 1,000,000 |
| West Timmins Mining Inc[8] | – | – | – | – | 28,331,500 | (28,331,500) | – | – |
| Northern Superior Resources Inc[9] | – | – | – | – | 10,053,007 | – | – | 10,053,007 |
| Empire Petroleum Corp[10] | – | – | – | – | 1,333,333 | – | – | 1,333,333 |
| Maxy Gold Corp[11] | – | – | – | – | 3,961,600 | (3,961,600) | – | – |
| Dia Bras Exploration[6] | – | – | – | – | – | 3,751,047 | – | 3,751,047 |
| Lara Explorations Ltd[11] | – | – | – | – | – | 495,200 | – | 495,200 |

1 The investment in Pembrook Mining Corp. (6.2%), a privately held exploration company with projects in Peru and Canada, relates to the purchase of 1,111,111 common shares on 15 September 2009. In 2008 the Group acquired (5.6%) relating to the purchase of 2,857,143 common shares on 14 May 2008 and 2,857,143 common shares on 11 September 2008.
2 The investment in Gold Resource Corp. (25.0%), an underground precious metals mining company with a number of prime development projects in Mexico, relates to the transfer of shares to investments in associates, due to the Group's significant influence following its increased investment in Gold Resource Corp. in February 2009. In 2008, the Group acquired (4.9%) relating to the purchase of common shares on 5 December 2008 in connection with the Strategic Alliance Agreement signed with Gold Resource Corp.
3 The investment in Electrum Capital Inc. (11.5%), a privately held exploration company with projects in Brazil, Mexico, Peru and Argentina, relates to the purchase of 1,538,462 common shares on 25 April 2008 and 2,667,000 common shares on 22 October 2008.
4 The investment in Iron Creek Capital Corp. (14.8%) relates to the purchase of common shares on 24 September 2008 in connection with the Letter of Intent signed with the company for an Option and Joint Venture Agreement to develop the Vaquillas project in Chile (refer to note 34(b)).
5 The investment in Mariana Resources Ltd. (9.4%), an exploration company with projects in Argentina, Chile and Ecuador, relates to the purchase of common shares on 12 December 2008 for US$495,000.
6 In 2009 the Group received shares from Dia Bras Exploration in exchange of EXMIN Resources Inc. shares, due to the merger of these companies. This investment is treated as an available-for-sale financial asset on the basis that the Group does not have significant influence over the company.
7 On 19 December 2008 Ventura Gold Corp. exercised its option to acquire 51% in the Inmaculada project (refer to note 34(b)) generating the obligation to issue 1,000,000 shares to the Group. As at 31 December 2009, Ventura Gold Corp. issued 1,000,000 shares (2008: 300,000 shares). In 2008, the Group has recognised US$103,000 in Other income relating to the right to receive 700,000 shares.
8 The investment in West Timmins Mining Inc. (Nil), relates to the purchase of common shares during 2009 and the transfer due to the agreement with Lake Shore Gold.
9 The investment in Northern Superior Resources Inc. (13.6%), relates to the purchase of common shares on 21 May 2009 from Southwestern Resources Corp.
10 The investment in Empire Petroleum Corp. (2.3%), relates to the purchase of common shares on 21 May 2009 from Southwestern Resources Corp.
11 The investment in Maxy Gold Corp. relates to the purchase of common shares on 21 May 2009 from Southwestern Resources Corp. In addition, during 2009, the Group receives shares from Lara Explorations Ltd. in exchange of Maxy Gold Corp. shares, due to the merger between these companies.

During the period there were no reclassifications between quoted and unquoted investments.

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

The investments in unlisted shares (Pembrook Mining Corp. and Electrum Capital Inc.) were recognised at their acquisition cost given that there is not an active market for these investments. The investment in Electrum Capital Inc. was impaired in 2008 resulting in a loss of US$2,637,000 recorded in profit and loss. The investment in Pembrook Mining Corp. is measured at the latest purchase price in Canadian dollars, updated for the foreign exchange difference. The Company did not asses for impairment its investment of US$11,743,000 in Pembrook Mining Corp. as at 31 December 2009 as there was no indicator of it.

# Notes to the consolidated financial statements continued

## 20 AVAILABLE-FOR-SALE FINANCIAL ASSETS (CONTINUED)

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

| | 2009 US$000 | 2008 US$000 |
|---|---|---|
| Canadian dollars | 15,968 | 11,519 |
| US dollars | 127 | 5,853 |
| Pounds sterling | 3,086 | 422 |
| Total | 19,181 | 17,794 |

## 21 TRADE AND OTHER RECEIVABLES

| | As at 31 December | | | |
|---|---|---|---|---|
| | 2009 | | 2008 | |
| | Non-current US$000 | Current US$000 | Non-current US$000 | Current US$000 |
| Trade receivables[1] | – | 76,981 | – | 47,348 |
| Advances to suppliers | – | 5,436 | – | 7,097 |
| Credit from exports[2] | – | 3,587 | 465 | 1,444 |
| Loan to minority shareholder[3] | – | 39,443 | 30,331 | 6,502 |
| Due from minority shareholder[4] | – | – | – | 11,116 |
| Receivables from related parties (note 31) | – | 996 | – | 1,048 |
| Loans to employees | 1,276 | 1,585 | 607 | 336 |
| Interest receivable[5] | – | 38 | – | 141 |
| Receivable from Kaupthing, Singer and Friedlander Bank (refer to note 12(3)) | – | 965 | – | 1,292 |
| Other | 22 | 720 | – | 1,581 |
| Provision for impairment[6] | – | (2,443) | – | (1,987) |
| Financial assets classified as receivables | 1,298 | 127,308 | 31,403 | 75,918 |
| Prepaid expenses | 516 | 5,454 | 412 | 2,652 |
| Value Added Tax (VAT)[7] | 1,336 | 32,102 | 6,489 | 45,156 |
| Total | 3,150 | 164,864 | 38,304 | 123,726 |

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

1 At 31 December 2009, trade accounts receivable mainly comprised amounts receivable from Consorcio Minero S.A. (US$21,628,000), Teck Cominco Metals Ltd (US$17,481,000), Aurubis AG (US$29,040,000), MRI Trading AG (US$2,078,000), LS Nikko (US$4,922,000), Doe Run Perú SRL (US$1,108,000), Johnson Matthey Inc (US$605,000), and Argor Heraus S.A. (US$116,000). At 31 December 2008, trade accounts receivable mainly comprised amounts receivable from Consorcio Minero S.A. (US$16,382,000), Teck Cominco Metals Ltd (US$13,902,000) and Louis Dreyfus Perú S.A. (US$7,143,000). Trade receivables are denominated in the following currencies:
– US dollars 76,978,000 (2008: 47,330,000)
– Peruvian nuevos soles 3,000 (2008: 18,000)

2 Corresponds to the credits due on exports of Minera Santa Cruz. This credit is calculated as 1% of total sale of concentrate and 2% of total sale of doré delivered through the Patagonico Port in Argentina.

3 This relates to loans to Minera Andes Inc. The effective interest rate was between 7.86% and 8.21% in 2009 (between 7.86% and 8.21% in 2008) (refer to note 38(f)).

4 Mainly corresponds to capital contributions due from a minority shareholder of Minera Santa Cruz S.A. (Minera Andes) of US$Nil (2008: US$11,115,000).

5 Mainly corresponds to interest receivable on JP Morgan liquidity funds (refer to note 24(1)).

6 Includes provision for impairment of other receivables of US$2,443,000 as at 31 December 2009 (2008: US$1,987,000). It mainly corresponds to the impairment of deposits in Kaupthing, Singer and Friedlander Bank of US$798,000 (2008: US$1,292,000) (refer to note 12(3)) and trade receivable from a customer in Peru of US$1,108,000 (2008:Nil).

7 This includes an amount of US$20,838,000 (2008: US$32,220,000) of value added taxes paid in the development and plant expansion of the San José project that will be recovered through the future sales of gold and silver by Minera Santa Cruz S.A. It also includes the VAT of Minera Suyamarca of US$4,091,000 (2008: US$12,741,000) and Minas Santa María de Moris of US$5,628,000 (2008: US$2,369,000). The value added tax is valued at its recoverable amount.

## 21 TRADE AND OTHER RECEIVABLES (CONTINUED)

Movements in the provision for impairment of receivables:

| | Individually impaired US$000 | Collectively impaired US$000 | Total US$000 |
|---|---|---|---|
| At 1 January 2008 | 548 | – | 548 |
| Charge for the year | 1,628 | – | 1,628 |
| Utilised | (189) | – | (189) |
| At 31 December 2008 | 1,987 | – | 1,987 |
| Charge for the year | 1,116 | – | 1,116 |
| Utilised | (660) | – | (660) |
| At 31 December 2009 | 2,443 | – | 2,443 |

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

| | | | Past due but not impaired | | | | |
|---|---|---|---|---|---|---|---|
| Year | Total US$000 | Neither past due nor impaired US$000 | Less than 30 days US$000 | 30 to 60 days US$000 | 61 to 90 days US$000 | 91 to 120 days US$000 | Over 120 days US$000 |
| 2009 | 75,873 | 75,873 | – | – | – | – | – |
| 2008 | 47,348 | 47,348 | – | – | – | – | – |

## 22 INVENTORIES

| | As at 31 December 2009 US$000 | As at 31 December 2008 US$000 | As at 1 January 2008 US$000 |
|---|---|---|---|
| Finished goods | 6,074 | 2,968 | 3,551 |
| Products in process | 12,538 | 23,710 | 30,418 |
| Raw materials | 1,002 | 1,741 | 494 |
| Supplies and spare parts | 28,610 | 24,437 | 13,563 |
| | 48,224 | 52,856 | 48,026 |
| Provision for obsolescence of supplies | (2,411) | (1,001) | (398) |
| Total | 45,813 | 51,855 | 47,628 |

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

The amount of doré on hand at 31 December 2009 included in products in process is US$2,977,000 (2008: US$4,632,000).

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 26(a)).

# Notes to the consolidated financial statements continued

## 23 FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT AND LOSS

| | As at 31 December | |
|---|---|---|
| | 2009 US$000 | 2008 US$000 |
| Warrants in Fortuna Silver Mines Inc.[1] | – | 745 |
| Option over shares of Gold Resource Corp.[2] | – | 2,301 |
| Embedded derivatives[3] | 695 | 2,219 |
| Swap contracts[4] | – | 304 |
| Total assets | 695 | 5,569 |
| Embedded derivatives[3] | 175 | – |
| Zero cost collar contracts[5] | 2,452 | – |
| Swap contracts[6] | 13 | – |
| Total liabilities | 2,640 | – |

1 At 31 December 2008, this item represented a balance of 2,475,355 warrants of Fortuna Silver Mines Inc. The expiry dates of the warrants were 27 June 2010 and 17 November 2010 (for 862,117 and 1,613,238 warrants respectively). Warrants were fair valued using the Black-Scholes option pricing model. These warrants were executed during 2009.
2 At 31 December 2009, the Group had executed the options over shares of Gold Resource Corp. At 31 December 2008 this item represented the option over 4,330,000 shares of Gold Resource Corp. with an expiry date of 2 March 2009. Options are fair valued using the Black-Scholes option pricing model.
3 Sales of concentrate 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 for the smelter to refine and sell the concentrate or for the 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". The gain or loss that arises on the fair value of the embedded derivative is recorded in "Revenue" (refer to note 6).
4 The Group holds contracts of derivative instruments with the intention to remove the risk of fluctuations in metal prices. As at 31 December 2008, the Company did not meet all the criteria stated in IAS 39 to account for the derivative instruments as cash flow hedges. Accordingly, the Group recognised a gain of US$304,000 due to the changes in the fair value occurring during 2008, which is recognised within "finance income" (refer to note 13(2)). The fair value of the forward contracts is calculated based on spot prices plus forward points estimated using SIFO (Silver Forward Mid Rates) and GOFO (Gold Forward Offered Rates) for silver and gold, respectively, as published by the London Bullion Market Association at 31 December 2008.
5 The Group entered into zero cost collar contracts covering 5,200,000 ounces of silver in 2010, at an average cap price of US$19.7 and an average floor price of US$12.7. These contracts expire from January to December 2010.
6 At the end of 2009 the Group signed a swap contract with Citibank and BBVA to fix the interest rate of the JP Morgan led syndicate loan of US$114,320,000 (refer to note 26).

## 24 CASH AND CASH EQUIVALENTS

| | As at 31 December | |
|---|---|---|
| | 2009 US$000 | 2008 US$000 |
| Cash at bank | 1,430 | 171 |
| Liquidity funds[1] | 28,294 | 93,131 |
| Current demand deposit accounts[2] | 40,447 | 14,567 |
| Time deposits[3] | 7,673 | 8,278 |
| Cash and cash equivalents considered for the statement of cash flows | 77,844 | 116,147 |

The fair value of cash and cash equivalents approximates their book value. The Group does not have undrawn borrowing facilities available in the future for operating activities or capital commitments.

1 The liquidity funds are mainly invested in certificate of deposit, commercial paper and floating rate notes with a weighted average annual effective interest rate of 0.71% and a weighted average maturity between 30 to 55 days as at 31 December 2009 (2008: 3.98% and between 30 and 54 days) (refer to note 38(f)).
2 Relates to bank accounts which are freely available and do not bear interest.
3 The effective interest rate as at 31 December 2009 was 3.00% (2008: 2.67%). These deposits have an average maturity from 1 to 30 days (2008: 1 to 30 days) (refer to note 38(f)).

## 25 TRADE AND OTHER PAYABLES

| | As at 31 December | | | |
|---|---|---|---|---|
| | 2009 | | 2008 | |
| | Non-current US$000 | Current US$000 | Non-current US$000 | Current US$000 |
| Trade payables[1] | – | 29,026 | – | 50,904 |
| Professional fees | – | 1,179 | – | 1,260 |
| Interest payable | – | 114 | – | 421 |
| Taxes and contributions | – | 9,061 | 543 | 9,622 |
| Salaries and wages payable | – | 13,275 | – | 11,955 |
| Mining royalty (note 37) | – | 2,192 | – | 1,012 |
| Dividends payable[2] | – | 336 | – | 228 |
| Accrued expenses | 81 | 6,304 | 84 | 2,158 |
| Guarantee deposits | – | 1,307 | – | 2,745 |
| Swap contract[3] | – | 4,337 | – | – |
| Other | – | 1,370 | – | 1,986 |
| Total | 81 | 68,501 | 627 | 82,291 |

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

1 Trade payables relate mainly to 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:

| | 2009 US$000 | 2008 US$000 |
|---|---|---|
| US dollars | 13,783 | 20,935 |
| Peruvian nuevos soles | 9,298 | 14,112 |
| Argentinian pesos | 5,006 | 15,128 |
| Mexican pesos | 374 | 390 |
| Pounds sterling | 140 | 68 |
| Chilean pesos | 375 | 213 |
| Canadian dollars | 50 | 49 |
| Australian dollars | – | 9 |
| Total | 29,026 | 50,904 |

2 Corresponds to dividends payable to minority shareholders of Compañía Minera Arcata S.A. of US$336,000 (2008: US$228,000).

3 Corresponds to the amount payable related to the contracts signed with Citibank, JP Morgan and INTL Commodities Inc. with the intention to remove the risk of fluctuations in metal prices. As these contracts were closed, the Group transferred the balance previously classified as a financial liability at fair value through profit and loss to other payables.

# Notes to the consolidated financial statements continued

## 26 BORROWINGS

| | As at 31 December | | | |
|---|---|---|---|---|
| | 2009 | | 2008 | |
| | Non-current US$000 | Current US$000 | Non-current US$000 | Current US$000 |
| Secured bank loans (note 26(a)) | 115,854 | 34,773 | 202,094 | 56,625 |
| Amount due to minority shareholders (note 26(b)) | – | 75,570 | 29,598 | 40,409 |
| Convertible bond payable (note 26(c)) | 103,827 | 1,663 | – | – |
| Amounts due to related parties (note 31) | – | 902 | – | 1,036 |
| Total | 219,681 | 112,908 | 231,692 | 98,070 |

(a) Secured bank loans
As at 31 December 2009, the balance corresponds to:

i. Pre-shipment loans for a total amount of US$8,750,000 in Compañía Minera Ares and US$20,000,000 in Minera Santa Cruz S.A. These obligations accrue an effective annual interest rate ranging from 1.05% to 4.75% and are guaranteed by the inventories and the trade receivables of the company (refer to note 22). Pre-shipments are credit lines given by the Banks to pay obligations related to the exports of the Group.

ii. Leasing agreement with Banco de Credito for an amount of US$5,693,000 in Compañía Minera Ares. This obligation accrues an effective annual interest rate ranging from 6.80% to 7.60%.

iii. Leasing agreement with BIF for an amount of US$3,016,000 in Compañía Minera Ares. This obligation accrues an effective annual interest rate ranging from 7.15% to 8.25%.

iv. Leasing agreement with Interbank for an amount of US$296,000 in Compañía Minera Ares. This obligation accrues an effective annual interest rate of 9.01%.

The following table demonstrates the present value and maturity of future minimum lease payments as at 31 December 2009:

| | As at 31 December | |
|---|---|---|
| | 2009 US$000 | 2008 US$000 |
| Not later than one year | 4,406 | 2,705 |
| Between 1 and 2 years | 3,664 | 2,604 |
| Between 2 and 5 years | 935 | 1,898 |
| Total | 9,005 | 7,207 |

The following table demonstrates the reconciliation between the total minimum lease payments and the present value as at 31 December 2009 and 2008:

| | As at 31 December | |
|---|---|---|
| | 2009 US$000 | 2008 US$000 |
| Present value of leases | 9,005 | 7,207 |
| Future interest | 718 | 728 |
| **Total minimum lease payments** | 9,723 | 7,935 |

The carrying amount of net lease liabilities approximate their fair value.

v. Loan facility with a syndicate of lenders with JP Morgan Chase Bank N.A. acting as the Administrative Agent. Total secured term loan facility of US$200,000,000 that accrues an effective interest rate of LIBOR +1% and is guaranteed by all the equity share capital, free and clear of any liens, of Compañía Minera Ares S.A.C. The balance as at 31 December 2009 is comprised of the secured term loan facility of US$114,320,000 plus accrued interest of $1,787,000 and net of transaction costs of US$3,235,000. During 2009 the Group signed a swap contract with BBVA and Citibank to fix the interest rate at 1.75%.

## 26 BORROWINGS (CONTINUED)

The Company has granted the following guarantees on its $114,320,000 bank syndicated loan:

- Pledge of all shares in Compañía Minera Ares (wholly-owned subsidiary).
- Subsidiary guarantees by certain wholly-owned subsidiaries whereby these subsidiaries guarantee with their cash flows the repayment of the loan.

The main administrative and financial covenants that the Company and Compañía Minera Ares must comply with during the term of the syndicated loan are as follows:

- Quarterly unaudited and annual audited financial statements for Hochschild Mining plc and Compañía Minera Ares.
- Investments in restricted and unrestricted subsidiaries based on an agreed upon limit (unlimited within restricted subsidiaries).
- It is intended for every wholly-owned subsidiary to participate in the subsidiary guarantee.
- Maintain the following ratios (at a consolidated and Compañía Minera Ares level) beginning on the date of execution of the agreement and during the term of effect of the loan:
  - Interest expense coverage ratio greater than 3:1.
  - Debt to EBITDA ratio lower than 2.5:1 from 2009 onwards.

Compliance with the restrictive covenants described in the preceding paragraph is overseen by Compañía Minera Ares management and the Administrative Agent. The Group and Compañía Minera Ares have complied with the commitments and financial covenants mentioned in the syndicated loan agreement.

As at 31 December 2008, the balance corresponded to:

- Pre-shipment loans for a total amount of US$18,380,000 in Compañía Minera Ares, US$11,280,000 in Compañía Minera Suyamarca S.A.C. and US$20,000,000 in Minera Santa Cruz S.A. These obligations accrue an effective annual interest rate ranging from 5.55% to 8.70% and are guaranteed by the inventories of the Company (refer to note 22).

ii. Leasing agreement with Banco de Credito for an amount of US$7,207,000 in Compañia Minera Ares. This obligation accrues an effective annual interest rate ranging from 6.80% to 7.45%.

iii. Loan facility with a syndicate of lenders with JP Morgan Chase Bank N.A. acting as the Administrative Agent. Total secured term loan facility of US$200,000,000 that accrues an effective interest rate of LIBOR + 1% and is guaranteed by all the equity share capital, free and clear of any liens, of Compañia Minera Ares S.A.C. The balance as at 31 December 2008 is comprised of the secured-term loan facility of US$200,000,000 plus accrued interests of US$4,260,000 and net of transaction costs of US$2,408,000.

### (b) Amounts due to minority shareholders
As at 31 December 2009 the balance mainly corresponds to a loan from Minera Andes Inc. to Minera Santa Cruz S.A. for an amount of US$67,124,000 (2008: US$62,105,000) with interests rates between 7.86% and 12%. There is also a loan of US$8,446,000 to Minera Santa Cruz S.A. from Minera Andes S.A. (2008: US$7,902,000) with an interest rate of 12% (refer to note 38(f)).

### (c) Convertible bond payable
Placement of US$115,000,000 of senior unsecured convertible bonds, due 2014, which are convertible into ordinary shares of Hochschild Mining plc. The bonds have a coupon of 5.75% per annum payable semi-annually on 28 January and 28 July of each year. The issuer has the option to call the bonds on or after 20 October 2012 and until maturity, in the event the trading price of the ordinary shares exceed 130% of the conversion price over a certain period. In addition, the Group has the right to redeem the bonds if at any time the aggregate principal amount of the bonds outstanding is equal to or less than 15% of the aggregate principal amount of the bonds initially issued.

The following information has to be considered for the conversion into ordinary shares:

- Conversion premium: 35% above the Reference Share Price
- Reference Share Price: GBP 2.95
- Initial Conversion Price: GBP 3.9825
- Fixed Exchange Rate: US$1.59/GBP 1.00

The balance as at 31 December 2009 is comprised of the principal of US$115,000,000 plus accrued interest of US$1,663,000 and net of transaction costs of US$2,741,000 and the bond equity component of US$8,432,000.

The maturity of non-current borrowings is as follows:

# Notes to the consolidated financial statements continued

## 26 BORROWINGS (CONTINUED)

| | As at 31 December | |
|---|---|---|
| | 2009 US$000 | 2008 US$000 |
| Between 1 and 2 years | 31,586 | 81,284 |
| Between 2 and 5 years | 188,095 | 150,408 |
| Total | 219,681 | 231,692 |

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 as at 31 December | | Fair values as at 31 December | |
|---|---|---|---|---|
| | 2009 US$000 | 2008 US$000 | 2009 US$000 | 2008 US$000 |
| Bank loans | | | | |
| Secured | 115,854 | 202,094 | 116,358 | 213,408 |
| Amounts due to minority interest and related parties (fixed rates) | – | 29,598 | – | 33,263 |
| Convertible bond payable | 103,827 | – | 126,331 | – |
| Total | 219,681 | 231,692 | 242,689 | 246,671 |

## 27 PROVISIONS

| | Provision for mine closure[1] US$000 | Workers' profit sharing US$000 | Contributions to Peruvian Government US$000 | Executive long-term incentive plan[2] US$000 | Other US$000 | Total US$000 |
|---|---|---|---|---|---|---|
| At 1 January 2008 | 32,150 | 9,195 | 1,434 | 799 | 272 | 43,850 |
| Increase to existing provision | 2,105 | 4,273 | 944 | 302 | 962 | 8,586 |
| Accretion resulting from unwinding of discount rate | 669 | – | – | – | – | 669 |
| Change in discount rate | 4,042 | – | – | – | – | 4,042 |
| Change in estimate | 1,409 | – | – | – | – | 1,409 |
| Payments | (1,476) | (13,248) | (1,368) | (1,101) | (21) | (17,214) |
| Foreign exchange | – | 641 | (19) | – | – | 622 |
| At 31 December 2008 | 38,899 | 861 | 991 | – | 1,213 | 41,964 |
| Less current portion | (1,379) | (861) | (991) | – | (1,046) | (4,277) |
| Non-current portion | 37,520 | – | – | – | 167 | 37,687 |
| At 1 January 2009 | 38,899 | 861 | 991 | – | 1,213 | 41,964 |
| Increase to existing provision | – | 2,073 | 870 | – | 1,499 | 4,442 |
| Accretion resulting from unwinding of discount rate | 278 | – | – | – | – | 278 |
| Change in discount rate | (2,045) | – | – | – | – | (2,045) |
| Change in estimate | 27,020 | – | – | – | – | 27,020 |
| Payments | (2,831) | (948) | (956) | – | (371) | (5,106) |
| Foreign exchange | – | (78) | (12) | – | 30 | (60) |
| Other | – | 88 | | – | | 88 |
| At 31 December 2009 | 61,321 | 1,996 | 893 | – | 2,371 | 66,581 |
| Less current portion | 6,640 | 1,996 | 893 | – | 1,876 | 11,405 |
| Non-current portion | 54,681 | – | – | – | 495 | 55,176 |

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 US Treasury bond of an appropriate tenure as at 31 December 2009 and 2008 respectively, and the cash flows have been adjusted to reflect the risk attached to these cash flows. Uncertainties in the timing for using this provision includes changes in the future that could impact the time of closing the mines, as new resources and reserves are discovered. During 2009 the Group made an internal review of the provision for mine closure for all its mining units. Consequently, at 31 December 2009 an increase of US$27,020,000 has been recognised in the provision mainly related to changes in the waste dam and tailing dam closure plans, increased contractors' costs and the construction of a new water treatment plant in Sipan mining unit. From the total amount, US$15,220,000 has been recognised as an increase in the mine closure asset (refer to note 16) and the remaining US$11,800,000 has been recognised within other expenses (refer to note 12 (3)). This increase in estimate relates to Ares unit (US$2,212,000), Selene unit (US$5,864,000), Sipan unit (US$5,976,000), Arcata unit (US$4,903,000), Pallancata unit (US$5,038,000), Moris unit (US$990,000), San José unit (US$2,075,000), net by a decrease in the provision of San Felipe project (US$38,000).

2 The 2007 Executive Long-Term incentive plan was replaced by a new plan with different variables. To terminate the first plan, the Group paid to the employees under the plan an amount of US$1,101,000, during the first semester of 2008, recognising administrative expenses of US$275,000 and exploration expenses of US$27,000.

The new plan reduces the number of variables and only considers Total Shareholder Return ("TSR"). 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 2010. The cash award will be held for an additional period and delivered 50% on 9 May 2011 and the remaining 50% on 9 May 2012, accumulating notional interest at the prevailing inter-bank interest rate. Only employees who remain with the Company until these dates will have the right of the benefit, with some exemptions that have to be approved by the Remuneration Committee of the Board. The provision represents the discounted values of the estimated cost of the long-term employee benefit. There is no provision in 2009 and 2008 as TSR over the period did not reach the performance level required under the rules of the plan.

# Notes to the consolidated financial statements continued

## 28 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 2009 is as follows:

| | Authorised | | Issued | |
|---|---|---|---|---|
| Class of shares | Number | Amount | Number | Amount |
| Ordinary shares | 500,000,000 | £125,000,000 | 338,085,226 | £84,521,307 |

The authorised and issued share capital of the Company as at 31 December 2008 is as follows:

| | Authorised | | Issued | |
|---|---|---|---|---|
| Class of shares | Number | Amount | Number | Amount |
| Ordinary shares | 500,000,000 | £125,000,000 | 307,350,226 | £76,837,557 |

At 31 December 2009 and 2008, all issued shares with a par value of 25p (2009: weighted average of US$0.469, 2008: 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 and by proxy 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 they are the holder/proxy.

The changes in share capital are as follows:

| | Number of shares | Share capital US$000 | Share Premium US$000 |
|---|---|---|---|
| Shares issued as at 1 January 2008 | 307,350,226 | 146,466 | 395,928 |
| Shares issued as at 31 December 2008 | 307,350,226 | 146,466 | 395,928 |
| Shares issued and paid pursuant to the placing of shares dated 12 October 2009 | 30,735,000 | 12,171 | – |
| Shares issued as at 31 December 2009 | 338,085,226 | 158,637 | 395,928 |

On 12 October 2009 a share placement was completed and 30,735,000 shares with an aggregate nominal value of US$12,171,000 were issued for a cash consideration of US$140,168,000 net of transaction costs of US$3,453,000. The share placement was effected through a structure which resulted in the excess of the net proceeds received over the nominal value of the share capital issued being transferred to retained earnings.

### (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 and 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.

**Unrealised gain/loss in the initial valuation of derivative instruments classified as hedging instruments**

Correspond to the effective portion of the gain or loss on the hedging instrument (refer to note 2 (aa))

**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 the Cayman Holding Companies (Ardsley, Garrison, Larchmont and Hochschild Mining (Peru)) acquired under the Share Exchange Agreement and the nominal value of the shares issued in consideration of such acquisition.

## 29 DEFERRED INCOME TAX

The changes in the net deferred income tax assets/(liabilities) are as follows:

| | As at 31 December | |
|---|---|---|
| | 2009 US$000 | (Restated) 2008 US$000 |
| Beginning of the year | 12,619 | 17,325 |
| Income statement (debit)/credit | (3,543) | (5,370) |
| Deferred income tax arising on net unrealised gains on available-for-sale financial assets recognised in equity | 71 | 664 |
| Initial balance of deferred tax liability of Southwestern Group | (3,663) | – |
| Foreign exchange effect | (294) | – |
| End of the year | 5,190 | 12,619 |

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 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 |
|---|---|---|---|---|---|
| Deferred income tax liabilities: | | | | | |
| At 1 January 2008 (restated) | 5,192 | 5,069 | 3,305 | 2,829 | 16,395 |
| Income statement (credit) charge (restated) | (851) | 6,610 | (1,405) | (523) | 3,831 |
| Net deferred income tax from unrealised gain on available-for-sale financial assets | – | – | (664) | – | (664) |
| At 31 December 2008 (restated) | 4,341 | 11,679 | 1,236 | 2,306 | 19,562 |
| Income statement (credit) charge | 1,186 | 4,977 | (366) | (1,447) | 4,350 |
| Net deferred income tax from unrealised gain on available-for-sale financial assets | – | – | (71) | – | (71) |
| Foreign exchange | – | 294 | – | – | 294 |
| Arising on acquisition | – | 3,663 | – | – | 3,663 |
| At 31 December 2009 | 5,527 | 20,613 | 799 | 859 | 27,798 |

| | Differences 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 |
|---|---|---|---|---|---|---|---|
| Deferred income tax assets: | | | | | | | |
| At 1 January 2008 (restated) | 4,107 | 4,855 | 1,849 | 14,152 | 3,628 | 4,910 | 33,501 |
| Income statement credit (charge) (restated) | (2,059) | 887 | (1,849) | (2,593) | 3,640 | 654 | (1,320) |
| At 31 December 2008 (restated) | 2,048 | 5,742 | – | 11,559 | 7,268 | 5,564 | 32,181 |
| Income statement credit (charge) | 7,759 | (770) | – | (8,789) | 942 | 1,665 | 807 |
| At 31 December 2009 | 9,807 | 4,972 | – | 2,770 | 8,210 | 7,229 | 32,988 |

# Notes to the consolidated financial statements continued

## 29 DEFERRED INCOME TAX (CONTINUED)

The amounts after offset, as presented on the face of the statement of financial position, are as follows:

| | As at 31 December | |
|---|---|---|
| | 2009 US$000 | (Restated) 2008 US$000 |
| Deferred income tax assets | 15,852 | 21,871 |
| Deferred income tax liabilities | (10,662) | (9,192) |

Tax losses expire in the following years:

| | As at 31 December | |
|---|---|---|
| | 2009 US$000 | 2008 US$000 |
| Recognised[1]: | | |
| Expire in one year | 1,100 | – |
| Expire in two years | 763 | 4,598 |
| Expire in three years | 607 | 6,458 |
| Expire in four years | 849 | 20,080 |
| Expire after four years | 6,044 | 2,360 |
| | 9,363 | 33,496 |
| Unrecognised: | | |
| Expire in one year | 543 | 1,625 |
| Expire in two years | 1,411 | 1,646 |
| Expire in three years | 3,137 | 2,280 |
| Expire in four years | 2,667 | 4,035 |
| Expire after four years | 53,231 | 41,355 |
| | 60,989 | 50,941 |
| Total tax losses (recognised and unrecognised) | 70,352 | 84,437 |

1 Deferred tax assets have been recognised in respect of tax losses to the extent that they are expected to be offset against taxable profits arising in future periods, based on the profit forecasts prepared by management.

Other unrecognised deferred income tax assets comprises (gross amounts):

| | As at 31 December | |
|---|---|---|
| | 2009 US$000 | 2008 US$000 |
| Provision for mine closure[1] | 44,611 | 20,641 |
| Impairments of available-for-sale financial assets | – | 11,421 |
| Interest expense and exchange difference loss[2] | 13,686 | – |

1 This relates to provision for mine closure expenditure which is expected to be incurred in periods in which it is expected that there will not be taxable profits against which the expenditure can be offset.
2 Corresponds to interest expense and exchange difference loss in respect of the project finance loan payable to Minera Andes Inc. (refer to note 14(8)).

### 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.

## 30 DIVIDENDS PAID AND PROPOSED

| | Amount US$000 |
|---|---|
| **Year ended 31 December 2008** | |
| Total dividends paid or provided for during the year[1] | 28,531 |
| Total dividends declared after year-end and not provided for[2] | 6,147 |
| **Year ended 31 December 2009** | |
| Total dividends paid during the year[3] | 20,048 |
| Total dividends declared after year-end and not provided for | 13,523 |

1 Corresponds to dividends paid and provided during 2008 of US$22,184,667 and US$6,147,005, and the payment of accrued dividends as at 31 December 2007 of US$200,000 to Dona Limited for dividends declared in 2006.
2 Corresponds to dividends declared after 31 December 2008 to Pelham Investment Corporation, Navajo Overseas Corporation and public shareholders ("Parent company's shareholders").
3 Corresponds to dividends paid and provided during 2009 of US$6,147,005 and US$6,147,005, and dividends paid to minority shareholders of US$7,754,000.

### Dividends per share

The dividends declared in August 2009 were US$6,147,005 (US$0.020 per share). A dividend in respect of the year ending 31 December 2009 of US$0.04 per share, amounting to a total dividend of US$13,523,409 is to be proposed at the Annual General Meeting on 26 May 2010. These financial statements do not reflect this dividend payable.

## 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 2009 and 2008. The related parties are companies owned or controlled by the main shareholder of the parent company, joint ventures or associates.

| | Accounts receivable at 31 December | | Accounts payable at 31 December | |
|---|---|---|---|---|
| | 2009 US$000 | 2008 US$000 | 2009 US$000 | 2008 US$000 |
| **Other** | | | | |
| Fosfatos del Pacífico S.A. | 28 | – | – | – |
| Compañía Minera Corianta S.A. | – | – | – | 1 |
| Cementos Selva S.A. | – | – | – | 43 |
| | 28 | – | – | 44 |
| **Joint ventures** | | | | |
| Cabo Sur | 968 | 1,005 | 902 | 992 |
| Minas Pacapausa S.A.C. | – | 2 | – | – |
| | 968 | 1,007 | 902 | 992 |
| **Loans** | | | | |
| Cementos Pacasmayo S.A.A. | – | 41 | – | – |
| | – | 41 | – | – |
| Total | 996 | 1,048 | 902 | 1,036 |
| Current related party balances | 996 | 1,048 | 902 | 1,036 |
| Total | 996 | 1,048 | 902 | 1,036 |

As at 31 December 2009 and 2008 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 consolidated financial statements continued

## 31 RELATED-PARTY BALANCES AND TRANSACTIONS (CONTINUED)

Principal transactions between affiliates are as follows:

| | As at 31 December | |
|---|---|---|
| | 2009 US$000 | 2008 US$000 |
| **Income** | | |
| Recovery of expenses | – | 34 |
| **Expenses** | | |
| Purchase of supplies | – | 39 |
| Services received | – | 2 |

During 2008, in addition to the normal arrangements the Group has with its related parties, the Group purchased a building from Cementos Pacasmayo, a company under common control to that of the Group, for US$3,622,000 representing an arm's length purchase price.

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.

| | As at 31 December | |
|---|---|---|
| | 2009 US$000 | 2008 US$000 |
| Salaries and bonuses | 8,596 | 8,718 |
| Total compensation paid to key management personnel | 8,596 | 8,718 |

This amount includes the remuneration paid to the Directors of the parent company of the Group of US$5,870,520 (2008: US$3,847,865), out of which US$399,117 (2008: US$463,218) relates to pension payments.

The Group made a loan to one of the Directors of US$200,000 with an interest rate of 7.45% until 30 April 2009, 3.50% from 1 May 2009 to 31 July 2009 and 3.00% from 1 August 2009. The balance as at 31 December was US$227,214, composed of principal of US$200,000 and interest of US$27,214. The Group did not collect any amount of this loan.

### (c) Participation in placing by Pelham Investment Corporation ("Pelham")

Pelham, a company controlled by Eduardo Hochschild, participated in a placing of the Company's Ordinary Shares ("Shares") in October 2009 by subscribing for 1,064,780 Shares at a price of 295p per Share.

## 32 AUDITOR'S REMUNERATION

The auditor's remuneration for services provided to the Group during the years ended 31 December 2009 and 2008 is as follows:

| | Ernst & Young year ended 31 December | | Others year ended 31 December | |
|---|---|---|---|---|
| | 2009 US$000 | 2008 US$000 | 2009 US$000 | 2008 US$000 |
| Audit fees pursuant to legislation[1] | 1,443 | 2,332 | 30 | 7 |
| Other services relating to taxation | 206 | 410 | – | – |
| Services relating to corporate finance transactions | 94 | 263 | – | – |
| Other services | – | 106 | – | – |
| Total | 1,743 | 3,111 | 30 | 7 |

1 Includes US$703,000 (2008: US$1,178,000) 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.

In 2009, US$1,650,000 are included in administrative expenses, within the "professional fees" caption (refer to note 8). US$66,910 are capitalised due to the Southwestern acquisition and US$55,815 are capitalised within the transactions costs related to the convertible bond issuance. In 2008, all fees are included in administrative expenses, within the "professional fees" caption (refer to note 8).

## 33 NOTES TO THE STATEMENT OF CASH FLOWS

| | 2009<br>US$000 | (Restated)<br>2008<br>US$000 |
|---|---|---|
| | As at 31 December | |
| Reconciliation of profit for the year to net cash generated from operating activities | | |
| (Loss)/profit for the year | 121,340 | (21,540) |
| Adjustments to reconcile Group operating profit to net cash inflows from operating activities: | | |
| Depreciation (note 2(f)) | 83,911 | 60,418 |
| Amortisation of software licences | 311 | 266 |
| Impairment and write-off of assets (net) | 26,713 | 30,212 |
| Negative goodwill generated in acquisition of subsidiary | (7,694) | – |
| (Gain)/loss on sale/disposal of property, plant and equipment | (153) | (252) |
| Impairment of available-for-sale financial assets | – | 11,421 |
| Premium paid on purchase of available-for-sale financial assets | – | 421 |
| Gain on sale of available-for-sale financial assets | – | (1,613) |
| Share of post tax losses of associates and joint ventures accounted under equity method | (47,223) | 8,214 |
| Increase in provision for mine closure | 11,526 | 3,216 |
| Finance income | (28,684) | (11,683) |
| Finance costs | 47,296 | 25,079 |
| Income tax expense | 33,470 | 19,267 |
| Provision for obsolescence of supplies | 1,535 | 654 |
| Other | 63 | (3,687) |
| Increase (decrease) of cash flows from operations due to changes in assets and liabilities: | | |
| Trade and other receivables | (19,045) | (9,306) |
| Income tax receivable | 4,690 | (14,269) |
| Derivative financial instruments | (22,831) | (1,171) |
| Inventories | 4,507 | (4,861) |
| Trade and other payables | 3,771 | 20,016 |
| Provisions | 2,195 | (8,635) |
| Cash generated from operations | 215,698 | 102,167 |

Transactions that did not affect cash flows

The main transactions that did not affect cash flows were the following:

| | 2009<br>US$000 | 2008<br>US$000 |
|---|---|---|
| | As at 31 December | |
| Purchase of property, plant and equipment through leasing | 6,058 | 7,872 |

Accounts

# Notes to the consolidated financial statements continued

## 34 COMMITMENTS

### (a) Gold and silver future contracts

Silver

| Organisation | Quantity as at 31 December 2009 | | Type of contract | Quotation (US$/oz) | Quotation period | |
|---|---|---|---|---|---|---|
| | 2009 (ounces) | 2008 (ounces) | | | From | to |
| INTL Commodities Inc | – | 157,300 | Forward | 10.19 | January 2009 | – |
| Total | – | 157,300 | | | | |

Gold

| Organisation | Quantity as at 31 December 2009 | | Type of contract | Quotation (US$/oz) | Quotation period | |
|---|---|---|---|---|---|---|
| | 2009 (ounces) | 2008 (ounces) | | | From | To |
| INTL Commodities Inc | – | 2,950 | Forward | 815.06 | January 2009 | – |
| Total | – | 2,950 | | | | |

The contracts 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 the event that the Group does not meet its 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 its financial commitment. Based on management's current intention regarding these projects, the commitments at the statement of financial position date are as follows:

| | As at 31 December | |
|---|---|---|
| | 2009 US$000 | 2008 US$000 |
| Commitment for the subsequent 12 months | 560 | 1,293 |
| More than one year | 10,436 | 19,192 |

Some of the significant transactions are explained below:

(i) 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 Inmaculada 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 was required to complete a total of 15,000 metres of drilling at the property and issue a total of 1,000,000 common shares to the Group within a three-year period.

On 19 December 2008 Ventura exercised its option to acquire 51% of the project having completed its drilling requirement. From the 1,000,000 common shares required to be issued to the Group, only 300,000 shares have been issued as at 31 December 2008 and the remaining 700,000 have been issued during 2009. The total shares received by the Group are disclosed as "Available-for-sale financial assets".

During 2009, the Group decided not to exercise its option to become the operator of the project and to buy back 11% for a payment to Ventura of three times the total investment made in drilling and related exploration work. Following the Group's decision, as stipulated in the contract, Ventura elected to increase its controlling interest by an additional 19%, upon the completion of a feasibility study on the project before 23 October 2013.

## 34 COMMITMENTS (CONTINUED)

(ii) IAMGOLD
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".

Under the arrangements, the Group will have the right to acquire a 70% interest in each group of properties by investing US$200,000 and US$1,500,000 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 incurring any further expenditures or penalties.

(iii) Andina Minerals Chile Limitada (Encrucijada Project)
On 31 January 2008, the Group entered into an option and joint venture agreement with Andina Minerals Chile Ltda. ("Andina") to earn a 51% interest in respect of the Encrucijada project located in Chile. A payment of US$500,000 was made to Andina upon signing of the agreement.

Under the arrangements, the Group will have the right to acquire a 51% interest in the project by investing US$3,000,000 within three years. The Group cannot withdraw from the agreement without investing a minimum of US$800,000 in the project. At 31 December 2009, the Group has invested US$2,296,000 (US$1,165,000 at 31 December 2008).

(iv) Santos Bahamondes Latorre (Casualidad Project)
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$1,000,000, US$1,000,000 and US$1,500,000 for Juana I, Juana II and Casualidad, respectively. If the Group exercises its option it shall pay a 1.5% Net Smelter Return once commercial production begins. The Group can withdraw from the agreement without incurring any further expenditures or penalties.

(v) Iron Creek Capital Corp. (Vaquillas Project)
On 24 September 2008, the Group signed a letter of intent with Iron Creek Capital Corp. ("Iron Creek") in respect of an option and joint venture agreement to earn a 60% interest in the Vaquillas project, located in Chile. A payment of US$750,000 was made to Iron Creek upon signing of the letter of intent.

Under the arrangements, the Group will have the right to acquire a 60% interest by incurring expenditure on exploration activities of US$6,000,000 over a five-year period and has to invest at least US$750,000 before withdrawing from the venture. At 31 December 2009 the Group has invested US$1,668,000 (no investment at 31 December 2008).

In addition, the Group participated in a private placement whereby the Group subscribed for shares in Iron Creek for a cash consideration of US$1,000,000, the proceeds of which will be invested in a specific area of the project (the Porphiry Area) in the two year period from the closing of the private placement.

(vi) IAMGOLD and Minera Mariana Argentina S.A. (Los Amigos)
On 5 November 2009, the Group entered into an option and joint venture agreement with IAMGOLD Corporation ("IAMGOLD") and Minera Mariana Argentina S.A. ("Mariana") to explore and develop minerals in the two groups of properties located in Argentina, which comprise the project "Los Amigos".

Under the arrangements, the Group will have the right to acquire a 51% interest in each group of properties by investing US$1,500,000 within two years. The Group can withdraw from the agreement without incurring any further expenditures or penalties.

### (c) Operating lease contract
The Group has a number of operating lease agreements.

The lease expenditure charge to the income statement during the years 2009 and 2008 are included in the production costs and administrative expenses.

As at 31 December 2009 and 2008, the future aggregate minimum lease payments under the operating lease agreements are as follows:

For the year ended 31 December

| | 2009 US$000 | 2008 US$000 |
|---|---|---|
| Not later than one year | 1,777 | 1,365 |
| Later than one year and not later than five years | 2,431 | 1,593 |

# Notes to the consolidated financial statements continued

## 34 COMMITMENTS (CONTINUED)

### (d) Finance lease contract

During 2009 Compañía Minera Ares signed lease agreements for equipment with Banco de Crédito del Perú, Interbank and Banco Interamericano de Finanzas. During 2008 Compañía Minera Ares S.A.C. signed lease agreements for equipment with Banco de Credito del Perú (refer to note 16 and 26).

As at 31 December 2009 and 2008, the future aggregate minimum lease payments under the operating lease agreements are as follows:

| | For the year ended 31 December | |
|---|---|---|
| | 2009 US$000 | 2008 US$000 |
| Not later than one year | 4,898 | 3,157 |
| Later than one year and not later than five years | 4,825 | 4,778 |

### (e) Capital commitments

| | For the year ended 31 December | |
|---|---|---|
| | 2009 US$000 | 2008 US$000 |
| Peru | 147,378 | 31,860 |
| Mexico | 247 | 19 |
| Argentina | 14,900 | 14,112 |
| | 162,525 | 45,991 |

## 35 CONTINGENCIES

As at 31 December 2009, the Group had the following contingencies:

### (a) 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.

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.

### (b) 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 legal counsel, management believes that it has reasonable grounds to support its position.

The assessment of contingencies inherently involves exercise of significant judgement and estimates of the outcome of future events. Uncertainties in estimating the liability includes changes in the legal interpretation that the authorities could make in respect of the Group's transactions.

## 36 GUARANTEES AND TAX STABILITY AGREEMENTS

### (a) Compañía Minera Ares

**Ares Unit**

On 28 October 1999, the Ministry of Energy and Mines granted legal stability for the Ares operating unit, starting 1 January 1999 for a 10-year term, expiring on 31 December 2008.

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, Ares paid 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 were fixed at the rate of US$2.00 per hectare per year. The Ares operating unit was 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.

The expiration of the agreement results in the Ares unit being subject to the actual tax law and Mining Royalties law from 1 January 2009. The current tax rate is 30%, therefore there is no effect related to the expiration of the stability agreement.

**Arcata Unit**

On 31 July 2007, the Ministry of Energy and Mines granted legal stability to Compañía Minera Ares for the Arcata operating unit, starting 1 January 2009 for a 10-year term.

As a result of the stability agreement Compañía Minera Ares will pay income tax in Peru at a rate of 32% in respect of income generated by the Arcata operating unit. The Peruvian Government is obliged to guarantee stability of the tax regime that was in effect as at 5 February 2007, during the period of 10 years.

On 8 June 2009, Compañía Minera Ares resigned only the stability of tax rates, in conclusion the rate of 30% will be applied in respect of income generated by the Arcata operating unit.

### (b) Minera Santa Cruz

Minera Santa Cruz has been granted with two tax stability certificates in relation to provincial and national taxes in Argentina in respect of the San José project. The stability certificates run for a 30-year period commencing on 21 November 2005.

Under these certificates, Minera Santa Cruz's tax stability in respect of the San José operating unit covers, among others, the following areas:

- The mining royalty cannot exceed 3% of the pit-head value of the production; however, it must be noted that the Provincial Government may not agree with such construction and, on the contrary, may argue that the tax stability does not cover the mining royalty. So far, in accordance with such 3% cap, the Provincial Government fixed the mining royalty applicable to the San José operating unit at: (i) 1.85% of the pit-head value of the production when the final product is doré; and (ii) 2.55% of the pit-head value of the production when the final product is mineral concentrate or precipitates.
- The National Export tax is 5% when the final product is doré and 10% when the final product is gold or silver concentrate although rebates are available for the first three years, if shipped from port (3%, 2% and 1% rebate for years 2007, 2008 and 2009, respectively).
- Income tax rate not higher than 35%.

# Notes to the consolidated financial statements continued

## 37 MINING ROYALTY

### Peru

In accordance with Peruvian legislation, owners of mining concessions must pay a mining royalty for the exploitation of metallic and non-metallic resources. Mining royalties are calculated with rates ranging from 1% to 3% of the value of mineral concentrate or equivalent, based on the quoted market prices. As at 31 December 2009, the amount payable as mining royalties for the mining units of Ares, Arcata, Selene, and Pallancata amounted to approximately US$1,988,000 (Selene, Arcata and Pallancata amounted to US$876,000 at 31 December 2008), and is recorded under the caption "Trade and other payables" in the statement of financial position. 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 until 31 December 2008 due to the fact that it has the legal stability agreement (refer to note 36).

### Argentina

In accordance with Argentinian legislation, Provinces (being the legal owners of the mineral resources) are entitled to request royalties from mine operators. For San José, the mining royalty is fixed at 1.85% of the pit-head value of the production where the final product is doré and 2.55% where the final product is mineral concentrate or precipitates. As at 31 December 2009, the amount payable as mining royalties amounted to US$204,000 (2008: US$136,000).

## 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.

The Group has made significant developments in the management of the Group's risk environment which seeks to identify and, where appropriate, implement the controls to mitigate the impact of the Group's significant risks. This effort is supported by a Risk Committee with the participation of the CEO, the Vice Presidents, the Country General Managers and the head of the internal audit function. The Risk Committee is responsible for implementing the Group's policy on risk management and internal control in support of the Company's business objectives, and monitoring the effectiveness of risk management within the organisation.

### (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, Argentine 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 |
|---|---|---|---|
| **2009** | | | |
| Pounds sterling | +/–10% | +/–194 | – |
| Argentinian pesos | +/–10% | +/–22 | – |
| Mexican pesos | +/–10% | +/–400 | – |
| Peruvian nuevos soles | +/–10% | –/+3,431 | – |
| **2008** | | | |
| Pounds sterling | +/–10% | +/–430 | – |
| Argentinian pesos[1] | +/–10% | +/–1,362 | – |
| Mexican pesos | +/–10% | –/+48 | – |
| Peruvian nuevos soles | +/–10% | –/+1,161 | – |
| Canadian dollars | +/–10% | –/+75 | +/–205 |

1 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 2008, the translation of this loan into pesos created a loss. Following the commencement of operations the Group was required to change the functional currency of Minera Santa Cruz to US dollars and, as a result, these loans were no longer being exposed to foreign currency risk.

## 38 FINANCIAL RISK MANAGEMENT (CONTINUED)

### (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.

Whilst committed to being un-hedged, management continuously monitors silver and gold prices but shall take the necessary action, where appropriate and within Board approved parameters, to mitigate the impact of this risk.

As a result of the financial crisis, the Company found itself constrained in its ability to use its cash balance given uncertainty surrounding commodity prices. Authorisation was granted to hedge a portion of the Group's 2009 and 2010 production schedule in order to allow the Company to free-up its cash balance in order to pursue higher growth opportunities through acquisition and strategic investments.

The Group also has embedded derivatives arising from the sale of concentrate and doré which were provisionally priced at the time the sale is recorded (refer to notes 6 and 23(3)). For these derivatives (sales price adjustments and hedges), the sensitivity of the fair value to an immediate 10% favourable or adverse change in the price of gold and silver (assuming all other variables remain constant), is as follows:

| Year | Increase/ decrease price of ounces of: | Effect on profit before tax US$000 |
|---|---|---|
| 2009 | Gold +/–10% | +/–550 |
| | Silver +/–10% | –1,534<br>+766 |
| 2008 | Gold +/–10% | –/+157 |
| | Silver +/–10% | –/+2,063 |

### (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). The Group is primarily exposed to credit risk as a result of commercial activities and non-compliance, by counterparties, in transactions in cash which are primarily limited to cash balances deposited in banks and accounts receivable at the statement of financial position date.

Counterparty credit exposure based on commercial activities, cash balances in banks and hedging activities as at 31 December 2009:

| Summary commercial partners | As at 31 December 2009 US$000 | Credit rating or % collected as at 23 March 2009 |
|---|---|---|
| Consorcio Minero S.A. – Cormin | 21,628 | 92% |
| Teck Cominco Metals Ltd | 17,481 | BB+ |
| Doe Run Perú S.R.L. | 1,108 | 0% |
| Aurubis AG (formerly Nordeutsche Affinerie AG) | 29,040 | 91% |
| LS Nikko. | 4,922 | A1 |
| MRI Trading AG | 2,078 | 98% |
| Johnson Matthey Inc. | 605 | 100% |
| Argor Heraus S.A. | 116 | 100% |
| Others | 3 | NA |
| | 76,981 | |

# Notes to the consolidated financial statements continued

## 38 FINANCIAL RISK MANAGEMENT (CONTINUED)

Counterparty credit exposure based on commercial activities, cash balances in banks and hedging activities as at 31 December 2008:

| Summary commercial partners | As at 31 December 2008 US$000 | Credit rating |
|---|---|---|
| Consorcio Minero S.A. – Cormin | 16,382 | NA |
| Teck Cominco Metals Ltd | 13,902 | BBB |
| Louis Dreyfus Perú S.A. | 7,143 | NA |
| Nordeutsche Affinerie AG | 6,606 | NA |
| Sudamericana Trading S.R.L. | 3,129 | NA |
| Others | 186 | NA |
| | 47,348 | |

| Hedging counterparties | As at 31 December 2009 US$000 | As at 31 December 2008 US$000 |
|---|---|---|
| Citibank | (2,032) | 490 |
| INTL Commodities Inc. | – | (186) |
| JP Morgan | (420) | – |
| Total | (2,452) | 304 |

| Financial counterparties | As at 31 December 2009 US$000 | Credit rating |
|---|---|---|
| JP Morgan | 13,024 | A -1 +(S&P) |
| Citibank | 40,348 | A -1(S&P) |
| Banco Nacional de México | 5,350 | F1(FR) |
| Banco de Crédito del Perú | 11,691 | F2(FR) |
| Banco de la Nación (Peru) | 1,072 | A(S&P) |
| Banco Santander | 1,001 | A -1(S&P) |
| Banco Bilbao Vizcaya Argentaria | 199 | A -1 +(S&P) |
| Scotiabank | 67 | A - 3(S&P) |
| HSBC | 818 | B(S&P) |
| Others (including Cash in hand) | 4,274 | NA |
| Total | 77,844 | |

## 38 FINANCIAL RISK MANAGEMENT (CONTINUED)

| | As at 31 December 2008 US$000 | Credit rating |
|---|---|---|
| JP Morgan | 93,131 | Aa1 |
| Citibank | 8,061 | A1 |
| Banamex | 5,460 | Aa3 |
| Banco de Crédito del Perú | 2,966 | Baa2 |
| Banco Bilbao Viscaya Argentaria | 745 | Aa1 |
| Banorte | 66 | BBB |
| Others (including Cash in hand) | 5,718 | NA |
| Total | 116,147 | |

As a result of the recent and ongoing financial crisis, the Group has evaluated and introduced additional efforts to try to mitigate credit risk exposure.

To manage the credit risk associated with commercial activities, the Group has implemented the following options:

- Active use of prepayment/advance clauses in sales contracts.
- Delaying delivery of title and/or advance payments to reduce exposure timeframe (potential delay in sales recognition).
- Obtaining parent guarantees to shore up the credit profile of the customer (where possible).
- Maintaining a diversified portfolio of clients (as diversified as possible).
- Evaluating the credit worthiness of customers.
- Limiting delivery of product (to the extent possible) based on open exposures.

To manage credit risk associated with cash balances deposited in banks, the Group has implemented the following options:

- Increasing banking relationships with large, established and well-capitalised institutions in order to secure access to credit and to diversify credit risk.
- Investing cash (to the extent possible) with counterparties with whom the Group has debt outstanding.
- Investing cash in short-term, highly liquid and low risk instruments (money market accounts).
- Maintaining excess cash abroad in hard currency.

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 21.

# Notes to the consolidated financial statements continued

## 38 FINANCIAL RISK MANAGEMENT (CONTINUED)

### (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 reasonable movements 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 |
|---|---|---|---|
| 2009 | +10% | – | +1,917 |
| | −10% | – | −1,917 |
| 2008 | +10% | +1,615 | +730 |
| | −10% | −1,391 | −730 |

As at 31 December 2009, the Group held the following financial instruments measured at fair value:

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

| Assets measured at fair value | 31 December 2009 US$000 | Level 1 US$000 | Level 2 US$000 | Level 3 US$000 |
|---|---|---|---|---|
| Financial assets at fair value through profit and loss | | | | |
| Embedded derivatives (refer to note 23(3)) | 695 | – | – | 695 |
| Available-for-sale financial assets (refer to note 20) | | | | |
| Equity shares | 19,173 | 7,430 | – | 11,743 |
| Debt securities | 8 | 8 | – | – |
| Liabilities measured at fair value | | | | |
| Financial liabilities at fair value through profit and loss | | | | |
| Embedded derivatives (refer to note 23(3)) | 175 | – | – | 175 |
| Zero cost collars contracts (refer to note 23(5)) | 2,452 | – | 2,452 | – |
| Swap contracts (refer to note 23(6)) | 13 | – | 13 | – |

During the period ending 31 December 2009, there were no transfers between these levels.

### (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. In 2009 the Group increased its short term bank lines by over 30% in addition to accessing further long-term financing through the issue of equity and convertible bonds.

## 38 FINANCIAL RISK MANAGEMENT (CONTINUED)

The table below categorises the Group's financial liabilities into relevant maturity groupings based on the remaining period as at the statement of financial position 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 |
|---|---|---|---|---|---|
| At 31 December 2009 | | | | | |
| Trade and other payables | 68,501 | 81 | – | – | 68,582 |
| Borrowings | 123,412 | 39,819 | 209,178 | – | 372,409 |
| Total | 191,913 | 39,900 | 209,178 | – | 440,991 |
| At 31 December 2008 | | | | | |
| Trade and other payables | 82,359 | 402 | 292 | – | 83,053 |
| Borrowings | 102,705 | 98,800 | 161,792 | – | 363,297 |
| Total | 185,064 | 99,202 | 162,084 | – | 446,350 |

### (f) Interest rate risk

The Group has financial assets and liabilities which are exposed to interest rate risk. Changes in interest rates primarily impact 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 applies 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 currently all existing financial obligations are either at fixed rates or have been fixed with the use of derivatives.

| | As at 31 December 2009 | | | | |
|---|---|---|---|---|---|
| | 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 |
| Fixed rate | | | | | |
| Cash at bank (note 24) | 1,430 | – | – | – | 1,430 |
| Time deposits (note 24) | 7,673 | – | – | – | 7,673 |
| Loans to minority shareholders (note 21) | 39,443 | – | – | – | 39,443 |
| Amounts due to minority shareholders (note 26) | (75,570) | – | – | – | (75,570) |
| Secured bank loans (note 26) | (34,773) | (31,586) | (84,268) | – | (150,627) |
| Convertible bond payable (note 26) | (1,663) | – | (103,827) | – | (105,490) |
| Floating rate | | | | | |
| Liquidity funds (note 24) | 12,994 | – | – | – | 12,994 |

# Notes to the consolidated financial statements continued

## 38 FINANCIAL RISK MANAGEMENT (CONTINUED)

| | As at 31 December 2008 | | | | |
|---|---|---|---|---|---|
| | 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 |
| **Fixed rate** | | | | | |
| Cash at bank (note 24) | 171 | – | – | – | 171 |
| Time deposits (note 24) | 8,278 | – | – | – | 8,278 |
| Loans to minority shareholders (note 21) | 6,502 | 22,269 | 8,062 | – | 36,833 |
| Amounts due to minority shareholders (note 26) | (40,409) | (22,248) | (7,350) | – | (70,007) |
| Secured bank loans (note 26) | (52,365) | (2,604) | (1,898) | – | (56,867) |
| **Floating rate** | | | | | |
| Liquidity funds (note 24) | 93,131 | – | – | – | 93,131 |
| Secured bank loans (note 26) | (4,260) | (56,432) | (141,160) | – | (201,852) |

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 reasonable movement in the interest rate, with all other variables held constant, of the financial instruments with a floating rate. The Group is exposed to the fluctuation of rates expressed in US dollars. This assumes that the amount remains unchanged from that in place at 31 December 2009 and 2008 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 |
|---|---|---|
| 2009 | +/–50bps | –/+490 |
| 2008 | +/–50bps | –/+520 |

### (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 (refer to notes 26 and 28). In order to ensure an appropriate return for shareholders' 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.

In addition to such controls, management and the Board have decided to secure commodity prices in 2010 in order to guarantee an appropriate capital level and shareholder return.

## 39 SUBSEQUENT EVENTS

(a) On 6 May 2006, the Group signed an agreement with Silex Argentina S.A. ("Silex"), a wholly owned subsidiary of Golden Minerals Company ("Golden Minerals") to explore and develop minerals in a group of properties located in Argentina, which comprise the project "El Quevar". The initial interest held by the Group was 35%, which was subsequently reduced to 20% in exchange for Silex funding the feasibility study.

On 30 December 2009, the Group entered into an agreement with Golden Minerals and Silex to sell its interest in the project in exchange for 400,000 common shares and a warrant to purchase 300,000 common shares of Golden Minerals at a price per share of US$15. The agreement was subject to certain conditions precedent that did not take place until 7 January 2010.

(b) On 16 February 2010, the Group acquired 1,273,036 shares of its associate Lake Shore for CAD$5,130,000 (approximately US$4,920,000). After completion of the transaction, the Group's ownership in Lake Shore increased from 35.69% to 35.92%.

(c) Between 26 January 2010 and 5 February 2010 the Group acquired 440,500 shares of its associate Gold Resource Corp. for US$$4,322,000 in the open market. In addition, on 8 March 2010 the Group signed a subscription agreement with Gold Resource Corp. by which the Group acquired 600,000 shares for a total consideration of US$5,172,000. Following completion of these purchases, the Group's ownership in its associate increased from 25% to 26.7%.

(d) On 9 February 2010, the Group signed an engagement letter with BMO Capital Markets Limited ("BMO") for the sale of the San Felipe project, the Group's zinc project located in northern Mexico.

(e) On 5 March 2010, Inversiones Pacasmayo S.A., a related party of the Group, purchased Hochschild Mining plc's 36.9% stake in Zincore at a price of C$0.27 per share representing a 11.6% premium over the 20 day average closing price. Inversiones Pacasmayo S.A. paid a total cash consideration of C$10,287,000. As a result of the transaction, Hochschild Mining plc has no further interest in Zincore.

The disposal was approved on behalf of the Hochschild board by a committee comprising solely independent Non-Executive Directors ("the Independent Committee"). The Independent Committee has been advised by Canaccord Adams Limited that the terms of the disposal are fair and reasonable as far as shareholders are concerned.

(f) On 11 March 2009 the Group has filed suit in the New York State Supreme Court asking that Minera Andes Inc. ("MAI") and its subsidiary Minera Andes SA ("MASA") be required to execute the formal loan agreement documents in respect of the US$65 million project finance loan. This facility was provided by the Group to one of its subsidiaries Minera Santa Cruz S.A. for the development of the San José operation in Argentina.

The law suit lists the following causes of action: (i) a decree by the court requiring MASA and its parent company to execute formal loan agreement documents with the Group consistent with the previous agreements between the two companies, (ii) it asks that MAI and MASA be enjoined from further interference in the repayment of the project finance loan, (iii) asks the court to order payment to the Group of benefits derived by MAI and MASA as a result of the loan, and (iv) requests an order declaring that other shareholder loans are subordinate to the project finance loan.

# Parent company statement of financial position

As at 31 December 2009

| | Notes | As at 31 December 2009 US$000 | 2008 US$000 |
|---|---|---|---|
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment | 4 | 316 | 426 |
| Investments in subsidiaries | 5 | 1,350,395 | 1,133,589 |
| Investments in associates | 6 | 4,651 | – |
| Available-for-sale financial assets | 7 | – | 57 |
| | | 1,355,362 | 1,134,072 |
| Current assets | | | |
| Other receivables | 8 | 3,878 | 726 |
| Income tax receivable | | 40 | 8 |
| Cash and cash equivalents | 9 | 5,581 | 83,946 |
| | | 9,499 | 84,680 |
| Total assets | | 1,364,861 | 1,218,752 |
| EQUITY AND LIABILITIES | | | |
| Equity share capital | 10 | 158,637 | 146,466 |
| Share premium | 10 | 416,154 | 416,154 |
| Other reserves | | 356,185 | 347,766 |
| Retained earnings | | 208,327 | 104,201 |
| Total equity | | 1,139,303 | 1,014,587 |
| Non-current liabilities | | | |
| Borrowings | 12 | 215,082 | 197,592 |
| | | 215,082 | 197,592 |
| Current liabilities | | | |
| Trade and other payables | 11 | 7,183 | 2,313 |
| Financial liabilities at fair value through profit and loss | 13 | 13 | – |
| Borrowings | 12 | 3,280 | 4,260 |
| Income tax payable | | – | – |
| | | 10,476 | 6,573 |
| Total liabilities | | 225,558 | 204,165 |
| Total equity and liabilities | | 1,364,861 | 1,218,752 |

The accompanying accounting policies and notes on pages 137 to 153 are an integral part of these financial statements. The financial statements on pages 134 to 136 were approved by the Board of Directors on 23 March 2010 and signed on its behalf by:

**Ignacio Rosado**
Chief Financial Officer

23 March 2010

# Parent company statement of cash flows

For the year ended 31 December 2009

| | Notes | Year ended 31 December 2009 US$000 | 2008 US$000 |
|---|---|---|---|
| Reconciliation of (loss)/profit for the year to net cash used in operating activities | | | |
| (Loss)/profit for the year | | (11,577) | (977,844) |
| Adjustments to reconcile Company operating profit to net cash outflows from operating activities: | | | |
| Depreciation | 4 | 115 | 89 |
| Impairment of investments in subsidiaries | 5 | – | 967,630 |
| Impairment of available-for-sale financial assets | 7 | – | 323 |
| Income tax expense | 14 | (11) | 21 |
| Finance income | | (1,049) | (4,915) |
| Finance costs (excluding impairment of available-for-sale financial assets) | | 8,584 | 5,332 |
| Foreign exchange gain | | (3,183) | (1,534) |
| Increase (decrease) of cash flows from operations due to changes in assets and liabilities: | | | |
| Other receivables | | (726) | 151 |
| Derivative financial instruments | | (1,256) | – |
| Trade and other payables | | 4,841 | (855) |
| Provision for Executive Long-Term Incentive Plan | | – | (32) |
| Cash used in operating activities | | (4,262) | (11,634) |
| Interest received | | 1,148 | 5,900 |
| Interest paid | | (8,127) | (1,050) |
| Tax paid | | 29 | (168) |
| Net cash used in operating activities | | (11,212) | (6,952) |
| Cash flows from investing activities | | | |
| Purchase of property, plant and equipment | 4 | (5) | (430) |
| Investments in subsidiaries | 5 | (216,806) | (366,388) |
| Investment in associates | 6 | (4,651) | – |
| Loan to Minas Santa María de Moris S.A. de C.V. | | (2,500) | – |
| Repayment of loan from Minera Hochschild Chile, S.C.M. | | – | 1,885 |
| Net cash used in investing activities | | (223,962) | (364,933) |
| Cash flows from financing activities | | | |
| Proceed of borrowing | 12(1) | 115,000 | 200,000 |
| Repayment of borrowings | 12(1) | (85,680) | – |
| Transaction costs associated with borrowing | 12(1) | (3,568) | (2,408) |
| Dividends paid | 16 | (12,294) | (28,331) |
| Proceeds from issue of ordinary shares | 10 | 143,621 | – |
| Transaction costs associated with issue of shares | 10 | (3,453) | – |
| Cash flows generated from/(used in) financing activities | | 153,626 | 169,261 |
| Net decrease in cash and cash equivalents during the year | | (81,548) | (202,624) |
| Foreign exchange gain | | 3,183 | 1,534 |
| Cash and cash equivalents at beginning of year | | 83,946 | 285,036 |
| Cash and cash equivalents at end of year | 9 | 5,581 | 83,946 |

# Parent company statement of changes in equity

For the year ended 31 December 2009

| | Equity share capital US$000 | Share premium US$000 | Unrealised gain/(loss) on available-for-sale financial assets and initial valuation of hedging US$000 | Bond equity component US$000 | Merger reserve US$000 | Total other reserves US$000 | Retained earnings US$000 | Total equity US$000 |
|---|---|---|---|---|---|---|---|---|
| Balance at 1 January 2008 | 146,466 | 416,154 | – | – | 1,315,396 | 1,315,396 | 142,746 | 2,020,762 |
| Loss for the year | – | – | – | – | – | – | (977,844) | (977,844) |
| Total recognised loss for 2008 | – | – | – | – | – | – | (977,844) | (977,844) |
| Transfer | – | – | – | – | (967,630) | (967,630) | 967,630 | – |
| Dividends | – | – | – | – | – | – | (28,331) | (28,331) |
| Balance at 31 December 2008 | 146,466 | 416,154 | – | – | 347,766 | 347,766 | 104,201 | 1,014,587 |
| Net fair value gains on available-for-sale financial assets | – | – | 654 | – | – | 654 | – | 654 |
| Recycling of realised fair value gains on available-for-sale financial assets | – | – | (654) | – | – | (654) | – | (654) |
| Unrealised gain/(loss) in the initial valuation of derivative instruments classified as hedging instruments | – | – | (13) | – | – | (13) | – | (13) |
| Net loss recognised directly in equity | – | – | (13) | – | – | (13) | – | (13) |
| Loss for the year | – | – | – | – | – | – | (11,577) | (11,577) |
| Total comprehensive loss for 2009 | – | – | (13) | – | – | (13) | (11,577) | (11,590) |
| Issuance of shares | 12,171 | – | – | – | 127,997 | 127,997 | – | 140,168 |
| Transfer | – | – | – | – | (127,997) | (127,997) | 127,997 | – |
| Issuance of convertible bonds | – | – | – | 8,432 | – | 8,432 | – | 8,432 |
| Dividends | – | – | – | – | – | – | (12,294) | (12,294) |
| Balance at 31 December 2009 | 158,637 | 416,154 | (13) | 8,432 | 347,766 | 356,185 | 208,327 | 1,139,303 |

# Notes to the parent company financial statements

For the year ended 31 December 2009

## 1 CORPORATE INFORMATION

Hochschild Mining plc (hereinafter "the Company") is a public limited company incorporated on 11 April 2006 under the Companies Act 2006 as a Limited Company and registered in England and Wales with registered number 05777693. The Company's registered office is located at 46 Albemarle Street, London W1S 4JL, 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 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.

## 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 and are also consistent with IFRS issued by the IASB, as applied in accordance with the Companies Act 2006.

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 ($000) except when otherwise indicated.

### (b) Exemptions

The Company's financial statements are included in the Hochschild Mining Group consolidated financial statements for the year ended 31 December 2009 and 31 December 2008. As permitted by section 408 of the Companies Act 2006, the Company has not presented its own profit and loss account.

### (c) 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 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.

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

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

#### 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.

- IFRS 8 "Operating Segments" applicable for annual periods beginning on or after 1 January 2009.
- IAS 23 Amendment, "Borrowing Costs", applicable for annual periods beginning on or after 1 January 2009.
- IAS 1 "Presentation of Financial Statements", applicable for annual periods beginning on or after 1 January 2009.
- IFRS 2 "Amendment to IFRS 2 – Vesting Conditions and Cancellations", applicable for annual periods beginning on or after 1 January 2009.
- IAS 32 and IAS 1 Amendment "Puttable Financial Instruments and Obligations Arising on Liquidation", applicable for annual periods beginning on or after 1 January 2009.
- IFRS 1 and IAS 27 Amendment "Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate", applicable for annual periods beginning on or after 1 January 2009.
- 2008 Annual Improvements to IFRS, applicable for annual periods beginning on or after 1 January 2009.
- IFRIC 16 "Hedges of a Net Investment in a Foreign Operation", applicable for annual periods beginning on or after 1 October 2008.
- IFRS 7 "Financial Instruments: Disclosures", applicable for annual periods beginning on or after 1 January 2009.

# Notes to the parent company financial statements continued

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

– FRIC 13 "Customer Loyalty Programmes", applicable for periods beginning on or after 1 July 2008.

– IFRIC 15 "Agreements for the Construction of Real Estate", applicable for periods beginning on or after 1 January 2009.

– IFRIC 18 "Transfer of Assets from Customers", applicable to assets transferred on or after 1 July 2009.

– IAS 39 & IFRS 7 Amendments "Reclassification of Financial Instruments", applicable for periods beginning on or after 1 July 2008.

– IAS 39 Amendment "Reclassification of Financial Assets: Effective Date and Transition", applicable for periods beginning on or after 1 July 2008.

– IFRIC 9 & IAS 39 Amendments "Embedded Derivatives", applicable for periods ending on or after 30 June 2009.

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 2010 or later periods but which the Group has not early adopted. A list of these items is included in note 2(a) of the Group financial statements.

### (e) Currency translation

The functional currency of 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.

### (f) 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 investment is reviewed for impairment if there are indications that the carrying value may not be recoverable.

### (g) Investment in associates

An associate is an entity over which the Company has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. Investments in associates are accounted at acquisition cost.

### (h) Dividends

The dividends are recognised when the Company's right to receive payments is established. Dividends received are recorded in the income statement.

### (i) 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.

### (j) 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.

### (k) 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.

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (l) 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.

### (m) 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.

### (n) 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.
- 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.

### (o) 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 or borrowings, receivables, payables, financial instruments at fair value through profit and loss 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 plus, in the case of financial assets not at fair value through profit or loss and borrowings, 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 marketplace. The subsequent measurement of financial assets depends on their classification, as follows:

# Notes to the parent company financial statements continued

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Financial assets at fair value through profit and loss

Financial assets at fair value through profit and loss includes financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit and loss.

The Company considers whether a contract contains an embedded derivative when the entity first becomes a party to it. Embedded derivatives are separated from the host contract which is not measured at fair value through profit or loss when the analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract.

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments or a financial guarantee contract. Gains or losses on financial assets held for trading are recognised in the income statement.

### 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 unrealised 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.

### Loans and borrowings

Borrowings are recognised initially at fair value. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

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

### 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 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.

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.

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 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 instruments

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either: (a) the Company has transferred substantially all the risks and rewards of the asset; or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

  When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, a new asset is recognised to the extent of the Company's continuing involvement in the asset.

  Continuing involvement that takes the form of a guarantee over the transferred asset, is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

A financial liability is generally derecognised when the contract that gives rise to it is discharged or 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.

### (p) 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.

### (q) Convertible bond

The relevant standards within the accounting framework governing the treatment of this transaction are: (a) IAS 32 – Financial Instruments: Presentation and (b) IAS 39 – Financial Instruments: Recognition and Measurement.

The convertible bond is a compound financial instrument that includes a financial liability and an equity instrument.

At initial recognition the Company determines the fair value of the liability component, and the equity component as a residual amount that is never remeasured after initial recognition.

Derecognition of the convertible bond issued by the Company will be done when the debt is cancelled.



## 3 PROFIT AND LOSS ACCOUNT

The Company made a loss attributable to equity shareholders of US$11,577,000 (2008: loss of US$977,844,000).

# Notes to the parent company financial statements continued

## 4 PROPERTY, PLANT AND EQUIPMENT

| | Office Building US$000 | Equipment US$000 | Total US$000 |
|---|---|---|---|
| Year ended 31 December 2008 | | | |
| Cost | | | |
| At 1 January 2008 | – | 109 | 109 |
| Additions | 277 | 153 | 430 |
| At 31 December 2008 | 277 | 262 | 539 |
| Accumulated depreciation | | | |
| At 1 January 2008 | – | 24 | 24 |
| Depreciation | 18 | 71 | 89 |
| At 31 December 2008 | 18 | 95 | 113 |
| Net book amount at 31 December 2008 | 259 | 167 | 426 |
| Year ended 31 December 2009 | | | |
| Cost | | | |
| At 1 January 2009 | 277 | 262 | 539 |
| Additions | – | 5 | 5 |
| At 31 December 2009 | 277 | 267 | 544 |
| Accumulated depreciation | | | |
| At 1 January 2009 | 18 | 95 | 113 |
| Depreciation | 29 | 86 | 115 |
| At 31 December 2009 | 47 | 181 | 228 |
| Net book amount at 31 December 2009 | 230 | 86 | 316 |

## 5 INVESTMENTS IN SUBSIDIARIES

| | As at 31 December | |
|---|---|---|
| | 2009 US$000 | 2008 US$000 |
| Beginning balance | 1,133,589 | 1,734,831 |
| Additions | 216,806 | 366,388 |
| Disposals | – | – |
| Impairment loss | – | (967,630) |
| Ending balance | 1,350,395 | 1,133,589 |

In 2008, the Company tested its investments in subsidiaries for impairment and recognised an impairment of the investment in Hochschild Mining Holdings Ltd. of US$967,629,582. This impairment reflected the reduction in value of these investments since recognition. The recoverable value of the investment in Hochschild Mining Holdings Ltd. using a fair value less cost to sell approach, was determined by reference to the market capitalisation of the Group adjusted for the value of the Company.

## 5 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

The breakdown of the investments in subsidiaries is as follows:

| | As at 31 December 2009 | | | As at 31 December 2008 | | |
|---|---|---|---|---|---|---|
| Name | Country of incorporation | Equity interest % | Carrying value US$000 | Country of incorporation | Equity interest % | Carrying value US$000 |
| Hochschild Mining Holdings Limited | England and Wales | 100% | 1,350,395 | England and Wales | 100 | 1,133,589 |
| Total | | | 1,350,395 | | | 1,133,589 |

The list of subsidiaries of the Group is presented in note 1 (Corporate information) of the notes to the Consolidated Financial Statements.

During 2008, the Company subscribed for 4,800 shares of £1.00 each in HM Holdings through capital contributions paid in cash of US$366,388,304.

During 2009, the Company subscribed for 1,800 shares of £1.00 each in HM Holdings through capital contributions paid in cash of US$216,805,529.

## 6 INVESTMENTS IN ASSOCIATES

| | Year ended 31 December | |
|---|---|---|
| | 2009 US$000 | 2008 US$000 |
| Zincore Metals Inc. | 4,651 | – |
| Total | 4,651 | – |

On 10 September 2009 the Company purchased 38,100,000 shares of Zincore Metals Inc. at CAD 0.165 per share with a discount of 20%. The total cash consideration paid was CAD 5,029,200 equivalent to US$4,651,507. At 31 December 2009, the interest of the Company was 36.9% (refer to note 18)

## 7 AVAILABLE-FOR-SALE FINANCIAL ASSETS

| | Year ended 31 December | |
|---|---|---|
| | 2009 US$000 | 2008 US$000 |
| Beginning balance | 57 | 380 |
| Fair value change recorded in equity | 654 | – |
| Disposals[1] | (711) | – |
| Impairment recorded in the income statement[2] | – | (323) |
| Ending balance | – | 57 |

1 At 31 December 2009, the Company has sold its investment in Mirasol Resources Ltd. to Hochschild Mining Holdings Ltd. for a total cash consideration of US$711,000.
2 At 31 December 2008, the investment in Mirasol Resources Ltd. was impaired. The impairment of US$323,000 was recorded under "Finance costs".

# Notes to the parent company financial statements continued

## 8 OTHER RECEIVABLES

| | Year ended 31 December | |
|---|---|---|
| | 2009 US$000 | 2008 US$000 |
| Amounts receivable from subsidiaries (note 15) | 3,214 | 62 |
| Prepayments | 362 | 526 |
| Accrued income | 35 | 138 |
| Receivable from Kaupthing, Singer and Friedlander | 667 | 758 |
| Other debtors | 100 | – |
| | 4,378 | 1,484 |
| Provision for impairment[1] | (500) | (758) |
| Total | 3,878 | 726 |

The fair values of other receivables approximate their book values.

1 Corresponds to the balance of the impairment of cash deposits with Kaupthing, Singer and Friedlander of US$500,000 accrued in 2008 and partially recovered in 2009 (2008: US$758,000 recorded under "Other expenses").

Movements in the provision for impairment of receivables:

| | Individually impaired US$000 | Collectively impaired US$000 | Total US$000 |
|---|---|---|---|
| At 1 January 2008 | – | – | – |
| Charge for the year | 758 | | 758 |
| At 31 December 2008 | 758 | – | 758 |
| Charge for the year | – | – | – |
| Amounts recovered | (258) | – | (258) |
| At 31 December 2009 | 500 | – | 500 |

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

| | | | Past due but not impaired | | | | |
|---|---|---|---|---|---|---|---|
| Year | Total US$000 | Neither past due nor impaired US$000 | Less than 30 days US$000 | 30 to 60 days US$000 | 61 to 90 days US$000 | 91 to 120 days US$000 | Over 120 days US$000 |
| 2009 | 3,878 | 3,711 | – | – | – | 167 | – |
| 2008 | 726 | 726 | – | – | – | – | – |

## 9 CASH AND CASH EQUIVALENTS

| | Year ended 31 December | |
|---|---|---|
| | 2009 US$000 | 2008 US$000 |
| Bank current account | 330 | 285 |
| Liquidity funds[1] | 5,251 | 83,661 |
| Cash and cash equivalents considered for the cash flow statement | 5,581 | 83,946 |

1 The liquidity funds are mainly invested in certificate of deposit, commercial papers and floating rate notes with a weighted average annual effective interest rate of 0.71% and a weighted average maturity between 30 to 55 days as at 31 December 2009 (2008: 3.98% and between 30 to 54 days) (refer to note 17(d)). The liquidity funds generated interest of US$301,000 (2008: US$4,867,000).

## 10 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 2009 is as follows:

| | Authorised | | Issued | |
|---|---|---|---|---|
| Class of shares | Number | Amount | Number | Amount |
| Ordinary Shares | 500,000,000 | £125,000,000 | 338,085,226 | £84,521,307 |

The authorised and issued share capital of the Company as at 31 December 2008 is as follows:

| | Authorised | | Issued | |
|---|---|---|---|---|
| Class of shares | Number | Amount | Number | Amount |
| Ordinary Shares | 500,000,000 | £125,000,000 | 307,350,226 | £76,837,557 |

At 31 December 2009 and 2008, all issued shares with a par value of 25p (2009: weighted average of US$0.469, 2008: 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 and by proxy 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 they are the holder/proxy.

The changes in share capital are as follows:

| | Number of shares | Equity share capital US$000 | Share premium US$000 |
|---|---|---|---|
| Shares issued as at 1 January 2008 | 307,350,226 | 146,466 | 416,154 |
| Shares issued as at 31 December 2008 | 307,350,226 | 146,466 | 416,154 |
| Shares issued and paid pursuant to the placing of shares dated 12 October 2009 | 30,735,000 | 12,171 | – |
| Shares issued as at 31 December 2009 | 338,085,226 | 158,637 | 416,154 |

On 12 October 2009, a share placement was completed and 30,735,000 shares with an aggregate nominal value of US$12,171,000 were issued for a cash consideration of US$140,168,000 net of transaction costs of US$3,453,000. The share placement was effected through a structure which resulted in the excess of the net proceeds received over the nominal value of the share capital issued being transferred to retained earnings.

### (b) Other reserves

**Merger reserve**

The merger reserve represents the difference between the value of the net assets of the Cayman Holding Companies acquired under the Share Exchange Agreement and the nominal value of the shares issued in consideration of such acquisition.

# Notes to the parent company financial statements continued

## 11 TRADE AND OTHER PAYABLES

| | As at 31 December | |
|---|---|---|
| | 2009 US$000 | 2008 US$000 |
| Trade payables | 509 | 167 |
| Loan from subsidiary (note 15) | 5,337 | 1,055 |
| Professional fees | 106 | 227 |
| Board members' remuneration | 320 | 42 |
| Remunerations payable | 132 | 160 |
| Audit fees | 544 | 522 |
| Accrued expenses | 103 | 100 |
| Taxes and contributions | 132 | 40 |
| Total | 7,183 | 2,313 |

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 their book values.

Trade payables are denominated in the following currencies:

| | 2009 US$000 | 2008 US$000 |
|---|---|---|
| Pounds sterling | 140 | 61 |
| US dollar[s] | 366 | 96 |
| Canadian dollar[s] | 3 | 1 |
| Australian dollar[s] | – | 9 |
| Total | 509 | 167 |

## 12 BORROWINGS

| | As at 31 December | | | |
|---|---|---|---|---|
| | 2009 | | 2008 | |
| | Non-current US$000 | Current US$000 | Non-current US$000 | Current US$000 |
| Secured bank loans[1] | 111,255 | 1,617 | 197,592 | 4,260 |
| Convertible bond payable[2] | 103,827 | 1,663 | – | – |
| Total | 215,082 | 3,280 | 197,592 | 4,260 |

1 Secured bank loans
As at 31 December 2009, the balance corresponds to:

– Loan facility with a syndicate of lenders with JP Morgan Chase Bank N.A. acting as the Administrative Agent. Total secured term loan facility of US$200,000,000 that accrues an effective interest rate of LIBOR + 1% and is guaranteed by all the equity share capital, free and clear of any liens, of Compañía Minera Ares S.A.C. The balance as at 31 December 2009 is comprised of the secured term loan facility of US$114,320,000 plus accrued interest of US$1,787,000 and net of transaction costs of US$3,235,000. During 2009, the Group signed a swap contract with BBVA and Citibank to fix the interest rate at 1.75%

The Company has granted the following guarantees on its US$114,320,000 bank syndicated loan:

– Pledge of all shares in Compañía Minera Ares (wholly-owned subsidiary).

– Subsidiary guarantees by certain wholly-owned subsidiaries whereby these subsidiaries guarantee with their cash flows the repayment of the loan.

## 12 BORROWINGS (CONTINUED)

The main administrative and financial covenants that the Company and Compañía Minera Ares must comply with during the term of the syndicated loan are as follows:

- Quarterly unaudited and annual audited financial statements for the Company and Compañía Minera Ares.
- Investments in restricted and unrestricted subsidiaries based on an agreed upon limit (unlimited within restricted subsidiaries).
- It is intended for every wholly-owned subsidiary to participate in the subsidiary guarantee.
- Maintain the following ratios (at a consolidated and Compañía Minera Ares level) beginning on the date of execution of the agreement and during the term of the loan:
  - Interest expense coverage ratio greater than 3:1.
  - Debt to EBITDA ratio lower than 2.5:1 from 2009 onwards.

Compliance with the restrictive covenants described in the preceding paragraph is overseen by Compañía Minera Ares' management and the Administrative Agent. The Group and Compañía Minera Ares have complied with the commitments and financial covenants mentioned in the syndicated loan agreement.

As at 31 December 2008, the balance corresponds to:

- Loan facility with a syndicate of lenders with JP Morgan Chase Bank N.A. acting as the Administrative Agent. Total secured term loan facility of US$200,000,000 that accrues an effective interest rate of LIBOR + 1% and is guaranteed by all the equity share capital, free and clear of any liens, of Compañía Minera Ares S.A.C. The balance as at 31 December 2009 is comprised of the secured term loan facility of US$200,000,000 plus accrued interest of US$4,260,000 and net of transaction costs of US$2,408,000.

2 Convertible bond payable
Placement of US$115,000,000 of senior unsecured convertible bonds, due 2014, which are convertible into ordinary shares of Hochschild Mining plc. The bonds have a coupon of 5.75% per annum payable semi-annually on 28 January and 28 July of each year. The issuer has the option to call the bonds on or after 20 October 2012 and until maturity, in the event the trading price of the ordinary shares exceeds 130% of the conversion price over a certain period. In addition, the Group has the right to redeem the bonds if at any time the aggregate principal amount of the bonds outstanding is equal to or less than 15% of the aggregate principal amount of the bonds initially issued.

The following information has to be considered for the conversion into ordinary shares:

- Conversion premium: 35% above the Reference Share Price
- Reference Share Price: GBP 2.95
- Initial Conversion Price: GBP 3.9825
- Fixed Exchange Rate: US$ 1.59/GBP 1.00

The balance as at 31 December 2009 is comprised of the principal of US$115,000,000 plus accrued interest of $1,663,000 and net of transaction costs of US$2,741,000 and the bond equity component of US$8,432,000.

# Notes to the parent company financial statements continued

## 12 BORROWINGS (CONTINUED)

The maturity of non-current borrowings is as follows:

| | As at 31 December | |
|---|---|---|
| | 2009 US$000 | 2008 US$000 |
| Between 1 and 2 years | 27,922 | 56,432 |
| Between 2 and 5 years | 187,160 | 141,160 |
| | 215,082 | 197,592 |

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 As at 31 December | | Fair values As at 31 December | |
|---|---|---|---|---|
| | 2009 US$000 | 2008 US$000 | 2009 US$000 | 2008 US$000 |
| Bank loans | | | | |
| Secured | 111,255 | 197,592 | 110,967 | 208,429 |
| Convertible bond payable | 103,827 | – | 126,331 | – |
| Total | 215,082 | 197,592 | 237,298 | 208,429 |

## 13 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT AND LOSS

| | As at 31 December | |
|---|---|---|
| | 2009 US$000 | 2008 US$000 |
| Swap contracts[1] | 13 | – |
| Total liabilities | 13 | – |

1 At the end of 2009 the Company signed a swap contract with Citibank and BBVA to fix the interest rate of the JP Morgan led syndicate loan of US$114,320,000 (refer to note 12).

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

As at 31 December 2009, the Company held the following financial instruments measured at fair value:

| | 31 December 2009 US$000 | Level 1 US$000 | Level 2 US$000 | Level 3 US$000 |
|---|---|---|---|---|
| Liabilities measured at fair value | | | | |
| Financial liabilities at fair value through profit and loss | | | | |
| Swap contracts (refer to note 23(6) of the Group financial statements) | 13 | – | 13 | – |

During the period ending 31 December 2009, there were no transfers between these levels.

## 14 INCOME TAX

The income tax of the Company is as follows:

| | Year ended 31 December | |
|---|---|---|
| | 2009 US$000 | 2008 US$000 |
| Current tax charge | (29) | – |
| Deferred tax credit | – | 21 |
| Withholding taxes | 18 | – |
| | (11) | 21 |

The changes in the net deferred income tax assets are as follows:

| | As at 31 December | |
|---|---|---|
| | 2009 US$000 | 2008 US$000 |
| Beginning of the year | – | 21 |
| Income statement charge | – | (21) |
| End of the year | – | – |

## 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 years ended 31 December 2009 and 31 December 2008.

| | As at 31 December 2009 | | As at 31 December 2008 | |
|---|---|---|---|---|
| | Accounts receivable US$000 | Accounts payable US$000 | Accounts receivable US$000 | Accounts payable US$000 |
| Subsidiaries | | | | |
| Compañía Minera Ares S.A.C. | – | 2,629 | 62 | 1,047 |
| 0848818 BC (formerly Southwestern Resources) | – | 2,678 | – | – |
| Hochschild Mining (Argentina) S.A. (formerly Hochschild Mining (Argentina) Corporation) | – | – | – | 3 |
| Hochschild Mining (Mexico), S.A. de C.V. (formerly Hochschild Mining (Mexico) Corporation) | – | 1 | – | 1 |
| Hochschild Mining Holdings Ltd. | 710 | 25 | – | – |
| Minas Santa María de Moris S.A. de C.V. | 2,504 | – | – | – |
| Hochschild Mining (Peru) S.A. (formerly Hochschild Mining (Peru) Corporation) | – | 4 | – | 4 |
| | 3,214 | 5,337 | 62 | 1,055 |

1 Corresponds to a loan of US$2,500,000 granted to Minas Santa María de Moris S.A. de C.V. on 4 December 2009 with an annual interest rate of 2%.

The fair values of the receivables and payables approximate their book values. 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 include the Directors who receive remuneration. The amount of this remuneration totals US$1,457,000 (2008: US$1,314,000).

### (c) Participation in placing by Pelham Investment Corporation ("Pelham")

Pelham, a company controlled by Eduardo Hochschild, participated in a placing of the Company's Ordinary Shares ("Shares") in October 2009 by subscribing for 1,064,780 Shares at a price of 295p per Share.

# Notes to the parent company financial statements continued

## 16 DIVIDENDS PAID AND PROPOSED

| | Amount US$000 |
|---|---|
| Year ended 31 December 2008 | |
| Total dividends paid or provided for during the year[1] | 28,331 |
| Total dividends declared after year-end and not provided for[2] | 6,147 |
| Year ended 31 December 2009 | |
| Total dividends paid or provided for during the year[3] | 12,294 |
| Total dividends declared after year-end and not provided for | 13,523 |

1 Corresponds to dividends paid and provided during 2008 of US$22,184,667 and US$6,147,005.
2 Corresponds to dividends declared after 31 December 2008 to Pelham Investment Corporation, Navajo Overseas Corporation and public shareholders ("Parent company's shareholders").
3 Corresponds to dividends paid and provided during 2009 of US$6,147,005 and US$6,147,005.

### Dividends per share

The dividends declared in August 2009 were US$6,147,005 (US$0.020 per share). A dividend in respect of the year ended 31 December 2009 of US$0.04 per share, amounting to a total dividend of US$13,523,409 is to be proposed at the Annual General Meeting on 26 May 2010. 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 risk areas to facilitate risk assessment.

### (a) Foreign currency risk

A proportion of the Company's costs are incurred in pounds sterling and Canadian dollars. Accordingly, the Company's financial results may be affected by exchange rate fluctuations between the US dollar, pounds sterling and Canadian dollars. 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$/other currencies rate | Effect on profit before tax US$000 | Effect on equity US$000 |
|---|---|---|---|
| 2009 | | | |
| Pounds sterling | +/–10% | +/–174 | – |
| 2008 | | | |
| Pounds sterling | +/–10% | +/–433 | – |

## 17 FINANCIAL RISK MANAGEMENT (CONTINUED)

### (b) Credit risk

Credit risk arises from debtors' inability to meet their payment obligations to the Company as they become due (without taking into account the fair value of any guarantee or pledged assets). The Company is primarily exposed to credit risk in transactions in cash which are primarily limited to cash balances deposited in banks and accounts receivable at the balance sheet date.

As a result of the recent and ongoing financial crisis, the Company has evaluated and introduced additional efforts to try to mitigate credit risk exposure.

To manage credit risk associated with cash balances deposited in banks, the Company is using/implementing the following options:

- Increasing banking relationships with large, established and well-capitalised institutions in order to secure access to credit and to diversify credit risk.
- Investing cash (to the extent possible) with counterparties with whom the Group has debt outstanding.
- Investing cash in short-term, highly liquid and low risk instruments (money market accounts).
- Maintaining excess cash abroad in hard currency.

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 notes 8 and 9.

### (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 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 |
|---|---|---|---|---|---|
| At 31 December 2009 | | | | | |
| Trade and other payables (refer to note 11) | 7,183 | – | – | – | 7,183 |
| Borrowings | 7,118 | 35,957 | 208,214 | – | 251,289 |
| At 31 December 2008 | | | | | |
| Trade and other payables (refer to note 11) | 2,313 | – | – | – | 2,313 |
| Borrowings | 4,260 | 71,000 | 151,523 | – | 226,783 |

### (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. It is important to note that currently all existing financial obligations are either at fixed rates or have been fixed with the use of derivatives.

# Notes to the parent company financial statements continued

## 17 FINANCIAL RISK MANAGEMENT (CONTINUED)

| | As at 31 December 2009 | | | | |
|---|---|---|---|---|---|
| | 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 |
| **Fixed rate** | | | | | |
| Bank current account (refer to note 9) | 330 | – | – | – | 330 |
| Amounts receivable from subsidiaries (refer to note 15) | 2,504 | – | – | – | 2,504 |
| Secured bank loans (refer to note 12) | (1,617) | (27,922) | (83,333) | – | (112,872) |
| Convertible bond payable (refer to note 12) | (1,663) | – | (103,827) | – | (105,490) |
| **Floating rate** | | | | | |
| Liquidity funds (refer to note 9) | 5,251 | – | – | – | 5,251 |

| | As at 31 December 2008 | | | | |
|---|---|---|---|---|---|
| | 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 |
| **Fixed rate** | | | | | |
| Bank current account (refer to note 9) | 285 | – | – | – | 285 |
| **Floating rate** | | | | | |
| Liquidity funds (refer to note 9) | 83,661 | – | – | – | 83,661 |
| Secured bank loans (refer to note 12) | 4,260 | 56,432 | 141,160 | – | 201,852 |

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 2009 and 2008 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 interest rate | Effect on profit before tax US$000 |
|---|---|---|
| 2009 | +/–50bps | –/+530 |
| 2008 | +/–50bps | –/+570 |

### (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 5 March 2010, Executive Chairman, Eduardo Hochschild purchased Hochschild Mining plc's 36.9% stake in Zincore at a price of C$0.27 per share representing a 11.6% premium over the 20 day average closing price. The shares were purchased through Inversiones Pacasmayo SA. for a total cash consideration of C$10,287,000. As a result of the transaction, Hochschild Mining plc has no further interest in Zincore.

The disposal was approved on behalf of the Hochschild board by a committee comprising solely independent Non-Executive Directors ("the Independent Committee"). The Independent Committee has been advised by Canaccord Adams Limited that the terms of the disposal are fair and reasonable as far as shareholders are concerned.

# 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 154 to 158 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 2009, 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$810 per ounce and Ag Price: US$13.50 per ounce.

# Reserves and resources continued

## RESERVES AND RESOURCES

### ATTRIBUTABLE METAL RESERVES AS AT 31 DECEMBER 2009

| Reserve category | Proved (t) | Probable (t) | Proved and probable (t) | Ag (g/t) | Au (g/t) | Ag (moz) | Au (koz) | Ag Eq (moz) |
|---|---|---|---|---|---|---|---|---|
| MAIN OPERATIONS[1] | | | | | | | | |
| Arcata | | | | | | | | |
| Proved | 947,644 | | | 441 | 1.39 | 13.4 | 42.5 | 16.0 |
| Probable | | 921,244 | | 393 | 1.23 | 11.6 | 36.4 | 13.8 |
| Total | | | 1,868,888 | 417 | 1.31 | 25.1 | 78.9 | 29.8 |
| Pallancata | | | | | | | | |
| Proved | 1,734,541 | | | 370 | 1.62 | 20.7 | 90.1 | 26.0 |
| Probable | | 610,964 | | 307 | 1.25 | 6.0 | 24.5 | 7.5 |
| Total | | | 2,345,505 | 354 | 1.52 | 26.7 | 114.6 | 33.5 |
| San José | | | | | | | | |
| Proved | 315,324 | | | 457 | 7.66 | 4.6 | 77.7 | 9.3 |
| Probable | | 460,175 | | 452 | 7.09 | 6.7 | 104.8 | 13.0 |
| Total | | | 775,499 | 454 | 7.32 | 11.3 | 182.5 | 22.3 |
| Main operations total | | | | | | | | |
| Proved | 2,997,510 | | | 402 | 2.18 | 38.7 | 210.2 | 51.3 |
| Probable | | 1,992,382 | | 380 | 2.59 | 24.3 | 165.8 | 34.3 |
| Total | | | 4,989,892 | 393 | 2.34 | 63.1 | 376.0 | 85.6 |
| OTHER OPERATIONS | | | | | | | | |
| Ares | | | | | | | | |
| Proved | 239,102 | | | 95 | 5.25 | 0.7 | 40.3 | 3.1 |
| Probable | | 56,740 | | 74 | 4.16 | 0.1 | 7.6 | 0.6 |
| Total | | | 295,842 | 91 | 5.04 | 0.9 | 47.9 | 3.7 |
| Moris | | | | | | | | |
| Proved | 857,646 | | | 4 | 1.47 | 0.1 | 40.5 | 2.6 |
| Probable | | 84,384 | | 4 | 1.45 | 0.0 | 3.9 | 0.2 |
| Total | | | 942,030 | 4 | 1.47 | 0.1 | 44.5 | 2.8 |
| Other operations total | | | | | | | | |
| Proved | 1,096,748 | | | 24 | 2.29 | 0.9 | 80.9 | 5.7 |
| Probable | | 141,124 | | 32 | 2.54 | 0.1 | 11.5 | 0.8 |
| Total | | | 1,237,872 | 25 | 2.32 | 1.0 | 92.4 | 6.5 |
| Group total | | | | | | | | |
| Proved | 4,094,258 | | | 301 | 2.21 | 39.6 | 291.1 | 57.0 |
| Probable | | 2,133,506 | | 357 | 2.59 | 24.5 | 177.3 | 35.1 |
| TOTAL | | | 6,227,764 | 320 | 2.34 | 64.1 | 468.4 | 92.2 |

Note: Where reserves are attributable to a joint venture partner, reserve figures reflect the Company's ownership only. Includes discounts for ore loss and dilution.

1 Main operations were audited by P&E Consulting.

## ATTRIBUTABLE METAL RESOURCES AS AT 31 DECEMBER 2009

| Resource category | Measured (t) | Indicated (t) | Measured and indicated (t) | Inferred (t) | Ag (g/t) | Au (g/t) | Zn (%) | Pb (%) | Cu (%) | Ag Eq (g/t) | Ag (moz) | Au (koz) | Zn (kt) | Pb (kt) | Cu (kt) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| MAIN OPERATIONS[1] | | | | | | | | | | | | | | | |
| Arcata | | | | | | | | | | | | | | | |
| Measured | 1,310,666 | | | | 514 | 1.60 | – | – | – | 610 | 21.7 | 67.4 | – | – | – |
| Indicated | | 1,024,287 | | | 464 | 1.42 | – | – | – | 549 | 15.3 | 46.8 | – | – | – |
| Total | | | 2,334,953 | | 492 | 1.52 | – | – | – | 584 | 37.0 | 114.2 | – | – | – |
| Inferred | | | | 2,227,956 | 417 | 1.32 | – | – | – | 496 | 29.9 | 94.5 | – | – | – |
| Pallancata | | | | | | | | | | | | | | | |
| Measured | 2,017,132 | | | | 439 | 1.91 | – | – | – | 553 | 28.5 | 123.6 | – | – | – |
| Indicated | | 1,000,005 | | | 379 | 1.57 | – | – | – | 473 | 12.2 | 50.6 | – | – | – |
| Total | | | 3,017,137 | | 419 | 1.80 | – | – | – | 527 | 40.6 | 174.2 | – | – | – |
| Inferred | | | | 950,743 | 376 | 1.51 | – | – | – | 466 | 11.5 | 46.3 | – | – | – |
| San José | | | | | | | | | | | | | | | |
| Measured | 378,861 | | | | 527 | 8.62 | – | – | – | 1,044 | 6.4 | 105.0 | – | – | – |
| Indicated | | 969,658 | | | 445 | 6.58 | – | – | – | 839 | 13.9 | 205.0 | – | – | – |
| Total | | | 1,348,519 | | 468 | 7.15 | – | – | – | 897 | 20.3 | 310.0 | – | – | – |
| Inferred | | | | 914,296 | 314 | 4.51 | – | – | – | 585 | 9.2 | 132.6 | – | – | – |
| Main operations total | | | | | | | | | | | | | | | |
| Measured | 3,706,659 | | | | 475 | 2.48 | – | – | – | 624 | 56.6 | 296.0 | – | – | – |
| Indicated | | 2,993,950 | | | 429 | 3.14 | – | – | – | 618 | 41.3 | 302.4 | – | – | – |
| Total | | | 6,700,609 | | 454 | 2.78 | – | – | – | 621 | 97.9 | 598.4 | – | – | – |
| Inferred | | | | 4,092,994 | 385 | 2.08 | – | – | – | 509 | 50.6 | 273.4 | – | – | – |
| OTHER OPERATIONS | | | | | | | | | | | | | | | |
| Ares | | | | | | | | | | | | | | | |
| Measured | 543,826 | | | | 144 | 5.45 | – | – | – | 471 | 2.5 | 95.2 | – | – | – |
| Indicated | | 145,638 | | | 124 | 4.19 | – | – | – | 376 | 0.6 | 19.6 | – | – | – |
| Total | | | 689,464 | | 140 | 5.18 | – | – | – | 451 | 3.1 | 114.8 | – | – | – |
| Inferred | | | | 362,138 | 167 | 3.91 | – | – | – | 402 | 1.9 | 45.6 | – | – | – |
| Moris | | | | | | | | | | | | | | | |
| Measured | 1,205,895 | | | | 4 | 1.30 | – | – | – | 82 | 0.2 | 50.3 | – | – | – |
| Indicated | | 103,265 | | | 4 | 1.31 | – | – | – | 82 | 0.0 | 4.4 | – | – | – |
| Total | | | 1,309,160 | | 4 | 1.30 | – | – | – | 82 | 0.2 | 54.7 | – | – | – |
| Inferred | | | | 415,689 | 5 | 1.22 | – | – | – | 78 | 0.1 | 16.3 | – | – | – |
| Other operations total | | | | | | | | | | | | | | | |
| Measured | 1,749,721 | | | | 48 | 2.59 | – | – | – | 203 | 2.7 | 145.5 | – | – | – |
| Indicated | | 248,903 | | | 74 | 3.00 | – | – | – | 254 | 0.6 | 24.0 | – | – | – |
| Total | | | 1,998,624 | | 51 | 2.64 | – | – | – | 209 | 3.3 | 169.5 | – | – | – |
| Inferred | | | | 777,826 | 80 | 2.47 | – | – | – | 229 | 2.0 | 61.9 | – | – | – |
| ADVANCED PROJECTS | | | | | | | | | | | | | | | |
| Azuca | | | | | | | | | | | | | | | |
| Measured | – | | | | – | – | – | – | – | – | – | – | – | – | – |
| Indicated | | – | | | – | – | – | – | – | – | – | – | – | – | – |
| Total | | | – | | – | – | – | – | – | – | – | – | – | – | – |
| Inferred | | | | 3,745,984 | 288 | 1.31 | – | – | – | 366 | 34.6 | 157.4 | – | – | – |
| Crespo | | | | | | | | | | | | | | | |
| Measured | 1,303,461 | | | | 53 | 0.69 | – | – | – | 94 | 2.2 | 28.8 | – | – | – |
| Indicated | | 8,224,590 | | | 38 | 0.56 | – | – | – | 71 | 9.9 | 147.5 | – | – | – |
| Total | | | 9,528,050 | | 40 | 0.58 | – | – | – | 74 | 12.1 | 176.3 | – | – | – |
| Inferred | | | | 8,315,845 | 38 | 0.74 | – | – | – | 82 | 10.1 | 198.4 | – | – | – |

# Reserves and resources continued

## ATTRIBUTABLE METAL RESOURCES AS AT 31 DECEMBER 2009 (CONTINUED)

| Resource category | Measured (t) | Indicated (t) | Measured and indicated (t) | Inferred (t) | Ag (g/t) | Au (g/t) | Zn (%) | Pb (%) | Cu (%) | Ag Eq (g/t) | Ag (moz) | Au (koz) | Zn (kt) | Pb (kt) | Cu (kt) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| San Felipe | | | | | | | | | | | | | | | |
| Measured | 1,393,716 | | | | 69 | 0.02 | 7.12 | 3.10 | 0.39 | 315 | 3.1 | 0.9 | 99.26 | 43.15 | 5.50 |
| Indicated | | 1,354,261 | | | 82 | 0.06 | 6.14 | 2.73 | 0.31 | 295 | 3.6 | 2.4 | 83.18 | 36.97 | 4.24 |
| Total | | | 2,747,977 | | 76 | 0.04 | 6.64 | 2.92 | 0.35 | 305 | 6.7 | 3.3 | 182.45 | 80.12 | 9.74 |
| Inferred | | | | 1,257,731 | 84 | 0.05 | 6.18 | 2.26 | 0.19 | 283 | 3.4 | 1.9 | 77.76 | 28.47 | 2.34 |
| Advanced projects total | | | | | | | | | | | | | | | |
| Measured | 2,697,176 | | | | 61 | 0.34 | 3.68 | 1.60 | 0.20 | 208 | 5.3 | 29.7 | 99.26 | 43.15 | 5.50 |
| Indicated | | 9,578,851 | | | 44 | 0.49 | 0.87 | 0.39 | 0.04 | 103 | 13.5 | 150.0 | 83.18 | 36.97 | 4.24 |
| Total | | | 12,276,027 | | 48 | 0.46 | 1.49 | 0.65 | 0.08 | 126 | 18.8 | 179.7 | 182.45 | 80.12 | 9.74 |
| Inferred | | | | 13,319,559 | 112 | 0.84 | 0.58 | 0.21 | 0.02 | 181 | 48.2 | 357.7 | 77.76 | 28.47 | 2.34 |
| OTHER INVESTMENTS | | | | | | | | | | | | | | | |
| Timmins (Lake Shore)[2] | | | | | | | | | | | | | | | |
| Measured | | | | | 0 | 0.00 | – | – | – | 0 | 0.0 | 0.0 | – | – | – |
| Indicated | | 1,158,465 | | | 0 | 8.56 | – | – | – | 513 | 0.0 | 318.7 | – | – | – |
| Total | | | 1,158,465 | | 0 | 8.56 | – | – | – | 513 | 0.0 | 318.7 | – | – | – |
| Inferred | | | | 319,158 | 0 | 5.74 | – | – | – | 344 | 0.0 | 58.9 | – | – | – |
| Inmaculada (IMZ)[3] | | | | | | | | | | | | | | | |
| Measured | | | | | 0 | 0.00 | – | – | – | 0 | 0.0 | 0.0 | – | – | – |
| Indicated | | 606,620 | | | 122 | 3.90 | – | – | – | 354 | 2.4 | 75.5 | – | – | – |
| Total | | | 606,620 | | 122 | 3.90 | – | – | – | 354 | 2.4 | 75.5 | – | – | – |
| Inferred | | | | 2,296,140 | 147 | 3.40 | – | – | – | 350 | 10.8 | 250.9 | – | – | – |
| Other investments total | | | | | | | | | | | | | | | |
| Measured | | | | | 0 | 0.00 | – | – | – | 0 | 0.0 | 0.0 | – | – | – |
| Indicated | | 1,765,085 | | | 42 | 6.96 | – | – | – | 459 | 2.4 | 394.9 | – | – | – |
| Total | | | 1,765,085 | | 42 | 6.96 | – | – | – | 459 | 2.4 | 394.9 | – | – | – |
| Inferred | | | | 2,615,298 | 129 | 3.69 | – | – | – | 350 | 10.9 | 309.9 | – | – | – |
| TOTAL | | | | | | | | | | | | | | | |
| Measured | 8,153,557 | | | | 246 | 1.80 | 1.22 | 0.53 | 0.07 | 396 | 64.5 | 471.2 | 99.26 | 43.15 | 5.50 |
| Indicated | | 14,586,789 | | | 123 | 1.86 | 0.57 | 0.25 | 0.03 | 254 | 57.8 | 871.2 | 83.18 | 36.97 | 4.24 |
| Total | | | 22,740,345 | | 167 | 1.84 | 0.80 | 0.35 | 0.04 | 305 | 122.4 | 1342.4 | 182.45 | 80.12 | 9.74 |
| Inferred | | | | 20,805,678 | 167 | 1.50 | 0.37 | 0.14 | 0.01 | 269 | 111.6 | 1002.9 | 77.76 | 28.47 | 2.34 |

Note: Resources include undiscounted reserves, where resources are attributable to a joint venture partner, resources figures reflect the Company's ownership only. No ore loss or dilution has been included, and stockpiled ore excluded.

1 Main operations were audited by P&E Consulting.
2 Hochschild owns a 38% interest in Lake Shore Gold.
3 Hochschild owns a 49% interest (IMZ owns the remaining 51%). IMZ can earn a 70% interest (diluting Hochschild to 30%) by completing a feasibility study by September 2013 at its sole cost and issuing to Hochschild 200,000 IMZ shares.

## CHANGE IN TOTAL RESERVES AND RESOURCES

| Ag equivalent content (million ounces) | Category | December 2008 | Production[1] | Movements[2] | December 2009 | Net difference | % change |
|---|---|---|---|---|---|---|---|
| Arcata | Resource | 87.2 | | (7.8) | 79.4 | (7.8) | (9.0)% |
| | Reserve | 33.1 | 12.3 | 9.0 | 29.8 | (3.3) | (10.0)% |
| Pallancata | Resource | 90.9 | | 18.0 | 108.9 | 18.0 | 19.8% |
| | Reserve | 63.1 | 12.3 | 5.1 | 55.9 | (7.2) | (11.4)% |
| San José | Resource | 96.0 | | 14.0 | 110.0 | 14.0 | 14.5% |
| | Reserve | 52.3 | 11.4 | 2.8 | 43.7 | (8.6) | (16.5)% |
| Main operations total | Resource | 274.2 | | 24.1 | 298.3 | 24.1 | 8.8% |
| | Reserve | 148.5 | 36.0 | 16.9 | 129.4 | (19.1) | (12.9)% |
| Ares | Resource | 17.5 | | (2.9) | 14.7 | (2.9) | (16.4)% |
| | Reserve | 8.6 | 3.8 | (1.1) | 3.7 | (4.9) | (56.5)% |
| Moris | Resource | 7.8 | | (3.3) | 4.5 | (3.3) | (42.0)% |
| | Reserve | 5.2 | 3.2 | 0.8 | 2.8 | (2.4) | (46.1)% |
| Other operations total | Resource | 25.3 | | (6.1) | 19.2 | (6.1) | (24.2)% |
| | Reserve | 13.8 | 7.0 | (0.3) | 6.5 | (7.3) | (52.6)% |
| Azuca | Resource | 23.3 | | 20.8 | 44.1 | 20.8 | 89.5% |
| | Reserve | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | – |
| Crespo | Resource | 0.0 | | 44.7 | 44.7 | 44.7 | – |
| | Reserve | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | – |
| San Felipe | Resource | 38.5 | | 0.0 | 38.5 | 0.0 | 0.0% |
| | Reserve | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | – |
| Advanced projects total | Resource | 61.7 | | 65.5 | 127.3 | 65.5 | 106.2% |
| | Reserve | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | – |
| Timmins (Lake Shore Gold)[3] | Resource | 64.8 | | (1.3) | 63.5 | (1.3) | (2.0)% |
| | Reserve | 49.6 | 0.0 | (0.8) | 48.7 | (0.8) | (1.7)% |
| Inmaculada (IMZ)[4] | Resource | 45.6 | | 21.3 | 66.9 | 21.3 | 46.7% |
| | Reserve | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | – |
| Other investments total | Resource | 110.4 | | 20.0 | 130.4 | 20.0 | 18.1% |
| | Reserve | 49.6 | | (0.8) | 48.7 | (0.8) | (1.7)% |
| Total | Resource | 471.6 | | 103.5 | 575.0 | 103.5 | 21.9% |
| | Reserve | 211.9 | 43.0 | 15.8 | 184.6 | (27.2) | (12.8)% |

1 Depletion: reduction in reserves based on ore delivered to the mine plant.
2 Increase in reserves and resources due mainly to mine site exploration but also to price increases.
3 Hochschild owns a 38% interest in Lake Shore Gold.
4 Hochschild owns a 49% interest (IMZ owns the remaining 51%). IMZ can earn a 70% interest (diluting Hochschild to 30%) by completing a feasibility study by September 2013 at its sole cost and issuing to Hochschild 200,000 IMZ shares.

# Reserves and resources continued

## CHANGE IN ATTRIBUTABLE RESERVES AND RESOURCES

| Ag equivalent content (million ounces) | Category | Percentage attributable | December 2008 Att.[1] | December 2009 Att.[1] | Net difference | % change |
|---|---|---|---|---|---|---|
| Arcata | Resource | 100% | 87.2 | 79.4 | (7.8) | (9.0)% |
| | Reserve | | 33.1 | 29.8 | (3.3) | (10.0)% |
| Pallancata | Resource | 60% | 54.6 | 65.3 | 10.8 | 19.8% |
| | Reserve | | 37.9 | 33.5 | (4.3) | (11.4)% |
| San José | Resource | 51% | 49.0 | 56.1 | 7.1 | 14.5% |
| | Reserve | | 26.7 | 22.3 | (4.4) | (16.5)% |
| Main operations total | Resource | | 190.7 | 200.8 | 10.1 | 5.3% |
| | Reserve | | 97.6 | 85.6 | (12.0) | (12.3)% |
| Ares | Resource | 100% | 17.5 | 14.7 | (2.9) | (16.4)% |
| | Reserve | | 8.6 | 3.7 | (4.9) | (56.5)% |
| Moris | Resource | 100% | 5.4 | 4.5 | (0.9) | (17.1)% |
| | Reserve | | 3.6 | 2.8 | (0.8) | (23.0)% |
| Other operations total | Resource | | 23.0 | 19.2 | (3.8) | (16.5)% |
| | Reserve | | 12.2 | 6.5 | (5.7) | (46.6)% |
| Azuca | Resource | 100% | 23.3 | 44.1 | 20.8 | 89.5% |
| | Reserve | | 0.0 | 0.0 | 0.0 | – |
| Crespo | Resource | 100% | 0.0 | 44.7 | 44.7 | – |
| | Reserve | | 0.0 | 0.0 | 0.0 | – |
| San Felipe | Resource | 100% | 38.5 | 38.5 | 0.0 | 0.0% |
| | Reserve | | 0.0 | 0.0 | 0.0 | – |
| Advanced projects total | Resource | | 61.7 | 127.3 | 65.5 | 106.2% |
| | Reserve | | 0.0 | 0.0 | 0.0 | – |
| Timmins (Lake Shore Gold)[2] | Resource | 35.7% | 25.2 | 22.7 | (2.6) | (10.2)% |
| | Reserve | | 19.3 | 17.4 | (1.9) | (9.9)% |
| Inmaculada (IMZ)[3] | Resource | 49% | 22.3 | 32.8 | 10.4 | 46.7% |
| | Reserve | | 0.0 | 0.0 | 0.0 | – |
| Other investments total | Resource | | 47.6 | 55.4 | 7.9 | 16.5% |
| | Reserve | | 19.3 | 17.4 | (1.9) | (9.9)% |
| Total | Resource | | 323.0 | 402.7 | 79.7 | 24.7% |
| | Reserve | 100% | 129.2 | 109.6 | (19.6) | (15.2)% |

1 Attributable reserves and resources based on the Group's percentage ownership of its joint venture projects.
2 Hochschild owns a 38% interest in Lake Shore Gold.
3 Hochschild owns a 49% interest (IMZ owns the remaining 51%). IMZ can earn a 70% interest (diluting Hochschild to 30%) by completing a feasibility study by September 2013 at its sole cost and issuing to Hochschild 200,000 IMZ shares.

# Production

## TOTAL GROUP PRODUCTION[1]

| | Year ended 31 December 2009 | Year ended 31 December 2008 | % change |
|---|---|---|---|
| Silver production (koz) | 24,585 | 20,782 | 18 |
| Gold production (koz) | 211.64 | 193.97 | 9 |
| Total silver equivalent (koz) | 37,283 | 32,421 | 15 |
| Total gold equivalent (koz) | 621.38 | 540.34 | 15 |
| Silver sold (koz) | 23,563 | 20,593 | 14 |
| Gold sold (koz) | 204.09 | 198.32 | 3 |

1 Total production includes 100% of all production, including production attributable to joint venture partners at San José and Pallancata.

## ATTRIBUTABLE GROUP PRODUCTION[1]

| | Year ended 31 December 2009 | Year ended 31 December 2008 | % change |
|---|---|---|---|
| Silver production (koz) | 18,754 | 16,941 | 11 |
| Gold production (koz) | 156.77 | 152.86 | 3 |
| Attrib. silver equivalent (koz) | 28,160 | 26,113 | 8 |
| Attrib. gold equivalent (koz) | 469.34 | 435.22 | 8 |

1 Attributable production includes 100% of all production from Arcata, Ares and Moris, 60% from Pallancata and 51% from San José.

## 2009 PRODUCTION BY MINE

### Arcata

| Product | Year ended 31 December 2009 | Year ended 31 December 2008 | % change |
|---|---|---|---|
| Ore production (tonnes) | 643,059 | 557,870 | 15 |
| Average head grade silver (g/t) | 503 | 571 | (12) |
| Average head grade gold (g/t) | 1.56 | 1.53 | 2 |
| Concentrate produced (tonnes) | 22,352 | 20,639 | 8 |
| Silver grade in concentrate (kg/t) | 13.36 | 13.94 | (4) |
| Gold grade in concentrate (kg/t) | 0.04 | 0.04 | – |
| Silver produced (koz) | 9,542 | 9,032 | 6 |
| Gold produced (koz) | 28.64 | 24.04 | 19 |
| Silver sold (koz) | 8,748 | 8,564 | 2 |
| Gold sold (koz) | 26.02 | 22.36 | 16 |

# Production continued

## Ares

| Product | Year ended 31 December 2009 | Year ended 31 December 2008 | % change |
|---|---|---|---|
| Ore production (tonnes) | 341,273 | 347,910 | (2) |
| Average head grade silver (g/t) | 96 | 157 | (39) |
| Average head grade gold (g/t) | 4.17 | 6.06 | (31) |
| Doré total (koz) | 947 | 1,608 | (41) |
| Silver produced (koz) | 900 | 1,538 | (41) |
| Gold produced (koz) | 42.59 | 64.16 | (34) |
| Silver sold (koz)[1] | 873 | 2,398 | (64) |
| Gold sold (koz)[2] | 41.82 | 77.44 | (46) |

1 Total sale figures for Ares in 2008 include the sale of 746 koz of silver precipitates from San José.
2 Total sale figures for Ares in 2008 include the sale of 11.14 koz of gold precipitates from San José.

## Pallancata[1]

| Product | Year ended 31 December 2009 | Year ended 31 December 2008 | % change |
|---|---|---|---|
| Ore production (tonnes) | 922,521 | 468,125 | 97 |
| Average head grade silver (g/t) | 327 | 312 | 5 |
| Average head grade gold (g/t) | 1.43 | 1.49 | (4) |
| Concentrate produced (tonnes) | 7,684 | 4,265 | 80 |
| Silver grade in concentrate (kg/t) | 34.09 | 30.54 | 12 |
| Gold grade in concentrate (kg/t) | 0.13 | 0.12 | 8 |
| Silver produced (koz) | 8,420 | 4,188 | 101 |
| Gold produced (koz) | 31.97 | 16.16 | 98 |
| Silver sold (koz) | 8,147 | 3,852 | 112 |
| Gold sold (koz) | 29.77 | 14.81 | 101 |

1 The Company has a 60% interest in Pallancata.

## Selene[1]

| Product | Year ended 31 December 2009 | Year ended 31 December 2008 | % change |
|---|---|---|---|
| Ore production (tonnes) | 109,893 | 269,150 | (59) |
| Average head grade silver (g/t) | 217 | 210 | 3 |
| Average head grade gold (g/t) | 1.09 | 1.21 | (10) |
| Concentrate produced (tonnes) | 1,057 | 3,201 | (67) |
| Silver grade in concentrate (kg/t) | 18.55 | 15.04 | 23 |
| Gold grade in concentrate (kg/t) | 0.09 | 0.08 | 13 |
| Silver produced (koz) | 628 | 1,579 | (60) |
| Gold produced (koz) | 3.02 | 8.50 | (64) |
| Silver sold (koz) | 636 | 1,929 | (67) |
| Gold sold (koz) | 2.96 | 9.93 | (70) |

1 Selene was closed on 28 May 2009.

## San José[1]

| Product | Year ended 31 December 2009 | Year ended 31 December 2008 | % change |
|---|---|---|---|
| Ore production (tonnes) | 460,971 | 295,963 | 56 |
| Average head grade silver (g/t) | 398 | 559 | (29) |
| Average head grade gold (g/t) | 6.19 | 6.69 | (7) |
| Silver produced (koz) | 4,998 | 4,381 | 14 |
| Gold produced (koz) | 77.08 | 54.26 | 42 |
| Silver sold (koz) | 5,072 | 4,588 | 11 |
| Gold sold (koz) | 77.22 | 57.70 | 34 |

1 The Company has a 51% interest in San José.

## Moris

| Product | Year ended 31 December 2009 | Year ended 31 December 2008 | % change |
|---|---|---|---|
| Ore production (tonnes) | 1,282,461 | 876,148 | 46 |
| Average head grade silver (g/t) | 5.02 | 5.71 | (12) |
| Average head grade gold (g/t) | 1.38 | 1.57 | (12) |
| Silver produced (koz) | 97 | 65 | 49 |
| Gold produced (koz) | 28.34 | 26.85 | 6 |
| Silver sold (koz) | 87 | 68 | 28 |
| Gold sold (koz) | 26.29 | 28.01 | (6) |

# Glossary

**Ag**
Silver

**Adjusted EBITDA**
Adjusted EBITDA is calculated as profit from continuing operations before exceptional items, net finance costs and income tax plus depreciation, amortisation and exploration expenses other than personnel and other expenses

**Au**
Gold

**Attributable after tax profit**
Profit for the year before dividends attributable to the equity shareholders of Hochschild Mining plc from continuing operations before exceptional items and after minority interest

**Average head grade**
Average ore grade fed into the mill

**Board**
The Board of Directors of the Company

**Company**
Hochschild Mining plc

**CSR**
Corporate social responsibility

**Cu**
Copper

**Directors**
The Directors of the Company

**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

**Dollar or $**
United States dollars

**Effective Tax Rate**
Income tax expense as a percentage of profit from continuing operations before income tax

**EPS**
The per-share (using the weighted average number of shares outstanding for the period) profit available to equity shareholders of the Company from continuing operations after exceptional items

**eq**
equivalent

**Exceptional item**
Events that are significant and which, due to their nature or the expected infrequency of the events giving rise to them, need to be disclosed separately

**g/t**
Grammes per metric tonne

**GAAP**
Generally Accepted Accounting Principles

**Group**
Hochschild Mining plc and subsidiary undertakings

**IAS**
International Accounting Standards

**IASB**
International Accounting Standards Board

**IFRS**
International Financial Reporting Standards

**JV**
Joint venture

**koz**
Thousand ounces

**kt**
Thousand metric tonnes

**ktpa**
Thousand metric tonnes per annum

**Listing or IPO (Initial Public Offering) or Global Offer**
The listing of the Company's Ordinary Shares on the London Stock Exchange on 8 November 2006

**LTI**
Lost Time Injury, meaning an occupational injury or illness that results in days away from work

**LTIFR**
Lost Time Injury Frequency Rate = LTI x 1,000,000/hours worked

**moz**
Million ounces

**Ordinary Shares**
Ordinary Shares of £0.25 each in the Company

**Pb**
Lead

**Spot or spot price**
The purchase price of a commodity at the current price, normally this is at a discount to the long-term contract price

**t**
tonne

**tpa**
tonnes per annum

**tpd**
tonnes per day

**Zn**
Zinc

# Shareholder information

## Annual General Meeting ('AGM')

The AGM will be held at 10am on 26 May 2010 at the offices of Goldman Sachs, River Court, 120 Fleet Street, London EC4A 2QQ.

## Company website

Hochschild Mining plc Interim and Annual Reports and results announcements are available via the internet on our website at 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 as follows for information about the AGM, shareholdings, dividends and to report changes in personal details:

*– By post*

Shareholder Services Department, Capita Registrars, Northern House, Woodsome Park, Fenay Bridge, Huddersfield, HD8 0GA

*– By telephone*

If calling from the UK: 0871 664 0300 (Calls cost 10p per minute plus network extras, lines are open 8.30am – 5.30pm Mon to Fri)
If calling from overseas: +44 20 8639 3399

*– By fax*

+44 (0)1484 600 911

## 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 4 May 2010.

The Company's registrars can also arrange for the dividend to be paid directly into a shareholder's UK bank account. 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 4 May 2010. 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 London Office address (see below), by phone on 020 7907 2933 or by email at jane.flynn@hocplc.com.

## Financial calendar

| Dividend payments | |
|---|---|
| Ex-dividend date | 28 April 2010 |
| Record date | 30 April 2010 |
| Deadline for return of currency election form | 4 May 2010 |
| Final dividend payable | 27 May 2010 |

## Other dates

| | |
|---|---|
| Annual General Meeting | 26 May 2010 |
| Half-yearly results announced | August 2010 |

## London Office (and Registered Office address)

46 Albemarle Street
London
W1S 4JL
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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