Unlocking value through exploration

HOCHSCHILD MINING PLC
Annual Report & Accounts 2010

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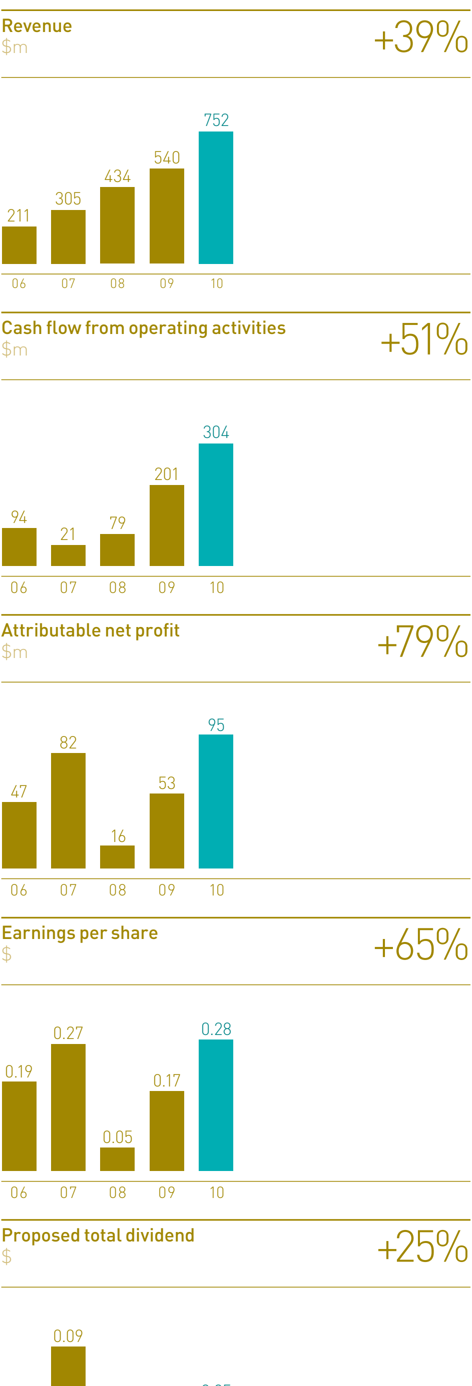
How we performed



Introduction

"I am pleased to report that Hochschild Mining has delivered a strong performance in 2010. We have met our operational expectations, strengthened our financial position and undertaken some key strategic steps which I firmly believe will secure our future growth path and deliver further value for our shareholders."

Eduardo Hochschild
Executive Chairman

Strong investment proposition

Well positioned in the Americas.

$70m

2011 exploration budget

SOLID ASSET BASE*

Current operations:

Operation		
❶ **Arcata** Peru	Silver equivalent production	9.7 moz
	Capacity	1,750 tpd
❷ **Pallancata** Peru	Silver equivalent production	12.3 moz
	Capacity	3,000 tpd
❸ **Ares** Peru	Silver equivalent production	2.7 moz
	Capacity	940 tpd
❹ **San José** Argentina	Silver equivalent production	10.4 moz
	Capacity	1,500 tpd
❺ **Moris** Mexico	Silver equivalent production	1.4 moz
	Capacity	3,000 tpd

Advanced projects:

Project		
❻ **Inmaculada** Peru	Estimated silver equivalent production p.a.	6.6 moz
❼ **Azuca** Peru	Estimated silver equivalent production p.a.	3.5 moz
❽ **Crespo** Peru	Estimated silver equivalent production p.a.	2.3 moz

EXTENSIVE PROJECT PIPELINE

Greenfield projects:

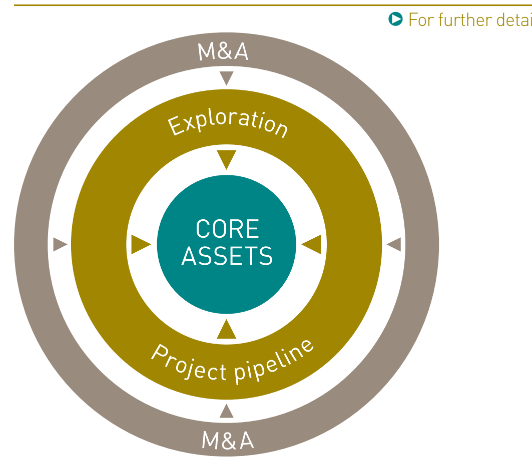
Country		
● Peru	Ibel	Careli-Carmen
	Huacullo	San Martin
	Astana Farallón	Cerro Blanco
	Josnitoro	Apacheta
	Sabina	Pausi
	Pariguanas	Huachoja
		Parihuana
● Argentina	Mosquito	La Flora
		Cricket
● Mexico	Corazon de Tinieblas	Mercurio
● Chile	Encrucijada	Victoria
		Valeriano

* 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").

Our strategy is to create value through efficient operation, aggressive exploration and opportunistic acquisition of early stage projects.

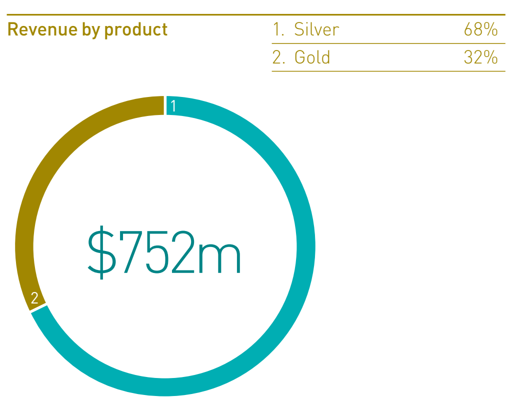
STRATEGY MODEL

For further details see p07



Revenue by product

1. Silver	68%
2. Gold	32%



2011 exploration budget

1. Greenfield	49%
2. Brownfield	36%
3. Advanced projects	15%

$70m

Greenfield breakdown by country

1. Peru	52%
2. Chile	19%
3. Mexico	17%
4. Argentina	12%

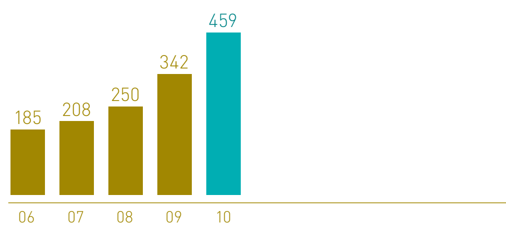
2010 attributable production
Silver equivalent moz

26.4 moz

06	07	08	09	10
23	26	26	28	26

Resource base
Silver equivalent moz

+34%



75

Number of geologists
Brownfield & greenfield

+40%

Increase in exploration budget in 2011

A transformational year

Chairman's statement

The Company's consistent operational efficiency coupled with strong gold and silver prices delivered a robust financial performance with EBITDA up 59% at $397.7 million and post-exceptional EPS also up strongly by some 48% to $0.46 per share.

I am pleased to report that Hochschild Mining has delivered a strong performance in 2010. What was once again a turbulent year for the global economy was, however, one of the strongest years in history for precious metals, particularly for the silver price which rose 83%. In this environment, the Company met its operational expectations, strengthened its financial position and undertook some key strategic steps which I firmly believe will secure our future growth path and deliver further value for our shareholders.

The Company's consistent operational efficiency coupled with strong gold and silver prices delivered a robust financial performance with EBITDA up 59% at $397.7 million and post-exceptional EPS also up strongly by some 48% to $0.46 per share. Consequently, the Board is delighted to announce that we are proposing to increase the final dividend by 50% to $0.03 per share which reflects our strong balance sheet position and the anticipated healthy future cash flows of the Group. We believe the proposed increase is in accordance with capital availability and our desire to provide a yield to shareholders whilst continuing to respect the growth requirements of the business and the availability of capital.

During 2010, the Board appointed a new management team led by Ignacio Bustamante as Chief Executive Officer and Ramón Barúa as Chief Financial Officer. I believe that the realigned Company focus on growth through exploration heralds the beginning of a new era for Hochschild in which our excellent asset base, combined with an immense talent pool, will unlock consistent and profitable precious metal production growth. The 40% increase in our exploration budget to $70 million for 2011 is firm evidence of our commitment to this strategy and our confidence in the potential of our current project pipeline. In addition, we now have over 70 geologists providing us with the technical experience and expertise required to deliver a steady stream of value accretive project opportunities.

Our management team has great confidence in the potential of the Company to develop this aggressive exploration strategy and, allied to this, they have promoted a disciplined approach to the assessment of acquisitions. In this regard, the key announcements in 2010 were the progression of our 100% owned Azuca and Crespo projects and the acquisition of a controlling stake in the Inmaculada project, all of which are located at the core of our Southern Peru cluster.

Final dividend of 3 cents per share

Also noteworthy was the sale of our stake in Lake Shore Gold Corp which represented a 34% gain on our original average purchase price. The decision was made in light of our stated commitment that acquisitions must not only deliver early stage assets, strong geological potential and high value accretion but also a clear path to control. The sale achieved a very profitable return on our investment and has given us the financial strength to reinvest in our near-term project pipeline. In addition, our 25% investment in Gold Resource Corp, in which we have invested a total of $67 million, is currently valued at approximately $349 million.

The silver market rose over 70% in the second half of 2010 boosted by strong fundamentals, unprecedented investment demand and renewed focus on silver's value as an alternative to gold. Whilst the corresponding rise in Hochschild's share price can be explained partly by the buoyant precious metals market, I firmly believe that an increasingly widespread market acceptance of our shift in strategic focus as well as the positive results achieved to date have also been major factors and will continue to be so in the future.

During 2011, we can look forward to further crucial steps in the development of our advanced projects at Inmaculada, Azuca and Crespo which in total have the potential to add a minimum of 12 million profitable ounces per year to our current production base from the end of 2013.

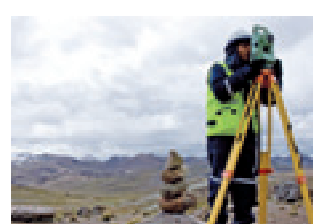
Management is also confident that we are in a very strong position to continue the investment in brownfield expansion at our existing mines and to take advantage of any value enhancing acquisitions and opportunities that arise which meet the strict investment criteria I have described above.

We are committed to the safety of all our employees and have made good progress during the past year. In 2010, we reduced our accident frequency rate by 29% compared to 2009 and continue to move forward with the implementation of the safety management information system jointly developed with DNV. Nonetheless, it is with deep regret that I report two fatalities in 2010. 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.

On behalf of the Board, I would like to thank our entire team for their continued commitment in 2010 and I am confident that such impressive execution will remain the focus in 2011.

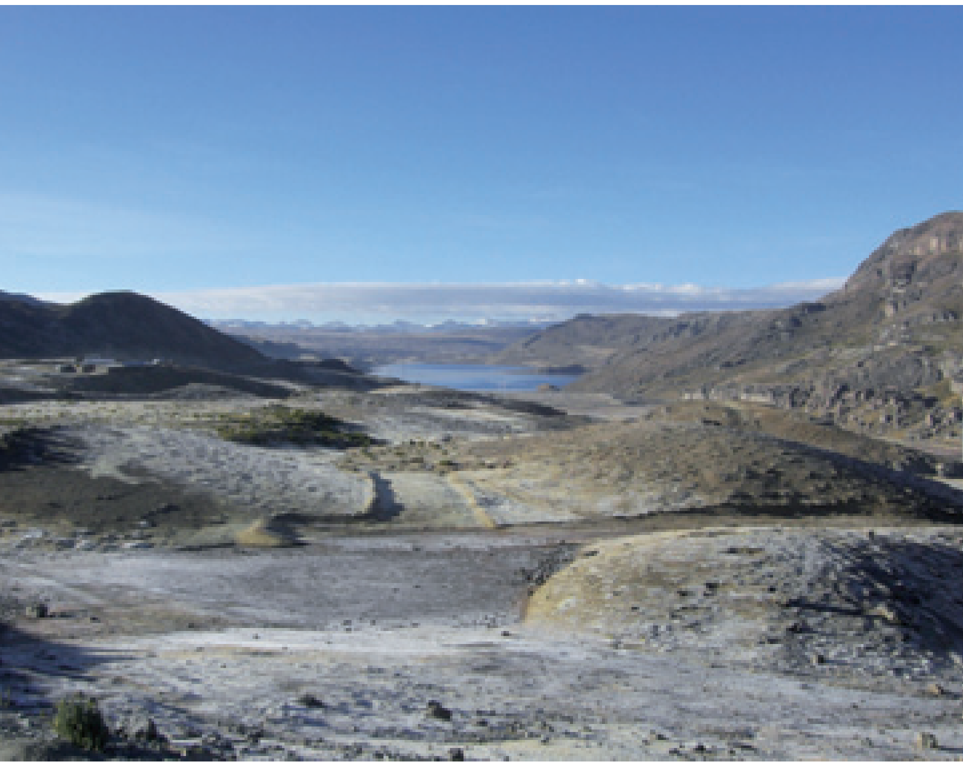
Eduardo Hochschild
Executive Chairman

28 March 2011



Above: Geologist at the Pallancata property.

Right: Highlands of Peru.



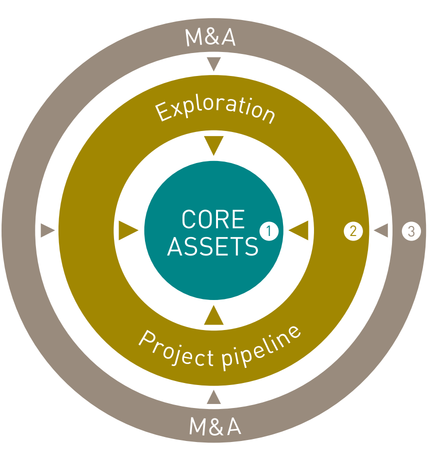
Chief Executive Officer's review

Chief Executive Officer's review
07 Growth strategy

Looking to the future

Chief Executive Officer's review

STRATEGY MODEL



1
- Optimise resource life
- Improve productivity

Arcata
Pallancata
San José

2
- Land package
- People
- Incentives
- Budget

3 advanced projects
8 Company Makers
Solid pipeline

3
- Early stage
- Strong geological potential
- Highly accretive
- Control

Bolt-on M&A

Questions to the CEO:

What are the Company's key goals for 2011?

2010 was extremely active and we expect 2011 to be another busy year. We are committed to achieving our production target of 22.5 million attributable silver equivalent ounces and on extending the resource life of our core operations. Completing feasibility studies at our advanced projects is a key objective for 2011 as well as the delivery of our extensive exploration programme – I am 100% dedicated to ensuring that the $70 million budget produces tangible results. We look forward to updating you on our progress next year...

Having joined Hochschild Mining over 19 years ago, it gives me great pleasure to present my first set of results as CEO. I am pleased to announce strong full year performance, reflecting the continuing operational and financial strength of our business.

2010 has been a pivotal year for the Group. As a new management team, we agreed, with the full support of the Board, that focusing on an organic growth strategy, utilising our strong exploration and project development skills, would be the optimum strategy to continue generating value for all our shareholders. With our unrivalled knowledge of the Americas, premium land packages in many of the key geological areas and extensive existing infrastructure, we are strongly positioned to consolidate and grow our role as one of the leading mining operators in the Americas.

Organic growth strategy

Our strategy for growth is based on three distinct pillars. Firstly, we continue to optimise production and extend the life of our core producing assets, Arcata, Pallancata and San José, which are the bedrock of the Company. Last year, we committed to increasing resources and I am pleased to say that we achieved this, with resource life up 23% to 8.7 years in 2010. Particularly good progress was made at San José, where we discovered nine new veins and two extensions in the second half of 2010, thus increasing total resource life at the property by 36% to 11.4 years and at Arcata, where we have increased the resource life by 30% to 9.6 years.

The second pillar is our exploration pipeline which currently contains highly promising targets at various stages of development across four key countries – Peru, Argentina, Mexico and Chile. In 2010, we delivered some excellent results particularly at our three advanced projects in our southern Peru cluster – Inmaculada, Azuca and Crespo, which all moved through scoping to pre-feasibility/feasibility stage. These three projects combined have the potential to add a minimum of 12 million attributable silver equivalent ounces per year to our production profile starting from the end of 2013. Furthermore, we have increased the number of Company Maker prospects which have the potential to deliver 20–30 million silver equivalent ounces. To support our 2011 exploration programme, we have once again significantly increased our budget by a further 40% to $70 million, more than double 2009 levels. This will deliver an extensive drill programme covering 335,000 metres at greenfield and brownfield sites in our four target countries.

Finally, our corporate development team has a clear mandate to pursue early stage, value accretive opportunities which display significant geological potential and a clear path to control. We saw this strategy in action in September 2010 with the acquisition of a controlling stake in the Inmaculada project, following the announcement of positive scoping results by our joint venture partner International Minerals Corp ("IMZ"). In Chile, we exercised our option to increase ownership in the Victoria project to a controlling 60% stake and we also signed an option agreement for a 100% stake in the Valeriano property which is located in an extremely prospective location, 27 kilometres north of Barrick Gold Corporation's Pascua Lama project.

Looking to the future
Chief Executive Officer's review
Continued

With Hochschild's highly talented team, solid asset base and extensive project pipeline, I am confident that we are in a strong position to create further stakeholder value.

We have a proven track record of identifying early stage, value accretive opportunities demonstrated by our investments in Lake Shore Gold and Gold Resource Corp. The divestment of the Lake Shore Gold stake at an attractive price allowed us to secure funding for the development of our advanced projects as well as for our exploration strategy.

2010 overview

Our operations delivered a robust performance in 2010 with production of 26.4 million attributable silver equivalent ounces comprised of 17.8 million ounces of silver and 144.4 thousand ounces of gold. Pallancata and San José performed particularly well with silver equivalent production up 19% and 8% year-on-year respectively. The 6% year-on-year reduction in attributable silver equivalent production was mainly driven by a lower contribution from the Arcata operation where we made the firm decision of mining reserve grades in order to achieve a consistent and sustainable level of production.

As a result of the significant increase in precious metals prices in the second half of 2010, our Ares mine in southern Peru continued to operate for the full year, albeit at a declining rate. We are monitoring the grade and cost profile of Ares and Moris, our ageing open pit mine in Mexico, to ensure that they are in line with our policy of producing profitable ounces. We expect both operations to cease producing in 2011.

For 2011, we are targeting production of 22.5 million ounces from current operations. We expect stable production at Pallancata and San José and lower production at Arcata as we move towards the reserve grade, as mentioned above. There continues to be enormous potential at Arcata with new high grade veins continuing to be found and resource life now at a very solid 9.6 years.

2010 was not only a year of high prices but also of high cost inflation. The management team has worked hard to contain controllable costs. Unit costs at our underground operations increased 16%, mainly due to local price inflation in Argentina, higher royalties and the longer than anticipated mine life at the high cost Ares operation. Looking ahead, we are forecasting overall 2011 unit cost per tonne performance in Peru to be broadly in line with industry cost inflation of around 10%, whilst in Argentina we expect the rate to continue rising as a result of ongoing local price inflation of around 25–30%.

Questions to the CEO:

When do you expect your three advanced projects to move to production?

Our three advanced projects in Peru, Inmaculada, Azuca and Crespo, are scheduled to commence production from the end of 2013. Together, the three projects have the potential to contribute a minimum of 12 million attributable silver equivalent ounces to our annual production profile. We believe that this is a base case estimate with drilling at the three properties already delivering impressive results.

+23%

Increase in resource life of mine to 8.7 years

The business is in sound financial health reporting record revenue of $752.3 million in 2010 up 39% year-on-year, underpinned by higher realised silver and gold prices, which were up 83% and 30% year-on-year respectively. Attributable profit after tax rose 79% to $94.9 million (2009: $52.9 million) with pre-exceptional EPS of $0.28 for the full year, up 65% on 2009.

At San José, I am also pleased that during 2010 we resolved the lawsuit with our joint venture partner, Minera Andes Inc ("MAI") and we are fully committed to working together with MAI to deliver the mine's full potential.

We closed the year with an extremely substantial cash balance of $525.5 million which enabled us to repay our entire existing syndicated loan facility of $114.3 million in January 2011 and announce a 50% increase in our final dividend. This strong cash balance, together with healthy operating cash flow which is up 52% to $304.2 million in 2010, gives us the financial flexibility to pursue our ambitious exploration programme in 2011 and beyond. It also supports a full capital expenditure programme (2010: $156.5 million) including investment in our existing producing assets, mine development, advanced exploration projects and equipment. Finally, our strong capital position enables us to make selective, value accretive acquisitions which are consistent with Group strategy.

Outlook

Mining is a long-term investment proposition and we have a clear strategy for delivering long-term growth and value for shareholders. 2011 is already proving to be another promising year in this important phase of Hochschild's evolution: targeted production of 22.5 million attributable silver equivalent ounces, key stage development at all three of our advanced projects and an exploration programme which, with unprecedented investment, will aim to make tangible progress in 2011 and beyond. With Hochschild's highly talented team, solid asset base and extensive project pipeline set to deliver long-term production growth, I am confident that we are in a strong position to create further stakeholder value. I look forward to updating you on our progress over the course of the year.

Ignacio Bustamante
Chief Executive Officer

28 March 2011

More details on our operations...

Below: Selene processing plant.

Operating & exploration review

Operating & exploration review

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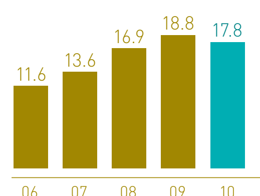
Meeting production targets

KEY PERFORMANCE INDICATORS

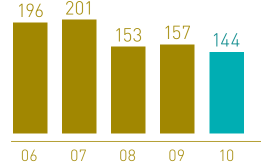
Attributable silver production*
moz

17.8 moz



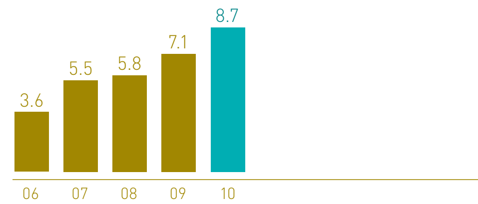
Attributable gold production*
koz

144 koz



Resource life of mine†
Years

8.7 years



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

† Resource life of mine is based on resources of Hochschild's core operations and calculated by dividing the number of resource tonnes by the amount of ore forecast to be processed during the following 12 month period.

Our core operations delivered another solid performance in 2010.

CURRENT OPERATIONS

Production

Hochschild delivered another solid performance in 2010, in line with its stated target, achieving attributable production of 26.4 million silver equivalent ounces comprised of 17.8 million ounces of silver and 144,403 ounces of gold (2009: 28.2 million attributable silver equivalent ounces). Production was particularly strong at the Company's two newest mines, Pallancata and San José, which now contribute approximately half of the Company's total attributable production, offset by lower production at Arcata where the Company is moving towards mining reserve grades in order to achieve a consistent and sustainable level of production.

The Company has announced a production target of 22.5 million attributable silver equivalent ounces for 2011, in line with its mid-term forecast of 20–23 million attributable silver equivalent ounces from current operations. Management expects stable production at San José and Pallancata, offset by lower production at Arcata, as the Company moves towards its long-term goal of mining close to the average reserve grade at each of its core operations as anticipated in 2009.

Costs

The Company reported an increase in unit cost per tonne at its underground operations of 16% in 2010 to $82.3 (2009: $70.7) primarily due to significant price inflation in Argentina, higher royalties and longer than anticipated mine life at the high cost Ares operation. Please see page 38 of the financial review for further details on costs.

Below: Employees at Pallancata.

Solid asset base

Operating & exploration review continued

MAIN OPERATIONS

Arcata: Peru

Production and sales Arcata, which commenced production in 1964, is a 100% owned underground operation located in the Department of Arequipa in southern Peru.

During 2010, Arcata's production was impacted by lower silver grades due to changing geotechnical conditions at the accessible mine areas. In order to ensure a consistent and sustainable level of production, Arcata extraction grades were reduced during the year, moving towards reserve grade level as anticipated in 2009. Consequently, 2010 silver production decreased by 15% to 8.1 million ounces (2009: 9.5 million ounces). Gold production was 10% lower at 25,834 ounces (2009: 28,639 ounces).

As at 31 December 2010, the silver equivalent reserve grade at Arcata was 431 g/t and the Company expects to mine around this level in 2011, notwithstanding the 10–15% variability that is typical with these types of deposits. The Company remains positive about the geological potential at the Arcata property and has made excellent progress with the extension of its resource life which increased 30% in 2010 to 9.6 years.

Costs The Arcata operation reported a 15% increase in unit cost per tonne in 2010, mainly as a result of higher metals prices increasing the royalties paid by the Company and also due to higher infrastructure costs relating to mine tunnels and stopes. This was partly offset by efficiency measures leading to cost reductions in contractors, explosives and maintenance.

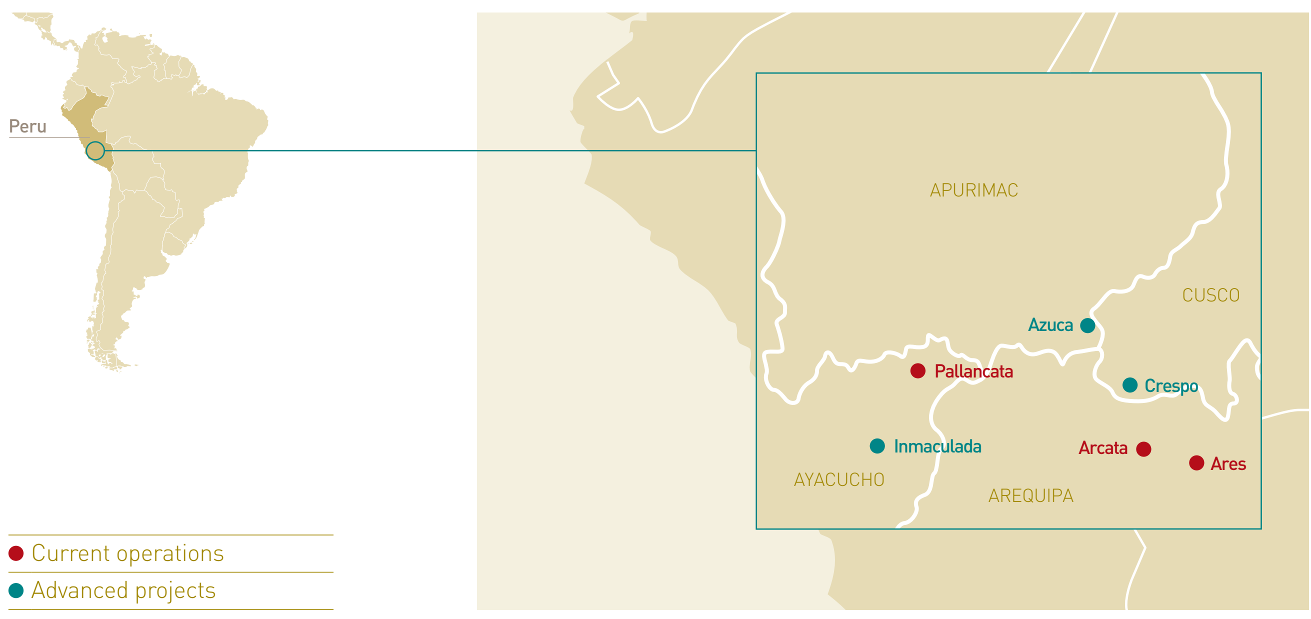
A number of initiatives are planned for 2011 including the construction of eight new stopes in order to optimise extraction capacity as well as a programme to reduce energy consumption through the replacement of existing energy pumps.

Resource life The resource life of Arcata currently stands at 9.6 years, up from 7.4 years in 2009 following an intensive drill campaign focused on the Socorro, Sorpresa, Luz, Rita and Barbara veins. A total of 76,506 metres of diamond drilling was completed during the year (2009: 59,582 metres) with significant intercepts including:

- **Sorpresa** DDH-831 0.8m at 5.3 g/t Au and 621 g/t Ag
  DDH 823 0.9m at 1.9 g/t Au and 1,201 g/t Ag
- **Socorro** DDH-169 0.8m at 13.5 g/t Au and 130 g/t Ag
- **Luz** DDH- 780 0.8m at 3.77 g/t Au and 846 g/t Ag
  DDH- 734 0.8m at 0.94 g/t Au and 784 g/t Ag.

The 2011 programme will employ geophysical methods in those areas of the property with thick post-mineral cover and will also drill for further potential in the Mariana and Socorro veins. In addition, the Company will develop new resources in the Socorro, Luz, and Sorpresa veins.

SOUTHERN PERU CLUSTER



Pallancata: Peru

Production and sales The Pallancata silver/gold property is located in the Department of Ayacucho in southern Peru, approximately 160 kilometres from the Arcata operation. Pallancata commenced production in 2007 and is a joint venture with International Minerals Corporation ("IMZ"). Hochschild controls 60% of the joint venture and is the mine operator. Ore from Pallancata is transported 22 kilometres to the Selene plant for processing.

Pallancata continues to deliver strong results with record silver equivalent production in 2010, up 19% to 12.3 million silver equivalent ounces. Production was positively impacted by increased treated tonnage which rose 16% year-on-year, due to the Selene plant exclusively processing Pallancata's ore. As a result of these effects and a higher extracted silver grade of 344 g/t (2009: 327 g/t) silver production increased 20% to 10.1 million ounces (2009: 8.4 million ounces). Gold production also increased in 2010, up 12% to 35,848 ounces (2009: 31,975 ounces).

Following positive results from the ongoing drill programme at Pallancata, the Company completed mine development in two new areas in November 2010, Ranichico and Virgen del Carmen, both of which have strong future potential. In 2011, the Company will develop two further areas, San Javier and Pallancata East.

Costs Pallancata's production cost is reported on a consolidated basis with the Selene processing plant. The Pallancata operation reported a 9% increase in unit cost per tonne year-on-year mainly due to higher royalties paid by the Company as a result of higher production and higher prices in 2010. Costs were also impacted by investment in infrastructure including mine tunnels and stopes and also in mine support facility upgrades. These effects were partly offset by cost efficiencies resulting from the wide vein structure of the deposit and higher production volume.

Cost initiatives undertaken during 2010 include the optimisation of drilling and blasting procedures thus reducing the volume of explosives used and the introduction of a new paste fill plant. Plans for 2011 include the completion of a new tailings dam and the implementation of a new washing circuit stage in the treatment process which will help maintain the plant's target of 3,000 tpd capacity throughout the year.

Resource life The resource life of the Pallancata operation currently stands at 6.9 years, up 11% compared to 2009. During 2010, the Company continued to advance underground development at the Mariana and Virgen del Carmen veins. A total of 46,547 metres of diamond drilling was executed over the course of the year (2009: 26,573 metres), mainly focused on the Cimoide, Sofia; Pallancata West and East veins with intercepts including:

- **Cimoide** DLPL-A605 1.3m at 1.5 g/t Au and 404 g/t Ag
- **Pallancata West** DLPL-A606 7.0m at 1.3 g/t Au and 446 g/t Ag
- **Pallancata East** DLPE- A47 2.75m at 0.75 g/t Au and 317 g/t Ag
- **Sofia** DLPL- 606 0.9m at 0.97 g/t Au and 274 g/t Ag.

The focus for the 2011 brownfield programme will be drilling at the Huararani, Santa Angela, Pacapausa and Bolsa targets and the development of new resources at the Rina, Paralela and Pallancata West and South East veins.

Leveraging our southern Peru cluster to drive near-term growth.

Above: Employee at the Arcata plant.

Extending the life of our mines

Operating & exploration review continued

San José: Argentina

Production and sales The San José silver/gold mine is located in Argentina, in the province of Santa Cruz, 1,750 kilometres southwest of Buenos Aires. San José commenced production in 2007 and is a joint venture with Minera Andes Inc ("MAI") in which Hochschild controls 51% and is the mine operator.

San José reported strong results in 2010, with silver production up 7% to 5.3 million ounces (2009: 5.0 million ounces) and gold production up 9% to 84,303 ounces (2009: 77,075 ounces). This was mainly due to higher volumes from new mining areas, including the high grade Kospi vein and also due to the successful installation of a Merrill Crowe circuit in the mill to process residual tailings recoveries. This project has exceeded the Company's initial recovery estimate of 500,000 silver equivalent ounces with a one-off 665,280 silver equivalent ounces recovered in 2010.

As expected, the grade profile of San José increased over the course of the year following lower production in the first quarter of 2010. As is common in the early stages of operation, grades were lower as a result of the mix of material with lower grade development mineral surrounding the high grade Kospi vein which increased steadily as mining progressed. The Kospi vein contributed over 188,803 tonnes of ore to the mine's production in 2010 and, as expected, has positively impacted results with full year silver equivalent production up 8% to 10.4 million silver equivalent ounces.

Additionally, in September 2010, the Company agreed to settle the lawsuit with MAI, regarding the $65 million project financing loan provided by Hochschild to the San José project. The companies committed to a new repayment schedule for both the project finance loan and the 2004 shareholder loan of $50 million, over a maximum period of eight years with a fixed interest rate of 7% per annum. Future payments on both loans may be accelerated based on mine performance and metal prices.

Argentina continues to be a challenging economic and operating environment although the Company remains positive about the high grade potential of the San José mine and surrounding property.

Costs Local cost inflation in Argentina remains high and consequently San José reported an increase in unit cost per tonne of 29% in 2010. This was mainly due to higher personnel expenses relating to an increase in the number of employees at the operation and the associated transportation, catering and maintenance costs, as well as a 25% increase in salaries. The mine's management team continues to introduce initiatives and technology which improve productivity and reduce costs.

Resource life Following an intensive drill campaign in 2010 which resulted in the discovery of nine new high-grade gold/silver veins and two extensions, the Company materially increased the resource life of the San José property by 36% to 11.4 years (2009: 8.4 years). A significant portion of the San José property continues to be open at depth and laterally. During 2010, 53,692 metres of diamond drilling was completed focusing on the Ayelen, Micaela, Kospi and Ramal Kospi veins with significant intercepts including:

- **Ayelen** SJD-816 1.9m at 2.3 g/t Au and 251 g/t Ag SJD-799 3.5m at 3.0 g/t Au and 268.5 g/t Ag
- **Micaela** SJD-806 0.7m at 12.3 g/t Au and 2,389 g/t Ag SJD-797 0.3m at 8.4 g/t Au and 485 g/t Ag
- **Kospi** SJD 594 0.9m at 4.8 g/t Au and 296 g/t Ag
- **Ramal Kospi** SJD 582 1.6m at 60.9 g/t Au and 1,376 g/t Ag.

The 2011 exploration programme at San José includes developing resources at the newly discovered Susana vein and the Saavedra West breccia. The Company is planning to expand geophysical coverage (induced polarisation and ground magnetics) to an additional 10,000 hectares south of the mine area.

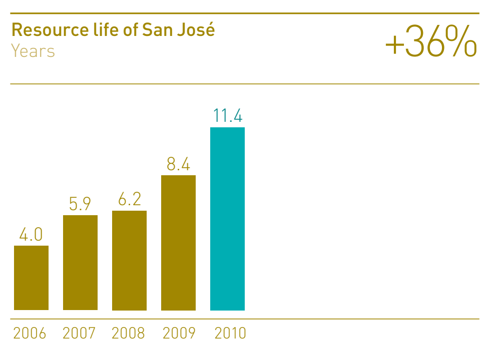
Questions to the CEO:

You have significantly increased your resource life of mine in 2010, do you expect this trend to continue and do you have a target?

This was one of the key priorities for the new management team and I am pleased to say that we have made real progress with resource life up 23% in 2010, including an impressive 36% increase at San José where we made some significant new discoveries during 2010. We are extremely confident about the longevity of our three main operations and, though we do not have a specific target in terms of resource life, we would feel very comfortable with 10–12 years of resources ahead of us.

Resource life of San José
Years

+36%



OTHER OPERATIONS

Ares: Peru

Production and sales The Ares mine, which commenced production in 1998, is a 100% owned operation located approximately 275 kilometres from the city of Arequipa in southern Peru. Following the significant increase in prices in the second half of 2010, the mine continued to operate for the full year, albeit at a lower level, producing 2.7 million silver equivalent ounces (2009: 3.5 million silver equivalent ounces).

As previously announced, Ares is expected to close in the second half of 2011. Management is monitoring the grade and cost profile of the operation to ensure that it is in line with the Company's policy of producing profitable ounces.

Moris: Mexico

Production and sales The 100% owned Moris mine, is the Group's only open pit mine and is located in the district of Chihuahua, Mexico. Moris provided a key stepping stone into Mexico, which is of key strategic importance to the Group. As previously disclosed, Moris is an ageing deposit with a declining production profile. The operation produced 86,408 ounces (2009: 96,583 ounces) of silver and 21,532 ounces (2009: 28,344 ounces) of gold in 2010 or 1.4 million silver equivalent ounces (2009: 1.8 million silver equivalent ounces).

Moris is scheduled for closure in 2011. Management is monitoring the grade and cost profile of the operation to ensure that it is in line with the Company's policy of producing profitable ounces.

Above: Doré bar.

Left: Employees at the Arcata plant.

Delivering growth

Operating & exploration review continued

ADVANCED PROJECTS

The Company now has three advanced projects, Inmaculada, Azuca and Crespo, which have the combined potential to add a minimum of 12 million attributable silver equivalent ounces per annum to the Company's profile with production due to commence at the end of 2013. Approximately 15% of the total 2011 exploration budget of $70 million will be focused on resource development at these three projects to ensure a stable mine life prior to commencing production.

Inmaculada: Peru

Inmaculada, a 20,000 hectare gold-silver project located in the Company's existing operational cluster in southern Peru, is 60% owned and controlled by Hochschild, following the acquisition of a controlling stake in October 2010. The remaining 40% is held by the Company's joint venture partner at Pallancata, IMZ. Hochschild has progressed the project to feasibility which it aims to complete by the end of 2011 with production planned to commence by December 2013.

The scoping study published by IMZ in September 2010 estimated average annual total silver equivalent production of 11 million ounces from the project's Angela vein and total resources of 115 million silver equivalent ounces (1.9 million gold equivalent ounces). In February 2011, Hochschild published a 12% increase in total resources to 128.3 million silver equivalent ounces and a 29% increase in the silver equivalent grade to 498 g/t, based on the 180 g/t cut-off used by IMZ in the scoping study. When assuming the 98 g/t silver equivalent cut-off grade which reflects the anticipated marginal cost of production, resources increase further to 137.3 million silver equivalent ounces, an increase of 20%. Summary results (on a 100% basis, applying a 180 g/t silver equivalent cut-off grade and a silver to gold ratio of 60:1) are as follows:

- **Measured and indicated resources:** 4.7mt at an average grade of 5.2 g/t gold and 186 g/t silver containing approximately 795,000 ounces of gold and 28.3 million ounces of silver
- **Inferred resources** of 2.7mt at an average grade of 6.1 g/t gold and 247 g/t silver containing approximately 521,000 ounces of gold and 21.0 million ounces of silver.

Hochschild expects the results to significantly improve the economics of the project detailed in the above mentioned 2010 scoping study. Furthermore, after applying the Company's marginal silver equivalent cut-off grade of 98 g/t, the resource figures increase further. Updated project economics will be published with the completion of the feasibility study.

The Company is moving forward with an exploration programme at the property which consists of 40 mining concessions. The main Angela vein remains open with significant additional upside potential in several other structures and the joint venture has committed to undertake a 20,000 metre drilling programme annually for the first three years to further develop resources. In 2011, the Company will undertake geophysical work at the Jimena vein and at the north eastern extension of the Angela vein in preparation for drilling later in the year.

Results from the scoping study indicated that at base case gold and silver prices of $1,000/oz and $17/oz respectively, the project could return a cumulative total pre-tax cash flow (undiscounted) of approximately $660 million and a pre-tax internal rate of return ("IRR") of 41%. Using prices for gold and silver of $1,400/oz and $34/oz respectively, the project could return a cumulative total pre-tax cash flow (undiscounted) of approximately $1,417 million and 74% IRR.

KEY STAGES AND ESTIMATED PRODUCTION

Project	Scoping	Feasibility	Construction	Production	Attributable annual silver equivalent production
Inmaculada	✓	Q4 2011	2012/2013	Q4 2013	6.6 million ounces
Azuca	✓	Q1 2012	2012/2013	Q4 2013	3.5 million ounces
Crespo	✓	Q4 2011	2012/2013	Q4 2013	2.3 million ounces

Azuca: Peru

In September 2010, the Company announced positive results from the scoping study undertaken at its 100% owned Azuca property, estimating initial average annual silver equivalent production of 3.5 million ounces, which represents around 16% of Hochschild's 2011 attributable production. At base case gold and silver prices of $1,000/oz and $17/oz respectively, the scoping study indicates that the project could return a cumulative total pre-tax cash flow (undiscounted) of approximately $107 million and 21% IRR. Using prices for gold and silver of $1,400/oz and $34/oz respectively, the project could return a cumulative total pre-tax cash flow (undiscounted) of approximately $533.7 million and 95% IRR. The study, which was completed by an independent third party, assumes plant throughput of 750 tonnes per day with engineering designed to easily accommodate future capacity increases.

Azuca has reached resources of 70.3 million silver equivalent ounces as at 31 December 2010 and is now at pre-feasibility stage with targeted completion in Q1 2012. The Company is currently undertaking an intensive exploration programme at the property with the aim of expanding the scale and profitability of the project. In 2010, 59,811 metres of drilling was undertaken (2009: 38,600 metres) with positive results at the Karla, Vivian, Prometida and Prometida Ramal Techo veins including:

- **Karla** DAKA-A1007 0.9m at 1.3 g/t Au and 1,318 g/t Ag DAKA-A1008 1.0m at 2.3 g/t Au and 946 g/t Ag
- **Vivian** DAVI-A1026 0.8m at 25.6 g/t Au and 2,567 g/t Ag; 0.5m at 1.2 g/t Au and 651 g/t Ag; 0.6m at 0.7 g/t Au and 632 g/t Ag
- **Prometida** DAAW-A1007 2.1m at 2.6 g/t Au and 686 g/t Ag
- **Prometida Ramal Techo** DAAW-A1007 1.1m at 2.0 g/t Au and 1,050 g/t Ag.

Our three advanced projects have the potential to add at least 12 million attributable silver equivalent ounces per annum to the Company's production profile.

Crespo: Peru

In January 2011, Hochschild reported positive results from a scoping study completed by an independent company, Ausenco, at the Company's 100% owned Crespo project, located in the Company's existing operating cluster in southern Peru. The scoping study is based on resources of 31.3 million silver equivalent ounces (measured and indicated) and estimates annual silver equivalent production of 2.3 million ounces starting from 2014 and a mine life of 7.5 years.

Crespo, which is expected to be an open pit deposit, is one of a number of properties acquired by the Company in 2008 as part of the Liam JV/Southwestern Resources land package and is the first of these to progress to pre-feasibility.

At base case gold and silver price assumptions of $1,000/oz and $17/oz respectively, the project could return a cumulative total pre-tax cash flow (undiscounted) of $53.5 million, with an IRR of 19%. Using prices of $1,400/oz and $34/oz for gold and silver respectively, the project could return a cumulative total pre-tax cash flow (undiscounted) of approximately $230.8 million, with an IRR for the project of approximately 60%.

During 2010, the Company completed 1,740 metres of drilling as well as a 537 metre underground audit to confirm the resource model. The 2011 drill programme is focused on converting inferred resources to the indicated resource category and to explore the Queshca target located a few kilometres away from the main target.

Below: Tunnel at the San José operation.

Focused on exploration
Operating & exploration review continued

We have an extensive greenfield pipeline with numerous highly promising projects across four target countries.

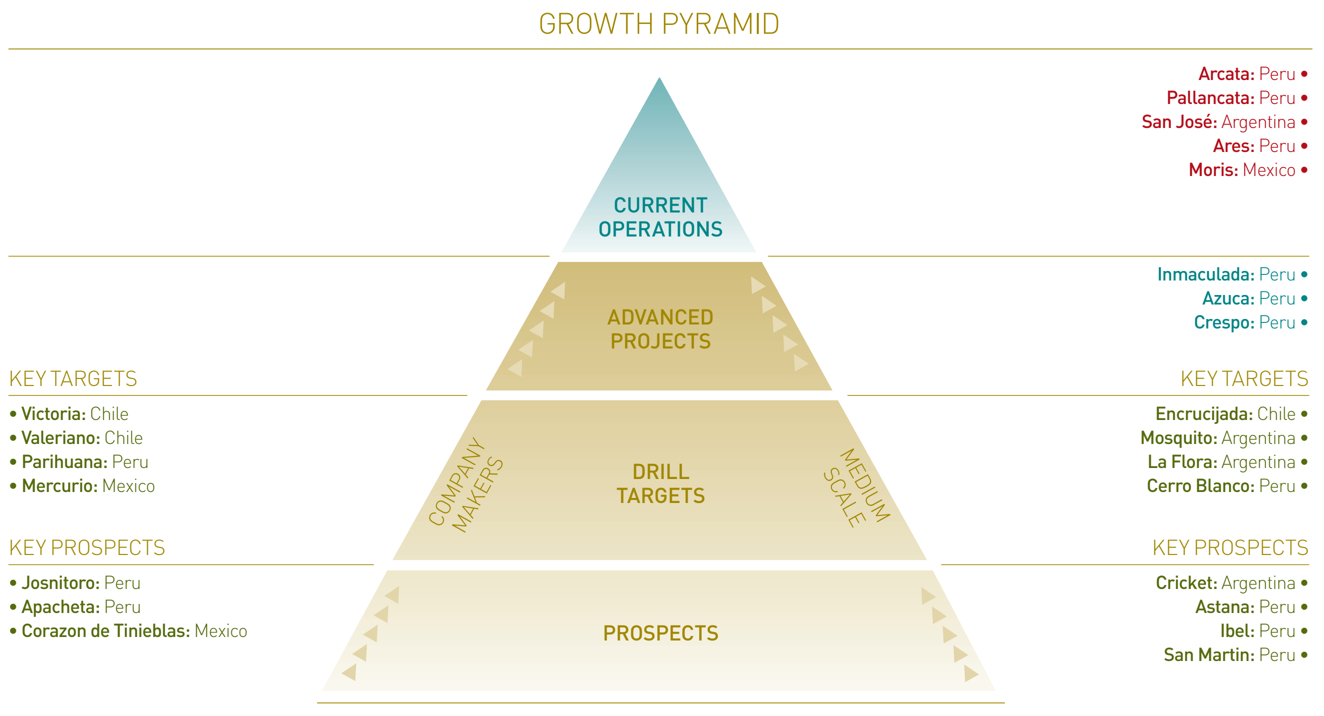
EXPLORATION PIPELINE

Exploration is a key part of Hochschild's growth strategy, demonstrated by the significant increase in budget which has more than doubled since 2009 to $70 million in 2011. A total of 300,086 metres of drilling was undertaken by the Company's local exploration teams in 2010 (2009: 149,99 metres), at both existing sites and at new, greenfield projects in Peru, Argentina, Mexico and Chile. The Company now has over 70 geologists providing the technical experience and expertise required to deliver a steady stream of value accretive opportunities.

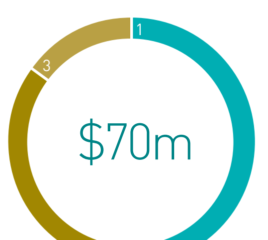
The Company has achieved positive results particularly with regards to its key objective of increasing the resource life of its main operations and on expanding its project pipeline which now includes three advanced projects and eight Company Makers (projects with the potential to achieve 20–30 million silver equivalent ounces per year).

The significant investment in 2011 will support the delivery of an extensive and targeted drill programme covering 335,000 metres across the four target countries mentioned above. The budget will be split between exploration work at the Company's existing operations and on identifying and developing high-quality, early stage projects which have the potential to move through the pipeline to production.

GROWTH PYRAMID



2011 exploration budget



1.	Greenfield	49%
2.	Brownfield	36%
3.	Advanced projects	15%

335,000

Metres of drilling planned for 2011

Brownfield exploration

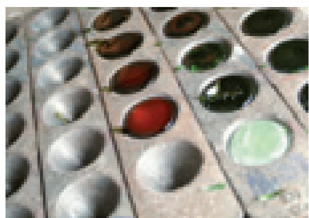
Approximately 49% of the 2010 budget was invested in brownfield drilling in the areas immediately surrounding Hochschild's three main operations and resulted in a significant 23% increase in resource life to 8.7 years as at 31 December 2010 (2009: 7.1 years in 2009).

The Company takes a very conservative approach to resource delineation and is one of the few companies that applies the same cut off grades to reserves and resources.

For full reserve and resource tables, please see pages 156–160.

Greenfield exploration

The Company continues to identify and develop early stage opportunities in its four target countries, Peru, Argentina, Mexico and Chile. Hochschild's extensive greenfield pipeline is focused on medium scale projects which have the potential to deliver 5–10 million silver equivalent ounces and Company Makers which have the potential to deliver 20–30 million silver equivalent ounces to its production profile.



Above: Laboratory work at San José.

Left: Geologist at San José.

Drilling in key geological regions

Operating & exploration review continued

COMPANY MAKERS

The Company continues to focus on Company Makers which are projects with the potential to achieve 20–30 million silver equivalent ounces per year. These are typically high sulphidation, disseminated or gold/copper porphyry deposits and are generally open pit operations. In 2010, $11.2 million was invested in finding and developing such deposits and this has increased to $13.1 million in 2011. The Company currently has eight potential Company Makers in the pipeline:

Victoria: Chile

In November 2010, the Company exercised its option to increase its holding in the Victoria project in northern Chile to 60% by incurring $6.0 million in exploration expenditure (Iron Creek Capital hold the remaining 40%). Although still at an early stage, exploration work is delivering positive results at the property which covers 37 kilometres of continuous strike length at the highly productive Domeyko Fault Zone. Drilling indicates significant mineralisation with recent results including:

- **VVQDD-10-035** 78.5m at 0.9 g/t Au & 16.0 g/t Ag, including 1.2m at 18.8 g/t Au and 392 g/t Ag
- **VVQDD-10-034** 15.1m at 0.80 g/t Au and 6.5 g/t Ag
- **VVQDD-10-036** 21.0m at 0.6 g/t Au and 4.8 g/t Ag
- **VVQDD-10-039** 1.8m at 6.0 g/t Au and 12.7 g/t Ag
- **VVQDD-10-032** 101.9m at 0.91g/t Au and 57g/t Ag.

Drilling has extended the overall strike length of the mineralised trend to approximately 1 kilometre. A large area of hydrothermal alteration, including extensive local silicification and alunite at Leña, in the southeast area of the property, was also discovered. The programme included mapping of a quartz-vein stockwork over an area of approximately 800 metres by 400 metres associated with porphyry copper style alteration and supergene turquoise mineralisation at the Picaron prospect on the west side of Victoria.

The Company has also undertaken drilling at the Vida target which appears to display many of the characteristics of a mafic porphyry Au (+/-Cu) system, cross-cut by later, northwest trending structures that are the focus of higher-grade gold mineralisation. Three new RC holes covering a total of 946 metres have been drilled to date and revealed high-grade, cross-cutting, sulphide-rich breccia/fault structures that are oxidised near surface. Results include:

- **VCNRC-10-004** 8m at 10.5 g/t Au and 29 g/t Ag
- **VCNRC-10-021** 4m at 8.9 g/t Au and 38.8 g/t Ag from 240m

Total drilling of 10,000 metres is planned for the Victoria property in 2011.

KEY GREENFIELD PROJECTS

+40%

Increase in exploration budget in 2011

Valeriano: Chile

In November 2010, Hochschild entered into an option agreement with Sociedad Contractual Minera Valleno for the Valeriano property which is located 27 kilometres north of Barrick Gold Corporation's Pascua Lama project. Valeriano covers an area of 3,750 hectares in close proximity to the Argentinian border and hosts both high-sulphidation as well as porphyry style, disseminated gold mineralisation.

The property has been explored in the past by Phelps Dodge (1989–1991) and Barrick (1995–1997), both of which completed drill campaigns totalling 12,575 metres. No significant exploration has been undertaken at the property since 1997. A number of highly mineralised intercepts have been reported from this drilling including:

- 100 metres at 1.37 g/t Au in typical shallow high sulphidation style mineralisation starting at 19 metres depth
- 41 metres at 0.61 g/t Au, 12 g/t Ag and 0.30% Cu, porphyry type mineralisation starting at 70 metres depth.

Exploration work commenced in January 2011 with a review of the existing data set and re-interpretation of geophysical data and drilling to test the deep porphyry-style target as well as the near surface high-sulphidation system. Field work is also underway including sampling and mapping surface exposures and acquisition of deep IP and resistivity surveys. A 2,500 metre drill campaign is scheduled to commence in H2 2011 to test targets defined by this exploration campaign.

Mercurio: Mexico

Mercurio is a 100% owned, 36,388 hectare property in Mexico, located between two high grade mines, approximately 43 kilometres from Sombrerete and 68 kilometres from Fresnillo. During the year, 6,945 metres of drilling was undertaken at the project with results including 86 metres at 20 g/t Ag (0.2% Cu, 0.5% Pb, 1.4% Zn) and 3.5 metres at 300 g/t Ag (4.4% Cu, 1.2% Pb, 7.5% Zn).

Drilling focused on a system of low sulphidation veins which have reported anomalous silver and base metal results. Deeper drilling is planned for the first half of 2011.

Questions to the CEO:

You refer to 'Company Makers', what are these?

Company Makers are projects which have the potential to achieve production of 20–30 million silver equivalent ounces per year. These projects are likely to be high sulphidation disseminated type deposits, typically mined as open pit. To increase the potential for growth, we are increasing the number of projects in this category and now have eight Company Makers in the pipeline.

Josnitoro: Peru

Josnitoro is a 100% owned project located in Peru. The project was acquired as part of the Southwestern Resources acquisition, with visible gold mineralisation starting at surface. The Company is working towards completing the necessary permits and approval process.

Corazon de Tinieblas: Mexico

The Corazon de Tinieblas property in Mexico was acquired in H1 2010 by the Company and is currently completing the permit process. A number of areas have been defined for drill testing and more detailed mapping is scheduled to better define the controls to mineralisation and the overall lithologic stratigraphy of the area which will reveal the structural setting.

Apacheta: Peru

At the 100% owned Apacheta project in Peru, the Company is in the process of completing the permit process and is also undertaking mapping, geochemical sampling and geophysics to define drill targets within this extensive land package.

Parihuana: Peru

The Parihuana project is 100% owned by Hochschild and is located in Peru. The project entered the pipeline in 2010 and drill targets have been selected for testing in the first half of 2011. Alteration mineralogical studies indicate typical high-sulphidation affiliation and clay mineralogy also indicates a central zone of higher temperature and acid conditions.

Sabina: Peru

At the 100% owned Sabina project in Peru, drilling to date has not reported significant mineralisation. However, a vertical anomalous feeder system has been identified at the Chaquella target with the intensity of the alteration system indicating a powerful hydrothermal system and the Company therefore plans to complete the current drill programme in 2011.

Below: Geologists in Mexico.

Extensive project pipeline

Operating & exploration review continued

MEDIUM SCALE PROJECTS

The Company's pipeline currently contains various medium scale properties in the prospects and drill target categories which each have the potential to deliver 5–10 million silver equivalent ounces of production per year. These tend to be low sulphidation epithermal gold/silver type deposits with varying base metal content and are typically mined underground.

In 2010, $6.9 million was dedicated to finding and developing medium scale projects and the Company plans to increase this investment to $8.6 million in 2011. Positive results have been reported at a number of these projects, particularly at La Flora which has moved up the pipeline from prospect to drill target. Two new properties also entering the pipeline in 2010 were the Cricket prospect in Argentina as well as the more advanced Pausi project in Peru which is now at 'drill target' stage.

La Flora: Argentina

At the La Flora project in Argentina, two large vein systems have been identified since drilling commenced in H2 2010. The project has progressed to "drill targets" and a detailed exploration programme is underway. Logging of the drill holes indicated that the anomalous gold mineralisation is associated with the upper reaches of a hydrothermal system. In 2011, geophysical work and deeper drilling will be undertaken to test the potential of higher grade mineralisation.

Encrucijada: Chile

Three drill holes were completed at the Encrucijada property (a joint venture with Andina Minerals) in 2010 focusing on the San Bernardo Dome target with associated advanced argillic alteration and tourmaline breccias. Alteration and mineralisation indicates a possible copper porphyry system with anomalous gold and molybdenum also reported from these intercepts:

- **ENCRC10_23** From 65m depth – 43m at 3,556 ppm Cu 108 to 258m; 150m at 813 ppm Zn
- **ENCRC10_24** From 90m depth – 211m at 828 ppm Cu From 144m depth – 157m at 578 ppm Zn
- **ENCRC10_25** From 94m depth – 106m at 739 ppm Cu From 111m depth – 89m at 539 ppm Zn.

Mosquito: Argentina

The Company is making progress at the Mosquito project in Argentina, where seven new vein targets have been identified. A total of 9,984 metres was drilled in 2010 with results pending. All targets have cut vein structures associated with surface mapping.

Below: Exploration work in Mexico.

Astana Farallón: Peru

Astana Farallón is a 100% owned gold/silver epithermal vein project in the Company's southern Peru cluster. A 5,600 metre drill programme is planned for H2 2011 which is designed to test a known productive horizon at depth. Historic drilling at shallow levels reported anomalous results reported in Au, Ag, Pb, and Zn.

Pariguanas: Peru

In June 2010, the Company signed an agreement with Compañía de Minas Buenaventura ("Buenaventura") to create the Pariguanas joint venture through the combination of neighbouring properties of similar size owned by the two companies. Hochschild holds 40% of the property which covers 4,437 hectares of land located approximately 18 kilometres from the Company's existing Ares operation. Buenaventura currently holds the remaining 60% of the joint venture with the obligation to achieve production by 2018.

Pariguanas is a low sulphidation, predominantly underground vein system where up to five prospective areas have been outlined. A total of 7,290 metres in 31 holes has been drilled by Buenaventura to date, mainly focused on the San Pedro vein. Positive results include:

- 2.7 metres at 0.7 g/t Au and 1,194 g/t Ag including 0.9 metres at 1.6 g/t Au and 3,016 g/t Ag
- 4.4 metres at 3.1 g/t Au and 2,376 g/t Ag including 1.6 metres at 7.4 g/t Au and 6,288 g/t Ag.

Questions to the CEO:

What is the most promising prospect in your pipeline?

We currently have a number of exciting projects in the pipeline including both Company Maker and medium scale projects. We are reporting some positive results at the Victoria project in Chile and, as a result, we exercised our option to increase our ownership to a controlling 60% in 2010. We are also optimistic about the Valeriano property in Chile which is located in an extremely prospective location, 27 kilometres north of Barrick Gold Corporation's Pascua Lama project.

In the event that Buenaventura does not commence production by 2018, Hochschild will have the option to assume control of the project by committing to certain payments linked to Buenaventura's investment.

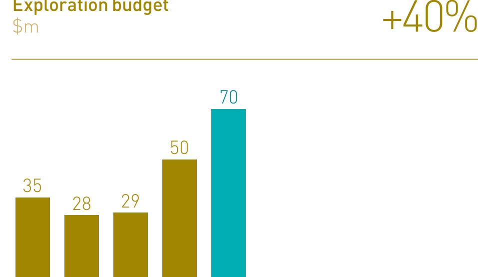
COPPER PROJECTS

Following the acquisition of Southwestern Resources in 2008, the Company currently holds a number of copper projects located in the southern Andes within a highly prospective area for copper deposits. The Company has committed approximately 4% of the total 2011 budget and a dedicated exploration team to drilling at the properties in order to establish potential value.

GENERATIVE

The Company holds over 1 million hectares of prime land in key geological regions across four countries and has committed around 6% of the total 2011 budget to further expand its land package in premium areas.

Exploration budget
$m
+40%



Greenfield breakdown by country

1.	Peru	52%
2.	Chile	19%
3.	Mexico	17%
4.	Argentina	12%

Market & geographic overview

2010 MARKET OVERVIEW

Precious metals prices increased significantly in 2010, mainly due to ongoing global economic uncertainty including sovereign debt issues, inflationary concerns and weakness in the US dollar. Gold and silver once again proved their safe haven status, with price increases of 30% and 83% respectively, mainly driven by investment demand.

GOLD SUMMARY

2010 was another strong year for gold prices which reached a record high of $1,424/oz in December with a closing price of $1,421/oz, up 30% year-on-year. This was mainly driven by investment demand which, though down 15% on 2009 in volume terms, was up 9% in value terms to a record $63.7 billion. Sovereign debt issues, low interest rates, inflationary concerns and rising geopolitical tensions towards the end of the year continued to support safe haven buying.

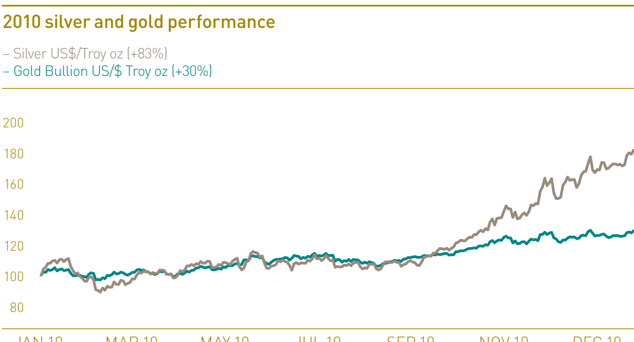
Investors increased exposure to gold ETFs with holdings up 18% over the course of the year, 90% of which occurred in the second quarter at the height of the Greek debt crisis and resulting uncertainty in the entire Euro area.

Although it was certainly the key driver of prices, investment demand was also supported by solid underlying fundamentals, including the official sector's significant shift from net seller to net purchaser for the first time since 1988. Jewellery demand also stabilised, compared to the previous year, increasing 16% to 2,037 tonnes (2009: 1,758 tonnes) with India accounting for 87% of this gain. Bar hoarding also increased, particularly in Europe, rising to a 21 year high of 144 tonnes.

On the supply side, demand was partly offset by the 3% increase in mine production to 2,652 tonnes as new operations and expansions came online during the year. Despite the significant increase in prices, scrap supply fell 1.1% to 1,654 tonnes.

Going into 2011, macro conditions remain supportive for gold due to continued economic uncertainty and inflationary concerns allied to ongoing high levels of investment demand.

2010 silver and gold performance



Possible drivers for gold in 2011

- Further fiscal and monetary loosening by major governments potentially creating inflationary pressure
- Further diversification of investment demand with continuing portfolio asset allocation towards commodities
- Further official sector purchases.

SILVER SUMMARY

Silver achieved an average annual price of $20/oz, up 38% on 2009, closing the year up 83% to $31/oz. This significant increase was supported by robust investment demand which reached a record of over 210 million ounces (including coins & medals). With its close correlation and greater volatility, silver provides investors a leveraged alternative to gold.

Strong fundamentals have also supported the demand for silver with total fabrication demand projected to have recovered from the fall in 2009 to a 10% increase in 2010. This was mainly due to the estimated 18% rise in demand for industrial uses which accounts for 46% of total silver demand. Other areas of fabrication were also supportive with jewellery demand up 3% as a result of the substitution effect and demand for coins, which is estimated to have risen 23% in 2010 to a record all time high.

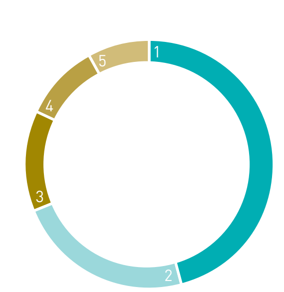
These effects were partly counteracted by the continued decline in photographic demand, which is expected to have fallen by around 11% as a result of the ongoing rise of digital photography. Additionally, total supply is forecast to have increased by 5% year-on-year partly due to increases in mine production, up 3% to 24 million ounces, scrap supply, up 10%, as well as 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. Continued investor appetite is expected in the context of low interest rates, a weak dollar and a healthy gold market. GFMS have forecasted a 'likely' rise in the silver price above $30/oz resulting from increasing investment demand coupled with strengthening industrial demand with an annual average of $28 a more likely scenario.

2010 forecast gold demand

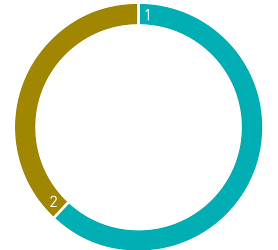
1. Jewellery	47%
2. Other fabrication	16%
3. Identifiable investment	20%
4. Bar hoarding	11%
5. Producer de-hedging	3%
6. Official sector purchases	2%

2010 forecast silver demand



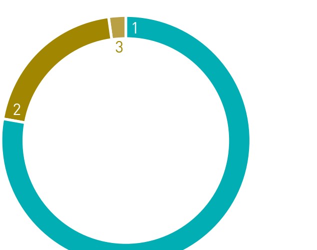
1. Industrial	46%
2. Jewellery and silverware	23%
3. Investment	13%
4. Coins	10%
5. Photography	8%

2010 forecast gold supply



1. Mine production	62%
2. Scrap supply	38%

2010 forecast silver supply



1. Mine production	78%
2. Scrap supply	20%
3. Official sector sales	2%

Source: GFMS

Possible drivers for silver in 2011

- Continued macro economic uncertainty providing further support to investment demand
- Silver's link with gold as a safe haven asset
- Consumer substitution of gold for silver providing support to jewellery demand
- Robust demand for coins from retail investors.

Geographic overview

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

Hochschild operates three of the 12 largest primary silver mines globally and has projects and investments in four of the top 20 precious metal producing countries, including Peru and Mexico which are the world's two largest producers of silver.

COUNTRY PRODUCTION RANKINGS	2009 silver ranking	2010 gold ranking*
Peru	1	6
Argentina	12	13
Mexico	2	14
Chile	7	18

* Forecast.

Source: GFMS

2010 was another strong year for precious metals prices which increased by 83% and 30% for silver and gold respectively.

Sources: GFMS, Silver Institute, Bloomberg

Corporate responsibility

Corporate responsibility
27 Our approach
29 Safety
30 Health & hygiene
31 People
32 Community relations
34 Environment

Committed to safe & sustainable mining

Above:
Children from the local communities attending the mobile medical unit donated by the Group.

OUR APPROACH

Since our listing in London in 2006, we have endeavoured to maintain and reinforce our corporate values of respecting the wellbeing of our employees, the environment and the communities in which we operate.

By actively interacting with our people and the communities in which we operate, using natural resources efficiently and putting safety first, we can build our reputation as a trusted and responsible mining company, factors that we believe will help us to grow.

What we mean by corporate responsibility

To ensure that our values are adhered to, we have adopted a number of policies which demonstrate our commitment to:

- A safe and healthy **workplace**
- Managing and minimising the **environmental impact** of our operations
- Encouraging sustainability by respecting the **communities** in which we operate.

We prioritise these three areas in terms of resource allocation, with respect to governance, policy development, and measurement.

In its efforts to achieve the above objectives, we seek to:

- comply with all relevant legislation and leading international standards
- promote continuous improvement of our management systems with the aim of incorporating best practice
- adopt a proactive approach to preventing and managing, the risks that may limit the achievement of our corporate responsibility objectives
- encourage employees to adopt the Group's values through the use of training and internal communications.

Governance

The Board has ultimate responsibility for establishing Group policies relating to Corporate Social Responsibility ("CSR") and ensuring that national and international standards are met. The CSR 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 was chaired during the year under review by Roberto Dañino who had Board-level responsibility for CSR issues. Following Roberto Dañino's change in role to that of a Non-Executive Director with effect from 1 January 2011, Eduardo Hochschild has taken on the chair of the Committee from that date.

CR GOVERNANCE

BOARD OF DIRECTORS

CSR Committee

CSR Working Group

Community Relations | Environment | Health and Hygiene | Human Resources | Safety

Committed to safe & sustainable mining
Corporate responsibility continued

A working group of relevant personnel meets on a monthly basis to support the work of the CSR Committee and is tasked to consider, at an operational level, local health and safety policies, environmental programmes, community relations' and employee matters. These meetings are chaired by the Group's Head of CSR and are attended by the VP of Operations, Legal and HR.

Despite our on-going target of zero fatalities, the Committee is saddened to report two incidents leading to loss of life during 2010. The Board is committed to preventing accidents at the Group's operations and has overseen thorough investigations into the cause of the fatalities as well as the implementation of the associated recommendations.

The CSR Committee's work in 2010

During the year, the CSR Committee:

- approved the 2009 CSR Report
- oversaw the investigations into the two fatalities that occurred during the year and considered the action plans to implement the associated recommendations
- monitored the execution of the yearly plan in each of the four key areas of focus
- considered the on-going progress of the implementation of the safety management information system designed in conjunction with Det Norske Veritas ("DNV")
- monitored the status of the Group-wide initiatives undertaken by management to raise the profile of safe working practice to assist with accident prevention and
- considered updates from the work done across the Group to manage community and labour relations.

Engaging with the outside world

We recognise the potential to affect the people that work in, and live near, our operations.

Within this report, we highlight the initiatives we have in place to understand these stakeholders, and use this insight to inform our approach to many of the issues discussed in this part of our report, from safety to community engagement.

We also recognise that the mix of in-house tools, such as our Organisational Climate Survey, and working in partnership with trade bodies such as the Sociedad Nacional de Mineria (both of which are referred to on pages 30–31), various governmental authorities, charities and NGOs, provide invaluable insight for our business and the best results for our stakeholders.

Performance indicators

We continue to make progress in measuring our performance against our corporate responsibility objectives. Where Group-wide information is not available, the Report gives performance indicators in respect of the Peruvian operations, which represent approximately 75% of the Group's attributable production.

Below:
Members of the community close to Arcata with a Hochschild sponsored doctor.

2010 community investment

Assuring the safety of our employees

SAFETY

Our Approach

Our people and their safety remain of paramount importance for the Group and this is reflected in everything that we do. Ensuring the 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.

During 2010 the Group has continued to invest in operating controls and processes to ensure that the highest standards of safety are met.

It is with sadness that the Group reports two fatalities during the year. In the first incident, a worker was fatally injured during the cleaning of a tank. The second fatality, which also occurred at the Ares mine, resulted from the injuries sustained by a loader operator after the vehicle he was driving collided with a section of the wall of a stope. Circumstances leading to these tragic events have been investigated by management with the resulting recommendations implemented.

After each accident, the Group suspends operations at the mine to conduct an internal review of the relevant safety procedures and to provide training.

Whilst management continually strives to achieve the corporate goal of zero fatalities, it is encouraged to report that steps taken to embed a safety-first culture across the Group are yielding results with the accident frequency rate in 2010 reduced to less than half of 2007 levels.

2010 performance

TARGET		STATUS
A 10% reduction in LTIFR	✓	29% reduction in LTIFR achieved
Severity index of less than 200	✗	These targets were not achieved due to the two fatalities during the year
Accidentability index of less than 1	✗	
Achieving Level 5 of the DNV Management Information System at:		
– the Peruvian operations	✓	Pallancata and Arcata achieved Level 6
	in process	Ares expected to achieve Level 5 in 2011
– the Argentinian operations	✓	
The second launch of the Luis Hochschild Safety Innovation Award	✓	
ON-GOING TARGET		
Zero fatalities	✗	

Safety indicators

	2010	2009
Fatalities	2	3
Accidents leading to an absence of one day or more	66	79
LTIFR[1]	3.70	5.22
Accident Severity Index[2]	777	1,485
Accidentability Index[3]	2.88	7.76

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 Accident Severity divided by 1,000.

Developments during 2010

- Progress made at Arcata, Pallancata and San José on the implementation of the integrated risk management system developed jointly with DNV
- In light of its ongoing success, the Group continued to offer monthly awards at each mining unit for the best worker and best group of workers demonstrating high safety standards
- Implementation of selected safety suggestions submitted by employees for the Luis Hochschild Safety Innovation Award
- In conjunction with EXPECTRA, a leading South African consultancy specialising in Occupational Health & Safety, the Group designed and ran a safety training programme enabling mine personnel to provide safety training to others.

2011 targets

- 8% reduction in LTIFR Index.
- In relation to the DNV Management Information System, to achieve:
  - Level 5 at Ares
  - Level 6 at San José
  - Level 7 at Arcata and Pallancata
- To continue offering the monthly safety awards
- To achieve OHSAS 18001 accreditation at Pallancata and San José and recertify Ares, Arcata and the Selene plant as OHSAS 18001 compliant
- To provide Stage 2 training to emergency crews.

Read more about how we mitigate social and environmental risks to our business on pages 42 to 43.

Assuring the health of our employees

Corporate responsibility continued

HEALTH AND HYGIENE

Our Approach

We believe that providing a safe working environment to our employees is a basic right, and we therefore invest in reducing the inherent risks associated with mining activities.

In the first instance, the Group strives to avoid occupational illnesses by taking all necessary steps to provide a working environment that minimises any risk to the health of its workers. This area has been given increased focus during the year, hence the renaming of the Health team to the Health & Hygiene team. The Group also employs dedicated personnel who are charged with the provision of medical and occupational health services to assure the wellbeing of those employed by the Group on an on-going basis.

The Health & Hygiene team at Hochschild look to incorporate best practices adopted throughout the industry and, to support this endeavour, the Group benefits from its membership of the Sociedad Nacional de Minería, Petroleo y Energía (Sociedad Nacional de Mineria) a trade association comprising approximately 60 mining companies with operations in Peru. As part of its mission, the Sociedad seeks to contribute to the development of leading thinking in health management.

The Head of the Group's Health & Hygiene team is a qualified Doctor who also acts as Head of the Occupational Health Group at the Sociedad Nacional de Mineria.

2010 performance

TARGET	STATUS
Implement the Occupational Health & Hygiene module of SAP in Peru and Argentina	Scheduled for H2 2011
Implement the Hygiene Programme in Argentina and Mexico	In process
Establish a blueprint for the Wellbeing Programme (to support the psychological wellbeing of workers) for roll-out to other parts of the Group	✓

Below: Health team using X-ray equipment purchased during the year.

Health indicators

	2010	2009	2008	2007
Average number of medical attendances at Peruvian operations and at San José per month	2,961	2,690	2,851	2,505
Average number of work-related incidences requiring medical attention at Peruvian operations and at San José per month	25.75	24.5	n/a	n/a
Average number of occupational health examinations at the Group's wholly-owned Peruvian operations and Moris, per month	237	406	238*	224

* Figure has been restated.

Developments during 2010

- In the area of promoting hygienic working practices to prevent the incidence of occupational diseases:
  - Continued progress was made in compiling a thorough audit programme to assess occupational health risks
  - Personnel were recruited and equipment procured to improve the quality of incident reporting
- X-ray equipment was acquired and personnel trained in its use at the Group's Mexican operations
- In conjunction with external consultants, the implementation of the Health & Hygiene SAP module was commenced.

2011 targets

- Complete implementation of the Health & Hygiene SAP module in Peru and Argentina
- Progress further with the incorporation of Hygiene-related initiatives within the existing Health team
- Build upon the promising start made by the Wellbeing Programme in 2009 and to consider the implementation of the programme in Argentina.

Training and developing our people

PEOPLE

Our Approach

We recognise that the quality of our employees contributes the long-term success of our business, and we therefore seek to recruit, develop and retain the high quality people we need to deliver our corporate goals. The Group's HR team supports this corporate mission through personnel management driven by innovation and best practice.

2010 performance

TARGET	STATUS
Implementation of the Hochschild Mining Leadership Programme	✓
5% improvement in the measurement of the working environment as gauged by the "Organisational Climate" survey	✗

Developments during 2010

- Implementation of the Hochschild Mining Leadership Programme, for senior and mid-management;

  During the year the first leadership workshop for senior management took place in Lima in conjunction with the Centre for Creative Leadership ("CCL"). Members of senior management participated in a one-week programme entitled "Leadership at the peak" delivered by the CCL in Colorado, USA. For mid-management, the "Developing leaders" programme was designed and launched in Peru in January 2011 with a planned launch in Argentina later in the year.

- Organisational Climate Survey;

  Every year the Group carries out an organisational climate survey which in 2010 took place in August. The number of employees giving a satisfaction rating to the Group's employment conditions increased by three percentage points. Despite not achieving the stretching target of a 5% improvement this is considered to be a commendable result which reflects well on the initiatives implemented during the year to improve the overall working environment at Hochschild which include: the development of the leadership programmes, the provision of recreational activities for mining personnel and various programmes to enhance work-life balance.

2011 targets

- Implement development plans for all critical positions
- Continue with the Hochschild Mining Leadership programme for senior management
- Complete the first stage of the "Developing Leaders" programme for mid-management in Peru
- Launch the "Developing Leaders" programme for mid-management in Argentina.

People indicators

	2010	2009	2008	2007
General				
Average number of Group Employees	5,776	4,969	5,012	4,132
Training				
Average number of hours of training undertaken by each employee[1]	17.83	14.03	19.62	13.59
Percentage of workforce trained during the year[1]	92%	94%	83%	68%
Labour Relations				
Number of production days lost as a result of industrial unrest	1	40.5	0	1

1 In respect of Peruvian operations only.

Below: Participants from one of the mid-management leadership programmes run by the Group during 2010.

92%

Percentage of Peruvian workforce trained during the year

Working together with local communities

Corporate responsibility continued

COMMUNITY RELATIONS

Our Approach

We aim to work together with our local communities in order to provide them with more positive living conditions, in terms of economic development, health and education.

To do this, the Group's primary objective is to maintain a constructive relationship with communities and promote development, guided by the following principles:

1. Encourage **mutual respect and co-existence** with local communities
2. Achieving **mutually beneficial agreements**
3. Improving the **quality of life** of community residents
4. Improving the **health, nutrition and education** of members of the local communities and
5. **Fostering good relations** and co-ordinating activities with third party stakeholders to **promote sustainable development.**

2010 performance

TARGET	STATUS
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

Operacion Sonrisa Peru (Operation Smile)

The Group is a committed supporter of Operacion Sonrisa. This charity was founded in 1999 to provide free medical services to children with facial deformities such as cleft lip and cleft palate. Through the Group's involvement, Operacion Sonrisa has treated a number of children in the localities of its operations and projects in Peru.

Developments during 2010

1. Encourage **mutual respect and co-existence** with local communities

This is an overarching principle of the Group which has been achieved through greater interaction and communication with our local communities. This has enabled us not only to improve our relationships but to foster trust and manage conflicts as well as facilitate good relations with regional and municipal authorities.

The Group has participated in community fairs and celebrations, and has also provided support in times of need. Such support has included the provision of clothing and supplies after a fire engulfed several houses in the town of Perito Moreno located near the San José operation. In addition, the Group provided materials to assist with the repair of the structural damage that had been caused.

2. Achieving **mutually beneficial agreements**

During the year we concluded numerous agreements and negotiations with diverse communities in respect of both operating units and areas of exploration. Through our efforts we have focused on establishing arrangements that are satisfactory to both parties. Examples of such arrangements include a Co-operation Agreement entered into by the Group with the communities close to Selene and the Regional Government of Apurimac to collaborate on issues relating to health, education and initiatives to benefit the farming community.

3. Improving the **quality of life** of community residents

We believe that we can make a significant impact on quality of life around our mines by providing work to local people and we actively explore sourcing goods and services locally, and sponsoring community projects which provide employment opportunities. In addition to directly employing community members within the mining operations, the Group seeks to provide opportunities with other local employers including a road maintenance company close to Selene and a building company based near Pallancata.

We can report that at the end of 2010, our Peruvian operations employed over 34% of the economically active population residing in local communities. In addition, 25% of our Argentinian workforce and 66% of our Mexican workforce came from neighbouring communities.

Below: A mobile medical unit donated by the Group being used by the local community.

In Peru, the main economic activity in the highland regions is the breeding of alpacas and, on a smaller scale, of vicuna and llamas. The Group provides financial and technical support for these activities as well as for small-scale agricultural activities in lowland areas and to co-operatives formed by local women which produce hand-woven garments made from Alpaca wool.

4. Improving the **health, nutrition and education** of members of the local communities

The Group has expended much effort during the year in these three crucial areas.

Education During the year we have worked to improve literacy and numeracy as well as promoting lessons in natural and social sciences. In addition to providing direct support to preschools, primary and secondary schools, the Group has joined with governmental institutions to build learning centres and fund campaigns to promote adult education. We have continued to develop our ties with various non-governmental organisations, notably Caritas del Peru in providing free training to school teachers and supplying computer equipment.

Health & Nutrition The Group has sponsored workshops which have been organised in collaboration with local hospitals and educational institutions to address issues of local concern. The Group has also supported health campaigns aimed at children, the elderly and expectant mothers. The Group has continued to provide resources to combat child malnutrition for example, by establishing allotments which are designed to grow fresh produce even at very high altitude and which significantly improve the nutritional intake of children and expectant mothers.

The Group has also organised health campaigns to raise awareness of the dangers of the cold climate and has also provided treatment for children suffering from facial deformities such as cleft lip. In addition, during 2010 the Group donated an ambulance and medical equipment to the Santo Tomas hospital close to the Group's Azuca and Crespo projects.

5. **Fostering good relations** and co-ordinating activities with third party stakeholders to **promote sustainable development**

The Group has sought to promote the participation of regional and local authorities by facilitating agreements with local communities and businesses. These arrangements have resulted in resources being committed in the areas of education, health, nutrition, culture and tourism. Examples of such work undertaken at Perito Moreno, a town located close to the San José mine, include funding of the construction of a School of Arts and Crafts and financial support for an archeology museum.

The Group continues to work closely with local authorities to identify and develop sustainable projects and is exploring a potential partnership between the public sector and various mining companies which operate in the region.

2011 targets

- On-going target: Zero loss of production days resulting from community conflicts
- Continue identifying community and economic development initiatives that promote sustainability
- Work with government agencies in health and education, and implement meaningful measures of quantitative and qualitative achievements
- Facilitate further collaborative projects involving the state and private mining companies for the benefit of local communities
- To make further progress in providing adult education.

Community relations indicators

	2010	2009	2008	2007
Community investment	$6.7m	$6.0m	$4.6m	$4.3m
Production days lost as a result of community conflict	0	1.5	0	0

Community Relations

Alpaca Breeding Programme

Most of our exploration and production units are located at very high altitude, in some cases higher than 4.500 metres. This limits the potential of local people to generate their own income. However, the breeding of Alpacas is one of the few economic activities that local communities at altitude are able to pursue which can result in significant sustainable economic and social benefits. The Group's alpaca breeding project provides support in four key areas, namely:

- exploring breeding techniques to raise the quality of the wool produced
- developing the technical skills of participants by providing training in various areas including livestock and pasture management
- Supporting sales in order to maximise the revenue of the breeders and
- Promoting sustainability by forging on-going collaborative ventures.

Managing our environmental impact

Corporate responsibility continued

ENVIRONMENT

Our 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. We recognise that doing this brings benefits both in environmental terms, and also enables us to increase the efficiency of our own operations.

In order to support its efforts, the Group is committed to complying with the highest local and international standards. These standards include ISO 14001, which we use as a benchmark for environmental management, and for which we are currently seeking accreditation across our sites.

The Group's environmental team seeks to:

1. Assure the efficient management, treatment and discharge of water in conjunction with the operations team
2. Supervise the chemical and physical stability of the Group's mining structures
3. Implement efficient waste management
4. Identify and adhere to relevant legal requirements and other environmental standards
5. Encourage the adoption of the Group's environmental mission by all third party stake-holders
6. Undertake periodic audits and inspections of environmental systems
7. Plan for, and implement, the rehabilitation and closure of mine structures and disturbed areas following mine closure.

The Environmental department works together with the operational teams, community relations and the Legal Department in 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 who reports to the VP of Operations.

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

- Water management (mine, industrial, domestic water)
- Tailings management
- Waste rock management
- Safe disposal of domestic and industrial waste
- Storage and handling of hazardous materials, principally cyanide
- Hydrocarbons management
- Rehabilitation works in respect of disused structures
- Management of new projects
- Permitting.

Left:
Community members near the Ares mine participating in water sampling.

2010 performance

TARGET	STATUS
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	✓ Stage One Achieved

Developments during 2010

- On-going reimplementation of environmental management systems at the Group's operations at Ares, Arcata and Selene as ISO 14001 compliant
- Stage 1 implementation of environmental management systems at Pallancata and San José mines
- Environmental impact studies performed in connection with proposed expansion programmes and in the planning of new infrastructure projects, such as mine capacity increases and a new tailings dam
- Group-wide initiatives to raise the general awareness of environmental issues amongst employees
- To promote transparency, the Group arranges for discharge levels to be monitored jointly with members of the local communities. During these sessions, water samples are taken from official monitoring points for analysis at laboratories selected by community members and results shared with all participants.

Environmental Management

Responsible mine closure

All operations are required to rehabilitate, and where possible, enhance the land disturbed when extraction activities cease. To ensure this happens, every operation maintains a closure provision that is reviewed annually. Further progress was made in this area during the year.

Sipan

The Group's Sipan mine was an open-pit mine which was in operation for seven years until its closure in 2004. The process of preparing for the end of operations began in 2001 and since that time, a number of measures have been implemented to reduce the environmental impact of closure, including:

- the construction of Acid Water Treatment Plants which use lime and limestone to treat acid water in disused structures and waste rock deposits and pits
- the engagement of a hydrology expert to evaluate alternative courses of action in respect of specific deposits and
- extensive works to rehabilitate the land to support the growth of indigenous species.

2011 targets

- Group Compliance Performance Indicators above 80%
- Obtain ISO 14001 certification for Arcata, Selene, Pallancata, Ares and San José
- Submit Azuca, Crespo and Inmaculada Environmental Impact Assessments
- Update mine closure plans for Ares, Arcata, Selene and Pallancata.

Environmental indicators

	2010[1]	2009[1]	2008[2]	2007[2]
Average monthly fresh water consumption per metric tonne of treated ore (cubic metres)	0.21	0.63	0.55	2.72
Average monthly electricity consumption per metric tonne of treated ore (kWh)	57.75	53.32	90.3	102.01
Average monthly diesel consumption per metric tonne of treated ore (gallons)	0.97	1.23	3.14	1.62
Average monthly wood consumption per metric tonne of treated ore (kg)	12.47	10.31	18.33	17.13
Number of material environmental incidents across entire operations	0	0	0	0
Estimated volume of water withdrawn per day (cubic metres)	30,628	29,668	Not available	
Estimated proportion of recycled water used (cubic metres)	32%	27%	Not available	
Estimated volume of water discharged per day (cubic metres)	37,538	35,606	Not available	

1 Figures relate to the Group's mines in Ares, Arcata, Selene (until its closure in June 2009), Pallancata and San José unless otherwise stated.
2 Figures relate to the Group's mines in Ares, Arcata and Selene only, unless otherwise stated.

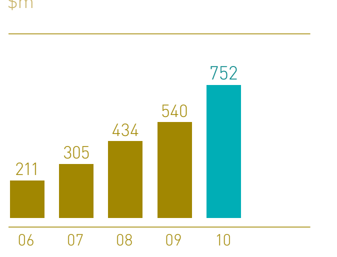
Financial review & risk management

Financial review & risk management
37 Financial review
42 Risk management

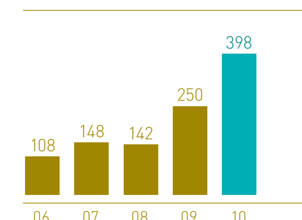
Financial review

KEY PERFORMANCE INDICATORS

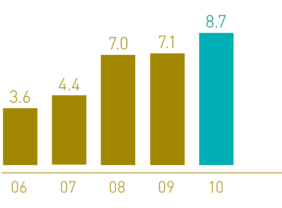
Revenue[1]
$m



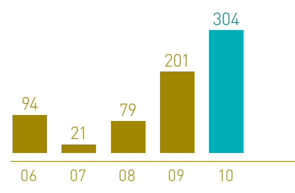
Adjusted EBITDA[3]
$m



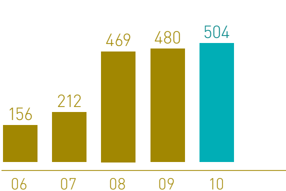
Silver cash costs[2]
$/oz Ag co-product



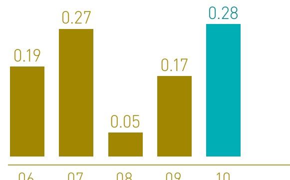
Cash flow from operating activities[4]
$m



Gold cash costs[2]
$/oz Au co-product



Earnings per share
$



1 Revenue presented in the financial statements is disclosed as net revenue (in this Financial Review it is calculated as gross revenue less commercial discounts).

2 Includes Hochschild's main operations: Arcata, Pallancata and San José. Cash costs are calculated to include cost of sales, treatment charges, and selling expenses before exceptional items less depreciation included in cost of sales.

3 Adjusted EBITDA is calculated as profit from continuing operations before exceptional items, net finance costs and income tax plus depreciation and exploration expenses other than personnel and other exploration related fixed expenses.

4 Cash flow from operations is calculated as profit for the year from continuing operations after exceptional items, plus the add-back of non-cash items within profit for the year (such as depreciation and amortisation, impairments and write-off of assets, gains/losses on sale of assets, amongst others) plus/minus changes in liabilities/assets such as trade and other payables, trade and other receivables, inventories, net tax assets, net deferred income tax liabilities, amongst others.

The reporting currency of Hochschild Mining plc is US dollars. In discussions of financial performance the Group removes the effect of exceptional items, unless otherwise indicated, and in the income statement results are shown 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 36% to $802.7 million in 2010 (2009: $589.9 million) driven by higher metal prices during the year.

Silver: Gross revenue from silver increased 44% in 2010 to $549.7 million (2009: $382.4 million) as a result of higher prices. The total amount of silver ounces sold in 2010 decreased to 24,283 koz (2009 restated: 24,330 koz) mainly due to lower year-on-year production.

Gold: Gross revenue from gold increased 22% in 2010 to $253.0 million (2009: $207.5 million) also as a result of higher prices. The total amount of gold ounces sold in 2010 decreased to 199.9 koz (2009 restated: 207.8 koz) mainly due to lower year-on-year production.

Gross average realised sales prices

As of December 2010, the Company discloses average realised prices calculated as gross revenue divided by gross ounces sold. Previously, the Company disclosed average realised prices calculated as net revenue divided by net ounces sold. Net revenue is calculated as gross revenue minus commercial discounts.

The following table provides restated figures for average realised prices and ounces sold for 2009 and 2010:

Average realised prices	**Year ended 31 Dec 2010 (restated)**	Year ended 31 Dec 2009 (restated)	**Year ended 31 Dec 2010**	Year ended 31 Dec 2009
Silver ounces sold (koz)	24,283	24,330	23,506	23,563
Avg. realised silver price ($/oz)	22.6	15.7	21.6	14.5
Gold ounces sold (koz)	199.9	207.8	196.2	204.1
Avg. realised gold price ($/oz)	1,266	999	1,244	970

Financial review continued

Commercial discounts: Commercial discounts refer to refinery treatment charges, refining fees and payable deductions for processing concentrates, and are discounted from gross revenue on a per tonne basis (treatment charge), per ounce basis (refining fees) or as a percentage of gross revenue (payable deductions). In 2010, the Group recorded commercial discounts of $50.5 million (2009: $50.4 million). The ratio of commercial discounts to gross revenue in 2010 decreased to 6% (2009: 9%).

Net revenue: Increased by 39% to $752.3 million, comprising silver revenue of $508.3 million and gold revenue of $243.9 million. In 2010, silver accounted for 68% and gold 32% of the Company's consolidated net revenue compared to 63% and 37% respectively in 2009.

NET REVENUE BY MINE

US$(000) unless otherwise indicated	**Year ended 31 Dec 2010**	Year ended 31 Dec 2009	% change
Net silver revenue			
Arcata	173,942	141,816	23
Ares	16,586	13,038	27
Selene	13	8,805	(100)
Pallancata	233,789	139,124	68
San José	123,393	78,352	57
Moris	1,946	1,245	56
Commercial discounts	(41,392)	(40,904)	1
Net silver revenue	508,277	341,476	49
Net gold revenue			
Arcata	31,264	27,364	14
Ares	40,239	40,278	0
Selene	2	2,819	(100)
Pallancata	43,712	32,443	35
San José	108,849	79,430	37
Moris	28,953	25,195	15
Commercial discounts	(9,079)	(9,492)	(4)
Net gold revenue	243,940	198,037	23
Other revenue[1]	105	228	(54)
Net revenue	752,322	539,741	39

1 Other revenue includes revenue from sale of energy in Peru, revenue from administrative services in Mexico and revenue from base metal components in the concentrate sold from the Arcata mine net of commercial discounts in 2009 only.

Costs

Total pre-exceptional cost of sales increased 24% to $345.7 million in 2010 (2009: $279.3 million) mainly as a result of the increase in direct production cost of 21% to $225.2 million (2009: $186.3 million). Direct production costs increased mainly due to inflation in personnel, supplies and energy expenses, particularly in Argentina. In addition, mining royalties increased as a result of higher metal prices. Depreciation and amortisation, which increased 23% to $102.7 million (2009: $83.4 million), also contributed to higher cost of sales.

Unit cost per tonne

The Company reported an overall increase in unit cost per tonne at its underground operations of 16% in 2010 to $82.3 (2009: $70.7). This increase is mainly explained by higher royalties as well as price inflation in Argentina.

In order to further increase transparency, the Company is restating its unit cost per tonne figures to include certain indirect operating expenses including health, safety and environmental accreditations. In addition, Pallancata's 2009 unit cost per tonne has been restated to exclude the depreciation component of the Selene plant processing fee. With these restatements, the unit cost per tonne of the Company's underground operations in 2009 reduces from $71.2 to $70.7.

Unit cost per tonne by operation*:

Operating unit ($/tonne)	Unit cost per tonne 2010 (restated)	Unit cost per tonne 2009 (restated)	% change	Unit cost per tonne 2010	Unit cost per tonne 2009	% change
Peru	**66.2**	**59.9**	**10.6**	**64.0**	**60.8**	**5.2**
Arcata	71.1	62.0	14.7	68.3	59.6	14.6
Pallancata	51.8	47.3	9.3	50.5	53.0	(4.8)
Ares	107.5	82.7	29.9	103.3	81.0	27.5
Selene	n/a	95.1	n/a	n/a	92.1	n/a
Argentina	**152.3**	**118.5**	**28.5**	**152.3**	**118.5**	**28.5**
San José	152.3	118.5	28.5	152.3	118.5	28.5
Total underground	**82.3**	**70.7**	**16.4**	**80.5**	**71.2**	**13.0**
Mexico	**16.3**	**13.8**	**18.1**	**16.3**	**13.5**	**20.7**
Moris	16.3	13.8	18.1	16.3	13.5	20.7
Total Company	**61.3**	**50.7**	**21.0**	**60.1**	**51.1**	**17.5**

* Unit cost per tonne is calculated by dividing mine and geology costs by extracted tonnage and plant and other costs by treated tonnage. Dividing total production cost disclosed in the segmental report on page 154 by treated tonnage reported in the production report provides a good approximation for unit cost per tonne.

Cash costs

Cash costs include cost of sales, commercial deductions and selling expenses before exceptional items, less depreciation included in cost of sales.

Co-product 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 $7.1 to $9.3 per ounce and from $476 to $535 per ounce, respectively. Silver and gold cash costs from main operations (Arcata, Pallancata and San José) increased from $7.1 to $8.7 per ounce and from $480 to $504 per ounce, respectively. The increase was mainly explained by higher production costs and the lower average grades, mainly at Arcata and Ares.

By-product 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 $3.0 per silver ounce (2009: $2.4 per silver ounce) and ($1,153) per gold ounce (2009: ($576) per gold ounce).

Administrative expenses

Administrative expenses before exceptional items increased by 30% to $66.2 million (2009: $51.1 million) mainly as a result of: a 35% increase in personnel expenses to $34.3 million (2009: $25.4 million) and a 45% increase in professional fees to $9.6 million (2009: $6.6 million).

Personnel expenses increased primarily due to the provision for a management long-term incentive plan, termination benefits due to changes in management and higher salaries. Professional fees increased mainly due to higher legal fees mainly related to the Minera Andes dispute.

Exploration expenses

As a result of the Group's decision to focus on organic growth through exploration, exploration expenses, which primarily relate to greenfield exploration, increased by 109% to $41.5 million in 2010 (2009: $19.9 million). Further detail on this programme can be found in the exploration section on page 18.

In addition, 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 2010, the Group capitalised $12.0 million relating to brownfield exploration compared to $8.6 million in 2009 bringing the total investment in exploration for the full year 2010 to $53.5 million. In addition, $10.2 million was invested in the Company's advanced projects.

Selling expenses

Selling expenses increased to $26.9 million (2009: $21.0 million) mainly due to higher export duties at San José, driven by the increase in gold and silver prices (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 was $5.6 million (2009: $4.5 million). Other income post exceptional items was $82.8 million (2009: $13.3 million), mainly as a result of the divestment in the Company's stake in Lake Shore Gold from 35% to 6%, which generated a gain of $63.7 million.

Other expenses before exceptional items reached $11.0 million (2009: $19.3 million). There were no exceptional items related to other expenses in 2010.

Profit from continuing operations

Profit from continuing operations before exceptional items, net finance costs and income tax increased to $266.6 million (2009: $153.6 million) as a result of the effects detailed above.

Adjusted EBITDA

Adjusted EBITDA increased by 59% over the period to $397.7 million (2009: $249.9 million) driven primarily by higher silver and gold prices. Adjusted EBITDA is calculated as profit from continuing operations before exceptional items, net finance costs and income tax plus depreciation and exploration expenses other than personnel and other exploration related fixed expenses.

US$(000) unless otherwise indicated	**12 months ended 31 Dec 2010**	12 months ended 31 Dec 2009	% change
Profit from continuing operations before exceptional items, net finance cost, foreign exchange loss and income tax	266,626	153,600	74%
Operating margin	35%	28%	
Depreciation and amortisation in cost of sales	99,498	85,789	16%
Depreciation and amortisation in administrative expenses	2,048	796	(157%)
Exploration expenses	41,537	19,941	(108%)
Personnel and other exploration related fixed expenses	(11,978)	(10,257)	(17%)
Adjusted EBITDA	397,731	249,869	59%
Adjusted EBITDA margin	53%	46%	

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 and is accounted for using the equity method.

Hochschild's pre-exceptional share of the profit/(loss) after tax of associates totalled $(4.6) million in 2010 (2009: $7.6 million). In 2010, the Company's share in associates was mainly explained by losses relating to its holdings in Gold Resource Corp and Lake Shore Gold of $3.2 million and $1.4 million, respectively. In 2009, the Company's share in associates was mainly explained by a gain of $9.2 million from Lake Shore Gold; partially offset by a loss of $1.0 million in Gold Resource Corp.

Hochschild reduced its stake in Lake Shore Gold from 35% to 6% in November 2010. The divestment of the remaining 6% stake in Lake Shore Gold, which took place in February 2011, will be recorded in the Company's 2011 accounts.

Hochschild also divested its holdings in Cabo Sur (89%) and Zincore Metals Inc (37%) during the year. The Company continues to hold a 25% stake in Gold Resource Corp.

Finance income

Finance income before exceptional items decreased by 36% to $4.1 million (2009: $6.4 million) mainly driven by accounting non-cash adjustments in Argentina ($2.5 million) in respect of the discounting of San José's VAT receivables.

Financial review continued

Finance costs

Finance costs decreased 36% to $29.5 million in 2010 (2009: $46.0 million). Interest costs increased to $17.3 million in 2010 (2009: $15.6 million) mainly due to the refinancing of upcoming syndicated bank loan maturities in November 2009 with a longer-dated convertible bond at a higher interest rate. Nonetheless, the reduction in recognised losses from the use of derivatives in 2010 to $(9.1) million (2009: $28.4 million) resulted in a decrease in finance costs.

Hochschild repaid, in full, its syndicated bank loan facility in January 2011. In addition, the Company has no outstanding currency or commodity hedge positions.

Foreign exchange losses

The Group recognised a foreign exchange gain of $0.3 million (2009: $0.3 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 32.5% in 2010 (2009: 36.8%) mainly as a result of the reversal in 2010 of a provision for tax credits of $4.8 million, which was recognised at the end of 2009.

In addition, the post-exceptional effective tax rate increased to 24.7% (2009: 21.6%) primarily driven by a lower proportion of non-taxable, exceptional gains to profit before income tax in 2010 compared to 2009, which represented a decrease in the effective income tax rate of 8% in 2010 compared to 12% in 2009.

Exceptional items

Exceptional items in 2010 totaled $57.8 million after tax (2009: ($44.7 million). This mainly includes:

Positive exceptional items:

Main items	$000	Description of main items
Other income	77,197	Gain of $63.7 million related to the reduction of the Company's stake in Lake Shore Gold from 35% to 6%. A gain of $7.5 million related to the sale of Zincore Metals which the Company received as part of the acquisition of Southwestern Resources Inc. in 2008. A gain of $6.0 million related to the exchange of El Quevar property in Mexico for Golden Minerals shares
Finance income	9,204	A gain of $5.8 million related to the sale of Golden Minerals. A gain of $3.0 million related to the change in fair value of the Golden Minerals warrants held by the Company.

Negative exceptional items:

Main items	$000	Description of main items
Cost of sales	8,861	Negotiated compensation paid in 2010 to workers at the Peruvian mines for 2009 exercise period
Impairment and write-off of assets	24,018	Mainly explained by: i) impairment of the San Felipe property by $14.7 million, triggered by the conclusion of the marketing process conducted during H1 2010 (the new value of San Felipe reflects the Company's estimate of the fair value less cost to sell) and ii) impairment of $6.7 million related to the 100% doré project in San José following a decision to suspend the project indefinitely

Cash flow and balance sheet review

Cash flow

$000	**12 months ended 31 Dec 2010**	12 months ended 31 Dec 2009	Change
Net cash generated from operating activities	304,232	200,524	103,708
Net cash used in investing activities	198,963	(373,021)	571,984
Cash flows generated/(used) in financing activities	(55,010)	134,443	(189,453)
Net (decrease)/increase in cash and cash equivalents during the period	448,185	(38,054)	486,239

Total cash generated increased from $(38.1) million in 2009 to $448.2 million in 2010 ($486.3 million difference). Operating cash flow increased 51% to $304.2 million from $200.5 million in 2009 ($103.7 million difference), mainly due to higher metal prices. Net cash from investing activities increased to $199.0 million in 2010 from $(373.0) million in 2009, primarily due to the reduction in the Company's holding in Lake Shore Gold. Finally, cash from financing activities decreased to $(55.0) million from $134.4 million, primarily as a result of the higher dividend paid to International Minerals Inc of $26 million in 2010, compared to an equity issuance of $145 million in 2009.

Working capital

US$(000)	12 months ended 31 Dec 2010	12 months ended 31 Dec 2009
Trade and other receivables	182,752	168,014
Inventories	55,130	45,813
Net other financial assets	18,732	(1,945)
Net Income tax payable	(10,977)	(10,751)
Trade and other payables incl. provisions	(246,781)	(135,163)
Working capital	(1,144)	65,968

The Company's working capital position decreased to $(1.1) million in 2010 from $66.0 million in 2009 as a result of higher trade and other payables and provisions. This was primarily explained by; payments to International Minerals Inc relating to the Inmaculada acquisition ($54.8 million), workers profit sharing ($21.3 million), higher commercial payables ($20.4 million) and a provision for the management long-term incentive plan ($7.0 million).

Net debt

US$(000) unless otherwise indicated	As at 31 Dec 2010	As at 31 Dec 2009
Cash and cash equivalents	(525,482)	(77,844)
Long-term borrowings	248,380	219,681
Short-term borrowings*	69,272	112,908
Net debt/(net cash)	(207,830)	254,745

* Includes pre-shipment loans which were previously reported under working capital (2009 figures have been restated to reflect this change).

The Company reported net cash of $207.8 million as at 31 December 2010 (2009: $254.7 million). This was primarily driven by the significant increase in cash and cash equivalents from $77.8 million to $525.5 million during the year. In January 2011, the Company paid down its full syndicated loan facility of $114.3 million, which will be recorded in its 2011 accounts.

The Convertible bond currently outstanding has a conversion price of £3.98 and allows the Company to force conversion of the bonds at anytime after 20 October 2012 if, during a 20 day period, the Company's stock price exceeds 130% of the conversion price (£5.17).

Capital expenditure[1]

US$(000) unless otherwise indicated	12 months ended 31 Dec 2010	12 months ended 31 Dec 2009
Arcata	30,230	29,688
Ares	5,422	3,484
Selene	5,839	16,579
Pallancata	38,116	24,117
San José	55,183	26,113
Moris	2,728	480
Other[2]	18,965	8,074
Total	156,483[3]	108,535

1 Includes additions in property, plant and equipment and evaluation and exploration assets and excludes increases in closure of mine assets.
2 Other capex includes mainly Azuca ($13.8 million), Crespo ($2.7 million) and administrative capex of ($1.5 million).
3 Capex does not include the $90.6 million additions in respect of the acquisition of Inmaculada.

2010 capital expenditure of $156.5 million (2009: $108.5 million) includes mine development of $71.5 million, equipment of $53.8 million, capitalised exploration costs of $12.0 million in respect of the Group's operating mines and $16 million capitalized in respect of advanced projects (Azuca and Crespo).

Dividends

The directors recommend a final dividend of $0.03 per ordinary share which, subject to shareholder approval at the 2011 AGM, will be paid on 7 June 2011 to those shareholders appearing on the register on 13 May 2011. If approved, this will result in a total dividend for the year of $0.05 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 pound 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	2011
Ex-dividend date	11 May
Record date	13 May
Deadline for return of currency election forms	17 May
Payment date	7 June

Risk management

OVERVIEW

As with all businesses, management of the Group's operations and execution of its growth strategies are subject to a number of risks. The occurrence of any of these risks may adversely affect the execution of growth strategies and hence the performance of the Group. The Group's risk management framework is premised on continued monitoring of the prevailing environment and the risks posed by it as well as the management of risks which, in light of either likelihood and/or impact on the business, are categorised as significant risks.

A Risk Committee is responsible for implementing the Group's policy on risk management and monitoring the effectiveness of controls in support of the Company's business objectives. It meets four times a year and more frequently if required. The Risk Committee comprises the CEO, the Vice Presidents, the Country General Managers and the head of the internal audit function. A 'live' risk matrix is compiled and updated at each Risk Committee meeting and the most significant risks are reported to the Group's Audit Committee which has oversight of risk management on behalf of the Board. Further details on the Audit Committee's activities are provided in the Corporate Governance Report on pages 52 to 56.

The key business risks affecting the Group are set out in the table below. The steps taken by the Group 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	Adverse movements in precious metals' prices could have a material impact on the Group's results of operations	Silver and gold prices are continually monitored and a Hedging Committee has been specifically established which comprises Directors and members of senior management to recommend to the Board the appropriate course of action.
Credit	Loss of revenue resulting from defaulting customers	The Group has incorporated a number of measures to protect against customer default including (i) the provision in sales contracts for advance payment or delaying transfer of title to goods sold, (ii) requiring the provision of parent company guarantees where possible (iii) implementing risk profiling of key and new customers. In addition, the Group benefits from a diversified customer base which further mitigates the risk of default
Liquidity	The Group may be unable to raise funds to meet its financial commitments as they fall due	Whilst the impact of this risk is mitigated by the strength of the Company's year-end balance sheet, the Board and senior management continually monitor the Group's requirements for short and medium-term liquidity, and the Company maintains access to credit lines to ensure an appropriate level of financing
Foreign currency	The combination of US dollar denominated sales and some costs denominated in local currencies may impact the Group's results in the event of adverse currency movements against the US dollar	Management periodically reviews the relationship between the US dollar and local currencies to ensure the Company is properly protected. The Group's operations are located in different countries which also mitigates the extent of foreign exchange risk
Interest rate	Movements in interest rates could impact the Group's results from financings	Given the low interest rate environment, during the year, management fixed the interest rate exposure of the Group stemming from its floating debt balance. The impact of this risk has been further reduced following the repayment of the entire outstanding balance of the JPM-led syndicated loan subsequent to the year-end
OPERATIONAL RISKS		
Costs	Increase in production costs could impact on the Group's profitability	The Group seeks to enter into long-term supply contracts where possible. Costs are monitored by management on a monthly basis

TYPE OF RISK	DESCRIPTION OF RISK	MITIGATING STEPS
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 with advisers. With the assistance of the SAP Maintenance module, stock of critical parts are maintained and monitored for ongoing replenishment. During 2010 all operating units benefited from access to contingent 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 allocated $50m in 2010 to fund its exploration and geology activities. The Group has an annual drilling plan which is revised on a quarterly basis with exploration targets continually defined and new targets incorporated
Personnel	(i) Loss of key senior management and personnel in particular, highly skilled engineers and geologists; (ii) the lack of availability of individuals with relevant mining experience in the vicinity of the Group's operations; and (iii) failure to maintain good labour relations with workers and/or unions may result in work slowdown, stoppage or strike	In respect of (i) the Group seeks to provide competitive compensation arrangements and well-defined career plans for positions of strategic importance. In respect of (ii) and (iii) a labour relations strategy has been developed to ensure that employees' needs are identified and met, and to facilitate open dialogue between key stakeholders including workers' unions
MACRO ECONOMIC RISKS		
Political, legal and regulatory	Costs associated with ensuring compliance with all relevant laws and regulations are substantial. Future changes which may include increases in taxes and/or royalties may result in additional expense, restrictions on or suspensions of, operations and may lead to delays in the development of current operations and early stage projects	Local teams in each country of operation monitor and react, as necessary, to policy changes impacting on the business. Regional risk assessments are performed when investments in new countries are considered. These incorporate reviews of political environments and likelihood of changes in policy that are likely to impact the Group's results from operations
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 6 of the DNV safety management information system at Arcata and Pallancata and Level 5 at San José. An action plan to achieve Level 5 at Ares during 2011 has been agreed. Numerous initiatives were adopted during 2010 further reinforcing the Group's commitment in this area. Additional details on the Group's approach to Health and Safety are provided in the Corporate Responsibility Report on page 29
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	The Group has a dedicated team of professionals with an allocated budget for environmental management purposes. Monthly audits are carried out to monitor the implementation of third-party environmental recommendations and achievement of targets. Air and water quality are monitored on a quarterly and weekly basis respectively
Social	Communities living in the areas close to Hochschild's operations may oppose the activities carried out by the Group at existing mines or development projects and prospects which may also impact the Group's ability to obtain concessions for current or future projects	The Group's Community Relations department maintains ongoing dialogue with local communities. Action plans have been budgeted and are being developed and progress is monitored on a monthly basis

Further information on financial risks can be found in note 37 to the Consolidated Financial Statements.

Governance

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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.

Ignacio Bustamante
Chief Executive Officer

Ignacio Bustamante joined the Board as CEO on 1 April 2010. Prior to his appointment he has served as the General Manager of the Peruvian operations and as Chief Operating Officer from January 2008. Since joining Hochschild in 1992, Ignacio served as Chief Financial Officer of Cementos Pacasmayo S.A.A between 1998 and 2003, a company he subsequently became a director of in 2003 until 2007. Subsequently, Ignacio served as Chief Financial Officer and Vice President of Business Development and later as President of Zemex Corporation, a Cementos group company. Ignacio is a graduate of Business and Accounting having studied at the Universidad del Pacífico in Peru and holds an MBA from Stanford University.

NON-EXECUTIVE DIRECTORS

Roberto Dañino
Deputy Chairman

Roberto Dañino joined the Board in 2006. He has been a Board member with the Hochschild Group since 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 also a Non-Executive Director of a number of companies including Gold Fields Limited. Roberto served as an Executive Director of the Company from 2006 until the end of 2010. Roberto currently serves as Chairman of the Board of Fosfatos del Pacifico S.A, part of the Cementos Pacasmayo S.A.A. group of companies.

Sir Malcolm Field
Senior Non-Executive Director

Sir Malcolm Field joined the Board in 2006. He serves as 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 was Group Managing Director of WH Smith plc between 1982 and 1993 and served as Chief Executive from 1993 to 1996. From 1996 to 2001 Sir Malcolm chaired the Civil Aviation Authority. Sir Malcolm 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 the Board in 2006. He is the President and Chief Executive Officer of Bomagra S.A. and a Director of Caldenes S.A., a Bomagra group company. 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 acts as a Director of Bunge Limited having previously served as Deputy Chairman for 15 years. Jorge is a Director of Dufry A.G. following its merger with Dufry South America S.A. of Rio de Janeiro in May 2010. In addition, Mr Born is President of the Bunge and Born Charitable Foundation.

Nigel Moore
Non-Executive Director

Nigel Moore joined the Board in 2006. He is a Chartered Accountant and currently serves as Chairman of TEG Environmental plc and as 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, as Senior Partner attached to the Chairman's Office (Europe) from 1987 to 1989, and as Regional Managing Partner for Eastern Europe and Russia from 1989 to 1996.

Dionisio Romero
Non-Executive Director

Dionisio Romero joined the Board in 2006. He was formerly the Chairman and Chief Executive Officer of the financial services holding company, Credicorp Ltd, positions he retired from in April 2009 after more than 13 years. Dionisio currently serves as President of TECSUP Trujillo, a higher education institution.

Fred Vinton
Non-Executive Director

Fred was appointed to the Board on 1 August 2009. He holds directorships of a number of companies including European Goldfields plc, Unipart Group of Companies UK, GP Investments Ltd and Dinamia SCR S.A. 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. Over the course of Fred's 25 year career with J.P. Morgan, Fred was responsible for the bank's business in Latin America, the UK and Scandinavia before he joined N M Rothschild & Sons Ltd in 1988 as Chief Operating Officer.

Senior management

Ramón Barúa
Chief Financial Officer

Ramón Barúa was appointed CFO of Hochschild Mining on 1 June 2010. He has most recently served as CEO of Fosfatos del Pacifico, a mining project in nothern Peru owned by Cementos Pacasmayo, an associate company of the Hochschild Group. During 2008, Ramón was the General Manager for Hochschild Mining's Mexican operations, having previously worked as Deputy CEO and CFO of Cementos Pacasmayo. Prior to joining Hochschild he was a Vice President of Debt Capital Markets with Deutsche Bank in New York for four years and a sales analyst with Banco Santander in Peru. Ramón is an economics graduate from Universidad de Lima and holds an MBA from Columbia Business School.

Ernesto Balarezo
Vice President, Operations

Ernesto Balarezo joined the Hochschild Group in 1997. Prior to his appointment as Vice President of Operations in April 2010, he served as General Manager of Hochschild's Peruvian operations from March 2008 and as General Manager of the Company's Mexican operations from January 2007. From 2003 to 2006, he worked in Cementos Pacasmayo, an associate company of the Hochschild Group, initially as CFO and later as Deputy CEO. Prior to joining the Group, he worked at Productos Favel from 1994 to 1997. He also worked in the United States for three years, first at the Texas A&M University and then at Nadisco Inc. Ernesto holds an MSc in Industrial Management and a BSc in Industrial Engineering from Texas A&M University.

Isac Burstein
Vice President, 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.

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 practise 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 2010.

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 projects and 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 Gold Resource Corporation.

The "At a glance","Chief Executive Officer's review" and "Operating and exploration review" sections of this Annual Report give an indication of the likely future developments of the Company, and the "Operating and exploration review", "Corporate responsibility" and "Financial review and risk management" sections of this Annual Report on pages 11 to 43 contain the information required to be disclosed in this report under section 417 of the Companies Act 2006. These sections, 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 $397.7 million (2009: $249.9 million). Revenue for the year was $752.3 million (2009: $539.7 million) and attributable profit to equity shareholders after tax (before exceptional items) was $94.9 million (2009: $52.9million).

An interim dividend of $0.02 per share was paid to shareholders of the Company on 22 September 2010. The Directors recommend the payment of a final dividend of $0.03 per share (2009: $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 7 June 2011 to shareholders on the register at the close of business on 13 May 2011. 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 45.

All directors were in office for the duration of the year under review except for Ignacio Bustamante who was appointed by the Board on 1 April 2010. Miguel Aramburú and Ignacio Rosado resigned as Directors of the Company on 31 March 2010 and 31 May 2010 respectively.

Ignacio Bustamante, together with all other directors on the Board, will be seeking re-election at the forthcoming AGM in line with the recommendation of the UK Corporate Governance Code.

1 Calculated as profit from continuing operations before exceptional items, net finance costs and income tax plus depreciation and exploration expenses other than personnel and other exploration related fixed expenses.

DIRECTORS' INTERESTS

Details of the interests of those Directors serving at 31 December 2010 in the Company's shares are shown below:

	No of ordinary shares as at 31 December 2010	No of ordinary shares as at 1 January 2010 or date of appointment, if later
Eduardo Hochschild[1]	182,415,206	182,415,206
Roberto Dañino[2]	500,000	1,725,000
Ignacio Bustamante[3]	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 International Holdings Ltd.
3 Ignacio Bustamante was appointed a Director of the Company on 1 April 2010.

In addition, during the year, Fred Vinton acquired an interest in Convertible Bonds of the Company with a nominal value of $500,000.

There have been no changes in the above interests in the period from 31 December 2010 to 28 March 2011.

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 page 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

Directors' report
Continued

– 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 35.

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 $62 million, which includes amounts estimated for ongoing maintenance of sites. A provision for this amount was made as at 31 December 2010 (2009: $61.3 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 35.

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 2010, the Company had an average of 24 days' purchases owed to trade creditors (2009: 42 days).

POLITICAL AND CHARITABLE DONATIONS

The Company does not make political donations. During the year, the Group expended $6.7 million (2009: $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 2010 are set out in note 38 to the Consolidated financial statements on page 131.

SHARE CAPITAL

The issued share capital of the Company as at 1 January 2010 was 338,085,226 Ordinary Shares of 25p each. No shares were issued by the Company during the year to 31 December 2010.

SHARE REPURCHASE AUTHORITY

The Company obtained shareholder approval at the AGM held in May 2010 for the repurchase of up to 33,808,522 Ordinary Shares which represents 9.99% of the Company's current issued share capital ("the 2010 Authority"). Whilst no purchases were made by the Company pursuant to the 2010 Authority, it is intended that shareholder consent will be sought on similar terms at this year's AGM when the 2010 Authority expires.

SUBSTANTIAL SHAREHOLDINGS

As at 28 March 2011 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.	37,291,964	11.03
Prudential plc Group of Companies	19,695,592	5.82
Blackrock Global Funds	17,021,418	5.03
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 30 to the Consolidated financial statements on pages 119 and 120.

ADDITIONAL STATUTORY INFORMATION

This section provides information as at 31 December 2010 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 27 to the Consolidated 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 and on a poll at a general meeting or class meeting, every member present in person or, subject to the below, by proxy, has one vote for every Ordinary Share held. However, in the case of a vote on a show of hands, where a proxy has been appointed by more than one member the proxy has one vote for and one vote against if the proxy has been instructed by one or more members to vote for the resolution and by one or more members to vote against the resolution.

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 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 subject to periodic re-election by shareholders at intervals of no more than every three years. 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. Under law, the Company is entitled to adopt such practices which are no less stringent than those set out in the Articles. Accordingly, notwithstanding the above, the Board has decided to adopt early the recommendation of the UK Corporate Governance Code that all directors should seek annual re-election by shareholders. 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 in accordance with the provisions of the Companies Act by way of special resolution.

Directors' report
Continued

(i) Powers of the Directors
Subject to 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 33,808,522 Ordinary Shares and which will expire at the 2011 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 financing 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 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 jurisdictions 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 Consolidated 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' 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

In light of cash flow forecasts prepared for the Board and the year-end cash balance, 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 shareholders at the forthcoming AGM.

AGM

The fifth AGM of the Company will be held at 10am on 2 June 2011 at the offices of Linklaters LLP. The shareholder circular incorporating the Notice of AGM will be available at www.hochschildmining.com

The shareholder circular contains details on, amongst other things, the business to be considered at the meeting.

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 45 of this Annual Report.

On behalf of the Board

Raj Bhasin
Company Secretary

28 March 2011

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 2010, the Group has complied with the provisions contained in Section 1 of the Code with the exception that a significant part of the Executive Chairman's remuneration is not performance-related.

As disclosed in the 2009 Annual Report, the remuneration arrangements for the Executive Chairman were reviewed in early 2010. In agreeing the structure, the Board agreed that the arrangements should reflect the importance of his contribution to the long-term strategic development of the Group, and his current significant shareholding. For this reason, a package comprising fixed elements only was considered to be the most appropriate.

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 two Executive Directors: Eduardo Hochschild (Chairman) and Ignacio Bustamante (Chief Executive Officer), and six Non-Executive Directors: Roberto Dañino (Deputy Chairman), 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, Eduardo Hochschild's membership of the Board and participation in the management of the Company is considered by the Board to be 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 47.

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 three ad hoc meetings which were convened at short notice to deal with matters relating to Corporate Development.

Attendance of the Directors serving during the year at scheduled Board meetings is summarised in the following table:

	Maximum possible attendance	Actual attendance
Eduardo Hochschild	4	4
Roberto Dañino	4	4
Ignacio Bustamante[1]	3	3
Sir Malcolm Field	4	4
Nigel Moore	4	4
Jorge Born Jr.	4	4
Dionisio Romero	4	4
Fred Vinton	4	4
Miguel Aramburú[2]	1	1
Ignacio Rosado[3]	2	1

1 Ignacio Bustamante was appointed a Director of the Company on 1 April 2010
2 Miguel Aramburú resigned as a Director of the Company on 31 March 2010
3 Ignacio Rosado resigned as a Director of the Company on 31 May 2010

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

- the appointments of Ignacio Bustamante and Ramon Barua to the positions of CEO and CFO respectively;
- the Group's strategic plan and annual budget.
- matters relating to corporate development including divestment of the Group's holdings in Zincore Metals Inc. and Lake Shore Gold Corporation.
- Presentations on and regular updates with respect to, progress of the Group's exploration projects.
- 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

The Company is jointly led by the Executive Chairman, Eduardo Hochschild, and the Chief Executive Officer. Miguel Aramburú served as Chief Executive Officer until 31 March 2010 and was succeeded by Ignacio Bustamante.

A document setting out the division of responsibilities between the Chairman and the CEO 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.

SENIOR INDEPENDENT DIRECTOR

Sir Malcolm Field acts as 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 2010 the composition of the Board complied with the provision of the Code in that a majority of the Board (excluding the Chairman) comprised 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 continues to be reiterated by the views expressed by directors during the annual 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 in office in 2010 were, and continue to be, independent of the Company as defined by the Code. It is acknowledged that given his previous role as an Executive Director, Roberto Dañino is not regarded as an independent Non-Executive Director.

The Board is of the opinion that each of its Non-Executive Directors enhances 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.

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 Ignacio Bustamante as Chief Executive Officer and a Director of the Company.

The UK Corporate Governance Code ("the CG Code") recommends that directors of FTSE350 companies seek re-election by shareholders on an annual basis. Whilst the Company is required to report against the CG Code from 2011, the Board has decided to adopt annual Board re-election early. Biographical details of the Directors are given on page 45.

BOARD DEVELOPMENT

The Directors receive regular briefings on their responsibilities as Directors of a UK listed company 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 has been designed to facilitate introductory 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.

Corporate governance report
Continued

BOARD EVALUATION

The Board is committed to the process of self evaluation as a means of achieving continual improvement in fulfilling its responsibilities. Given the success of the prior year's evaluation, the 2010 Board Evaluation process was undertaken through one-to-one interviews conducted by the Senior Independent Director and the Company Secretary.
The interviews sought to elicit the Directors' views on, amongst other things, the workings of the Board and Committees as well as board composition and process. In addition, Directors provided feedback on the performance of their peers.
The findings of both elements of the evaluation were considered collectively by the Chairman and the Senior Independent Director, and the resulting recommendations were discussed and, where appropriate, approved by the Board. The recommendations principally relate to Board composition, suggested areas for Board discussion and succession planning.

A section of the Board interviews 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 conveyed.

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 a number of other listed companies. Further details are given in the biography on page 45.

The other members of the Audit Committee are Sir Malcolm Field and Fred Vinton who was appointed to the Committee on 26 May 2010. Both Sir Malcolm and Fred Vinton are considered to be independent Directors.

Jorge Born Jr stepped down as a member of the Audit Committee on 25 May 2010.

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.

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

- Financial reporting – The Audit Committee reviewed the 2009 Annual Report and Accounts and the 2010 Half-yearly Report before recommending their adoption to the Board. As part of its review, 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 facing the Group together with an accompanying evaluation and action plan to manage the particularly 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. Furthermore, during the year, the Committee reviewed the adequacy of the arrangements in place by which staff may raise, in confidence, concerns about possible improprieties in matters of financial reporting or other matters and which enable 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 and as part of this responsibility, the Audit Committee reviewed the findings of the external auditors and management representation letters, approved audit plans, reviewed and agreed audit fees and evaluated the auditors' performance.

The Audit Committee continues to oversee the implementation of specific policies designed to safeguard the independence and objectivity of the auditors including the 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 31 to the Consolidated financial statements.

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: Sir Malcolm Field (Committee Chairman), Jorge Born Jr. and Nigel Moore. The Committee held three meetings during the year under review at which all members were in attendance.

Further details concerning the activities of the Remuneration Committee are set out in the Directors' remuneration report on page 57.

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. In addition, the Nominations Committee has been authorised by the Board to review Directors' external interests with regards to any actual, perceived or potential conflicts of interests.

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 four meetings held during the year under review except that Dionisio Romero was unable to attend one meeting.

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

- the consideration of any potential conflicts of interests arising in respect of a Director's appointment to the Board of another listed company;
- the consideration of any potential conflicts of interests relating to, and the subsequent appointment of, Ignacio Bustamante as Chief Executive Officer;
- the relevant recommendations arising from the Board evaluation process; and
- matters relating to the change in Roberto Dañino's role from Executive Director to Non-Executive Director as his appointment as Special Adviser to the Chairman and Senior Management team.

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.

During the year under review, the CSR Committee met four times and was chaired by Roberto Dañino and counts Sir Malcolm Field and Eduardo Hochschild as its other members. Following Roberto Dañino's appointment as a Non-Executive Director on 1 January 2011, Eduardo Hochschild assumed the chair of the Committee from that date.

The CEO and VP of Operations attend each CSR Committee meeting by invitation.

Further details relating to the CSR Committee and the Group's activities in this area are set out in the corporate responsibility report on pages 26 to 35.

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:

- 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 at Group level. This involves the monitoring of performance and the taking of relevant action through the monthly review of key performance indicators and, where required, the production of revised forecasts. The Group has adopted a standard accounting manual to be followed by all finance teams which is continually updated to ensure the consistent recognition and treatment of transactions and production of the consolidated financial statements.
- Review of budgets and reporting against budgets.
- Consideration of progress against strategic objectives.

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.

Corporate governance report
Continued

GOING CONCERN

A statement on the Directors' position regarding the Company as a going concern is contained in the Directors' report on page 51.

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 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 Chairman, Deputy Chairman, 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 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 2010 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 2011 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 164 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 2010. 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 is chaired by Sir Malcolm Field and its other members are Jorge Born Jr. and 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 senior management 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

Members of senior management attend meetings at the invitation of the Committee. During the year, such members included the Executive Chairman, the Chief Executive Officer and the Vice President of Human Resources. No Director or senior executive is present at meetings when their own remuneration arrangements are considered by the Committee.

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.

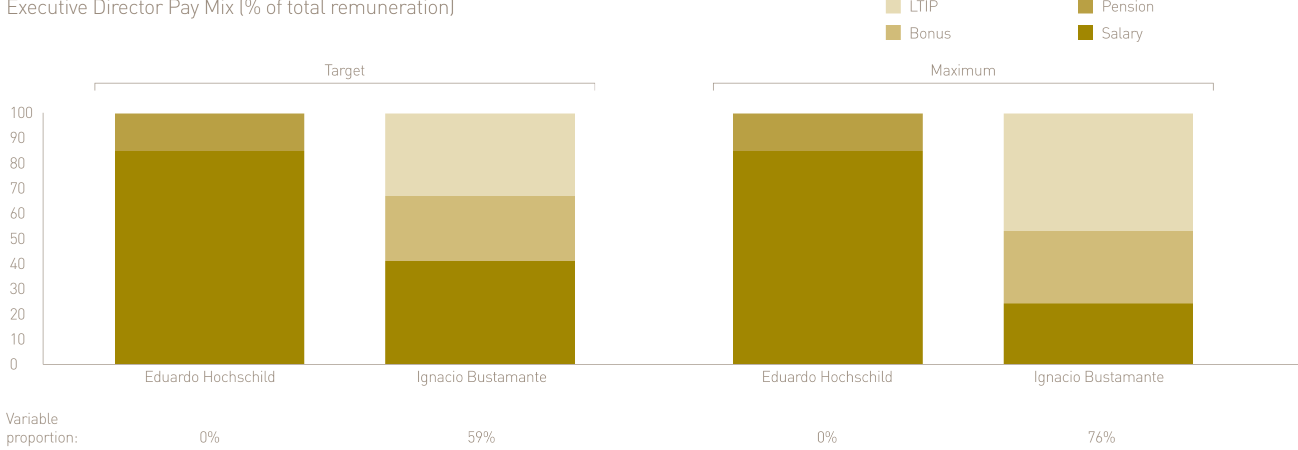
REMUNERATION POLICY

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 determines the vesting of awards granted under the Long-Term Incentive Plan ("LTIP"). This policy will continue to be applied by the Remuneration Committee in respect of the current financial year. Furthermore, as at the date of this report, the Committee is consulting major shareholders on a proposal for an enhancement to the CEO's LTIP award, as described in the following "CEO LTIP Plan" section.

FIXED AND VARIABLE PAY

The following chart illustrates the split between fixed and variable pay of the Executive Directors at both target and maximum performance. The maximum bonus percentages are set out in each Executive Director's service contract and/or as subsequently determined by the Remuneration Committee and, except in relation to the Executive Chairman whose remuneration arrangements were revised in early 2010 as detailed in the 2009 Directors' Remuneration Report, have been set to ensure that the majority of remuneration is performance-based.

Executive Director Pay Mix (% of total remuneration)



Directors' remuneration report
Continued

Components of fixed pay for the Executive Directors in office as at 31 December 2010:

Director	For the year ended 31 December 2010			For the year ending 31 December 2011		
	Base Salary US$000	Pension Supplement US$000	Total US$000	Base Salary/Fees US$000	Pension Supplement US$000	Total US$000
Eduardo Hochschild[1]	1,100	200	1,300	1,100	200	1,300
Roberto Dañino[2]	600	200	800	155	0	155
Ignacio Bustamante[3]	370	0	370	450	0	450

1 For the year ended 31 December 2010, Eduardo Hochschild and Roberto Dañino each had service contracts with Hochschild Mining plc and Compañía Minera Ares S.A.C. ("Ares"), a Group subsidiary. Salary paid by Ares included all legal labour benefits and compensation such as, but not restricted to vacation salaries and compensation for time services (ruled by Peruvian Legislative Decree 6500) but excludes legal profit sharing.
2 As announced by the Company in December 2010, Roberto Dañino assumed the role of Non-executive director and Special Adviser to the Chairman and senior management team with effect from 1 January 2011. As a Non-executive director Mr Dañino receives the fee disclosed above of £100,000. In addition to this amount, Mr Dañino receives an annual fee of £150,000 in respect of his role as Special Advisor to the Chairman and senior management team.
3 Ignacio Bustamante has a service contract with Ares. Base salary includes all legal labour benefits and compensation such as, but not restricted to, vacation salaries but excludes legal profit sharing and compensation for time services (ruled by Peruvian Legislative Decree 6500). Further details on the increase in Ignacio Bustamante's base salary from 1 January 2011 are given in the "Base Salaries" section below.

BASE SALARIES

– Contractual Arrangements
In respect of the year under review, both Eduardo Hochschild and Roberto Dañino had 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 was paid by the Company and four-fifths was paid by Ares.

Ignacio Bustamante has a service contract with Ares only, and as a result, his base salary is paid entirely by that company.

– 2010 Review of Executive Chairman's Remuneration
As mentioned in the 2009 Directors' Remuneration Report, the Remuneration Committee agreed revised arrangements in respect of Eduardo Hochschild with effect from 1 January 2010. Under these arrangements, a higher base salary was agreed and Mr Hochschild's participation in bonus and long-term incentive plans were waived.

– 2011 Review of CEO's Remuneration
Mindful of the competition amongst international mining companies to secure the employment of talented senior executives, the Remuneration Committee is keen to ensure that Ignacio Bustamante's remuneration is structured and set appropriately to motivate and retain. With this objective in mind, the Committee increased Mr Bustamante's base salary from $370,000 to $450,000 to take effect from 1 January 2011. Even at this revised level, the Committee considers Mr Bustamante's salary to be significantly below median for comparable roles at other mining companies of similar size.

The Committee takes into consideration the remuneration arrangements for the wider employee population in making its decisions on remuneration for senior executives.

SHORT-TERM INCENTIVES

Each year the Remuneration Committee approves objectives for each of the Executive Directors based on individual roles and responsibilities which include 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 is subject to the discretion of the Remuneration Committee.

The maximum bonus opportunities of the directors in executive office as at 31 December 2010 (expressed as a percentage of their respective base salaries) are as follows:

Roberto Dañino – 100%

Ignacio Bustamante – 125%

2010 BONUS AWARDS

A summary of the objectives set in respect of 2010 and performance against them is given below:

- Achieving a level of production within the range set for the year;
- Generating a level of cashflow which exceeded the highest target;
- Achieving Earnings Per Share (on a pre-exceptional basis) which exceeded the highest target;
- Assuring the growth of the business through increasing Life of Mine and developing greenfield projects, in respect of which the highest targets had been exceeded;
- Managing the progress of the Group's corporate development strategy, the results of which met the Board's objectives; and

– Improving safety across the Group as measured by the Accident Frequency Index, the result of which was a significant improvement on the previous year,

In light of the Executives' performance against their objectives, the Remuneration Committee has approved the levels of annual bonuses as detailed in the table on page 63.

Pensions, statutory profit sharing and benefits-in-kind

The Group does not provide pension benefits to the Directors but in respect of the year under review it did pay Eduardo Hochschild and Roberto Dañino a cash supplement of $200,000 each per year in lieu of pension ("Pension Supplement"). Of this supplement, $160,000 was paid by Ares and $40,000 was paid by the Company.

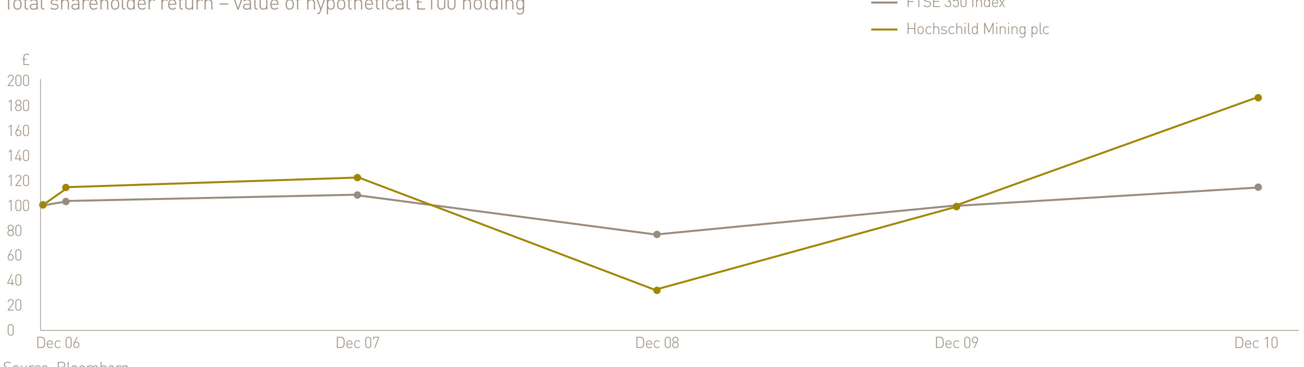
In addition, under Peruvian law, mining companies with more than 20 employees must pay to employees an annual share of profits, in an amount equal to 8% of the company's taxable income for the year. The amount receivable under this entitlement is determined with reference to seniority of the individual and length of service during the year.

The Group provided all of the Executive Directors serving during 2010 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 helps align selected executives' and senior employees' long-term interests with those of shareholders.

For Executive Directors the maximum cash payment on vesting in any three-year period may not be more than six times salary or eight times salary in exceptional circumstances (excluding interest on the deferred proportion of the Initial Awards (defined below)).

– Initial Awards

Initial awards under the plan were granted in 2008 and will vest in May 2011 ("the Initial Awards"). Further awards were granted during 2010 ("the 2010 Awards") and, as signalled in last year's report, the Company intends to make annual LTIP awards going forward in keeping with established market practice.

The vesting of the Initial Awards 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 2008 Comparator Index"). At the start of the plan, the 2008 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 2009, 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.

The Initial Awards vest in two equal tranches, on the third and fourth anniversaries of grant. Payment of the amount due on the fourth anniversary will attract notional interest at the inter-bank lending rate from the end of the Performance Period until the date of payment.

Directors' remuneration report
Continued

LTIP 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.

– Calculation of Relative TSR Performance of Initial Awards
When calculated on a Common Currency basis, the Company's TSR over the 2008 LTIP Performance Period was below the median of the Comparator Index which results in nil vesting of the Initial Awards. However, the Committee does not consider this to be a true reflection of the performance of the Group particularly in light of adverse foreign currency movements, and the significant appreciation in the Company's share price over the last two years of the Performance Period. Accordingly, subsequent to the year-end, the Committee consulted with major shareholders on using domestic currency as the basis of calculating the Company's relative TSR performance. A number of the Company's major shareholders expressed their support for this proposal. Accordingly, the Committee has concluded that use of the domestic currency approach is fully justified and which results in the vesting of 47% of the value of participants' Initial Awards. Participants will receive 50% of their entitlement in May 2011 and the balance, together with accrued notional interest, will be received in May 2012 subject to participants' continued service with the Group or otherwise in accordance with the rules of the plan.

– Subsequent LTIP Awards
The 2010 Awards are subject to principally the same terms as the Initial Awards, with the notable difference being that vesting is not phased and, accordingly, the 2010 Awards will vest on the third anniversary of the date of grant, to the extent that the performance conditions have been met.

In 2011, the Remuneration Committee intends to grant LTIP awards on broadly the same terms as the 2010 Awards. The comparator index in respect of these awards will comprise the constituents of the 2008 Comparator Index (as subsequently amended) supplemented by the addition of Fresnillo plc, Centamin Egypt Limited, African Barrick Gold plc and Randgold Resources Ltd. Given the situation arising from the use of the common currency approach with respect to the Initial Awards, the Committee intends to calculate the Company's relative TSR performance using a combination of domestic and common currencies. At the time of printing, shareholder consultation is ongoing and the Company therefore reserves the right to change the policy in respect of the 2011 awards based on feedback from the consultation.

Details of the LTIP awards held by the Executive Directors serving during the year are given in the table below.

	Value of maximum award held at 31 December 2009 or date of appointment, if later[1]	Value of maximum award granted during the year	Value of awards vested during the year	Awards surrendered or lapsed during the year	Value of maximum award held at 31 December 2010
Eduardo Hochschild	$4m	–	–	$4m[2]	–
Ignacio Bustamante	$1.6m	$0.74m	–	–	$2.34m
Miguel Aramburú[3]	$1.8m	–	–	$1.8m	–
Ignacio Rosado[4]	$1.5m	–	–	$1.5m	–

1 The vesting of LTIP awards held as at 31 December 2009 (or date of appointment if later) is subject to, amongst other things, the Company's relative TSR performance against a comparator index over the period from 1 January 2008 to 31 December 2010 ("the Performance Condition"). After consultation with the Company's major shareholders, the Remuneration Committee has applied its discretion to calculate the Company's relative TSR performance on a domestic currency basis rather than with reference to a common currency, principally in light of the Company's share price appreciation in 2009 and 2010. Further details are given in the paragraph headed "Calculation of Relative TSR Performance of Initial Awards" in the section of this report entitled "Long-Term Incentive Plan".

2 As part of a review of the Executive Chairman's remuneration arrangements undertaken in early 2010, Mr Hochschild agreed to surrender his Initial Award under the LTIP.

3 The LTIP Award held by Miguel Aramburú lapsed on his resignation from the Group on 30 June 2010.

4 The LTIP Award held by Ignacio Rosado lapsed on his resignation from the Group on 31 May 2010.

CEO LTIP PLAN

As part of the CEO's remuneration review referred to above, the Committee proposes in 2011 to grant enhanced LTIP awards to Mr Bustamante that would vest over an extended performance period of six years. These awards will be subject to shareholder approval at the forthcoming Annual General Meeting, further details of which can be found in the Notice of the 2011 AGM.

DIRECTORS' SERVICE CONTRACTS

As previously described, the contractual arrangements for those Executive Directors in office as at 31 December 2010 and who were appointed prior to the IPO in 2006 differ to those for the Executive Directors appointed subsequently.

In respect of the year under review, Eduardo Hochschild and Roberto Dañino were 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 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.

As announced by the Company in December 2010, Roberto Dañino stepped down from his role as an Executive Director of the Company and became a Non-Executive Director with effect from 1 January 2011.

Ignacio Bustamante was appointed a Director of the Company with effect from 1 April 2010 and is employed under a contract of employment with Ares dated 1 April 2007. The contract is subject to Peruvian law and, as such, has 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.

EXTERNAL APPOINTMENTS

The Board 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 2010 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	PEN 282,334 (US$99,906)
	Cementos Pacasmayo S.A.A.[1]	PEN 5,588,534 (US$1,977,542)
	Cementos Selva	PEN 588,152 (US$208,122)
	Inversiones Pacasmayo SA	PEN 1,991,285 (US$704,630)
	Pacifico Peruano Suiza Cia. De Seguros	PEN 94,083 (US$33,292)
Roberto Dañino	AFP Integra	PEN 44,336 (US$15,689)
	Cementos Pacasmayo S.A.A	PEN 433,981 (US$153,567)
	Grupo RPP	PEN 30,496 (US$10,791)
	Mibanco	PEN 245,678 (US$86,935)
	Lake Shore Gold Corporation[2]	CAD 37,100 (US$36,815)
	Gold Fields Limited	ZAR 226,085 (US$30,968)
	Gold Fields La Cima	PEN 56,480 (US$19,986)
Ignacio Bustamante	Lake Shore Gold Corporation[2]	CAD 39,900 (US$39,593)

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

2 Roberto Dañino and Ignacio Bustamante resigned from the Board of Lake Shore Gold Corporation on 3 November 2010 following termination of the Strategic Alliance Agreement between the Group and that company

Directors' remuneration report
Continued

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 have been 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. As disclosed in the Directors' Report, the Board has decided to adopt, with respect to the 2011 AGM, the recommendation of the UK Corporate Governance Code that all directors should seek annual re-election by shareholders.

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 fees payable to the Non-Executive Directors of the Company as at the date of this report are set out in the table below. Each of the Non-Executive Directors was in office for the entire year under review with the exception of Roberto Dañino who assumed a Non-Executive position on the Company's board from 1 January 2011.

Director	Letter of Appointment dated	Director's fee
Sir Malcolm Field[1]	16 October 2006	£120,000 ($186,000)
Jorge Born Jr.	16 October 2006	£100,000 ($155,000)
Nigel Moore[1]	16 October 2006	£120,000 ($186,000)
Dionisio Romero	16 October 2006	£100,000 ($155,000)
Fred Vinton	9 July 2009	£100,000 ($155,000)
Roberto Dañino[2]	11 January 2011	£100,000 ($155,000)

1 The fees payable to Sir Malcolm Field and Nigel Moore reflect the additional time commitment in their positions as Chairman of the Remuneration Committee and the Audit Committee respectively

2 Roberto Dañino was appointed a Non-Executive Director of the Company with effect from 1 January 2011

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 2010 and 31 December 2009.

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	Other payments US$000	**Total remuneration from 1 January 2010 (or date of appointment if later) to 31 December 2010 (or date of resignation, if earlier) US$000**	Total remuneration from 1 January 2009 (or date of appointment if later) to 31 December 2009 US$000
Eduardo Hochschild[2,3,4]	1,104	200	74	435	0[5]	0	1,813	2,660
Roberto Dañino[2,3,4]	638[6]	200	18	53	600[7]	0	1,509	868[8]
Ignacio Bustamante[9]	340	0	18	1	463	0	822	–
Sir Malcolm Field	170	0	0	0	0	0	170	156
Jorge Born Jr.	155	0	0	0	0	0	155	156
Nigel Moore	186	0	0	0	0	0	186	187
Dionisio Romero	155	0	0	0	0	0	155	156
Fred Vinton	155	0	0	0	0	0	155	65[10]
Former Directors								
Miguel Aramburú[11]	242	0	40	2	300	435	1,019	1,228
Ignacio Rosado[12]	192	0	16	2	240	195	645	644
Total	**3,337**	**400**	**166**	**493**	**1,603**	**630**	**6,629**	**6,120**

1 Amounts disclosed include sums paid by way of expense allowances.
2 In respect of the year under review, Eduardo Hochschild and Roberto Dañino each had a service contract with both Hochschild Mining plc and Compañía Minera Ares S.A.C., a Group subsidiary.
3 One-fifth of the base salaries of Eduardo Hochschild and Roberto Dañino were paid by the Company with the balance paid by Compañía Minera Ares S.A.C. In addition, $40,000 of each of their total annual pension supplements was paid by the Company with the balance paid by Compañía Minera Ares S.A.C.
4 Salaries paid by Compañía Minera Ares S.A.C. 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 exclude legal profit sharing.
5 Following a review of Mr Hochschild's remuneration conducted during the year, it was agreed that in consideration for an increase in base salary, Mr Hochschild would not be entitled to participate in any Long Term Incentive Plan or Bonus Plans in respect of 2010 and subsequent years.
6 The amount disclosed includes the amount of CAD 37,100 (US$36,815) received by Mr Dañino during the year in his capacity as a Hochschild-nominated director of Lake Shore Gold Corporation.
7 Roberto Dañino's performance-related bonus was paid by the Company and Compañía Minera Ares S.A.C. in the proportion that each company pays his base salary.
8 Roberto Dañino's total remuneration in 2009 does not include a performance-related bonus which was waived by Mr Dañino to support further the future development of the communities located close to the Group's operations.
9 Ignacio Bustamante was appointed a Director of the Company with effect from 1 April 2010. The amount of the base salary disclosed relates to the period from his appointment and includes all legal labour benefits and compensation such as, but not restricted to, vacation salaries and compensation for time services (ruled by Peruvian Legislative Decree 6500) but excludes legal profit sharing. The amount disclosed also includes the amount of CAD 39,900 (US$39,593) received by him during the year in his capacity as a Hochschild-nominated director of Lake Shore Gold Corporation.
10 Fred Vinton was appointed a Director of the Company on 1 August 2009.
11 Miguel Aramburú resigned as a Director of the Company on 31 March 2010 and as an employee on 30 June 2010. "Other payments" includes an amount paid by Compañía Minera Ares S.A.C. on termination of Mr Aramburú's contract in recognition of his length of service to the Group.
12 Ignacio Rosado resigned as an employee and as a Director of the Company on 31 May 2010. The amount of Base Salary disclosed includes the amount of CAD 21,596 (US$21,430) received by him prior to his resignation from the Group in his capacity as a Hochschild-nominated director of Lake Shore Gold Corporation. "Other payments" includes an amount paid by Compañía Minera Ares S.A.C. in recognition of Mr Rosado's services to the Group.

DIRECTORS' INTERESTS IN SHARES

The interests of the Directors in the Company's shares are set out in the Directors' report on page 47.

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

28 March 2011

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 English 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 Act 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 English 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 England governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent auditor's report

We have audited the financial statements of Hochschild Mining plc for the year ended 31 December 2010 which comprise the Group and Parent Company Statements of Financial Position, the Group Statement of Comprehensive Income, the Group and Parent Company Statements of Cash Flow, the Group and Parent Company Statements of Changes in Equity and the related notes. 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 auditor

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 and express an opinion on 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 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 2010 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; and
- 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; and
- The information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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.

Under the Listing Rules we are required to review:

- The directors' statement, in relation to going concern;
- The part of the Corporate Governance Statement relating to the company's compliance with the nine provisions of the June 2008 Combined Code specified for our review; and
- Certain elements of the report to shareholders by the Board on directors' remuneration.

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

28 March 2011

Financial statements

Financial statements

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Consolidated income statement
For the year ended 31 December 2010

	Notes	Year ended 31 December 2010			Year ended 31 December 2009		
		Before exceptional items US$000	Exceptional items US$000	Total US$000	Before exceptional items US$000	Exceptional items US$000	Total US$000
Continuing operations							
Revenue	3, 5	752,322	–	752,322	539,741	–	539,741
Cost of sales	6	(345,667)	(8,861)	(354,528)	(279,298)	(6,918)	(286,216)
Gross profit		406,655	(8,861)	397,794	260,443	(6,918)	253,525
Administrative expenses	7	(66,221)	–	(66,221)	(51,068)	–	(51,068)
Exploration expenses	8	(41,537)	–	(41,537)	(19,941)	(1,049)	(20,990)
Selling expenses	9	(26,920)	–	(26,920)	(21,005)	–	(21,005)
Other income	11	5,605	77,197	82,802	4,501	8,782	13,283
Other expenses	11	(10,956)	–	(10,956)	(19,330)	(1,247)	(20,577)
Impairment and write-off of assets (net)	15,16	–	(24,018)	(24,018)	–	(26,713)	(26,713)
Profit from continuing operations before net finance income/(cost), foreign exchange loss and income tax		266,626	44,318	310,944	153,600	(27,145)	126,455
Share of post tax (losses)/profit of associates and joint ventures accounted under equity method	18	(4,607)	(1,473)	(6,080)	7,617	39,606	47,223
Finance income	12	4,140	9,204	13,344	6,384	22,300	28,684
Finance costs	12	(29,542)	–	(29,542)	(46,040)	(1,256)	(47,296)
Foreign exchange loss		29	–	29	(256)	–	(256)
Profit from continuing operations before income tax		236,646	52,049	288,695	121,305	33,505	154,810
Income tax (expense)/benefit	13	(77,816)	5,786	(72,030)	(44,688)	11,218	(33,470)
Profit for the year from continuing operations		158,830	57,835	216,665	76,617	44,723	121,340
Attributable to:							
Equity shareholders of the Company		94,924	61,687	156,611	52,892	45,188	98,080
Non-controlling interests		63,906	(3,852)	60,054	23,725	(465)	23,260
		158,830	57,835	216,665	76,617	44,723	121,340
Basic earnings per Ordinary Share from continuing operations for the year (expressed in US dollars per share)	14	0.28	0.18	0.46	0.17	0.14	0.31
Diluted earnings per Ordinary Share from continuing operations for the year (expressed in US dollars per share)	14	0.29	0.17	0.46	0.17	0.14	0.31

Consolidated statement of comprehensive income
For the year ended 31 December 2010

	Notes	Year ended 31 December 2010 US$000	2009 US$000
Profit for the year		216,665	121,340
Other comprehensive income			
Recycling of the exchange differences on translating foreign operations due to Lake Shore Gold sale		2,143	–
Exchange differences on translating foreign operations		2,982	25,707
Change in fair value of available-for-sale financial assets		47,573	23,019
Recycling of the gain on available-for-sale financial assets	12(3)(4)	(5,915)	(19,329)
Change in fair value of cash flow hedges taken to equity		(2,346)	(4,736)
Recycling of the change in fair value of cash flow hedges taken to equity		429	4,723
Deferred income tax relating to components of other comprehensive income		(7,189)	71
Other comprehensive income for the period, net of tax		37,677	29,455
Total comprehensive income for the year		254,342	150,795
Total comprehensive income attributable to			
Equity shareholders of the Company		194,288	127,558
Non-controlling interests		60,054	23,237
		254,342	150,795

Consolidated statement of financial position
As at 31 December 2010

	Notes	As at 31 December 2010 US$000	As at 31 December 2009 US$000
ASSETS			
Non-current assets			
Property, plant and equipment	15	457,183	438,958
Evaluation and exploration assets	16	161,811	55,828
Intangible assets	17	20,166	22,425
Investments accounted under equity method	18	79,068	450,665
Available-for-sale financial assets	19	153,620	19,181
Trade and other receivables	20	36,817	3,150
Income tax receivable		2,401	1,302
Deferred income tax assets	28	5,229	15,852
		916,295	1,007,361
Current assets			
Inventories	21	55,130	45,813
Trade and other receivables	20	145,935	164,864
Income tax receivable		917	9,280
Other financial assets	22	20,662	695
Cash and cash equivalents	23	525,482	77,844
		748,126	298,496
Total assets		1,664,421	1,305,857
EQUITY AND LIABILITIES			
Capital and reserves attributable to shareholders of the Parent			
Equity share capital	27	158,637	158,637
Share premium	27	395,928	395,928
Other reserves		(175,244)	(212,921)
Retained earnings		528,788	385,700
		908,109	727,344
Non-controlling interests		147,120	76,126
Total equity		1,055,229	803,470
Non-current liabilities			
Trade and other payables	24	2,393	81
Borrowings	25	248,380	219,681
Provisions	26	86,443	55,176
Deferred income tax liabilities	28	28,534	10,662
		365,750	285,600
Current liabilities			
Trade and other payables	24	116,074	68,501
Other financial liabilities	22	1,930	2,640
Borrowings	25	69,272	112,908
Provisions	26	41,871	11,405
Income tax payable		14,295	21,333
		243,442	216,787
Total liabilities		609,192	502,387
Total equity and liabilities		1,664,421	1,305,857

These financial statements were approved by the Board of Directors on 28 March 2011 and signed on its behalf by:

Ignacio Bustamante
Chief Executive Officer
28 March 2011

Consolidated statement of cash flows
For the year ended 31 December 2010

	Notes	Year ended 31 December 2010 US$000	Year ended 31 December 2009 US$000
Cash flows from operating activities			
Cash generated from operations	32	351,261	215,698
Interest received		1,749	1,041
Interest paid		(20,604)	(12,902)
Payment of mine closure costs	26	(4,634)	(2,831)
Tax paid		(23,540)	(482)
Net cash generated from operating activities		304,232	200,524
Cash flows from investing activities			
Purchase of property, plant and equipment		(122,836)	(116,009)
Purchase of evaluation and exploration assets		(35,980)	(8,636)
Proceeds from sale of investment in associates		383,614	–
Acquisition of subsidiary		–	(19,246)
Dividends received from associates		2,633	–
Investment in associates		(20,336)	(216,943)
Purchase of available-for-sale financial assets		(20,785)	(1,857)
Purchase of intangibles		(94)	(16,330)
Proceeds from sale of available-for-sale financial assets		11,915	3,861
Proceeds from sale of property, plant and equipment		832	2,139
Net cash generated from/(used in) investing activities		198,963	(373,021)
Cash flows from financing activities			
Proceeds of borrowings		37,650	285,461
Repayment of borrowings		(52,447)	(277,185)
Transaction costs associated with borrowing		(690)	(3,568)
Acquisition of non-controlling interests		–	(1,500)
Dividends paid	29	(39,523)	(20,048)
Proceeds from issue of ordinary shares under Global offer		–	143,621
Transaction costs associated with issue of shares		–	(3,453)
Capital contribution from non-controlling interests		–	11,115
Cash flows (used in)/generated from financing activities		(55,010)	134,443
Net increase/(decrease) in cash and cash equivalents during the year		448,185	(38,054)
Exchange difference		(547)	(249)
Cash and cash equivalents at beginning of year		77,844	116,147
Cash and cash equivalents at end of year	23	525,482	77,844

Consolidated statement of changes in equity
For the year ended 31 December 2010

	Notes	Equity share capital US$000	Share premium US$000	Unrealised gain/(loss) on available-for-sale financial assets US$000	Unrealised gain/(loss) on cash flow hedges US$000	Bond equity component US$000	Cumulative translation adjustment US$000	Merger reserve US$000	Total Other reserves US$000	Retained earnings US$000	Capital and reserves attributable to shareholders of the Parent US$000	Non-controlling interests US$000	Total equity US$000
Balance at 1 January 2009		146,466	395,928	(410)	–	–	(40,375)	(210,046)	(250,831)	167,767	459,330	66,293	525,623
Other comprehensive income/(loss)		–	–	3,749	(13)	–	25,742	–	29,478	–	29,478	(23)	29,455
Profit for the year		–	–	–	–	–	–	–	–	98,080	98,080	23,260	121,340
Total comprehensive income for 2009		–	–	3,749	(13)	–	25,742	–	29,478	98,080	127,558	23,237	150,795
Issuance of shares	27	12,171	–	–	–	–	–	127,997	127,997	–	140,168	–	140,168
Transfer to retained earnings		–	–	–	–	–	–	(127,997)	(127,997)	127,997	–	–	–
Issuance of convertible bonds		–	–	–	–	8,432	–	–	8,432	–	8,432	–	8,432
Purchase of shares from non-controlling interests		–	–	–	–	–	–	–	–	4,150	4,150	(5,650)	(1,500)
Dividends declared during the year	29	–	–	–	–	–	–	–	–	(12,294)	(12,294)	–	(12,294)
Dividends paid to non-controlling interests	29	–	–	–	–	–	–	–	–	–	–	(7,754)	(7,754)
Balance at 31 December 2009		158,637	395,928	3,339	(13)	8,432	(14,633)	(210,046)	(212,921)	385,700	727,344	76,126	803,470
Other comprehensive income		–	–	34,469	(1,917)	–	5,125	–	37,677	–	37,677	–	37,677
Profit for the year		–	–	–	–	–	–	–	–	156,611	156,611	60,054	216,665
Total comprehensive income for 2010		–	–	34,469	(1,917)	–	5,125	–	37,677	156,611	194,288	60,054	254,342
Capital contribution from non-controlling interest		–	–	–	–	–	–	–	–	–	–	36,940	36,940
Dividends declared during the year	29	–	–	–	–	–	–	–	–	(13,523)	(13,523)	–	(13,523)
Dividends paid to non-controlling interests	29	–	–	–	–	–	–	–	–	–	–	(26,000)	(26,000)
Balance at 31 December 2010		158,637	395,928	37,808	(1,930)	8,432	(9,508)	(210,046)	(175,244)	528,788	908,109	147,120	1,055,229

Notes to the consolidated financial statements

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 and Chile at various stages of development.

These consolidated financial statements were approved for issue by the Board of Directors on 28 March 2011.

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

Company	Principal activity	Country of incorporation	Equity interest at 31 December 2010 %	2009 %
Hochschild Mining (Argentina) Corporation S.A. (formerly Hochschild Mining (Argentina) Corporation)	Holding company	Argentina	100	100
MH Argentina S.A.	Exploration office	Argentina	100	100
Minera Santa Cruz S.A.	Production of gold & silver	Argentina	51	51
Cerro Mining Corp.[1,2]	Subsidiary	Bahamas	–	100
Southwestern Gold (Bermuda) Limited[1]	Holding company	Bahamas	100	100
Southwestern Gold (China) Inc.[1,2]	Subsidiary	Bahamas	–	100
0848818 BC Ltd[1]	Subsidiary	Canada	100	100
Hochschild Mining Chile S.A.	Holding company	Chile	100	100
Minera Hochschild Chile S.C.M. (formerly Minera MH Chile Ltda.)	Exploration office	Chile	100	100
Southwest Minerals (Yunnan) Inc.[1]	Subsidiary	China	100	100
Hochschild Mining Holdings Limited	Holding company	England & Wales	100	100
Hochschild Mining Ares (UK) Limited	Subsidiary	England & Wales	100	100
Southwest Mining Inc.[1]	Subsidiary	Mauritius	100	100
Southwest Minerals Inc.[1]	Subsidiary	Mauritius	100	100
Hochschild Mining Mexico, S.A. de C.V. (formerly Hochschild Mining (Mexico) Corporation)	Holding company	Mexico	100	100
HMX, S.A. de C.V.	Exploration office	Mexico	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	100
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 (Peru) S.A. (formerly Hochschild Mining (Peru) Corporation)	Holding company	Peru	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[3]	Not-for-profit	Peru	–	–
Pallancata Holding S.A.C. (formerly Compañía Minera Coriorco S.A.)[4]	Holding company	Peru	–	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 2010 %	2009 %
Inmaculada Holdings S.A.C.	Holding company	Peru	100	100
Liam Holdings S.A.C.	Holding company	Peru	100	100
MInera del Suroeste S.A.C.[1]	Exploration office	Peru	100	100
Minera Quellopata S.A.C.[5]	Exploration office	Peru	60	49
Minas Pacapausa S.A.C.	Exploration office	Peru	100	100
Minera Minasnioc S.A.C.	Subsidiary	Peru	100	100
Hochschild Mining (US) Inc. (formerly MH Nevada, Inc.)	Subsidiary	USA	100	100

1 These companies were incorporated into the Hochschild Mining Group following the purchase of Southwestern Resources Group on 21 May 2009.
2 On 26 April 2010, Southwestern Gold (Bermuda) Limited absorbed Cerro Mining Corp. and Southwestern Gold (China) Inc.
3 Asociación Sumac Tarpuy is an unincorporated entity, which receives donations from Compañía Minera Ares S.A.C. ("Ares"), and spends this money, at the direction of Ares, on the community and social welfare activities located close to its mine units. As a result, the Group consolidates this entity.
4 On 1 December 2010, Hochschild Mining (Peru) S.A. absorbed Pallancata Holding S.A.C.
5 On 1 November 2010, Compañia Minera Ares S.A.C. increased its interest in Minera Quellopata S.A.C. to 60%.

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 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 2010 and 2009 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)).

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 2011 or later periods but which the Group has not early adopted. Those that are applicable to the Group are as follows:

– IAS 24 "Related Party Disclosures (Amendment)", applicable for annual periods beginning on or after 1 July 2011.

  This standard clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduced a partial exemption of disclosure requirements for government-related entities. The Group does not expect the adoption of this standard to impact its financial position or performance. Early adoption is permitted for either the partial exemption for government-related entities or for the entire standard.

– IAS 32 "Financial Instruments: Presentation — Classification of Rights Issues", applicable for annual periods beginning on or after 1 February 2010.

  This standard changed the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The adoption of this standard will have no impact on the Group after initial application.

– IFRS 9 "Financial Instruments: Classification and Measurement", applicable for annual periods beginning on or after 1 January 2013.

  As part of the IASB's project to replace IAS 39 'Financial Instruments: Recognition and Measurement', in November 2009, the IASB issued the first phase of IFRS 9 'Financial Instruments', dealing with the classification and measurement of financial assets. In October 2010, the IASB updated IFRS 9 by incorporating the requirements for the accounting for financial liabilities. However, the Group has determined that the effect shall be quantified in conjunction with the other phases, when issued, to present a comprehensive picture.

Notes to the consolidated financial statements
Continued

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- IAS 12 "Income Taxes", applicable for annual periods beginning on or after 1 January 2012.

  Under IAS 12, an entity is to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. The amendment introduces a presumption that recovery of the carrying amount will normally be through sale. The amendment is deemed to have no impact on the financial statements of the Group.

- IFRIC 14 "Prepayments of a minimum funding requirement (Amendment)", applicable for annual periods beginning on or after 1 January 2011.

  The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset. The amendment is deemed to have no impact on the financial statements of the Group.

- IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments", applicable for annual periods beginning on or after 1 July 2010.

  The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case this cannot be reliably measured, they are measured at the fair value of the liability extinguished. Any gain or loss is recognised immediately in profit or loss. The adoption of this interpretation will have no effect on the financial statements of the Group.

- "Improvements to IFRSs (issued in May 2010)", applicable for annual periods beginning on or after 1 July 2010 or 1 January 2011.

  The IASB issued Improvements to IFRSs, an omnibus of amendments to its IFRS standards.

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.

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 15 and 16.
- Estimation of the amount and timing of mine closure costs – notes 2(p) and 26.
- Income tax – notes 2(t), 13 and 28.
- Contingent liabilities regarding claims from tax authorities – note 34.
- Judgement in deciding if a company is a subsidiary of the Group – note 2(d).
- Judgement in deciding if a transaction has to be recognised as an acquisition of assets or business combination – note 4(b)
- Recognition of evaluation and exploration assets and transfer to development costs – note 2(g).

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

  The revised standard will have an impact on the profit or loss reported in the period of an acquisition, the amount of goodwill recognised in a business combination and the profit or loss reported in future periods. IFRS 3 applies prospectively to business combinations occurring after 1 July 2009 and had no impact on the financial statements.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- 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 a transaction with owners in their capacity as owners. The Group has changed the reference 'minority interest' to 'non-controlling interest', in accordance with the standard.

- IFRIC 17 "Distributions of Non-cash Assets to Owners", applicable for annual periods beginning on or after 1 July 2009.

  This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. The interpretation had no effect on the financial position or performance of the Group.

- 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. The amendment had no effect on the financial position or performance of the Group.

- IFRS 2 'Group Cash-settled Share-based Payment Arrangements', applicable for annual periods beginning on or after 1 January 2010.

  The standard has been amended to clarify the accounting for group cash-settled share-based payment transactions, where a subsidiary receives goods or services from employees or suppliers but the parent or another entity in the group pays for those goods or services. IFRIC 8 and IFRIC 11 have been withdrawn. This amendment had no effect on the financial position or performance of the Group.

- Improvements to International Financial Reporting Standards (issued 2009).

  Includes 15 amendments to 12 standards.

  Applicable for annual periods beginning on or after 1 July 2009: IFRS 2 Share-based Payment, IAS 38 Intangible Assets, IFRIC 9 Reassessment of Embedded Derivatives, IFRIC 16 Hedges of a net Investment in a Foreign Operation.

  Effective immediately on issue date in April 2009: IAS 18 Revenue.

  Applicable for annual periods beginning on or after 1 January 2010: IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, IFRS 8 Operating Segments, IAS 1 Presentation of Financial Statements, IAS 7 Statement of Cash Flows, IAS 17 Leases, IAS 36 Impairment of Assets, IAS 39 Financial Instruments: Recognition and Measurement. These improvements had no 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 2010 and 31 December 2009 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, non-controlling interests' rights to safeguard their interest are fully considered in assessing whether the Group controls a subsidiary.

Basis of consolidation from 1 January 2010

Subsidiaries are consolidated from the date of their acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. Control comprises the power to govern the financial and operating policies of the investee so as to obtain benefit from its activities and is achieved through direct or indirect ownership of voting rights; currently exercisable or convertible potential voting rights; or by way of contractual agreement.

A change in the ownership interest of a subsidiary, without loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it (i) derecognises the assets (including goodwill) and liabilities of the subsidiary; (ii) derecognises the carrying amount of any non-controlling interest; (iii) derecognises the cumulative translation differences, recorded in equity; (iv) recognises the fair value of the consideration received; (v) recognises the fair value of any investment retained; (vi) recognises any surplus or deficit in profit or loss; (vii) reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

Non-controlling interests represent the equity in a subsidiary not attributable, directly and indirectly, to the parent company and is presented separately within equity in the consolidated balance sheet, separately from equity attributable to owners of the parent.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

Basis of consolidation prior to 1 January 2010.

Notes to the consolidated financial statements
Continued

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Certain of the above-mentioned requirements were applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

Non-controlling interest represent the portion of profit or loss and net assets in subsidiaries that is not held by the group and is presented separately within equity in the consolidated balance sheet, separately from parent shareholder's equity.

For acquisitions of non-controlling interests, prior to 1 January 2010, the difference between the consideration and the book value of the share of the net assets acquired were recognised in retained earnings.

Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributed to the parent, unless the non-controlling interest had a binding obligation to cover these. Losses prior to 1 January 2010 were not reallocated between non-controlling interest and the parent shareholders.

Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost.

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.

Non-controlling interests primarily represent the interests in Minera Santa Cruz, Compañía Minera Arcata, Minera Suyamarca and Minera Quellopata S.A.C. not held by the Company. In the event of a purchase of non-controlling interests 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.

Business combinations from 1 January 2010

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. The choice of measurement of non-controlling interest, either at fair value or at the proportionate share of the acquiree's identifiable net assets is determined on a transaction by transaction basis. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with IAS 39 either in profit or loss or in other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the acquisition date fair value of the consideration transferred and the amount recognised for the non-controlling interest (and where the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree) over the net identifiable amounts of the assets acquired and the liabilities assumed in exchange for the business combination. Assets acquired and liabilities assumed in transactions separate to the business combinations, such as the settlement of pre-existing relationships or post-acquisition remuneration arrangements are accounted for separately from the business combination in accordance with their nature and applicable IFRSs. Identifiable intangible assets, meeting either the contractual-legal or separability criterion are recognised separately from goodwill. Contingent liabilities representing a present obligation are recognised if the acquisition date fair value can be measured reliably.

If the aggregate of the acquisition date fair value of the consideration transferred and the amount recognised for the non-controlling interest (and where the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree) is lower than the fair value of the assets, liabilities and contingent liabilities and the fair value of any pre-existing interest held in the business acquired, the difference is recognised in profit and loss.

Business combinations prior to 1 January 2010

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The minority interest is accounted for using the parent entity extension method, whereby the difference between the consideration paid and the book value of the share in net assets acquired is recognised in goodwill.

Goodwill is initially measured at cost being the excess of the cost of business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. If the net fair value of the acquired entity's identifiable assets, liabilities and contingent liabilities is greater than the cost of the investment, the difference is recognised in profit and loss.

Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognised as part of goodwill.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

(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 borrowing costs 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 six 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.

Notes to the consolidated financial statements
Continued

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

(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 statement of comprehensive income of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the statement of comprehensive income. 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 non-controlling 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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

(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. Any excess above the par value of shares received upon issuance of those 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 10) 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.

(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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 international exchanges. The revaluation of provisionally priced contracts is recorded as an adjustment to "revenue".

Income from services provided to related parties (note 30) 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.

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.

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.

Impairment of financial assets
The Group assesses at each statement of financial position date whether a financial asset or group of financial assets is impaired.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

For available-for-sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost, where 'significant' is estimated to be around 30% of the original cost of the investment and 'prolonged' is no more than 12 months. In addition, the Group analyses any case taking into account the portfolio of projects of the Company, the key technical personnel and the viability of the Company to finance its projects. 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.

(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.

Notes to the consolidated financial statements
Continued

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

Liquidity funds are classified as cash equivalents if the amount of cash that will be received is known at the time of the initial investment and the risk of changes in value is considered insignificant.

(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 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 undertakes a number of activities 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 until June 2009 generated revenue from the sale of gold, silver and concentrate. The operating unit is no longer considered a reporting segment.
- 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 aim 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.
- Other – for the year 2010 the amount disclosed includes the profit or loss generated by Empresa de Transmision Callalli S.A.C. (a power generation company), Servicios Corporativos Hochschild Mining Mexico S.A. de C.V. (a service company in Mexico), and the Selene mine that closed in 2009 which, as a consequence, was not considered to be a reportable segment. For the year 2009 the amount disclosed includes the profit or loss generated by Empresa de Transmision Callalli S.A.C., Servicios Corporativos Hochschild Mining Mexico S.A. de C.V. and Compañía Minera Arcata S.A.

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, selling expenses and exploration expenses.

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

Notes to the consolidated financial statements
Continued

3 SEGMENT REPORTING (CONTINUED)

(a) Reportable segment information

	Ares US$000	Arcata US$000	Pallancata US$000	San José US$000	Moris US$000	Exploration US$000	Other[1] US$000	Adjustment and eliminations US$000	**Total US$000**
Year ended 31 December 2010									
Revenue for external customers	56,824	181,778	261,877	220,825	30,899	–	119	–	752,322
Inter segment revenue	–	–	–	–	–	–	6,992	(6,992)	–
Total revenue	56,824	181,778	261,877	220,825	30,899	–	7,111	(6,992)	752,322
Segment profit/(loss)[2]	15,053	104,677	158,528	92,804	766	(49,277)	5,030	1,756	329,337
Others[3]									(40,642)
Profit/(loss) from continuing operations before income tax									288,695
Other segment information									
Depreciation[4]	(2,788)	(18,214)	(33,939)	(34,730)	(10,865)	(218)	(1,692)	–	(102,446)
Amortisation	–	–	–	(2,067)	–	–	(301)	–	(2,368)
Non-cash expenses	(42)	(1,328)	(102)	(6,728)	–	(15,464)	(354)	–	(24,018)
Assets									
Capital expenditure	5,422	30,230	43,955	55,183	2,728	108,218	2,305	–	248,041
Current assets	4,661	20,934	69,968	39,739	7,295	11	1,926	–	144,534
Other non-current assets[5]	9,670	82,983	127,869	210,010	1,428	194,111	12,939	–	639,010
Total segment assets	14,331	103,917	197,837	249,749	8,723	194,122	14,865	–	783,544
Not reportable assets[6]	–	–	–	–	–	–	880,877	–	880,877
Total assets	14,331	103,917	197,837	249,749	8,723	194,122	895,742	–	1,664,421

1 "Other" revenue primarily relates to revenues earned by Servicios Corporativos Hochschild Mining Mexico S.A. de C.V. for services provided to the Moris mine, and the Mexican exploration activities.
2 Segment profit for the operating segments Ares, Arcata, Selene and Pallancata includes an exceptional item in cost of sales of US$8,861,000 (refer to note 6(1)).
3 Comprised of administrative expenses of US$66,221,000, other income of US$82,802,000, other expenses of US$10,956,000, impairment of assets of US$24,018,000, share of loss of associates and joint ventures of US$6,080,000,, finance income of US$13,344,000, finance cost of US$29,542,000, and foreign exchange gain of US$29,000.
4 Includes US$61,000 of depreciation capitalised in Minera Hochschild Mexico S.A. de C.V. due to the San Felipe project.
5 Includes goodwill in respect of San José amounting to US$2,091,000.
6 Not reportable assets are comprised of intangibles of US$150,000, investments accounted under the equity method of US$79,068,000, available-for-sale financial assets of US$153,620,000, other receivables of US$93,348,000, income tax receivable of US$3,318,000, deferred income tax assets of US$5,229,000, other financial assets of US$20,662,000 and cash and cash equivalents of US$525,482,000.

3 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[1] 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
Segment profit/(loss)[2]	18,907	74,922	(2,874)	84,810	41,767	7,674	(24,558)	2,160	8,722	211,530
Others[3]										(56,720)
Profit/(loss) from continuing operations before income tax										154,810
Other segment information										
Depreciation[4]	(5,362)	(19,292)	(8,235)	(15,324)	(29,510)	(4,868)	(202)	(1,129)	–	(83,922)
Non-cash expenses	(15,263)	–	(4,805)	–	–	3,446	(10,091)	(6,185)	–	(32,898)
Assets										
Capital expenditure	3,484	29,688	16,579	24,117	26,113	480	5,778	2,296	–	108,535
Current assets	5,239	21,004	2,708	51,228	33,190	8,307	–	1,118	–	122,794
Other non-current assets[5]	7,114	72,979	60,574	55,882	200,170	9,489	97,100	13,561	–	516,869
Total segment assets	12,353	93,983	63,282	107,110	233,360	17,796	97,100	14,679	–	639,663
Not reportable assets[6]	–	–	–	–	–	–	–	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 "Other" revenue primarily relates to revenues earned by Servicios Corporativos Hochschild Mining Mexico S.A. de C.V. for services provided to the Moris mine, and the Mexican exploration activities.
2 Segment 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 6(1)).
3 Comprised of 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, and foreign exchange loss of US$256,000.
4 Includes US$11,000 of depreciation capitalised in Minera Hochschild Mexico S.A. de C.V. due to the San Felipe project.
5 Includes goodwill in respect of San José amounting to US$2,091,000.
6 Not reportable assets are comprised of intangibles of US$342,000, investments accounted under the equity method of US$450,665,000, available-for-sale financial assets of US$19,181,000, other receivables of US$91,033,000, income tax receivable of US$10,582,000, deferred income tax assets of US$15,852,000, other financial assets of US$695,000 and cash and cash equivalents of US$77,844,000.

Financial statements

Notes to the consolidated financial statements
Continued

3 SEGMENT REPORTING (CONTINUED)

(b) Geographical information
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	
	2010 US$000	2009 US$000
External customer		
USA	147,701	130,126
Peru	158,540	159,339
Canada	137,713	98,960
Germany	128,834	84,121
Switzerland	88,457	57,549
United Kingdom	38,802	1,925
Korea	52,275	7,721
Total	752,322	539,741
Inter-segment		
Peru	882	1,161
Mexico	6,110	1,866
Total	759,314	542,768

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 2010			Year ended 31 December 2009		
	US$000	**% Revenue**	**Segment**	US$000	% Revenue	Segment
Consorcio Minero S.A.	158,464	21%	Arcata San José	155,182	29%	Arcata Pallancata San José
Teck Metals Ltd. (formerly Teck Cominco Metals Ltd)	137,713	18%	Arcata Pallancata	98,960	18%	Arcata Selene Pallancata
Aurubis AG (formerly Nordeutsche Affinerie AG)	128,834	17%	Selene Pallancata San José	84,121	16%	Selene Pallancata San José
Johnson Matthey Inc.	79,384	11%	Ares Arcata San José Moris	47,375	9%	Ares Arcata Selene San José Moris
International Commodities Inc.	42,853	6%	Ares Arcata Moris	61,979	11%	Ares Arcata Selene Moris

3 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	
	2010 US$000	2009 US$000
Peru	399,905	242,170
Argentina	210,265	200,384
Mexico	28,699	49,328
Chile	68	54
Canada	–	24,902
United Kingdom	79,291	451,038
Total non-current segment assets	718,228	967,876
Available-for-sale financial assets	153,620	19,181
Trade and other receivables	36,817	3,150
Deferred income tax assets	5,229	15,852
Income tax receivable	2,401	1,302
Total non-current assets	916,295	1,007,361

4 ACQUISITIONS

(a) Acquisition of associates

Lake Shore Gold Corp.

On 9 March 2009 the Group acquired 14,900,000 shares of Lake Shore Gold Corp. ("Lake Shore Gold") for US$18,003,000 as part of its commitment to participate in the bought-deal financing agreement entered into by Lake Shore Gold. After completion of the transaction, the Group's ownership in Lake Shore Gold 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 18 (a)). On the same day, 28,300,000 shares held by the Group in West Timmins were converted into 20,700,000 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 18 (a)).

On 16 February 2010 the Group acquired 1,273,036 shares of Lake Shore Gold for CAD$5,130,000 (US$4,813,000). After completion of this transaction, the Group's ownership in Lake Shore Gold increased from 35.69% to 35.92%.

At 6 October 2010 the Group diluted its interests in Lake Shore Gold to 32.7%.

On 14 October 2010 the Group entered into an agreement with RBC Dominion Securities Inc., BMO Nesbitt Burns Inc. and CIBC World Markets Inc. to dispose of 109,000,000 shares held in Lake Shore Gold (approximately 27.3%) pursuant to a bought deal transaction, at a price of CAD$3.60 per share. The sale was completed on 3 November 2010. After this transaction the Group holds approximately a 5.4% interest, no longer has Board representation and no longer exercises significant influence over Lake Shore Gold (refer to note 38(c)).

Notes to the consolidated financial statements
Continued

4 ACQUISITIONS (CONTINUED)

Gold Resource Corporation

In connection with the Strategic Alliance Agreement signed with Gold Resource Corporation ("GRC"), 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 GRC 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.

Between 26 January 2010 and 5 February 2010 the Group acquired 440,500 shares of its associate GRC for US$4,351,000 in the open market. In addition, on 8 March 2010 the Group signed a subscription agreement with GRC by which the Group acquired 600,000 shares for a total consideration of US$5,172,000.

In addition, on 27 May 2010 the Group acquired 631,579 shares of GRC for a total consideration of US$6,000,000. Following completion of this purchase, the Group's ownership in GRC increased to 25.28% on a fully diluted basis as at 31 December 2010.

(b) Acquisition of assets

Minera Quellopata S.A.C.

On 13 August 2007, the Group and Ventura Gold Corp. ("Ventura") entered into a letter of agreement by which the Group granted the option to Ventura to earn in an initial interest of 51% in the Inmaculada property (located in Peru). Under the agreement, Ventura was required to drill a minimum of 15,000m and issue 1,000,000 shares of Ventura within a three year period. Also, to maintain the option, Ventura was required to issue a further 2,000,000 additional shares to the Group between 2011 – 2015.

On 19 December 2008, Ventura exercised its option to acquire an initial 51% interest in the project after completing the initial drilling and issuing 1,000,000 shares to the Group (which was effectively completed during 2009).

Pursuant to the letter of agreement, the Group and International Minerals corporation ("IMZ") (which acquired 100% of Ventura and became party to the letter of agreement) formed a Peruvian company called Minera Quellopata S.A.C. ("Quellopata"), owned 51% by IMZ and 49% by the Group and entered into a Shareholders agreement on October 2009 (the "Quellopata Shareholders Agreement"). The Group contributed the Inmaculada Property and IMZ contributed all the exploration studies, in respect of the Inmacualada property, to Quellopata.

Ventura had the option to acquire an additional 19% interest in the project (totalling 70%) in exchange for funding the feasibility study within 6 years.

On 12 October 2010, the Group signed a Framework Agreement with IMZ, through which the Group acquired an additional 30% interest in the Inmaculada project (totalling 60%) in exchange for: (i) the purchase of US$20,000,000 of common shares in IMZ by way of a private placement, (ii) a payment of US$15,000,000, (iii) a commitment to fund the first US$100,000,000 needed to plan, develop and construct a mining operation within the Inmaculada property, (iv) the transfer of Minera del Suroeste S.A.C.'s ownership in Minas Pacapausa S.A.C. to Minera Suyamarca S.A.C. Minera Oro Vega which will transfer to Quellopata, together with the Puquiopata project. The Group will be the operator of the new venture pursuant to a separate Management Agreement similar in form and substance to the Pallancata management agreement.

On 23 December 2010 ("effective date"), the Group signed a new joint venture agreement with IMZ which details the approved structure and plan for the Inmaculada project and terminates the Quellopata Shareholders Agreement and the Pallancata Joint Venture Agreement.

This transaction has been accounted for as an asset acquisition as on the basis that Quellopata has no existing processes.

As a result of the acquisition, the Group obtained control over Quellopata and has consolidated it as a subsidiary. The net assets received in the asset acquisition were US$91,782,000 and the Non-Controlling Interest generated by the transaction was US$36,940,000. The Group recognised a contingent consideration of US$39,243,000 and an obligation to IMZ of US$15,594,000 as disclosed in the notes 26 and 24 respectively.

4 ACQUISITIONS (CONTINUED)

(c) 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.

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

	Fair value US$000
Cash and cash equivalents	5,349
Available-for-sale financial assets	949
Investment in associate	361
Property, plant and equipment	24,266
Other assets	200
Deferred income tax liability	(3,663)
Other current liabilities	(522)
Net assets	26,940
Negative goodwill arising on acquisition	(7,694)
Total acquisition cost	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.

(d) Acquisition of non-controlling 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 non-controlling interest at the acquisition date of US$5,650,000 has been recognised as an increase of retained earnings.

5 REVENUE

	As at 31 December	
	2010 US$000	2009 US$000
Gold (from doré)	125,613	107,521
Silver (from doré)	98,431	71,546
Concentrate	528,173	360,534
Services	105	140
Total	752,322	539,741

The concentrate sold contained:

	As at 31 December	
	2010 US$000	2009 US$000
Gold	118,327	90,516
Silver	409,846	269,930
Other minerals	–	88
Total concentrate	528,173	360,534

Included within revenue is a gain of US$60,473,436 relating to provisional pricing adjustments representing the change in the fair value of embedded derivatives (2009: gain of US$27,538,526) arising on sales of concentrates and doré (refer to notes 2(r) and 22(3)).

Notes to the consolidated financial statements
Continued

5 REVENUE (CONTINUED)

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

	As at 31 December	
	2010	2009
Total in thousands of net ounces:		
Gold	196	204
Silver	23,506	23,563

6 COST OF SALES

Included in cost of sales are:

	Year ended 31 December 2010			Year ended 31 December 2009		
	Before exceptional items US$000	**Exceptional items US$000**	**Total US$000**	Before exceptional items US$000	Exceptional items US$000	Total US$000
Depreciation and amortisation	102,705	–	102,705	83,426	–	83,426
Personnel expenses[1]	88,194	8,861	97,055	51,284	6,918	58,202
Mining royalty	15,091	–	15,091	9,458	–	9,458
Change in products in process and finished goods	(3,609)	–	(3,609)	8,066	–	8,066

1 The exceptional item corresponds to a one-off bonus paid to the mining workers in Peru. In 2010 the pre exceptional amount also includes an additional bonus to the mining workers in Peru of US$6,851,000.

7 ADMINISTRATIVE EXPENSES

	Year ended 31 December	
	2010 US$000	2009 US$000
Personnel expenses	34,337	25,381
Professional fees	9,557	6,637
Social and community welfare expenses[1]	6,686	5,971
Lease rentals	1,176	1,653
Travel expenses	1,756	1,435
Communications	133	125
Indirect taxes	2,008	2,283
Depreciation	1,747	485
Amortisation of software licences	301	311
Contribution to Peruvian Government	1,814	870
Technology and systems	1,354	1,192
Security	437	286
Supplies	250	303
Other	4,665	4,136
Total	66,221	51,068

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

8 EXPLORATION EXPENSES

	Year ended 31 December 2010			Year ended 31 December 2009		
	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	2,476	–	2,476	1,345	–	1,345
Ares	–	–	–	–	–	–
Selene	–	–	–	–	–	–
Pallancata	3,742	–	3,742	701	–	701
San José	2,153	–	2,153	451	–	451
Moris	–	–	–	–	–	–
	8,371	–	8,371	2,497	–	2,497
Prospects[2]						
Peru	5,292	–	5,292	93	–	93
Argentina	2,767	–	2,767	1,016	–	1,016
Mexico	1,485	–	1,485	222	–	222
Chile	7,607	–	7,607	1,501	–	1,501
	17,151	–	17,151	2,832	–	2,832
Generative[3]						
Peru	3,356	–	3,356	3,142	–	3,142
Argentina	46	–	46	122	–	122
Mexico	460	–	460	580	–	580
Chile	175	–	175	280	–	280
China	–	–	–	231	–	231
	4,037	–	4,037	4,355	–	4,355
Mining rights	1,194	–	1,194	537	–	537
Personnel[4]	7,851	–	7,851	6,085	1,049	7,134
Other	2,933	–	2,933	3,635	–	3,635
Total	41,537	–	41,537	19,941	1,049	20,990

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 employees of the companies of the Southwestern Group.

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	
	2010 US$000	2009 US$000
Liabilities related to exploration activities	1,117	965

Cash flows of exploration activities are as follows:

	As at 31 December	
	2010 US$000	2009 US$000
Payments	21,036	7,469

Notes to the consolidated financial statements Continued

9 SELLING EXPENSES

	As at 31 December	
	2010 US$000	2009 US$000
Transportation of doré, concentrate and maritime freight	7,559	7,493
Sales commissions	1,466	1,145
Personnel expenses	296	270
Warehouse services	15,146	10,223
Other	2,453	1,874
Total	26,920	21,005

10 PERSONNEL EXPENSES

	As at 31 December	
	2010 US$000	2009 US$000
Salaries and wages[1]	77,803	67,770
Workers' profit sharing[2]	22,830	2,073
Other legal contributions[3]	15,215	8,859
Termination benefits[4]	2,768	3,989
Statutory holiday payments	5,406	3,867
Executive Long-Term Incentive Plan	6,975	–
Other	14,307	6,804
Total	145,304	93,362

1 Included in salaries and wages is the Directors' remuneration (refer to note 30(b)) and defined pension contributions of US$283,681 (2009: US$440,169).
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 for the deposit of compensation for services rendered, pension plans and contributions to Government entities.
4 The 2010 amount includes termination benefits paid to management of US$1,170,140. The 2009 amount includes US$1,049,000 termination benefits paid to the employees of the companies of the Southwestern Group.

Personnel expenses are distributed as follows:

	As at 31 December	
	2010 US$000	2009 US$000
Cost of sales (refer to note 6)	97,055	58,202
Administrative expenses (refer to note 7)	34,337	25,381
Exploration expenses (refer to note 8)	7,851	7,134
Selling expenses (refer to note 9)	296	270
Property, plant and equipment	5,765	2,375
Total	145,304	93,362

Average number of employees for 2010 and 2009 were as follows:

	As at 31 December	
	2010	2009
Peru	2,323	2,282
Argentina	1,083	838
Mexico	160	158
Chile	19	13
United Kingdom	9	8
Total	3,594	3,299

11 OTHER INCOME AND OTHER EXPENSES

	Year ended 31 December 2010			Year ended 31 December 2009		
	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	1,843	–	1,843	1,921	–	1,921
Gain on recovery of expenses	210	–	210	472	–	472
Gain on sale of property, plant and equipment	–	–	–	–	153	153
Lease rentals	151	–	151	302	–	302
Gain on sale of investment in El Quevar[1]	–	6,010	6,010	–	–	–
Gain on sale of investment in Zincore Metals Inc.[2]	–	7,533	7,533	–	–	–
Gain on sale of investment in Lake Shore Gold[3]	–	63,654	63,654	–	–	–
Recovery of impairment of deposits in Kaupthing, Singer and Friedlander Bank	135	–	135	–	584	584
Negative goodwill on acquisition of subsidiary	–	–	–	–	7,694	7,694
Reversal of ElectroPeru contingency	–	–	–	–	351	351
Other	3,266	–	3,266	1,806	–	1,806
Total	5,605	77,197	82,802	4,501	8,782	13,283
Other expenses:						
Increase in provision for mine closure[4]	(3,839)	–	(3,839)	(11,526)	–	(11,526)
Write off of value added taxes	(949)	–	(949)	–	–	–
Termination benefits[5]	–	–	–	–	(662)	(662)
Loss on sale of property, plant and equipment	(93)	–	(93)	–	–	–
Loss on sale of other assets	(373)	–	(373)	(1,635)	–	(1,635)
Compensation claims provision[6]	(378)	–	(378)	(1,850)	–	(1,850)
Provision for obsolescence of supplies[7]	(1,252)	–	(1,252)	(1,128)	(585)	(1,713)
Impairment of trade receivables[8]	(241)	–	(241)	(1,116)	–	(1,116)
Other	(3,831)	–	(3,831)	(2,075)	–	(2,075)
Total	(10,956)	–	(10,956)	(19,330)	(1,247)	(20,577)

1 Corresponds to the gain generated due to the sale of the Group´s interest in the El Quevar project in Argentina 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.
2 Corresponds to the gain generated by the sale of the Group´s interest in Zincore Metals Inc. to Inversiones Pacasmayo S.A., a related party of the Group.
3 Corresponds to the gain generated by the sale of 109,000,000 Lake Shore Gold shares on 3 November 2010 (refer to note 4(a)).
4 In 2010 corresponds to changes in the estimated mine closure costs of closed operations in Peru of US$3,691,000 (2009: US$11,800,000), refer to note 26 (1); together with the loss generated due to the change in the discount rate of US$148,000 (2009: net of gain of US$274,000).
5 In 2009 represents the termination benefits paid to the employees due to the closing of the Selene mine.
6 Corresponds to compensation claims provisions related to the Peruvian companies.
7 In 2010 mainly includes the provision of obsolescence of supplies in Compañia Minera Ares and Minera Suyamarca of US$319,000, Minas Santa María de Moris of US$426,000 and Minera Santa Cruz of US$ 486,000. In 2009 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.
8 In 2010 corresponds to the impairment of an account receivable in Compañia Minera Ares. In 2009 mainly corresponds to the impairment of a trade receivable from a customer in Peru.

Notes to the consolidated financial statements Continued

12 FINANCE INCOME AND FINANCE COSTS

	Year ended 31 December 2010			Year ended 31 December 2009		
	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]	350	–	350	819	–	819
Gain from changes in the fair value of financial instruments[2]	–	3,289	3,289	–	9,045	9,045
Gain on sale of available-for-sale financial assets[3]	–	5,713	5,713	–	623	623
Gain on exchange of available-for-sale financial assets[4]	–	202	202	–	12,632	12,632
Interest on loans to non-controlling interests (note 20)	2,514	–	2,514	2,609	–	2,609
Change in discount rate[5]	283	–	283	2,837	–	2,837
Other	993	–	993	119	–	119
Total	4,140	9,204	13,344	6,384	22,300	28,684
Finance costs:						
Interest on bank loans and long-term debt (note 25)	(8,744)	–	(8,744)	(13,976)	–	(13,976)
Interest on convertible bond (note 25)	(8,588)	–	(8,588)	(1,663)	–	(1,663)
Unwind of discount rate[6]	(538)	–	(538)	(278)	–	(278)
Loss from changes in the fair value of forward contracts[7]	(3)	–	(3)	(25,962)	–	(25,962)
Loss from changes in the fair value of financial instruments[8]	(9,091)	–	(9,091)	(2,452)	(1,256)	(3,708)
Other	(2,578)	–	(2,578)	(1,709)	–	(1,709)
Total	(29,542)	–	(29,542)	(46,040)	(1,256)	(47,296)

1 Mainly corresponds to interest on liquidity funds (refer to note 23).
2 In 2010 the amount corresponds to the gain from change in the fair value of Golden Minerals and Iron Creek warrants of US$2,972,000 and US$168,000 respectively. In addition includes US$149,000 related to the fair value adjustment in acquisition of International Minerals shares on November 2010. 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.
3 In 2010 corresponds to the gain on sale of Golden Minerals and Fortuna River shares of US$5,833,000 and US$53,000 respectively, net of the loss generated by the sale of Dia Bras Exploration and Lara Explorations Ltd shares of US$152,000 and US$21,000 respectively. 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.
4 In 2010 corresponds to the gain for receiving shares of International Minerals Corporation due to the merger with Ventura Gold Corp. In 2009 mainly corresponds to the gain from change in the fair value of West Timmins Mining Inc. shares due to their exchange for additional Lake Shore Gold shares. The 2009 amount also includes the gain on receipt of shares of Dia Bras Exploration due to the merger with EXMIN Resources Inc. of US$391,000 and on receipt of 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 calculate the recoverable amount of VAT of Minera Santa Cruz of US$283,000 (2009: US$2,837,000)
6 Corresponds to the unwind of the discount on the provision for mine closure costs of US$538,000 (2009: US$278,000).
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 fluctuations in metal prices.
8 Corresponds to the loss due to changes in the fair value of the zero cost collar contracts signed by Cia. Minera Ares in 2009. These contracts were over 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 expired between January and December 2010. In addition, this includes a loss of US$1,495,000 (2009: 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 at 1.75% (refer to note 25).

12 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	
	2010 US$000	2009 US$000
Interest income from financial assets that are not at fair value through the profit and loss	2,864	3,428
Interest expense from financial liabilities that are not at fair value through the profit and loss	(17,332)	(15,639)
Total	(14,468)	(12,211)

13 INCOME TAX EXPENSE

	Year ended 31 December 2010			Year ended 31 December 2009		
	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	50,138	(2,659)	47,479	30,946	(2,275)	28,671
	50,138	(2,659)	47,479	30,946	(2,275)	28,671
Deferred taxation:						
Origination and reversal of temporary differences from continuing operations (note 28)	27,165	(3,127)	24,038	12,486	(8,943)	3,543
	27,165	(3,127)	24,038	12,486	(8,943)	3,543
Withholding taxes	513	–	513	1,256	–	1,256
Total taxation charge in the income statement	77,816	(5,786)	72,030	44,688	(11,218)	33,470

1 This amount mainly relates to a current tax credit of US$2,659,000 in connection with the one-off bonus paid to the mining workers in Peru (2009: US$2,076,000), and a US$3,127,000 deferred tax credit in connection with a write-off recognised in the period (US$9,048,000 in connection with an impairment loss recognised in 2009).

The weighted average statutory income tax rate was 31.4% for 2010 and 30.1% for 2009. 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.

The tax related to items charged or credited to equity is as follows:

	As at 31 December	
	2010 US$000	2009 US$000
Current tax:		
Current tax charge from continuing operations	–	–
	–	–
Deferred taxation:		
Deferred income tax relating to fair value gains on available-for-sale financial assets	7,189	(71)
	7,189	(71)
Total tax charge in the statement of other comprehensive income	7,189	(71)

Notes to the consolidated financial statements
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13 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	
	2010 US$000	2009 US$000
Profit from continuing operations before income tax	288,695	154,810
At average statutory income tax rate of 31.4% (2009: 30.1%)	90,594	46,702
Expenses not deductible for tax purposes	2,250	2,049
Non-taxable income[1]	(17,976)	(6,662)
Non-taxable negative goodwill[2]	–	(2,308)
Deferred tax recognised on special investment regime	–	(629)
Recognition of previously unrecognised deferred tax assets[3]	(14,525)	(4,222)
Non-taxable share of losses/(gains) of associates	1,702	(13,276)
Net deferred tax assets generated in the year not recognised	8,179	11,204
Change in tax regime	–	(2,002)
Change in statutory Income Tax Rate	–	(786)
Foreign exchange rate effect[4]	(430)	25
Derecognition of deferred tax assets previously recognised[5]	–	4,790
Other	2,236	(1,415)
At average effective income tax rate of 25.0% (2009: 21.62%)	72,030	33,470
Taxation charge attributable to continuing operations	72,030	33,470
Total taxation charge in the income statement	72,030	33,470

1 Mainly corresponds to the non taxable gain on the sale of Lake Shore Gold shares of US$17,743,000.
2 In 2009, corresponds to non-taxable negative goodwill on acquisition of the Southwestern Group.
3 Mainly corresponds to the use of previously unrecognised tax losses in 2010 of US$15,736,000 (US$7,687,000 in 2009), recognised tax losses upon tax restructuring of the Mexican companies of US$6,329,000 (US$7,392,000 in 2009), the reversal of the write-off of tax credits of US$4,790,000, previously written off in 2009, following certain steps taken to increase the probability of the assets being available in the future, and the non taxable gain on sale of Zincore Metals Inc. shares of US$2,586,000.
4 Mainly corresponds to the foreign exchange effect from converting tax bases and monetary items from local currency to the functional currency.
5 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.

14 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 2010 and 2009, EPS has been calculated as follows:

	As at 31 December	
	2010	2009
Basic and earnings per share from continuing operations:		
Before exceptional items (US$)	0.28	0.17
Exceptional items (US$)	0.18	0.14
Total for the year and from continuing operations (US$)	0.46	0.31
Diluted earnings per share from continuing operations:		
Before exceptional items (US$)	0.29	0.17
Exceptional items (US$)	0.17	0.14
Total for the year and from continuing operations (US$)	0.46	0.31

Net profit from continuing operations before exceptional items and attributable to equity holders of the parent is derived as follows:

	As at 31 December	
	2010	2009
Profit for the year from continuing operations (US$000)	216,665	121,340
Less non-controlling interests (US$000)	(60,054)	(23,260)
Profit attributable to equity holders of the parent – continuing operations (US$000)	156,611	98,080
Exceptional items after tax – attributable to equity holders of the parent (US$000)	(61,687)	(45,188)
Profit from continuing operations before exceptional items attributable to equity holders of the parent (US$000)	94,924	52,892
Interest on convertible bond (US$000)	8,588	1,663
Diluted profit from continuing operations before exceptional items attributable to equity holders of the parent (US$000)	103,512	54,555

The followings reflects the share data used in the basic and diluted earnings per share computations:

	As at 31 December	
	2010	2009
Basic weighted average number of ordinary shares in issue (thousands)	338,085	314,043
Dilutive potential ordinary shares related to convertible bond	18,161	3,564
Diluted weighted average number of ordinary shares in issue and dilutive potential ordinary shares (thousands)	356,246	317,607

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15 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 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[2]	(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

15 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 2010							
Cost							
At 1 January 2010	283,887	109,127	215,577	3,708	55,131	59,284	726,714
Additions	71,473	80	14,138	14	1,081	39,572	126,358
Acquisition of subsidiary	–	–	5	–	–	–	5
Change in discount rate	–	–	–	–	989	–	989
Disposals	–	–	(1,498)	(448)	–	–	(1,946)
Transfer of leases	–	–	(717)	–	–	–	(717)
Write-off[2]	(934)	(2,705)	(7,624)	(43)	–	(6,803)	(18,109)
Change in mine closure estimate	–	–	–	–	(1,108)	–	(1,108)
Transfers and other movements	273	14,438	15,068	366	–	(30,145)	–
Transfer from evaluation and exploration assets	4,249	–	–	–	–	–	4,249
Foreign exchange	1,096	8	(61)	9	–	17	1,069
At 31 December 2010	360,044	120,948	234,888	3,606	56,093	61,925	837,504
Accumulated depreciation and impairment							
At 1 January 2010	135,750	37,667	74,768	1,541	36,932	1,098	287,756
Depreciation for the year	54,027	17,976	26,201	408	3,834	–	102,446
Write-off[2]	(201)	(2,657)	(5,911)	(24)	–	–	(8,793)
Disposals	–	–	(648)	(373)	–	–	(1,021)
Transfer of leases	–	–	(123)	–	–	–	(123)
Foreign exchange	–	1	45	10	–	–	56
At 31 December 2010	189,576	52,987	94,332	1,562	40,766	1,098	380,321
Net book amount at 31 December 2010	170,468	67,961	140,556	2,044	15,327	60,827	457,183

1 The carrying value of plant and equipment held under finance leases at 31 December 2010 was US$7,936,000 (2009: US$11,177,000). Additions during the year included US$1,239,000 (2009: US$6,058,000) of plant and equipment under finance leases. Leased assets are pledged as security for the related finance lease.

2 Mainly comprises the effects of the result of the physical verification exercise performed every three years at the Peruvian mine units which resulted in a write-off in the Ares mine unit of US$1,727,000 and in the Pallancata mine unit of US$102,000. In addition, 2010 includes a write off of US$12,000 in México, US$747,000 in Peru related to the Crespo project and US$6,728,000 in Argentina related to the proposed conversion of San José's production to doré only. In 2009, due to 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 During 2010 the Group tested its mine units Arcata, San José and Moris for impairment and determined that there was no impairment to be recorded in profit and loss. At 31 December 2009, the Group recognised impairments totalling US$21,686,000, which included (i) a charge of US$15,041,000 in respect of the Ares mine unit; (ii) a charge of US$10,091,000 in respect of the Crespo project; and (iii) a reversal of the impairment loss in respect of the Moris unit of US$3,446,000. The trigger for the impairment of Ares was the proximity of the closing and the resulting revision to its remaining recoverable reserves and resources. In assessing whether an 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.

There were no borrowing costs capitalised in property, plant and equipment as no significant qualifying assets were constructed during 2010.

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15 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

For the 2009 impairment tests the Group utilised the following assumptions:

- Commodity prices – Commodity prices of gold and silver are based on external market consensus forecasts. Gold prices range from $837.5/oz to $1,015/oz and silver prices range from $13.22/oz to $16/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.
- Capital expenditure – The cash flows for each mining unit include capital expenditure 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 %
Ares	3.21
San José	14.30
Moris	5.43

16 EVALUATION AND EXPLORATION ASSETS

	Total US$000
Cost	
Balance at 1 January 2009	60,480
Additions	8,636
Write-off	(284)
Foreign exchange	1,606
Transfers and other movements	1,921
Balance at 31 December 2009	72,359
Additions[1]	122,764
Foreign exchange	3,058
Transfers and other movements	(4,249)
Balance at 31 December 2010	193,932
Accumulated impairment	
Balance at 1 January 2009	15,754
Impairment[2]	222
Foreign exchange	555
Balance at 31 December 2009	16,531
Impairment[2]	14,702
Foreign exchange difference	888
Balance at 31 December 2010	32,121
Net book value as at 31 December 2009[3]	55,828
Net book value as at 31 December 2010[3]	161,811

1 Mainly comprises the increase in evaluation and exploration assets due to the acquisition of the subsidiary Minera Quellopata S.A.C. of US$91,507,000

2 The Group has impaired the San Felipe property by US$14,702,000. The impairment was triggered by the conclusion of the marketing process conducted during the year and reflects the Company's estimate of the recoverable amount. The recoverable amount was based on fair value less cost to sell. As observable market prices are not available, this was calculated using a discounted cash flow methodology taking account of assumptions that would be made by market participants. In 2009, the Group also impaired the Ares mine unit by US$222,000. The trigger for this impairment was the proximity of the closing of Ares and the resulting revision to the remaining recoverable reserves and resources.

3 Of the net book value at 31 December 2010, US$25,874,000 corresponds to the investment in San Felipe (2009: US$37,825,000), US$20,241,000 corresponds to the Azuca project (2009: US$7,079,000), US$91,507,000 corresponds to the Inmaculada project in Peru (2009: Nil) and the balance relates to amounts capitalized in respect of converting inferred resources to indicated and measured resources at the Group´s unit mines.

There were no borrowing costs capitalised in evaluation and exploration assets.

17 INTANGIBLE ASSETS

	Goodwill US$000	Transmission line US$000	Software licences US$000	Total US$000
Cost				
Balance at 1 January 2009	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
Additions	–	–	111	111
Balance at 31 December 2010	2,091	22,157	1,100	25,348
Accumulated amortisation				
Balance at 1 January 2009	–	–	336	336
Amortisation for the year	–	2,078	311	2,389
Reclassification	–	87	–	87
Balance at 31 December 2009	–	2,165	647	2,812
Amortisation for the year	–	2,067	301	2,368
Foreign exchange difference	–	–	2	2
Balance at 31 December 2010	–	4,232	950	5,182
Net book value as at 31 December 2009	2,091	19,992	342	22,425
Net book value as at 31 December 2010	2,091	17,925	150	20,166

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

– Commodity prices – Commodity prices of gold and silver are based on prices considered in the Group's 2011 budget (2009: 2010 budget) and external market consensus forecasts. The prices considered in the 2010 (2009) impairment tests were:

Year	2010	2011	2012	2013	2014	2015	2016	2017-2022
2010 – Gold – US$/oz	–	1,300.0	1,367.50	1,300.0	1,200.0	1,175.0	1,175.0	1,000.0
2010 – Silver – US$/oz	–	25.0	26.3	23.8	21.7	21.7	23.5	16.9
2009 – Gold – US$/oz	1,000.0	1,015.0	990.0	900.0	900.0	837.5	837.5	–
2009 – Silver – US$/oz	16.0	15.8	15.0	14.5	14.5	13.2	13.2	–

– 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 12 days of maintenance per year (2009: 19 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. The pre-tax discount rate used in the 2010 impairment test was 16.63% (2009:14.30%).

Notes to the consolidated financial statements
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17 INTANGIBLE ASSETS (CONTINUED)

Management believes that the following changes to the main assumptions would cause the carrying value of the cash generating unit (including 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	2010 Variation	2009 Variation
Gold price	(13.1)%	(6.8)%
Silver price	(10.7)%	(6.3)%
Reserves and resources	(52.9)%	(17.0)%
Costs	11.9%	7.9%
Discount rates	107.0%	4.3%

Headroom for the 2010 and 2009 impairment tests were US$61,523,000 and US$16,732,000 respectively.

Cash flows used for impairment tests were based on the annual 2011 budget presented and approved by the Board in December 2010. The starting point in all cases was January 2011. Individual cash flows are based on the annual 2011 budget and an estimated set of reserves and resources as of December 2010 provided by the Explorations and Operations teams. In addition, in respect of subsequent years, the Group makes the necessary conservative adjustments to accurately reflect the nature of each operation. In the case of revenue, production figures were estimated assuming reserve grade (after extracted tonnage) and full capacity. In the case of operating expenses, all figures are based on the 2011 budget. Future capital expenditure is based on the 2011 budget, excluding one-off expenses and considering the Operations team's view on developments and infrastructure, according to the estimated set of reserves and resources.

18 INVESTMENTS ACCOUNTED UNDER EQUITY METHOD

	Year end 31 December	
	2010 US$000	2009 US$000
Lake Shore Gold Corp[a]	–	386,190
Cabo Sur[b]	–	(57)
Gold Resource Corp.[c]	79,068	62,467
Zincore Metals Inc.[d]	–	2,065
Total	79,068	450,665

(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	
	2010 US$000	2009 US$000
Share of the associate's statement of financial position:		
Current assets	–	47,520
Non-current assets	–	345,948
Current liabilities	–	(7,663)
Non-current liabilities	–	(50,758)
Net assets	–	335,047
Goodwill on acquisition	–	51,143
Carrying amount of the investment	–	386,190
Share of the associate's revenue and losses:		
Revenue	–	–
(Losses)/profit[1]	(9,785)	46,951
Carrying amount of the investment	–	386,190

1 Share of the associate's loss in 2010 includes (1) a pre-exceptional loss from the Group's share in the results of the period of Lake Shore Gold of US$1,430,000, (2) an exceptional loss from dilution of the Group's interest from 35.9% to 35.7% on 30 June 2010 of US$2,021,000, (3) an exceptional gain from dilution of the Group's interest from 35.7% to 33.6% on 10 September 2010 of US$3,817,000 and (4) an exceptional loss from dilution of the Group's interest from 33.6% to 32.7% on 6 October 2010 of US$10,151,000. 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% on 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% on 31 December 2009 of US$4,493,000.

18 INVESTMENTS ACCOUNTED UNDER EQUITY METHOD (CONTINUED)

On 3 November 2010 the Group disposed 109,000,000 shares held in Lake Shore Gold (approximately 27.3% interest) for a total consideration of US$374,016,000 generating a gain of US$63,654,000. After of this transaction the Group no longer has significant influence over Lake Shore Gold.

(b) Cabo Sur

During 2010 the Group sold its interest in Cabo Sur to Mirasol Resources Ltd. for 6,300 Argentinian Pesos (approximately US$2,000). As a result of this transaction the Group no longer has significant influence over this company.

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

	Year ended 31 December	
	2010 US$000	2009 US$000
Share of the joint venture's statement of financial position:		
Current assets	–	6
Non-current assets	–	6
Current liabilities	–	(69)
Non-current liabilities	–	–
Net assets	–	(57)
Share of the joint venture's revenue and loss:		
Revenue	–	–
Loss	(6)	(61)
Carrying amount of the investment	–	(57)

(c) Gold Resource Corp.

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

	Year ended 31 December	
	2010 US$000	2009 US$000
Share of the associate's statement of financial position:		
Current assets	15,087	5,671
Non-current assets	56,065	46,873
Current liabilities	(1,632)	(181)
Non-current liabilities	(14,808)	(11,609)
Net assets	54,712	40,754
Goodwill on acquisition	24,356	21,713
Share of the associate's revenue, profit and loss:		
Revenue	3,730	–
Profit/(losses)[1]	3,711	(1,240)
Carrying amount of the investment	79,068	62,467

1 Share of the associate's profit in 2010 includes (1) a pre-exceptional loss from the Group's share in the results of the period of Gold Resource Corp. of US$3,171,000 (2009: US$995,000) and (2) an exceptional gain from dilution of US$6,882,000 (2009: loss of US$245,000).

(d) Zincore Metals Inc.

On 21 May 2009, the Group acquired Southwestern Resources Corporation, which resulted in the acquisition of 38,100,000 shares of Zincore Metals Inc. equivalent to a 48.2% interest. In September 2009, Zincore Metals Inc. issued 24,060,000 shares resulting in a dilution of the Group's interest to 36.8%, which generated a gain by the Group of US$2,065,000.

On 5 March 2010, the Group sold its 36.8% to Inversiones Pacasmayo S.A., a related party of the Group, at a price of C$0.27 per share (a total of C$10,287,000) representing a 11.6% premium over the 20 day average closing price, realising a gain on disposal of US$7,533,000. As a result of the transaction, the Group no longer has an interest in Zincore.

The disposal was approved on behalf of Hochschild by a committee comprising solely independent Non-Executive Directors ("the Independent Committee"). The Independent Committee was advised by Canaccord Adams Limited that the terms of the disposal were fair and reasonable as far as shareholders are concerned.

Notes to the consolidated financial statements
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18 INVESTMENTS ACCOUNTED UNDER EQUITY METHOD (CONTINUED)

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

	Year ended 31 December	
	2010 US$000	2009 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

19 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Year ended 31 December	
	2010 US$000	2009 US$000
Beginning balance	19,181	17,794
Additions[1]	25,786	70,022
Increase in value of available-for-sale financial assets due to merger of companies[2]	4	357
Fair value change recorded in equity	47,573	23,019
Disposals[3]	(11,924)	(4,749)
Reclassification to investments accounted under equity method[4]	–	(87,262)
Reclassification from investments accounted under equity method[5]	73,000	–
Ending balance	153,620	19,181

1 The amount represents the fair value of shares at the date of acquisition and mainly includes the purchase of shares of: (i) International Minerals for US$20,150,000, (ii) Golden Minerals for US$5,000,000, (iii) Iron Creek Capital Corp for US$67,000 and (iv) Brionor Resources for US$568,000 (2009: mainly includes the purchase of shares of: (i) Fortuna Silver Mines Inc. for US$3,196,000, (ii) Ventura Gold Corp. for US$158,000, (iii) Pembrook Mining Corp. for US$1,857,000, (iv) West Timmins Mining Inc. for US$63,782,000, (v) Northern Superior Resources Inc. for US$705,000, (vi) Empire Petroleum Corp. for US$82,000, and (vii) Maxy Gold Corp for US$243,000).
2 In 2010 corresponds to the transfer of shares due to the merger between Ventura Gold Corp. and International Minerals. In 2009 corresponds to the transfer of shares due to the merger between EXMIN Resources Inc. and Dia Bras Exploration (US$325,000) and the merger between Maxy Gold Corp. and Lara Explorations Ltd. (US$32,000). The net effect was recognised in profit and loss.
3 In 2010 corresponds to the sale of (i) 663,600 shares of Fortuna River, (ii) 3,751,047 shares of Dia Bras Exploration, (iii) 495,200 shares of Lara Explorations Ltd. and (iv) 400,000 shares of Golden Minerals. In 2009 corresponds to the sale of 3,287,570 shares in Fortuna Silver Mines Inc. (refer to note 12).
4 Corresponds to the reclassification to investments accounted under the equity method of the West Timmins Mining Inc. shares of US$82,252,000 and of Gold Resource Corp. of US$5,010,000 on the date's they became associates of the Group.
5 Corresponds to the reclassification of the Group's Lake Shore Gold shares from investments accounted under equity method to available-for-sale financial assets as at 31 December 2010. The Group does not have significant influence over this company.

Available-for-sale financial assets include the following:

	Year ended 31 December	
	2010 US$000	2009 US$000
Equity securities – quoted Canadian companies	131,603	4,225
Equity securities – quoted US companies	39	119
Equity securities – quoted British companies	8,397	3,086
Equity securities – unquoted[1]	13,581	11,743
Bonds	–	8
Total	153,620	19,181

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

19 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 2009	Additions	Transfers	Disposals	Number of shares held at 31 December 2009	Additions	Transfers	Disposals	**Number of shares held at 31 December 2010**
Fortuna River[1]	663,600	–	–	–	663,600	–	–	(663,600)	–
Fortuna Silver Mines Inc.[2]	812,215	2,475,355	–	(3,287,570)	–	–	–	–	–
Mirasol Resources Ltd	500,000	–	–	–	500,000	–	–	–	500,000
Pembrook Mining Corp[3]	5,714,286	1,111,111	–	–	6,825,397	–	–	–	6,825,397
Gold Resource Corp[4]	1,670,000	–	(1,670,000)	–	–	–	–	–	–
Electrum Capital Inc	4,205,462	–	–	–	4,205,462	–	–	–	4,205,462
Iron Creek Capital Corp[5]	2,000,000	–	–	–	2,000,000	280,000	–	–	2,280,000
Mariana Resources Ltd	11,002,948	–	–	–	11,002,948	–	–	–	11,002,948
EXMIN Resources Inc[6]	18,387,487	–	(18,387,487)	–	–	–	–	–	–
Ventura Gold Corp[7]	300,000	700,000	–	–	1,000,000	–	(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	–	–	–	10,053,007
Empire Petroleum Corp[10]	–	1,333,333	–	–	1,333,333	–	–	–	1,333,333
Maxy Gold Corp[11]	–	3,961,600	(3,961,600)	–	–	–	–	–	–
Dia Bras Exploration[6,12]	–	–	3,751,047	–	3,751,047	–	–	(3,751,047)	–
Lara Explorations Ltd[11,13]	–	–	495,200	–	495,200	–	–	(495,200)	–
International Minerals[7]	–	–	–	–	–	–	100,000	–	100,000
Brionor Resources[14]	–	–	–	–	–	2,730,000	–	–	2,730,000
Golden Minerals Company[15]	–	–	–	–	–	400,000	–	(400,000)	–
Lake Shore Gold Corp.[16]	–	–	–	–	–	–	21,540,992	–	21,540,992

1 The investment in Fortuna River was sold by the Group on 28 April 2010.
2 At 31 December 2009 the Group had sold its total interest in Fortuna Silver Mine.
3 Pembrook Mining Corp. (5.7%) is a privately held exploration company with projects in Peru and Canada. Additions in 2009 relates to the purchase of 1,111,111 common shares on 15 September 2009.
4 The investment in Gold Resource Corp., 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 the Company in February 2009.
5 The investment in Iron Creek Capital Corp. (8.6%) relates to the purchase of 280,000 common shares on 1 March 2010.
6 In 2009 the Group received shares from Dia Bras Exploration in exchange for its holding 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 As at 31 December 2009, Ventura Gold Corp. had issued 1,000,000 shares to the Group. On 12 January 2010 the Group received 100,000 shares of International Minerals in exchange for its holding of 1,000,000 Ventura Gold Corp. shares due to the merger of these companies.
8 The investment in West Timmins Mining Inc. (Nil), relates to the purchase of common shares during 2009 which were subsequently transferred under the terms of its business combination with Lake Shore Gold.
9 The investment in Northern Superior Resources Inc. (6.8%), resulted from the acquisition of Southwestern Resources Corp. on 21 May 2009.
10 The investment in Empire Petroleum Corp. (1.6%), resulted from the acquisition of Southwestern Resources Corp. on 21 May 2009.
11 The investment in Maxy Gold Corp. resulted from the acquisition of Southwestern Resources Corp. on 21 May 2009. In addition, during 2009, the Group received shares from Lara Explorations Ltd. in exchange for its holding of Maxy Gold Corp. shares, due to the merger between these companies.
12 On 12 July 2010 the Group sold its interest in Dia Bras Exploration.
13 Between April and August 2010 the Group sold its interest in Lara Explorations Ltd.
14 The investment in Brionor Resources (9.7%) relates to the purchase of shares between March and June 2010.
15 Corresponds to the shares received in exchange for the sale of the Group´s interest in the El Quevar project in Argentina. Between November and December 2010 the Group sold 400,000 shares of Golden Minerals.
16 Corresponds to the reclassification from investment in associates of the Lake Shore Gold shares.

Notes to the consolidated financial statements
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19 AVAILABLE-FOR-SALE FINANCIAL ASSETS (CONTINUED)

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.

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

	2010 US$000	2009 US$000
Canadian dollars	145,184	15,968
US dollars	39	127
Pounds sterling	8,397	3,086
Total	153,620	19,181

20 TRADE AND OTHER RECEIVABLES

	As at 31 December			
	2010		2009	
	Non-current US$000	Current US$000	Non-current US$000	Current US$000
Trade receivables[1]	–	89,404	–	76,981
Advances to suppliers	–	9,050	–	5,436
Credit from exports[2]	578	4,004	–	3,587
Loan to non-controlling interests[3]	32,165	9,393	–	39,443
Receivables from related parties (note 30)	–	1,609	–	996
Loans to employees	2,128	3,297	1,276	1,585
Interest receivable	–	4	–	38
Receivable from Kaupthing, Singer and Friedlander Bank	–	648	–	965
Other	25	1,027	22	720
Provision for impairment[4]	–	(2,533)	–	(2,443)
Financial assets classified as receivables	34,896	115,903	1,298	127,308
Prepaid expenses	933	4,252	516	5,454
Value Added Tax (VAT)[5]	988	25,780	1,336	32,102
Total	36,817	145,935	3,150	164,864

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

1 At 31 December 2010, trade accounts receivable mainly comprised of amounts receivable from Consorcio Minero S.A. (US$11,577,000), Teck Metals Ltd. (US$30,274,000), Aurubis AG (US$24,802,000), MRI Trading AG (US$6,380,000), LS Nikko (US$10,691,000), Doe Run Peru SRL (US$1,108,000), Johnson Matthey Inc (US$4,313,000), Traxis Peru S.A.C. (US$34,000) and Argor Heraus S.A. (US$215,000). At 31 December 2009, trade accounts receivable mainly comprised of 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 Peru SRL (US$1,108,000), Johnson Matthey Inc (US$605,000), and Argor Heraus S.A. (US$116,000). Trade receivables are denominated in the following currencies:
– US dollars 89,394,000 (2009: 76,978,000)
– Peruvian nuevos soles 10,000 (2009: 3,000)

2 Corresponds to the credits due on exports of Minera Santa Cruz.

3 This relates to loans to Minera Andes Inc. The effective interest rate was between 7.86% and 8.21% until the renegotiation of the terms of those loans on 17 September 2010 resulting in a change in the interest rate to 7% (between 7.86% and 8.21% in 2009) (refer to note 37(g)).

4 Includes the provision for impairment of trade receivable from a customer in Peru of US$1,108,000 (2009: US$1,108,000), the impairment of deposits in Kaupthing, Singer and Friedlander of US$648,000 (2009: US$798,000) and other receivables of US$777,000 (2009: US$537,000).

5 This includes an amount of US$14,593,000 (2009: US$20,838,000) 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$2,282,000 (2009: US$4,091,000) and Minas Santa María de Moris of US$2,456,000 (2009: US$5,628,000). The value added tax is valued at its recoverable amount.

20 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 2009	1,987	–	1,987
Provided for during the year	1,116	–	1,116
Released during the year	(660)	–	(660)
At 31 December 2009	2,443	–	2,443
Provided for during the year	241	–	241
Released during the year	(151)	–	(151)
At 31 December 2010	2,533	–	2,533

As at 31 December, the ageing analysis of trade and other receivables net of impairment 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
2010	150,799	150,799	–	–	–	–	–
2009	128,606	128,606	–	–	–	–	–

21 INVENTORIES

	As at 31 December 2010 US$000	As at 31 December 2009 US$000
Finished goods	4,601	6,074
Products in process	17,620	12,538
Raw materials	255	1,002
Supplies and spare parts	33,788	28,610
	56,264	48,224
Provision for obsolescence of supplies	(1,134)	(2,411)
Total	55,130	45,813

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 2010 included in products in process is US$4,995,000 (2009: US$2,977,000).

As part of the management's short-term financing policies, the Group acquires pre-shipment loans which are guaranteed by the sales contracts.

The amount of expense recognised in profit and loss related to the inventory is US$67,907,000 (2009: US$59,215,000).

The amount of the expense related to the increase of the inventory provision is US$1,252,000 (2009: US$1,713,000).

The amount of income relating to the reversal of the inventory provision is US$Nil (2009: US$181,000).

Notes to the consolidated financial statements
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22 OTHER FINANCIAL ASSETS AND LIABILITIES

	As at 31 December	
	2010 US$000	2009 US$000
Other financial assets		
Warrants in Golden Minerals Company[1]	3,982	–
Warrants in Iron Creek Capital Corp.[2]	168	–
Embedded derivatives[3]	16,512	695
Total financial assets at fair value through profit or loss	20,662	695
Other financial liabilities		
Embedded derivatives[3]	–	175
Total financial liabilities at fair value through profit or loss	–	175
Zero cost collar contracts[4]	–	2,452
Swap contracts[5]	1,930	13
Total derivatives designated as hedge instruments	1,930	2465
Total financial liabilities	1,930	2,640

1 At 31 December 2010, this item represents a balance of 300,000 warrants of Golden Minerals Company. The expiry date of the warrants is 7January 2013. Warrants were fair valued using the Black-Scholes option pricing model.
2 At 31 December 2010, this item represents a balance of 280,000 warrants of Iron Creek Capital Corp. The expiry date of the warrants is 1 March 2012. Warrants were 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 5).
4 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 expired during 2010.
5 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 syndicated loan of US$114,320,000 (refer to note 25).

23 CASH AND CASH EQUIVALENTS

	As at 31 December	
	2010 US$000	2009 US$000
Cash at bank	694	1,430
Liquidity funds[1]	424,049	28,294
Current demand deposit accounts[2]	44,346	40,447
Time deposits[3]	56,393	7,673
Cash and cash equivalents considered for the statement of cash flows	525,482	77,844

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 certificates of deposit, commercial paper and floating rate notes with a weighted average annual effective interest rate of 0.26% and a weighted average maturity between 33 to 56 days as at 31 December 2010 (2009: 0.71% and between 30 and 55 days) (refer to note 37(g)).
2 Relates to bank accounts which are freely available and bear interest between 0.03% and 1.1%.
3 The effective interest rate as at 31 December 2010 was 1.95% (2009: 3.00%). These deposits have an average maturity from 1 to 30 days (2009: 1 to 30 days) (refer to note 37(g)).

24 TRADE AND OTHER PAYABLES

	As at 31 December			
	2010		2009	
	Non-current US$000	Current US$000	Non-current US$000	Current US$000
Trade payables[1]	–	49,407	–	29,026
Professional fees	–	1,247	–	1,179
Interest payable	–	88	–	114
Taxes and contributions	–	11,157	–	9,061
Salaries and wages payable[2]	2,385	21,120	–	13,275
Mining royalty (note 36)	–	3,537	–	2,192
Dividends payable	–	339	–	336
Accrued expenses	8	3,777	81	6,304
Guarantee deposits	–	2,697	–	1,307
Swap contract[3]	–	–	–	4,337
Other[4]	–	22,705	–	1,370
Total	2,393	116,074	81	68,501

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:

	2010 US$000	2009 US$000
US dollars	18,841	13,783
Peruvian nuevos soles	20,697	9,298
Argentinian pesos	8,295	5,006
Mexican pesos	610	374
Pounds sterling	279	140
Chilean pesos	590	375
Canadian dollars	95	50
Total	49,407	29,026

2 Salaries and wages payable were as follows:

	2010 US$000	2009 US$000
Remuneration payable	16,633	10,956
Board members remuneration	947	2,319
Executive long term incentive plan	5,925	–
Total	23,505	13,275

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.

4 Mainly includes an account payable to Internationl Minerals due to the Minera Quellopata transaction of US$15,594,000 (refer to note 4 (b)), the account payable to Iron Creek Capital Corp. of US$615,000 by Minera Hochschild Chile S.C.M. and the account payable related to the zero cost collar contracts of US$4,179,000 (refer to note 12(8)).

Notes to the consolidated financial statements Continued

25 BORROWINGS

	As at 31 December			
	2010		2009	
	Non-current US$000	Current US$000	Non-current US$000	Current US$000
Secured bank loans (a)	85,525	53,030	115,854	34,773
Amount due to non-controlling interests (b)	59,028	11,074	–	75,570
Convertible bond payable (c)	103,827	5,145	103,827	1,663
Amounts due to related parties (note 30)	–	23	–	902
Total	248,380	69,272	219,681	112,908

(a) Secured bank loans

As at 31 December 2010, the balance corresponds to:

i. Pre-shipment loans for a total amount of US$20,000,000 in Minera Santa Cruz S.A. These obligations accrue an effective annual interest rate ranging from 1.60% to 2.40% and are guaranteed by the inventories and the trade receivables of the company (refer to note 21). Pre-shipment loans 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$3,714,000 in Compañía Minera Ares. This obligation accrues an effective annual interest rate of 3.25%.

iii. Leasing agreement with BIF for an amount of US$1,363,000 in Compañía Minera Ares S.A.C. This obligation accrues an effective annual interest rate of 5.5%.

The following table demonstrates the present value and maturity of future minimum lease payments as at 31 December 2010 and 2009:

	As at 31 December	
	2010 US$000	2009 US$000
Not later than one year	3,774	4,406
Between 1 and 2 years	1,279	3,664
Between 2 and 5 years	24	935
Total	5,077	9,005

The following table reconciles the total minimum lease payments and their present values as at 31 December 2010 and 2009:

	As at 31 December	
	2010 US$000	2009 US$000
Present value of leases	5,077	9,005
Future interest	155	718
Total minimum lease payments	5,232	9,723

The carrying amount of net lease liabilities approximate their fair value.

iv. 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 2010 is comprised of the secured term loan facility of US$114,320,000 plus accrued interest of $2,393,000 and net of transaction costs of US$3,235,000. During 2010 and 2009 the Group has a swap contract with BBVA and Citibank to fix the interest rate of the loan at 1.75%.

25 BORROWINGS (CONTINUED)

The schedule of payments is as follows:

Date	US$000
13 July 2011	28,560
15 January 2012	28,560
15 July 2012	28,560
13 January 2013	28,640
Total payments	114,320

The Company has granted the following guarantees on its $114,320,000 syndicated loan:

- Pledge of all shares in Compañía Minera Ares S.A.C. ("CMA") (wholly-owned subsidiary).
- Subsidiary guarantees by certain wholly-owned subsidiaries whereby these subsidiaries guarantee the repayment of the loan with their cash flows.

The main administrative and financial covenants that the Company and CMA must comply with during the term of the syndicated loan are as follows:

- Provision of quarterly unaudited and annual audited financial statements for Hochschild Mining plc and CMA.
- Investments in restricted and unrestricted subsidiaries based on an agreed limit (unlimited within restricted subsidiaries).
- Maintain the following ratios (at a consolidated and CMA 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 CMA management and the Administrative Agent. The Group and CMA have complied with the commitments and financial covenants mentioned in the syndicated loan agreement.

The balance as at 31 December 2009 corresponds to:

i. Pre-shipment loans for a total amount of US$8,750,000 in CMA 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 21).

ii. Leasing agreement with Banco de Credito for an amount of US$5,693,000 in CMA. 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 entered into by CMA. 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 entered into by CMA. This obligation accrues an effective annual interest rate of 9.01%.

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 CMA. 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 of the loan at 1.75%

(b) Amounts due to non-controlling interests

The balance as at 31 December 2010 mainly corresponds to a loan from Minera Andes Inc. to Minera Santa Cruz S.A. for an amount of US$64,070,000 (2009: US$67,124,000) with interest rate of 7% (2009: between 7.86% and 12%). There is a further loan of US$6,032,000 advanced to Minera Santa Cruz S.A. by Minera Andes S.A. (2009: US$8,446,000) with an interest rate of 7% (2009: 12%) (refer to note 37(g)).

Notes to the consolidated financial statements
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25 BORROWINGS (CONTINUED)

(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 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 conversion of the bonds 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 2010 is comprised of the principal of US$115,000.000 (2009: US$115,000,000) plus accrued interest of US$5,145,000 (2009: US$1,663,000) and net of transaction costs of US$2,741,000 (2009: US$2,741,000) and the bond equity component of US$8,432,000 (2009: US$8,432,000).

The maturity of non-current borrowings is as follows:

	As at 31 December	
	2010 US$000	2009 US$000
Between 1 and 2 years	59,265	31,586
Between 2 and 5 years	136,951	188,095
Over 5 years	52,164	–
Total	248,380	219,681

The carrying amount of current 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 value as at 31 December	
	2010 US$000	2009 US$000	**2010 US$000**	2009 US$000
Bank loans				
Secured	85,525	115,854	84,728	116,358
Amounts due to non-controlling interests and related parties (fixed rates)	59,028	–	80,184	–
Convertible bond payable	103,827	103,827	121,709	126,331
Total	248,380	219,681	286,621	242,689

26 PROVISIONS

	Provision for mine Closure[1] US$000	Workers' profit sharing[2] US$000	Contributions to Peruvian Government US$000	Long-term Incentive Plan[3] US$000	Contingency Consideration[4] US$000	Bonus to mining workers US$000	Other US$000	Total US$000
At 1 January 2009	38,899	861	991	–	–	–	1,213	41,964
Additions	–	2,073	870	–	–	6,918	1,499	11,360
Accretion	278	–	–	–	–	–	–	278
Change in discount rate	(2,045)	–	–	–	–	–	–	(2,045)
Change in estimate	27,020	–	–	–	–	–	–	27,020
Payments	(2,831)	(948)	(956)	–	–	(6,918)	(371)	(12,024)
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
At 1 January 2010	61,321	1,996	893	–	–	–	2,371	66,581
Additions	1,081	14,487	1,814	1,061	39,243	15,712	378	73,776
Accretion	538	–	–	–	–	–	–	538
Change in discount rate (refer to note 11(4) and 15)	1,137	–	–	–	–	–	–	1,137
Change in estimate	2,583	–	–	–	–		–	2,583
Payments	(4,634)	(2,001)	(725)	–	–	(8,861)	–	(16,221)
Foreign exchange	–	(40)	(162)	–	–	14	108	(80)
At 31 December 2010	62,026	14,442	1,820	1,061	39,243	6,865	2,857	128,314
Less current portion	(10,592)	(14,442)	(1,820)	–	(5,859)	(6,865)	(2,293)	(41,871)
Non-current portion	51,434	–	–	1,061	33,384	–	564	86,443

1 The provision represents the discounted values of the estimated cost to decommission and rehabilitate the mines at the expected date of closure of each of the mines. 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 2010 and 2009 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 2010 the Group made an internal review of the provision for mine closure for all its mining units. Consequently, at 31 December 2010 an increase of US$3,664,000 (addition in estimate of US$1,081,000 plus change in estimate of US$2,583,000) has been recognised mainly related to five additional years of water treatment at the Sipan mine unit. Of the total amount, US$1,108,000 has been recognised as a decrease in the mine closure asset, US$1,081,000 as an addition (refer to note 15) and the remaining US$3,691,000 has been recognised within other expenses (refer to note 11 (4)). This increase in estimate relates to the Sipan (US$3,819,000), Moris (US$176,000), Crespo (US$620,000), Azuca (US$461,000), net of a decrease at Ares (US$38,000), Selene (US$128,000), Arcata (US$4,000), Pallancata (US$194,000), and San José (US$1,048,000).

2 Corresponds to the workers profit sharing of Compañía Minera Ares S.A.C. (US$3,235,000) and Minera Suyamarca S.A.C. (US$11,207,000).

3 In May 2010, a grant of awards under the Group's cash based Long-Term Incentive Plan was made. The awards will rest on satisfaction of a TSR-based performance condition relative to a comparator group comprising international silver and gold mining companies over a three-year performance period. The performance period runs from 1 January 2010 to 31 December 2012 and should awards vest a cash payment will be made to participants in May 2013. Only employees who remain in the Group's employment until this date will be entitled to a cash payment on vesting subject to exceptions approved by the Remuneration Committee of the Board. The provision represents the discounted values of the estimated cost of the long-term employee benefit. In 2010 there is a provision of US$1,061,109 that is disclosed under administrative expenses (US$909,154) and exploration expenses (US$151,955).

4 This contingent consideration provision relates to International Minerals Corporation's discounted share of Hochschild's commitment to fund the first $100,000,000 needed to plan, develop and construct a mining operations within the Inmaculada property (refer to note 4(b)).

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27 EQUITY

(a) Share capital and share premium

Issued share capital

The issued share capital of the Company as at 31 December 2010 is as follows:

Class of shares	Issued Number	Issued Amount
Ordinary shares	338,085,226	£84,521,307

The issued share capital of the Company as at 31 December 2009 is as follows:

Class of shares	Issued Number	Issued Amount
Ordinary shares	338,085,226	£84,521,307

At 31 December 2010 and 2009, all issued shares with a par value of 25p (2010: weighted average of US$0.469, 2009: weighted average of US$0.469 per share) each were fully paid.

Rights attached to ordinary shares:

At general meetings of the Company, on a show of hands and on a poll, every member who is present in person or subject to the below, by proxy, has one vote for every share of which they are the holder/proxy. However in the case of a vote on a show of hands where a proxy has been appointed by more than one member, the proxy has one vote for and one vote against if the proxy has been instructed by one or more members to vote for the resolution and by one or more members to vote against the resolution.

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 2009	307,350,226	146,466	395,928
Shares issued and paid pursuant to the placing of shares on 12 October 2009	30,735,000	12,171	–
Shares issued as at 31 December 2009	338,085,226	158,637	395,928
Shares issued as at 31 December 2010	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 on cash flow hedges

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 and associates 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.

Bond equity component

Represents the equity component of the Convertible bond issued on 20 October 2009 (refer to note 25(c). When the initial carrying amount of a compound financial instrument is allocated to its equity and liability components, the equity component is assigned the residual amount after deducting the fair value of the instrument as a whole the amount separately determined for the liability component.

28 DEFERRED INCOME TAX

The changes in the net deferred income tax assets/(liabilities) are as follows:

	As at 31 December	
	2010 US$000	2009 US$000
Beginning of the year	5,190	12,619
Income statement (charge)/credit	(24,038)	(3,543)
Deferred income tax arising on net unrealised gains on available-for-sale financial assets recognised in equity	(7,189)	71
Initial balance of deferred tax asset of Minera Quellopata S.A.C.	1,762	–
Reclassification of withholding tax	1,208	–
Initial balance of deferred tax liability of Southwestern Group	–	(3,663)
Foreign exchange effect	(238)	(294)
End of the year	(23,305)	5,190

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 2009	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
Income statement (credit) charge	10,027	14,101	3,627	1,254	29,009
Net deferred income tax from unrealised gain on available-for-sale financial assets	–	–	7,189	–	7,189
Reclassification of withholding tax	–	–	–	(1,208)	(1,208)
Foreign exchange	–	238	–	–	238
At 31 December 2010	15,554	34,952	11,615	905	63,026

	Differences in cost of PP&E US$000	Provision for mine closure US$000	Tax losses US$000	Interest payable US$000	Others US$000	Total US$000
Deferred income tax assets:						
At 1 January 2009 (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
Income statement credit (charge)	1,873	1,482	3,846	(3,068)	838	4,971
Arising on acquisition	–	–	–	–	1,762	1,762
At 31 December 2010	11,680	6,454	6,616	5,142	9,829	39,721

Notes to the consolidated financial statements
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28 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	
	2010 US$000	2009 US$000
Deferred income tax assets	5,229	15,852
Deferred income tax liabilities	(28,534)	(10,662)

Tax losses expire in the following years:

	As at 31 December	
	2010 US$000	2009 US$000
Recognised[1]:		
Expire in one year	–	1,100
Expire in two years	–	763
Expire in three years	–	607
Expire in four years	–	849
Expire after four years	23,789	6,044
	23,789	9,363
Unrecognised:		
Expire in one year	624	543
Expire in two years	2,997	1,411
Expire in three years	2,548	3,137
Expire in four years	4,592	2,667
Expire after four years	55,416	53,231
	66,177	60,989
Total tax losses (recognised and unrecognised)	88,313	70,352

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	
	2010 US$000	2009 US$000
Provision for mine closure[1]	39,350	44,611
Impairments of assets[2]	14,702	–
Interest expense and exchange difference loss[3]	–	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 the impairment of the San Felipe project recognised in 2010.
3 Corresponds to interest expense and exchange difference loss in respect of the project finance loan payable to Minera Andes Inc.

Unrecognised deferred tax liability on retained earnings

At 31 December 2010, there was no recognised deferred tax liability (2009: nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries, or its associate or joint venture as the intention is that these amounts are permanently reinvested.

29 DIVIDENDS PAID AND PROPOSED

	2010 US$000	2009 US$000
Declared and paid during the year:		
Equity dividends on ordinary shares:		
Final dividend for 2009: US$0.02 (2008: US$0.02)	6,762	6,147
First interim for 2010: US$0.02 (2009: US$0.02)	6,761	6,147
Dividends paid to non-controlling interest: US$0.40 (2009: US$8.63 and US$0.23)	26,000	7,754
Dividends paid	39,523	20,048
Proposed for approval by shareholders at the AGM:		
Final dividend for 2010: US$0.03 (2009: US$0.02)	10,143	6,762

Dividends per share

The dividends declared in August 2010 were US$6,761,704 (US$0.02 per share). A dividend in respect of the year ending 31 December 2010 of US$0.03 per share, amounting to a total dividend of US$10,142,557 is to be proposed at the Annual General Meeting on 2 June 2011. These financial statements do not reflect this dividend payable.

30 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 2010 and 2009. 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	
	2010 US$000	2009 US$000	2010 US$000	2009 US$000
Other				
Fosfatos del Pacífico S.A.	28	28	–	–
Cementos Pacasmayo S.A.A.	291	–	23	–
Gold Resource Corp (refer to note 18(c))	1,290	–	–	–
	1,609	28	23	–
Joint ventures				
Cabo Sur	–	968	–	902
	–	968	–	902
Total	1,609	996	23	902
Current related party balances	1,609	996	23	902
Total	1,609	996	23	902

As at 31 December 2010 and 2009 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.

Principal transactions between affiliates are as follows:

	As at 31 December	
	2010 US$000	2009 US$000
Income		
Gain on sale of Zincore Metals Inc. shares to Inversiones Pacasmayo S.A. (refer to note 18(d))	7,533	–
Dividend recognised for Gold Resource Corp. investment (refer to note 18(a))	2,633	–
Revenue recognised for services performed to Gold Resource Corporation	29	–

Transactions between the Group and these companies are on an arm's-length basis.

Notes to the consolidated financial statements
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30 RELATED-PARTY BALANCES AND TRANSACTIONS (CONTINUED)

(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	
	2010 US$000	2009 US$000
Salaries and bonuses	11,121	8,679
Total compensation paid to key management personnel	11,121	8,679

This amount includes the remuneration paid to the Directors of the parent company of the Group of US$6,996,557 (2009: US$5,931,185), out of which US$239,975 (2009: US$399,117) relates to pension payments.

	As at 31 December	
Compensation of key management personnel (including directors)	**2010 US$000**	2009 US$000
Short term employee benefits	6,751	7,971
Termination benefits	1,170	63
Long term incentive plan	2,348	–
Workers profit sharing	205	99
Others	647	546
Total compensation	11,121	8,679

In 2009, 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 2010 was nil (2009: US$227,214, composed of principal of US$200,000 and interest of US$27,214).

(c) Participation in placing by Pelham Investment Corporation ("Pelham")

Pelham, a company controlled by the Executive Chairman, 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.

(d) Purchase of additional interest in Inmaculada project

During the year, the Group acquired an additional interest in the Inmaculada project effectively diluting the interest of its joint-venture partners, International Minerals Corporation ("IMZ"). This acquisition qualified as a small related party transaction under the UKLA Listing Rules in light of IMZ's 40% interest in the Pallancata Joint-Venture. See note 4(b) for further details.

31 AUDITOR'S REMUNERATION

The auditor's remuneration for services provided to the Group during the years ended 31 December 2010 and 2009 is as follows:

	Ernst & Young year ended 31 December		Others year ended 31 December	
	2010 US$000	2009 US$000	**2010 US$000**	2009 US$000
Audit fees pursuant to legislation[1]	1,250	1,255	38	30
Other services pursuant to legislation	150	188	–	–
Other services relating to taxation	139	206	–	–
Services relating to corporate finance transactions	241	94	–	–
Total	1,780	1,743	38	30

1 Includes US$408,000 (2009: US$515,000) 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 2010 all fees are included in administrative expenses, within the "professional fees" caption (refer to note 7).

In 2009, US$1,650,000 are included in administrative expenses, within the "professional fees" caption (refer to note 7), 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.

32 NOTES TO THE STATEMENT OF CASH FLOWS

	As at 31 December	
	2010 US$000	2009 US$000
Reconciliation of profit for the year to net cash generated from operating activities		
Profit for the year	216,665	121,340
Adjustments to reconcile Group operating profit to net cash inflows from operating activities:		
Depreciation (refer to note 15)	102,446	83,911
Amortisation of intangibles	2,368	311
Impairment and write-off of assets (net)	24,018	26,713
Write-off of other receivables	241	–
Write-off of value added tax	949	–
Negative goodwill generated in acquisition of subsidiary	–	(7,694)
Loss/(gain) on sale/disposal of property, plant and equipment	93	(153)
Loss/(gain) on sale of other assets	373	–
Transfer of lease contract	594	–
Gain on sale of available-for-sale financial assets	(5,915)	–
Gain on sale of investment in associates	(77,197)	–
Share of post tax losses/(gains) of associates and joint ventures accounted under equity method	6,080	(47,223)
Increase in provision for mine closure	3,838	11,526
Unwind of discount of value added taxes	(283)	–
Finance income	(7,146)	(28,684)
Finance costs	29,542	47,296
Income tax expense	72,030	33,470
Provision for obsolescence of supplies	1,252	1,535
Compensation claims provision	378	–
Other	469	63
Increase (decrease) of cash flows from operations due to changes in assets and liabilities:		
Trade and other receivables	(42,239)	(19,045)
Income tax receivable	7,264	4,690
Derivative financial instruments	(27,389)	(22,831)
Inventories	(10,095)	4,507
Trade and other payables	31,140	3,771
Provisions	21,785	2,195
Cash generated from operations	351,261	215,698

Transactions not affecting cash flows

The main transactions that did not affect cash flows and which are not disclosed elsewhere in the financial statements are:

	As at 31 December	
	2010 US$000	2009 US$000
Compensation of income tax payable with value added tax	31,065	–

Notes to the consolidated financial statements
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33 COMMITMENTS

(a) 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 obligations. 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	
	2010 US$000	2009 US$000
Commitment for the subsequent 12 months	1,208	560
More than one year	5,760	10,436

Some of the significant transactions are explained below:

(i) 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 had the right to acquire a 51% interest in the project by investing US$3,000,000 within three years. At 31 December 2010, the Group completed the investment and exercised its option to acquire a 51% interest in the project.

(ii) 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 is obliged to invest at least US$750,000 before withdrawing from the venture. At 31 December 2010 the Group completed the investment of US$6,000,000 (31 December 2009 US$1,668,000) and exercised its option to obtain a 60% interest over the project.

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.

(iii) 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 "Los Amigos" project (part of the La Flora property). At 31 December 2010 the Group invested US$607,000 in the project.

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 at any time without incurring any further expenditures or penalties.

(iv) Sociedad Contractual Minera Valleno (Valeriano)
On 10 November 2010, the Group entered into a purchase option agreement with Sociedad Contractual Minera Valleno amongst others ("Minera Valleno") to earn in a right to 100% of the properties in the "Valeriano Project Area" located in Chile, currently owned by Minera Valleno. Upon signing of the agreement the Group paid US$500k to Minera Valleno.

In order to exercise the option, the Group is required to incur exploration expenditure of US$3,000,000 within three years and is required to undertake exploration works comprising 2,000 metres of drilling by 31 December 2011 and 7,600 metres of drill holes by 31 December 2013. The Group is able to withdraw from the agreement at any time prior to incurring the required exploration work expenditure to vest the option but after having funded the first US$1,000,000 in exploration expenditure. As at 31 December 2010 the Group has a provision of US$1,000,000 disclosed in "Trade and other payables", under the caption "Accrued Expenses".

(v) Minera Zalamera S.A. de C.V. (Corazón de Tinieblas)
On 18 December 2010, the Group entered into a purchase option agreement with Minera Zalamera S.A. de C.V. ("Minera Zalamera") to earn in a right to 100% of the properties in the "Corazón de Tinieblas Project Area" located in Guerrero, Mexico, currently owned by Minera Zalamera. Upon signing of the letter of intent the Group paid US$10,000 and upon signing the purchase option agreement the Group paid US$25,000 to Minera Zalamera.

In order to exercise the option, the Group is required to make a total payment of US$2,100,000 and incur exploration expenditure of US$4,000,000 within five years by 31 October 2015. The Group is entitled to withdraw from the agreement at any time prior to incurring the exploration work expenditure necessary to vest the option.

33 COMMITMENTS (CONTINUED)

(b) Operating lease contract

The Group has a number of operating lease agreements.

The lease expenditure charged to the income statement during the years 2010 and 2009 are included in the production costs and administrative expenses.

As at 31 December 2010 and 2009, the future aggregate minimum lease payments under the operating lease agreements are as follows:

For the year ended 31 December

	2010 US$000	2009 US$000
Not later than one year	2,245	1,777
Later than one year and not later than five years	1,490	2,431

(c) Finance lease contract

During 2009 Compañía Minera Ares S.A.C. signed lease agreements for equipment with Banco de Crédito del Peru, Interbank and Banco Interamericano de Finanzas (refer to note 25).

(d) Capital commitments

	For the year ended 31 December	
	2010 US$000	2009 US$000
Peru	39,490	34,089
Mexico	34	247
Argentina	6,200	14,900
	45,724	49,236

34 CONTINGENCIES

As at 31 December 2010, 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 undertaken by it, there remains a risk that significant additional tax liabilities may arise. At 31 December 2010, the Group has exposures totalling US$26,760,000 which are assessed as "possible", rather that "probable". No amounts have been provided in respect of these items.

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.

Notes to the consolidated financial statements
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35 GUARANTEES AND TAX STABILITY AGREEMENTS

(a) Compañía Minera Ares S.A.C. ("CMA")

Arcata Unit

On 31 July 2007, the Ministry of Energy and Mines granted legal stability to CMA for the Arcata operating unit, starting 1 January 2009 for a 10-year term.

Under the terms of the arrangement, the Peruvian Government is obliged to guarantee stability of the tax regime that was in effect as at 5 February 2007, for a period of 10 years.

On 8 June 2009, CMA effectively resigned part of the stability agreement as the actual income tax rate (30%) was lower than the rate included in the stability agreement (32%).

(b) Minera Santa Cruz S.A. ("MSC")

MSC has been granted with tax stability certificates in relation to provincial and national taxes in Argentina in respect of the San José mine. The stability certificates run for a 30-year period commencing on 21 November 2005.

Under these certificates and the Mining Investment Law No 24,196, MSC'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. 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 where the final product is doré; and (ii) 2.55% of the pit-head value of the production where the final product is mineral concentrate or precipitates.
- The National Export tax is 5% where 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 no higher than 35%.

36 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 2010, the amount payable as mining royalties for the mining units of Ares, Arcata and Pallancata amounted to approximately US$2,946,000 (Ares, Arcata, Selene, and Pallancata amounted to US$1,988,000 as at 31 December 2009), and is recorded under the caption "Trade and other payables" in the Statement of Financial Position. The amount recorded in the Income Statement was US$11,223,000 (2009: US$7,287,000).

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 2010, the amount payable as mining royalties amounted to US$591,000 (2009: US$204,000). The amount recorded in the income statement was US$3,868,000 (2009: US$2,171,000).

37 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.

37 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Foreign currency risk

The Group principally produces silver and gold which are typically priced in US dollars. A proportion of the Group's costs are incurred in pounds sterling, Peruvian nuevos soles, Argentinian pesos and Mexican pesos. Accordingly, the Group's financial results may be affected by exchange rate fluctuations between the US dollar and the local currency. The long-term relationship between commodity prices and currencies in the countries in which the Group operates provides a certain degree of natural protection. The Group does not use derivative instruments to manage its foreign currency risks.

The following table demonstrates the sensitivity of financial assets and liabilities, at the reporting date denominated in their respective currencies, 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
2010			
Pounds sterling	+/–10%	–/+107	+/–840
Argentinian pesos	+/–10%	–/+227	–
Mexican pesos	+/–10%	+/–679	–
Peruvian nuevos soles	+/–10%	+/–852	–
Canadian dollars	+/–10%	+/–415	+/–14,519
2009			
Pounds sterling	+/–10%	+/–194	+/–309
Argentinian pesos	+/–10%	+/–22	–
Mexican pesos	+/–10%	+/–400	–
Peruvian nuevos soles	+/–10%	–/+3,431	–
Canadian dollars	+/–10%	–	+/–1,596

(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.

During 2008, 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 5 and 22(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
2010	Gold +/–10%	+/–713
	Silver +/–10%	+/–5,334
2009	Gold +/–10%	+/–550
	Silver +/–10%	–1,534 +766

Notes to the consolidated financial statements
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37 FINANCIAL RISK MANAGEMENT (CONTINUED)

(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, including embedded derivatives, cash balances in banks and hedging activities as at 31 December 2010 and 31 December 2009:

Summary commercial partners – Trade receivables	**As at 31 December 2010 US$000**	Credit rating or % collected as at 24 March 2011	As at 31 December 2009 US$000	Credit rating or % collected as at 23 March 2010
Teck Metals Ltd (formerly Teck Cominco Metals Ltd.)	30,274	BBB	17,481	BB+
Aurubis AG (formerly Nordeutsche Affinerie AG)	24,802	99%	29,040	91%
Consorcio Minero S.A.	11,577	82%	21,628	92%
LS Nikko.	10,691	A1	4,922	A1
MRI Trading AG	6,380	92%	2,078	98%
Johnson Matthey Inc.	4,313	100%	605	100%
Doe Run Peru S.R.L.	1,108	0%	1,108	0%
Argor Heraus S.A.	215	100%	116	100%
Traxys Peru S.A.C.	34	0%	–	–
Others	10	0%	3	NA
	89,404		76,981	

Summary commercial partners – Embedded derivatives	**As at 31 December 2010 US$000**	Credit rating or % collected as at 24 March 2011	As at 31 December 2009 US$000	Credit rating or % collected as at 23 March 2010
Teck Metals Ltd (formerly Teck Cominco Metals Ltd.)	6,464	BBB	497	BB+
Consorcio Minero S.A.	4,347	82%	58	92%
LS Nikko.	2,916	A1	(187)	A1
Aurubis AG (formerly Nordeutsche Affinerie AG)	2,498	99%	248	91%
MRI Trading AG	245	92%	(96)	98%
Argor Heraus S.A.	24	100%	–	–
Traxys Peru S.A.C.	18	0%	–	–
	16,512		520	

37 FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial counterparties	As at 31 December 2010 US$000	Credit rating[1]	As at 31 December 2009 US$000	Credit rating[1]
JP Morgan	380,887	A+	13,024	A –1 +(S&P)
Citibank	92,406	A	40,348	A –1(S&P)
Banco Nacional de México	–	–	5,350	F1(FR)
Banco de Crédito del Peru	30,474	BBB–	11,691	F2(FR)
Banco de la Nación (Peru)	–	–	1,072	A(S&P)
Banco Bilbao Vizcaya Argentaria	5,426	AA	199	A –1 +(S&P)
Banorte	1,519	BBB–	–	–
TD Canada Trust	956	–	–	–
Banco Santander	900	AA	1,001	A –1(S&P)
HSBC	618	AA	818	B(S&P)
Bank of Montreal	598	A+	–	–
Scotiabank	74	AA–	67	A –3(S&P)
Others (including cash in hand)	11,624	NA	4,274	NA
Total	525,482		77,844	

1 As at 31 December 2010, the Group included the long term credit rating. As at 31 December 2009, the Group included the short term credit rating.

As a result of the recent financial crisis, the Group evaluated and introduced additional efforts to try to mitigate credit risk exposure.

To manage the credit risk associated with commercial activities, the Group took the following steps:

- Active use of prepayment/advance clauses in sales contracts.
- Delaying delivery of title and/or requiring 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 as diversified a portfolio of clients as possible.
- 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 took the following steps:

- 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 20.

There are no exposures related to loans to non-controlling interest.

(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.

Notes to the consolidated financial statements
Continued

37 FINANCIAL RISK MANAGEMENT (CONTINUED)

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
2010	+25%	+1,895	+38,405
	–25%	–2,066	–38,300
2009	+10%	–	+1,917
	–10%	–	–1,917

(e) Fair value hierarchy

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.

As at 31 December 2010 and 2009, the Group held the following financial instruments measured at fair value:

Assets measured at fair value	**31 December 2010 US$000**	Level 1 US$000	Level 2 US$000	Level 3 US$000
Embedded derivatives (refer to note 22(3))	16,512	–	–	16,512
Equity shares (refer to note 19)	153,620	140,039	–	13,581
Warrants	4,150	–	4,150	–
Liabilities measured at fair value				
Swap contracts (refer to note 22(5))	1,930	–	1,930	–

Assets measured at fair value	**31 December 2009 US$000**	Level 1 US$000	Level 2 US$000	Level 3 US$000
Embedded derivatives (refer to note 22(3))	695	–	–	695
Equity shares (refer to note 19)	19,173	7,430	–	11,743
Debt securities (refer to note 19)	8	8	–	–
Liabilities measured at fair value				
Embedded derivatives (refer to note 22(3))	175	–	–	175
Zero cost collars contracts (refer to note 22(4))	2,452	–	2,452	–
Swap contracts (refer to note 22(5))	13	–	13	–

During the period ending 31 December 2010 and 2009, there were no transfers between these levels.

The reconciliation of the financial instruments categorised as level 3 is as follows:

	Embedded derivatives assets US$000	Embedded derivatives liabilities US$000	Equity shares US$000
Balance at 31 December 2009	695	(175)	11,743
Gain from the period recognised in revenue (refer to note 5)	15,817	175	–
Fair value change through equity	–	–	1,838
Balance at 31 December 2010	16,512	–	13,581

37 FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) 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. In 2010 the Group has maintained these short term bank lines.

The table below categorises the undiscounted cash flows of 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. Interest cash flows have been calculated using the spot rate at year end.

	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 2010					
Trade and other payables	102,220	2,393	–	–	104,613
Swap contracts	1,938	–	–	–	1,938
Borrowings	75,133	69,978	163,634	66,068	374,813
Provisions	5,895	34,105	1,095	–	41,095
Total	185,186	106,476	164,729	66,068	522,459
At 31 December 2009					
Trade and other payables	58,133	81	–	–	58,214
Swap contracts	13	–	–	–	13
Borrowings	123,412	39,819	209,178	–	372,409
Total	181,558	39,900	209,178	–	430,636

(g) 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 2010				
	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 23)	694	–	–	–	694
Time deposits (note 23)	56,393	–	–	–	56,393
Loans to non-controlling interests (note 20)	9,393	1,173	2,047	28,945	41,558
Amounts due to non-controlling interests (note 25)	(11,074)	(1,668)	(5,196)	(52,164)	(70,102)
Secured bank loans (note 25)	(53,030)	(57,597)	(27,928)	–	(138,555)
Convertible bond payable (note 25)	(5,145)	–	(103,827)	–	(108,972)
Floating rate					
Liquidity funds (note 23)	380,887	–	–	–	380,887

Notes to the consolidated financial statements
Continued

37 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					
Cash at bank (note 23)	1,430	–	–	–	1,430
Time deposits (note 23)	7,673	–	–	–	7,673
Loans to non-controlling interests (note 20)	39,443	–	–	–	39,443
Amounts due to non-controlling interests (note 25)	(75,570)	–	–	–	(75,570)
Secured bank loans (note 25)	(34,773)	(31,586)	(84,268)	–	(150,627)
Convertible bond payable (note 25)	(1,663)	–	(103,827)	–	(105,490)
Floating rate					
Liquidity funds (note 23)	12,994	–	–	–	12,994

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 2010 and 2009 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
2010	+/–50bps	+/–1,904
2009	+/–50bps	–/+490

(h) 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 25 and 27). Even though management aims to maintain the Group´s debt free position in order to offer shareholders maximum exposure to commodity prices, other than for the use of short term pre-shipment financing (financing of commercial accounts receivables and finished goods inventory), management reserves the right to raise financial debt in order to fund new future operations and/or mergers' and acquisitions' activity. Should such an event occur, financial leverage would be kept within an appropriate level:

– Less than 2.5x EBITDA (2010: 0.77x)

– Less than 20% of Capital Structure (Debt plus Market Capitalisation) (2010: 0.08x)

All leverage incurred beyond the use of short-term pre-shipment credit lines, is reviewed and approved by the Board.

Management also retains the right to fund operations (fully owned and joint ventures) with a mix of equity and joint venture partners' debt. Debt financing provided by joint venture partners is not included within the thresholds described above.

38 SUBSEQUENT EVENTS

(a) Repayment of syndicated loan facility led by JP Morgan

On 28 January 2011, the Group repaid the total outstanding principal amount of US$114,320,000 plus interest of US$383,448 under the syndicated loan facility led by JP Morgan. In addition, on 31 January 2011, the Group cancelled the two interest rate swap contracts signed with Citibank and BBVA related to this facility. The amount paid to cancel these contracts was US$1,667,500.

(b) Payment of Project Finance Loan interest and receipt of interest from Minera Andes Inc ("MAI")

In January 2011, Minera Santa Cruz S.A. paid US$9,120,786 of interest that had arisen under the Project Finance Loan from MAI. In addition, the Group collected the same amount from MAI, representing interest on the Project Finance Loan advanced by the Group to MAI.

(c) Sale of remaining interest in Lake Shore Gold

On 2 December 2010 the Group entered into a Block Trade Letter Agreement ("the Agreement") with RBC Capital Markets to dispose of the Group's remaining 21,540,992 common shares in Lake Shore Gold (approximately 5.4% interest in Lake Shore Gold on a fully diluted basis) at a price of CAD$3.70 per share raising total net proceeds of CAD$79,701,670. Due to the size of the combined sales (the initial disposal of 27.3% of Lake Shore Gold in November 2010 and the subsequent disposal of the remaining 5.4%), the second transaction was subject to shareholder approval which was granted on 8 February 2011. The transaction closed on the same date and a gain of US$4,950,000 will be recognised in 2011 in respect of the disposal.

Parent company statement of financial position
As at 31 December 2010

	Notes	As at 31 December 2010 US$000	As at 31 December 2009 US$000
ASSETS			
Non-current assets			
Property, plant and equipment	4	223	316
Investments in subsidiaries	5	2,319,649	1,350,395
Investments in associates	6	–	4,651
		2,319,872	1,355,362
Current assets			
Other receivables	8	3,128	3,878
Income tax receivable		–	40
Cash and cash equivalents	9	1,191	5,581
		4,319	9,499
Total assets		2,324,191	1,364,861
EQUITY AND LIABILITIES			
Equity share capital	10	158,637	158,637
Share premium	10	416,154	416,154
Other reserves		1,321,898	356,185
Retained earnings		177,661	208,327
Total equity		2,074,350	1,139,303
Non-current liabilities			
Trade and other payables	11	223	–
Borrowings	12	188,049	215,082
Provisions	13	44	–
		188,316	215,082
Current liabilities			
Trade and other payables	11	25,194	7,183
Other financial liabilities	14	1,930	13
Borrowings	12	34,401	3,280
		61,525	10,476
Total liabilities		249,841	225,558
Total equity and liabilities		2,324,191	1,364,861

The financial statements on pages 132 to 152 were approved by the Board of Directors on 28 March 2011 and signed on its behalf by:

Ignacio Bustamante
Chief Executive Officer
28 March 2011

Parent company statement of cash flows
For the year ended 31 December 2010

	Notes	Year ended 31 December 2010 US$000	2009 US$000
Reconciliation of (loss)/profit for the year to net cash used in operating activities			
(Loss)/profit for the year		950,487	(11,577)
Adjustments to reconcile Company operating profit to net cash outflows from operating activities:			
Depreciation	4	93	115
Reversal of impairment of subsidiary		(967,630)	–
Gain on sale of associates		(4,947)	–
Income tax expense		8	(11)
Finance income		(55)	(1,049)
Finance costs (excluding impairment of available-for-sale financial assets)		12,389	8,584
Foreign exchange loss/(gain)		52	(3,183)
Increase (decrease) of cash flows from operations due to changes in assets and liabilities:			
Other receivables		814	(726)
Trade and other payables		(439)	4,841
Provision for Long-Term Incentive Plan		44	–
Cash used in operating activities		(9,184)	(3,006)
Interest received		40	1,148
Interest paid		(8,249)	(9,383)
Tax paid		–	29
Net cash used in operating activities		(17,393)	(11,212)
Cash flows from investing activities			
Purchase of property, plant and equipment	4	–	(5)
Investments in subsidiaries	5	(1,624)	(216,806)
Receipts on sale of associates	6	9,598	(4,651)
Loans to subsidiaries		(9)	(2,500)
Net cash generated from/(used in) investing activities		7,965	(223,962)
Cash flows from financing activities			
Proceed of borrowing		18,613	115,000
Repayment of borrowings		–	(85,680)
Transaction costs associated with borrowing		–	(3,568)
Dividends paid	16	(13,523)	(12,294)
Proceeds from issue of ordinary shares	10	–	143,621
Transaction costs associated with issue of shares	10	–	(3,453)
Cash flows generated from financing activities		5,090	153,626
Net decrease in cash and cash equivalents during the year		(4,338)	(81,548)
Foreign exchange gain		(52)	3,183
Cash and cash equivalents at beginning of year		5,581	83,946
Cash and cash equivalents at end of year	9	1,191	5,581

Parent company statement of changes in equity
For the year ended 31 December 2010

	Equity share capital US$000	Share premium US$000	Unrealised gain/(loss) on available-for-sale financial assets and valuation of cash flow hedges 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 2009	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 valuation of cash flow hedges	–	–	(13)	–	–	(13)	–	(13)
Other comprehensive income	–	–	(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
Unrealised gain/(loss) in the valuation of cash flow hedges	–	–	(2,346)	–	–	(2,346)	–	(2,346)
Recycling of the change in fair value of cash flow hedges	–	–	429	–	–	429	–	429
Other comprehensive income	–	–	(1,917)	–	–	(1,917)	–	(1,917)
Profit for the year[1]	–	–	–	–	–	–	950,487	950,487
Total comprehensive loss for 2010	–	–	(1,917)	–	–	(1,917)	950,487	948,570
Transfer[1]	–	–	–	–	967,630	967,630	(967,630)	–
Dividends	–	–	–	–	–	–	(13,523)	(13,523)
Balance at 31 December 2010	158,637	416,154	(1,930)	8,432	1,315,396	1,321,898	177,661	2,074,350

1 The profit for the year includes the reversal of the impairment of the investment in subsidiaries of US$967,630,000 (refer to note 5). This amount has subsequently been transferred from retained earnings to the merger reserve.

Notes to the parent company financial statements
For the year ended 31 December 2010

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 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 2010 and 31 December 2009. 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 impairment 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 for the adoption of new and amended standards:

The Company 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 Company.

– IFRIC 17 "Distributions of Non-cash Assets to Owners", applicable for annual periods beginning on or after 1 July 2009.

This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. The interpretation had no effect on the financial position or performance of the Company.

– 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. The amendment had no effect on the financial position or performance of the Company.

– IFRS 2 "Group Cash-settled Share-based Payment Arrangements", applicable for annual periods beginning on or after 1 January 2010.

The standard has been amended to clarify the accounting for group cash-settled share-based payment transactions, where a subsidiary receives goods or services from employees or suppliers but the parent or another entity in the group pays for those goods or services. IFRIC 8 and IFRIC 11 have been withdrawn. This amendment had no effect on the financial position or performance of the Company.

Notes to the parent company financial statements
Continued

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

– Improvements to International Financial Reporting Standards (issued 2009)

Includes 15 amendments to 12 standards.

Applicable for annual periods beginning on or after 1 July 2009: IFRS 2 Share-based Payment, IAS 38 Intangible Assets, IFRIC 9 Reassessment of Embedded Derivatives, IFRIC 16 Hedges of a net Investment in a Foreign Operation.

– Effective immediately on issue date in April 2009: IAS 18 Revenue.

Certain new standards, amendments and interpretations to existing standards have been published and are mandatory for the Company's accounting periods beginning on or after 1 January 2011 or later periods but which the Company 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) Property, plant and equipment
Property, plant and equipment is stated at 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 its own physical life. Estimates of remaining useful lives are made on a regular basis for all buildings, machinery and equipment, with annual reassessments for major items. Depreciation is charged to administrative expenses over the estimated useful life of the individual asset on a straight-line basis. Changes in estimates 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.

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 Company 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 Company 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 six or more months.

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 expenditure are recognised in the income statement as incurred.

(g) 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 Company assesses investments for impairment whenever events or changes in circumstances indicate that the carrying value of an investment may not be recoverable. If any such indication of impairment exists, the company makes an estimate of its recoverable amount. Where the carrying amount of an investment exceeds its recoverable amount, the investment is considered impaired and is written down to its recoverable amount. If, in 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 profit and loss account, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) 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.

(i) Dividends receivable

Dividends are recognised when the Company's right to receive payments is established. Dividends received are recorded in the income statement.

(j) 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.

(k) 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.

(l) 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.

(m) 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.

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

Where the Company is remunerating employees of its subsidiaries through a share based payment, the costs of the transactions are recorded as capital contributions in the subsidiaries.

(n) 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.

Notes to the parent company financial statements Continued

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) 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.

(p) 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:

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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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
For available-for-sale financial assets, the Company assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost, where 'significant' is estimated to be around 30% of the original cost of the investment and 'prolonged' is no more than 12 months. In addition, the Company analyses each case, taking into account the portfolio of projects of the Company, the key technical personnel and the viability of the Company to finance its projects. 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.

Notes to the parent company financial statements
Continued

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

(q) 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.

(r) 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 gain attributable to equity shareholders of US$950,487,000 (2009: loss of US$11,577,000).

4 PROPERTY, PLANT AND EQUIPMENT

	Office Building US$000	Equipment US$000	Total US$000
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 value at 31 December 2009	230	86	316
Year ended 31 December 2010			
Cost			
At 1 January 2010 and 31 December 2010	277	267	544
Accumulated depreciation			
At 1 January 2010	47	181	228
Depreciation	27	66	93
At 31 December 2010	74	247	321
Net book value at 31 December 2010	203	20	223

5 INVESTMENTS IN SUBSIDIARIES

	Total US$000
Year ended 31 December 2009	
Cost	
At 1 January 2009	2,101,219
Additions	216,806
At 31 December 2009	2,318,025
Accumulated Impairment	
At 1 January 2009	967,630
At 31 December 2009	967,630
Net book value at 31 December 2009	1,350,395
Year ended 31 December 2010	
Cost	
At 1 January 2010	2,318,025
Additions	1,624
At 31 December 2010	2,319,649
Accumulated impairment	
At 1 January 2010	967,630
Reversal of impairment	(967,630)
At 31 December 2010	–
Net book value at 31 December 2010	2,319,649

The breakdown of the investments in subsidiaries is as follows:

	As at 31 December 2010			As at 31 December 2009		
Name	**Country of incorporation**	**Equity interest %**	**Carrying value US$000**	Country of incorporation	Equity interest %	Carrying value US$000
Hochschild Mining Holdings Limited	England & Wales	100%	2,319,649	England & Wales	100%	1,350,395
Total			2,319,649			1,350,395

The list of subsidiaries of the Group is presented in note 1 (Corporate information) of the notes to the Consolidated Financial Statements.

During 2009, the Company subscribed for 1,800 shares of £1.00 each in Hochschild Mining Holdings Limited through capital contributions paid in cash totalling US$216,805,529.

During 2010, the Company subscribed for 100 shares of £1.00 each in Hochschild Mining Holdings Limited through capital contributions paid in cash totalling US$1,623,454.

The Company reversed in 2010 the impairment recognised in 2008 of US$967,629,582, following the significant improvements in the commodity markets during 2010, and the resulting impact on the value of the Group´s operations and investments.

Notes to the parent company financial statements
Continued

6 INVESTMENTS IN ASSOCIATES

	Year ended 31 December	
	2010 US$000	2009 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. ("Zincore") 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%.

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 (a total of C$10,287,000 (US$9,978,390)) representing a 11.6% premium over the 20 day average closing price, realising a gain on disposal of US$4,947,000. 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 comprised solely by independent Non-Executive Directors ("the Independent Committee"). The Independent Committee was advised by Canaccord Adams Limited that the terms of the disposal are fair and reasonable as far as shareholders are concerned.

7 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Year ended 31 December	
	2010 US$000	2009 US$000
Beginning balance	–	57
Fair value change recorded in equity	–	654
Disposals[1]	–	(711)
Ending balance	–	–

1 At 31 December 2009, the Company had sold its investment in Mirasol Resources Ltd. to Hochschild Mining Holdings Ltd. for a total cash consideration of US$711,000.

8 OTHER RECEIVABLES

	Year ended 31 December	
	2010 US$000	2009 US$000
Amounts receivable from subsidiaries (note 15)	2,773	3,214
Prepayments	255	362
Accrued income	–	35
Receivable from Kaupthing, Singer and Friedlander	461	667
Other debtors	100	100
	3,589	4,378
Provision for impairment[1]	(461)	(500)
Total	3,128	3,878

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$461,000 accrued in 2008 and partially recovered in 2010 (2009: US$500,000).

Movements in the provision for impairment of receivables:

	Individually impaired US$000	Collectively impaired US$000	Total US$000
At 1 January 2009	758	–	758
Charge for the year	–	–	–
Amounts recovered	(258)	–	(258)
At 31 December 2009	500	–	500
Amounts recovered	(39)	–	(39)
At 31 December 2010	(461)	–	(461)

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
2010	3,128	3,128	–	–	–	–	–
2009	3,878	3,711	–	–	–	167	–

9 CASH AND CASH EQUIVALENTS

	Year ended 31 December	
	2010 US$000	2009 US$000
Bank current account	43	330
Liquidity funds[1]	1,148	5,251
Cash and cash equivalents considered for the cash flow statement	1,191	5,581

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 0.26% and a weighted average maturity between 33 to 56 days as at 31 December 2010 (2009: 0.71% and between 30 to 55 days) (refer to note 17(d)). The liquidity funds generated interest of US$4,000 (2009: US$301,000).

Notes to the parent company financial statements
Continued

10 EQUITY

(a) Share capital and share premium

Issued share capital

The issued share capital of the Company as at 31 December 2010 is as follows:

	Issued	
Class of shares	**Number**	**Amount**
Ordinary Shares	338,085,226	£84,521,307

The issued share capital of the Company as at 31 December 2009 is as follows:

	Issued	
Class of shares	Number	Amount
Ordinary Shares	338,085,226	£84,521,307

At 31 December 2010 and 2009, all issued shares with a par value of 25p (2010: weighted average of US$0.469, 2009: weighted average of US$0.469 per share) each were fully paid.

Rights attached to ordinary shares

At general meetings of the Company, on a show of hands and on a poll, every member who is present in person or subject to the below by proxy, has one vote for every share of which they are the holder/proxy. However in the case of a vote on a show of hands where a proxy has been appointed by more than one member, the proxy has one vote for and one vote against if the proxy has been instructed by one or more members to vote for the resolution and by one or more members to vote against the resolution.

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 2009	307,350,226	146,466	416,154
Shares issued and paid pursuant to the placing of shares on 12 October 2009	30,735,000	12,171	–
Shares issued as at 31 December 2009	338,085,226	158,637	416,154
Shares issued as at 31 December 2010	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 fair 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.

11 TRADE AND OTHER PAYABLES

	As at 31 December			
	2010		2009	
	Non-current US$000	Current US$000	Non-current US$000	Current US$000
Trade payables	–	784	–	509
Payables to subsidiaries (note 15)	–	23,019	–	5,337
Professional fees	–	95	–	106
Board members' remuneration	–	120	–	320
Remuneration payable	223	465	–	132
Audit fees	–	497	–	544
Accrued expenses	–	86	–	103
Taxes and contributions	–	128	–	132
Total	223	25,194	–	7,183

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.

12 BORROWINGS

	As at 31 December			
	2010		2009	
	Non-current US$000	Current US$000	Non-current US$000	Current US$000
Secured bank loans[1]	84,222	29,256	111,255	1,617
Convertible bond payable[2]	103,827	5,145	103,827	1,663
Total	188,049	34,401	215,082	3,280

1 Secured bank loans

As at 31 December 2010, the balance corresponds to:

- A 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 2010 is comprised of the secured term loan facility of US$114,320,000 plus accrued interest of US$2,393,000 and net of transaction costs of US$3,235,000. During 2010 and 2009, the Company has 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 S.A.C. ("CMA") (wholly-owned subsidiary).
- Subsidiary guarantees by certain wholly-owned subsidiaries whereby these subsidiaries guarantee the repayment of the loan with their cash flows.

Notes to the parent company financial statements
Continued

12 BORROWINGS (CONTINUED)

The main administrative and financial covenants that the Company and Compañía Minera Ares S.A.C. ("CMA") 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 CMA.

– Investments in restricted and unrestricted subsidiaries based on an agreed upon limit (unlimited within restricted subsidiaries).

– Maintain the following ratios (at a consolidated and CMA 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 CMA' management and the Administrative Agent. The Group and CMA have complied with the commitments and financial covenants mentioned in the syndicated loan agreement.

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 CMA. 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.

2 Convertible bond payable

This relates to the 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 2010 is comprised of the principal of US$115,000,000 (2009: US$115,000,000) plus accrued interest of $5,145,000 (2009: US$1,663,000) and net of transaction costs of US$2,741,000 (2009: US$2,741,000) and the bond equity component of US$8,432,000 (2009: US$8,432,000).

The maturity of non-current borrowings is as follows:

	As at 31 December	
	2010 US$000	2009 US$000
Between 1 and 2 years	56,318	27,922
Between 2 and 5 years	131,731	187,160
	188,049	215,082

12 BORROWINGS (CONTINUED)

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	
	2010 US$000	2009 US$000	**2010 US$000**	2009 US$000
Bank loans				
Secured	84,222	111,255	83,351	110,967
Convertible bond payable	103,827	103,827	121,709	126,331
Total	188,049	215,082	205,060	237,298

13 PROVISIONS

	As at 31 December	
	2010 US$000	2009 US$000
Beginning balance	–	–
Increase of provision	44	–
At 31 December 2010	44	–
Less current portion	–	–
Non-current portion	44	–

1 In May 2010, a grant of awards under the Company's cash based Long-Term Incentive Plan was made. The awards will vest on satisfaction of a TSR-based performance condition relative to a comparator group comprising international silver and gold mining companies over a three-year performance period. The performance period runs from 1 January 2010 to 31 December 2012 and should awards vest a cash payment will be made to participants in May 2013. Only employees who remain in the Company's employment until this date will be entitled to a cash payment on vesting subject to exceptions approved by the Remuneration Committee of the Board. The provision represents the discounted values of the estimated cost of the long-term employee benefit. In 2010 there is a provision of US$44,000 included in administrative expenses.

14 OTHER FINANCIAL LIABILITIES

	As at 31 December	
	2010 US$000	2009 US$000
Swap contracts[1]	1,930	13
Total liabilities	1,930	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 2010, the Company held the following financial instruments measured at fair value:

	31 December 2010 US$000	Level 1 US$000	Level 2 US$000	Level 3 US$000
Liabilities measured at fair value				
Swap contracts (refer to note 22(5) of the Consolidated financial statements)	1,930	–	1,930	–

During the period ending 31 December 2010, there were no transfers between these levels.

Notes to the parent company financial statements
Continued

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 2010 and 31 December 2009.

	As at 31 December 2010		As at 31 December 2009	
	Accounts receivable US$000	**Accounts payable US$000**	Accounts receivable US$000	Accounts payable US$000
Subsidiaries				
Compañía Minera Ares S.A.C. [1]	1	1,484	–	2,629
Minera Hochschild Chile S.C.M.	1	–	–	–
0848818 BC (formerly Southwestern Resources) [2]	–	2,894	–	2,678
Hochschild Mining (Argentina) S.A. (formerly Hochschild Mining (Argentina) Corporation)	1	2	–	–
Hochschild Mining (Mexico), S.A. de C.V. (formerly Hochschild Mining (Mexico) Corporation)	1	1	–	1
Hochschild Mining (Chile) S.A.	1	–	–	–
Servicios Corporativos Hochschild Mining Mexico S.A. de C.V.	1	–	–	–
Moris Holding S.A. de C.V.	1	–	–	–
Hochschild Mining Ares (UK) Ltd	1	–	–	–
Hochschild Mining Holdings Ltd. [3]	209	18,638	710	25
Minas Santa María de Moris S.A. de C.V. [4]	2,554	–	2,504	–
Hochschild Mining (Peru) S.A. (formerly Hochschild Mining (Peru) Corporation)	2	–	–	4
	2,773	23,019	3,214	5,337

1 Mainly relates to the services performed by Compañía Minera Ares S.A.C. to Hochschild Mining plc during 2010 of US$1,562,455 (2009: US$1,580,000).
2 Mainly relates to the purchase of 38,100,000 shares of Zincore Metals Inc. made on 10 September 2009 (refer to note 6). The amount outstanding as at 31 December 2010 and 2009 was CAD 2,809,799, equivalent to US$2,825,056 and US$2,678,000 respectively.
3 Relates to loans receivable by and payable to Hochschild Mining Holdings Ltd. The loan payable is repayable on demand and is free of interest.
4 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.

During 2010 the Company made the following transactions with related parties:

– Sale of Zincore Metals Inc. shares to Inversiones Pacasmayo S.A. (refer to note 6)

– The Company made capital contributions to Hochschild Mining Holdings Ltd. totalling to US$1,623,454 (refer to note 5).

(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$1,322,000 (2009: US$1,457,000), out of which US$79,975 (2009: US$79,994) relates to cash supplements in lieu of pension contributions.

	As at 31 December	
Compensation of key management personnel (including directors)	**2010 US$000**	2009 US$000
Short term employee benefits	1,322	1,457
Total compensation	1,322	1,457

15 RELATED-PARTY BALANCES AND TRANSACTIONS (CONTINUED)

(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.

16 DIVIDENDS PAID AND PROPOSED

	2010 US$000	2009 US$000
Declared and paid during the year:		
Equity dividends on ordinary shares:		
Final dividend for 2009: US$0.02 (2008: US$0.02)	6,762	6,147
First interim for 2010: US$0.02 (2009: US$0.02)	6,761	6,147
Dividends paid	13,523	12,294
Proposed for approval by shareholders at the AGM:		
Final dividend for 2010: US$0.03 (2009: US$0.02)	10,143	6,762

Dividends per share

The dividends declared in August 2010 were US$6,761,704 (US$0.02 per share). A dividend in respect of the year ended 31 December 2010 of US$0.03 per share, amounting to a total dividend of US$10,142,557 is to be proposed at the Annual General Meeting on 2 June 2011. 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

Due to the operations of the Company, it has cash and cash equivalents and trade payables denominated in Pounds sterling and Canadian Dollars. According the financial results of the Company may be affected by exchange rate fluctuations. The Company does not use derivative instruments to manage its foreign currency risks. The following table demonstrates the sensitivity of financial assets and liabilities, at the reporting date denominated in their respective currencies, 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
2010			
Canadian dollars	+/–10%	–/+289	–
Pounds sterling	+/–10%	–/+335	–
2009			
Canadian dollars	+/–10%	–/+268	–
Pounds sterling	+/–10%	+/–174	–

Notes to the parent company financial statements
Continued

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.

In 2008, as a result of the recent financial crisis, the Company 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 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 Company 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 Company is funded by Hochschild Mining Holdings Ltd. through loans in order to meet its obligations. Liquidity is supported by the balance of cash in the Company and Hochschild Mining Holdings at 31 December 2010 of US$1,190,314 and US$391,552,096 respectively. The Company also serves as principal funding conduit for the group's capital raising activities such as equity and debt issuances.

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 2010					
Trade and other payables	25,066	223	–	–	25,289
Swap contracts	1,938	–	–	–	1,938
Borrowings	35,961	63,041	146,856	–	245,858
Provisions	–	–	45	–	45
At 31 December 2009					
Trade and other payables	7,051	–	–	–	7,051
Swap contracts	13	–	–	–	13
Borrowings	7,118	35,957	208,214	–	251,289

(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.

17 FINANCIAL RISK MANAGEMENT (CONTINUED)

	As at 31 December 2010				
	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)	43	–	–	–	43
Amounts receivable from subsidiaries (refer to note 15)	2,554	–	–	–	2,554
Secured bank loans (refer to note 12)	(29,256)	(56,318)	(27,904)		(113,478)
Convertible bond payable (refer to note 12)	(5,145)	–	(103,827)	–	(108,972)
Floating rate					
Liquidity funds (refer to note 9)	1,148	–	–	–	1,148

	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

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 2010 and 2009 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
2010	+/–50bps	+/–10
2009	+/–50bps	–/+530

(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 before submission to the Board for ultimate approval, where applicable.

Notes to the parent company financial statements
Continued

18 SUBSEQUENT EVENTS

(a) Repayment of syndicated loan facility led by JP Morgan

On 28 January 2011, the Company repaid the total outstanding principal amount of US$114,320,000 plus interest of US$383,448 of the syndicated loan facility provided by JP Morgan. In addition, on 31 January 2011, the Company cancelled the two interest rate swap contracts signed with Citibank and BBVA related to this syndicated loan facility. The amount paid for the cancellation of both contracts was US$1,667,500.

(b) Collection of Minas Santa María de Moris S.A. de C.V. loan receivable

On 8 February 2011, the Company collected the capital of US$2,500,000 plus interest of US$49,465 related to the loan granted by the Company to Minas Santa María de Moris S.A. de C.V. in 2009.

Further information

Further information

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Profit by operation[1]
(Segment report reconciliation) as at December 2010

Company (US$000)	Ares	Arcata	Pallancata	San José	Moris	Consolidation adjustment	Total
Revenue	56,824	181,778	261,877	220,825	30,899	119	752,322
Cost of sales (pre-consolidation)	(41,652)	(74,526)	(99,812)	(107,282)	(30,133)	(1,123)	(354,528)
Consolidation adjustment	55	129	(53)	(286)	289	(1,123)	(989)
Cost of sales (post-consolidation)	(41,707)	(74,655)	(99,759)	(106,996)	(30,422)	–	(353,539)
Production cost w/o depreciation	(32,018)	(46,017)	(56,345)	(71,711)	(19,065)	–	(225,156)
Depreciation in production cost	(2,649)	(18,991)	(34,409)	(34,664)	(10,865)	–	(101,578)
Other items	(6,658)	(9,146)	(12,454)	(2,227)	–	–	(30,485)
Change in inventories	(382)	(501)	3,449	1,606	(492)	–	3,680
Gross profit	15,172	107,252	162,065	113,543	766	(1,004)	397,794
Administrative expenses	–	–	–	–	–	(66,221)	(66,221)
Exploration expenses	–	–	–	–	–	(41,537)	(41,537)
Selling expenses	(119)	(2,575)	(3,537)	(20,739)	–	50	(26,920)
Other income/expenses	–	–	–	–	–	71,846	71,846
Operating profit before impairment	15,053	104,677	158,528	92,804	766	(36,866)	334,962
Impairment of assets	–	–	–	–	–	(24,018)	(24,018)
Investments under equity method	–	–	–	–	–	(6,080)	(6,080)
Finance income	–	–	–	–	–	13,344	13,344
Finance costs	–	–	–	–	–	(29,542)	(29,542)
FX gain/(loss)	–	–	–	–	–	29	29
Profit/(loss) from continuing operations before income tax[2]	15,053	104,677	158,528	92,804	766	(83,133)	288,695
Income tax	–	–	–	–	–	(72,030)	(72,030)
Profit/(loss) for the year from continuing operations	15,053	104,677	158,528	92,804	766	(155,163)	216,665

1 On a post exceptional basis.
2 Hochschild profit before income tax reflected in 2010 annual report.

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 156 to 160 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 2010, 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$900 per ounce and Ag Price: US$15 per ounce.

Reserves and resources
Continued

ATTRIBUTABLE METAL RESERVES AS AT 31 DECEMBER 2010

Reserve category	Proved and probable (t)	Ag (g/t)	Au (g/t)	Ag (moz)	Au (koz)	Ag Eq (moz)
MAIN OPERATIONS[1]						
Arcata						
Proved	998,441	375	1.11	12.0	35.5	14.2
Probable	1,105,447	356	1.09	12.7	38.6	15.0
Total	2,103,888	365	1.10	24.7	74.1	29.1
Pallancata						
Proved	2,012,015	308	1.48	19.9	95.8	25.7
Probable	315,662	313	1.35	3.2	13.7	4.0
Total	2,327,677	308	1.46	23.1	109.5	29.7
San José						
Proved	363,389	511	7.26	6.0	84.8	11.1
Probable	385,769	394	5.45	4.9	67.6	8.9
Total	749,158	451	6.33	10.9	152.5	20.0
Main operations total						
Proved	3,373,845	349	1.99	37.9	216.1	50.9
Probable	1,806,878	357	2.06	20.7	120.0	27.9
Total	5,180,723	352	2.02	58.6	336.10	78.8
OTHER OPERATIONS						
Ares						
Proved	111,771	99	4.72	0.4	17.0	1.4
Probable	39,133	109	3.02	0.1	3.8	0.4
Total	150,904	102	4.28	0.5	20.8	1.7
Moris						
Proved	94,401	5	1.48	0.0	4.5	0.3
Probable	330,007	5	1.54	0.1	16.3	1.0
Total	424,408	5	1.52	0.1	20.8	1.3
Other operations total						
Proved	206,172	56	3.23	0.4	21.4	1.7
Probable	369,140	16	1.69	0.2	20.1	1.4
Total	575,312	30	2.25	0.6	41.5	3.1
Group total						
Proved	3,580,017	333	2.06	38.3	237.5	52.5
Probable	2,176,018	299	2.00	20.9	140.0	29.3
TOTAL	5,756,035	320	2.04	59.2	377.6	81.8

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 2010

Resource category		Ag (g/t)	Au (g/t)	Zn (%)	Pb (%)	Cu (%)	Ag Eq (g/t)	Ag (moz)	Au (koz)	Ag Eq (Moz)	Zn (kt)	Pb (kt)	Cu (kt)
MAIN OPERATIONS[1]													
Arcata													
Measured	1,411,118	489	1.47				578	22.2	66.6	26.2			
Indicated	1,241,366	451	1.34				532	18.0	53.3	21.2			
Total	2,652,484	472	1.41				556	40.2	120.0	47.4			
Inferred	3,282,100	402	1.40				486	42.5	147.5	51.3			
Pallancata													
Measured	2,561,183	390	1.82				500	32.1	150.0	41.1			
Indicated	377,990	345	1.48				434	4.2	18.0	5.3			
Total	2,939,173	385	1.78				491	36.3	168.0	46.4			
Inferred	1,441,039	329	1.35				410	15.3	62.5	19.0			
San José													
Measured	527,951	570	8.10				1,056	9.7	137.5	17.9			
Indicated	1,029,953	426	6.14				795	14.1	203.3	26.3			
Total	1,557,904	475	6.80				883	23.8	340.8	44.2			
Inferred	1,522,859	373	5.96				731	18.3	291.8	35.8			
Main operations total													
Measured	4,500,252	443	2.45				589	64.0	354.1	85.3			
Indicated	2,649,309	426	3.22				620	36.3	274.6	52.8			
Total	7,149,561	437	2.74				601	100.4	628.7	138.1			
Inferred	6,245,998	379	2.50				528	76.0	501.8	106.1			
OTHER OPERATIONS													
Ares													
Measured	452,204	161	6.02				522	2.3	87.5	7.6			
Indicated	124,667	145	3.78				372	0.6	15.1	1.5			
Total	576,871	157	5.54				489	2.9	102.7	9.1			
Inferred	285,782	183	3.03				365	1.7	27.8	3.3			
Moris													
Measured	281,909	4.1	1.12				71	0.0	10.1	0.6			
Indicated	375,383	4.9	1.44				91	0.1	17.4	1.1			
Total	657,292	4.5	1.30				83	0.1	27.5	1.7			
Inferred	26,335	3.7	1.13				71	0.0	1.0	0.1			
Other operations total													
Measured	734,113	101	4.14				349	2.4	97.7	8.2			
Indicated	500,050	40	2.02				161	0.6	32.5	2.6			
Total	1,234,163	76	3.28				273	3.0	130.2	10.8			
Inferred	312,117	168	2.87				340	1.7	28.8	3.4			
OTHER PROJECTS[1]													
Azuca													
Measured	0	0	0.00				0	0.0	0.0	0.0			
Indicated	2,048,718	226	0.96				284	14.9	63.0	18.7			
Total	2,048,718	226	0.96				284	14.9	63.0	18.7			
Inferred	5,945,438	206	1.07				270	39.3	204.9	51.6			
Crespo													
Measured	2,966,294	51	0.65				90	4.8	62.1	8.6			
Indicated	13,922,275	31	0.55				63	13.7	245.8	28.4			
Total	16,888,568	34	0.57				68	18.5	307.9	37.0			
Inferred	8,872,647	11	0.42				37	3.2	121.1	10.4			

Reserves and resources
Continued

ATTRIBUTABLE METAL RESOURCES AS AT 31 DECEMBER 2010 (CONTINUED)

Resource category		Ag (g/t)	Au (g/t)	Zn (%)	Pb (%)	Cu (%)	Ag Eq (g/t)	Ag (moz)	Au (koz)	Ag Eq (M oz)	Zn (kt)	Pb (kt)	Cu (kt)
Inmaculada													
Measured	656,374	125	4.65				405	2.6	98.2	8.5			
Indicated	2,710,576	177	4.65				456	15.4	405.6	39.8			
Total	3,366,949	167	4.65				446	18.1	503.7	48.3			
Inferred	2,131,994	199	4.97				498	13.7	340.7	34.1			
San Felipe													
Measured	1,393,716	69	0.02	7.12	3.10	0.39	315	3.1	0.9	14.1	99.3	43.1	5.5
Indicated	1,354,261	82	0.06	6.14	2.73	0.31	295	3.6	2.4	12.9	83.2	37.0	4.2
Total	2,747,977	76	0.04	6.64	2.92	0.35	305	6.7	3.3	27.0	182.4	80.1	9.7
Inferred	1,257,731	84	0.05	6.18	2.26	0.19	283	3.4	1.9	11.5	77.8	28.5	2.3
Other projects total													
Measured	5,016,383	66	1.00	1.98	0.86	0.11	194	10.6	161.2	31.2	99.3	43.1	5.5
Indicated	20,035,829	74	1.11	0.42	0.18	0.02	155	47.6	716.8	99.7	83.2	37.0	4.2
Total	25,052,213	72	1.09	0.73	0.32	0.04	163	58.1	878.0	130.9	182.4	80.1	9.7
Inferred	18,207,809	102	1.14	0.43	0.16	0.01	184	59.5	668.6	107.6	77.8	28.5	2.3
TOTAL													
Measured	10,250,749	234	1.86	0.97	0.42	0.05	379	77.0	613.0	124.7	99.3	43.1	5.5
Indicated	23,185,188	113	1.37	0.36	0.16	0.02	208	84.5	1023.9	155.1	83.2	37.0	4.2
Total	33,435,937	150	1.52	0.55	0.24	0.03	260	161.5	1636.9	279.8	182.4	80.1	9.7
Inferred	24,765,924	172	1.51	0.31	0.11	0.01	273	137.2	1199.1	217.1	77.8	28.5	2.3

1 Main operations and other projects (excluding San Felipe) were audited by P&E Consulting.

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.

CHANGE IN TOTAL RESERVES AND RESOURCES

Ag equivalent content (million ounces)	Category	December 2009	Production[1]	Movements[2]	December 2010	Net difference	% change
Arcata	Resource	79.4		19.4	98.7	19.4	24.4%
	Reserve	29.8	12.9	12.2	29.1	(0.7)	(2.4)%
Pallancata	Resource	108.9		0.1	109.0	0.1	0.1%
	Reserve	55.9	15.2	8.7	49.4	(6.5)	(11.6)%
San José	Resource	110.0		47.0	156.9	47.0	42.7%
	Reserve	43.7	12.7	8.3	39.2	(4.5)	(10.2)%
Main operations total	Resource	298.3		66.5	364.7	66.5	22.3%
	Reserve	129.4	40.8	29.2	117.8	(11.6)	(8.9)%
Ares	Resource	14.7		(2.2)	12.4	(2.2)	(15.3)%
	Reserve	3.7	2.9	0.9	1.7	(2.0)	(54.5)%
Moris	Resource	4.5		(2.7)	1.8	(2.7)	(59.8)%
	Reserve	2.8	2.4	0.9	1.3	(1.5)	(53.6)%
Other operations total	Resource	19.2		(4.9)	14.2	(4.9)	(25.8)%
	Reserve	6.5	5.3	1.9	3.1	(3.4)	(52.6)%
Azuca	Resource	44.1		26.2	70.3	26.2	59.4%
	Reserve	0.0	0.0	0.0	0.0	0.0	–
Crespo	Resource	44.7		2.7	47.4	2.7	6.0%
	Reserve	0.0	0.0	0.0	0.0	0.0	–
Inmaculada	Resource	66.9		70.4	137.3	70.4	105.3%
	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	–
Other projects total	Resource	194.2		99.3	293.5	99.3	51.1%
	Reserve	0.0	0.0	0.0	0.0	0.0	–
Total	Resource	511.6		160.8	672.4	160.8	31.4%
	Reserve	135.9	46.1	31.0	120.8	(15.1)	(11.1)%

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.

Reserves and resources
Continued

CHANGE IN ATTRIBUTABLE RESERVES AND RESOURCES

Ag equivalent content (million ounces)	Category	Percentage attributable	December 2009 Att.[1]	**December 2010 Att.[1]**	Net difference	% change
Arcata	Resource	100%	79.4	98.7	19.4	24.4%
	Reserve		29.8	29.1	(0.7)	(2.4)%
Pallancata	Resource	60%	65.3	65.4	0.1	0.1%
	Reserve		33.5	29.7	(3.9)	(11.6)%
San José	Resource	51%	56.1	80.0	23.9	42.7%
	Reserve		22.3	20.0	(2.3)	(10.2)%
Main operations total	Resource		200.8	244.2	43.4	21.6%
	Reserve		85.6	78.8	(6.9)	(8.0)%
Ares	Resource	100%	14.7	12.4	(2.2)	(15.3)%
	Reserve		3.7	1.7	(2.0)	(54.5)%
Moris	Resource	100%	4.5	1.8	(2.7)	(59.8)%
	Reserve		2.8	1.3	(1.5)	(53.6)%
Other operations total	Resource		19.2	14.2	(4.9)	(25.8)%
	Reserve		6.5	3.1	(3.5)	(54.1)%
Azuca	Resource	100%	44.1	70.3	26.2	59.4%
	Reserve		0.0	0.0	0.0	–
Crespo	Resource	100%	44.7	47.4	2.7	6.0%
	Reserve		0.0	0.0	0.0	–
Inmaculada	Resource	49% – 60%[2]	32.8	82.4	49.6	151.3%
	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	–
Other total	Resource		160.1	238.5	78.4	49.0%
	Reserve		0.0	0.00	0.0	–
Total	Resource		380.1	497.0	116.9	30.8%
	Reserve	100%	92.1	81.8	(10.4)	(11.3)%

1 Attributable reserves and resources based on the Group's percentage ownership of its joint venture projects.
2 The Company increased its holdings in the Inmaculada project to 60% in 2010.

Production

2010 TOTAL GROUP PRODUCTION[1]

	Year ended 31 December 2010	Year ended 31 December 2009	% change
Silver production (koz)	24,430	24,585	(1)
Gold production (koz)	200.05	211.64	(5)
Total silver equivalent (koz)	36,434	37,283	(2)
Total gold equivalent (koz)	607.23	621.38	(2)
Silver sold (koz)	24,283	23,563	3
Gold sold (koz)	199.9	204.09	(2)

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 2010	Year ended 31 December 2009	% change
Silver production (koz)	17,768	18,754	(5)
Gold production (koz)	144.40	156.77	(8)
Attrib. silver equivalent (koz)	26,432	28,160	(6)
Attrib. gold equivalent (koz)	440.53	469.34	(6)

1 Attributable production includes 100% of all production from Arcata, Ares and Moris, 60% from Pallancata and 51% from San José.

PRODUCTION BY MINE

Arcata

Product	Year ended 31 December 2010	Year ended 31 December 2009	% change
Ore production (tonnes)	645,974	643,059	0
Average head grade silver (g/t)	439	503	(13)
Average head grade gold (g/t)	1.40	1.56	(10)
Silver produced (koz)	8,099	9,542	(15)
Gold produced (koz)	25.83	28.64	(10)
Silver equivalent produced (koz)	9,649	11,261	(14)
Silver sold (koz)	8,095	9,138	(11)
Gold sold (koz)	24.95	27.17	(8)

Ares

Product	Year ended 31 December 2010	Year ended 31 December 2009	% change
Ore production (tonnes)	301,726	341,273	(12)
Average head grade silver (g/t)	92	96	(4)
Average head grade gold (g/t)	3.58	4.17	(14)
Doré total (koz)	822	947	(13)
Silver produced (koz)	786	900	(13)
Gold produced (koz)	32.53	42.59	(24)
Silver equivalent produced (koz)	2,738	3,455	(21)
Silver sold (koz)	810	873	(7)
Gold sold (koz)	32.70	41.82	(22)

Production
Continued

Pallancata[1]

Product	Year ended 31 December 2010	Year ended 31 December 2009	% change
Ore production (tonnes)	1,071,617	922,521	16
Average head grade silver (g/t)	344	327	5
Average head grade gold (g/t)	1.41	1.43	(1)
Silver produced (koz)	10,135	8,420	20
Gold produced (koz)	35.85	31.97	12
Silver equivalent produced (koz)	12,286	10,339	19
Silver sold (koz)	9,998	8,405	19
Gold sold (koz)	33.7	30.7	10

1 The Company has a 60% interest in Pallancata.

San José[1]

Product	Year ended 31 December 2010	Year ended 31 December 2009	% change
Ore production (tonnes)	461,134	460,971	0
Average head grade silver (g/t)	397	398	0
Average head grade gold (g/t)	6.14	6.19	(1)
Silver produced (koz)	5,324	4,998	7
Gold produced (koz)	84.30	77.08	9
Silver equivalent produced (koz)	10,382	9,622	8
Silver sold (koz)	5,284	5,174	2
Gold sold (koz)	84.96	78.80	8

1 The Company has a 51% interest in San José.

Moris

Product	Year ended 31 December 2010	Year ended 31 December 2009	% change
Ore production (tonnes)	1,148,826	1,282,461	(10)
Average head grade silver (g/t)	4.44	5.02	(11)
Average head grade gold (g/t)	1.14	1.38	(17)
Silver produced (koz)	86.41	96.58	(11)
Gold produced (koz)	21.53	28.34	(24)
Silver equivalent produced (koz)	1,378	1,797	(23)
Silver sold (koz)	95.07	86.69	10
Gold sold (koz)	23.54	26.29	(10)

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 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

DNV
Det Norske Veritas is an independent foundation with the purpose of safeguarding life, property and the environment

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 25p 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 2 June 2011 at the offices of Linklaters LLP, One Silk Street, London, EC2Y 8HQ.

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
Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU

– By telephone
If calling from the UK: 0871 664 0300 (Calls cost 10p per minute plus network extras, 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 17 May 2011.

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 17 May 2011. 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	11 May 2011
Record date	13 May 2011
Deadline for return of currency election form	17 May 2011
Final dividend payable	7 June 2011

Other dates

Annual General Meeting	2 June 2011
Half-yearly results announced	August 2011

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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