People:
Making the difference

Hochschild Mining plc
Annual Report & Accounts 2011

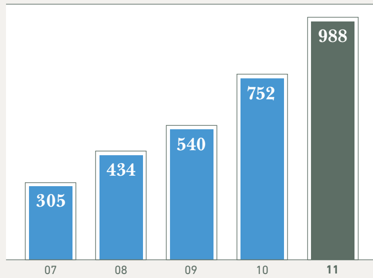
People making the difference

Success can only be achieved by having the right *quality* of *people* in place. This year's report highlights the *contribution* of our *people* to that *success*.

Overview

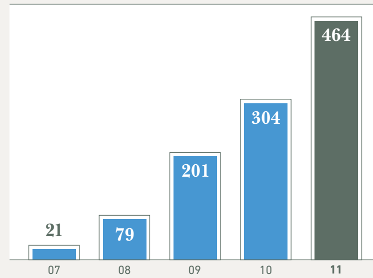
A strong track record

Revenue $m



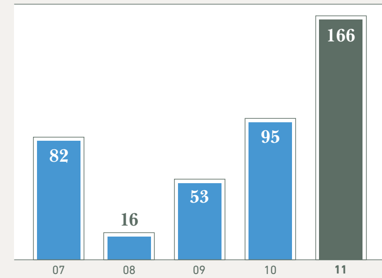
+31%

Cash flow from operating activities $m



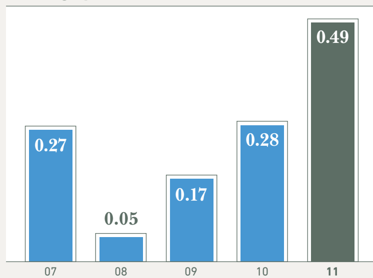
+53%

Attributable net profit $m



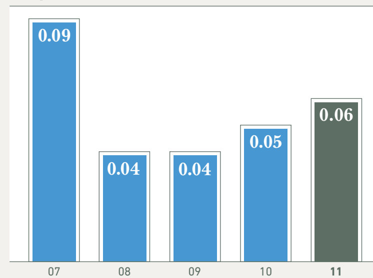
+75%

Earnings per share $



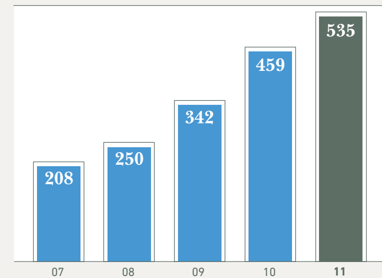
+75%

Proposed total dividend $



+20%

Resource base Silver equivalent moz



+17%

Contents

Overview

01 A strong track record
02 Chairman's statement
04 Our business today
06 Chief Executive's review

Our people making the difference

Operating & exploration review

20 Market & geographic overview
22 2011 Overview
24 Main operations
27 Other operations
28 Advanced Projects
30 Exploration review
32 Company Makers
34 Medium Scale projects

Corporate responsibility

37 Letter from the Chairman
39 CR governance
41 Safety
42 Health & hygiene
43 Our people
44 Working together with local communities
47 Managing our environmental impact

Financial review & Risk management

50 Financial review
57 Risk management

Governance

60 Board of Directors & Senior management
62 Directors' report
65 Corporate governance report
74 Supplementary information
77 Directors' remuneration report
88 Statement of Directors' responsibilities
89 Independent auditor's report

Financial statements

91 Consolidated income statement
92 Consolidated statement of comprehensive income
93 Consolidated statement of financial position
94 Consolidated statement of cash flows
95 Consolidated statement of changes in equity
96 Notes to the consolidated financial statements
153 Parent company statement of financial position
154 Parent company statement of cash flows
155 Parent company statement of changes in equity
156 Notes to the parent company financial statements

Further information

169 Profit by operation
170 Reserves and resources
176 Production
178 Glossary
179 Shareholder information

Overview

Chairman's statement

Our management team has utilised 2011 to *firmly embed the exploration strategy* within the Company.

2011 Overview

Hochschild Mining has once again delivered a resilient performance in the wake of continuing global economic crisis. Thanks to the dedication and skills of our whole team, we have been able to meet expectations on our key 2011 objectives, including the completion of feasibility studies for two of our Advanced Projects, the achievement of our annual operating targets and the ongoing evolution of our exploration based strategy. Importantly, we are also generating further opportunities to add to our already considerable growth plans as well as having the financial firepower to execute on attractive prospects.

A strong precious metals market again played its part in Hochschild's record financial performance in 2011, allowing us to significantly increase profits in the year whilst selectively mining lower ore grades in order to enable us to produce longer term stable future growth in uncertain markets. Despite significant increases in cyclical costs such as royalties, the Company recorded a considerable EBITDA increase of 42% to $563 million on the back of revenue of almost $1 billion. Earnings per share was up by 75% to 49 cents and the Board is therefore pleased to recommend a 20% increase in the total dividend for the year, to 6 cents per share, which confirms the confidence we have in the business going forward and the ongoing strength of our balance sheet.

Our management team has utilised 2011 to firmly embed the exploration strategy within the Company. During the year, Hochschild has completed over 315,000 metres of drilling with this number expected to increase by approximately 5% in 2012, reflecting the increased exploration budget of $90 million, representing another record for the Company. Our team has also appointed key new exploration managers as well as increased the number of geologists to 92. This significant commitment has begun to bear fruit with the Company further optimising the life-of-mine of our core assets in 2011. In addition, we have swiftly brought two Advanced Projects through the pipeline to feasibility and continue to widen the number of drill targets and prospects, which in turn is considerably strengthening the Hochschild project pipeline. I firmly believe that this strategy will deliver profitable long-term production growth to our shareholders.

Work in progress at Pallancata

Employees at the Arcata plant

A geologist at the Inmaculada Advanced Project

Precious metals markets' volatility became a more prominent feature in 2011 than ever before with silver in particular displaying very large swings in price. The high of almost $50/oz was reached in May with investment demand becoming the main driver, but by December, silver prices had fallen by some 44% to below $30/oz again. With temperamental commodity markets reflecting broader global economic concerns, the mining sector in the UK was also very volatile. However, we believe that long-term fundamentals for gold and silver remain strong and are confident that our business is well underpinned for the future.

Outlook

Over the next year, we expect to see the first crucial steps in the construction phase of our two exciting projects at Inmaculada and Crespo which have the potential to increase our silver equivalent production by 50%, or 10 million profitable ounces. The Board remains confident that Hochschild has the financial flexibility to continue pursuing high return investment opportunities whether in brownfield expansion at our existing mines, value enhancing acquisitions or adding to our exploration investment.

Corporate responsibility

I am proud to report that Hochschild Mining has continued to make progress in the key area of Corporate Responsibility. During 2011, the Group's environmental management systems at all active operations were ISO14001 accredited. An enhanced Community Relations strategy was also formulated, underpinning our collective commitment to providing education as well as promoting health, nutrition and sustainable development in our local communities. A number of initiatives were launched during the year, most notably the "Maestro Líder" (Leading Teacher) and "Médico de Cabecera" (Travelling Doctor) programmes.

On the issue of safety, while a year-on-year reduction in the Group's accident frequency rate was achieved, it is with deepest regret that we report three fatalities during 2011. Operations were suspended immediately after each incident while investigations were carried out. We ensured that any resulting recommendations were immediately acted upon and that the affected families were supported. Our ongoing goal of zero fatalities remains our highest operational priority.

Board composition

During the year, there were a number of changes to the Board. In light of Dionisio Romero's decision to retire as a Non-Executive Director at the AGM this May and Sir Malcolm Field retiring at the end of 2012, we moved swiftly to appoint Dr Graham Birch and Rupert Pennant-Rea to ensure the continued independent presence on the Board. Both of these Directors have brought with them extensive and relevant experience in the natural resource industry. I would also like to express my sincere gratitude to both Malcolm and Dionisio for their counsel and invaluable contributions to the Company since joining the Hochschild Board back in 2006.

On behalf of the Board, I would like to thank the entire talented Hochschild team for another year of strong performance, and our shareholders for your continued support.

Eduardo Hochschild
Executive Chairman

19 March 2012

Overview

Our business today

1

Where we operate

We currently operate across five sites, comprising four underground mines, with three located in Peru and one in southern Argentina, and one open pit mine in northern Mexico. We also have a substantial project pipeline and an extensive exploration programme with projects in Peru, Argentina, Chile and Mexico.

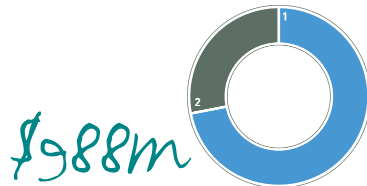
2

Solid production performance

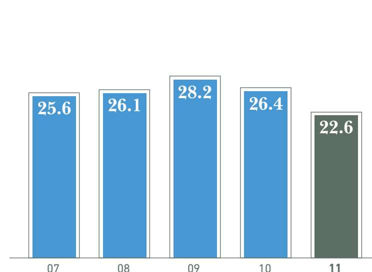
In 2011 we once again met our full year production target, producing 22.6 million attributable silver equivalent ounces.

Revenue by-product

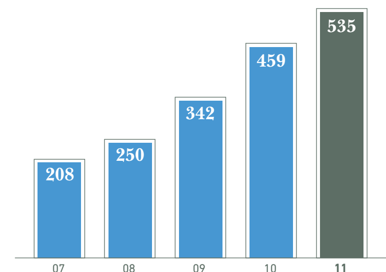
1. Silver	**72%**
2. Gold	**28%**



2011 attributable production
Silver equivalent moz



Resource base
Silver equivalent moz



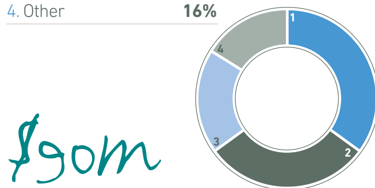
3

Creating value in exploration

Exploration is a main source of profitable growth for the long-term. Our 2012 exploration budget of $90 million is our largest ever.

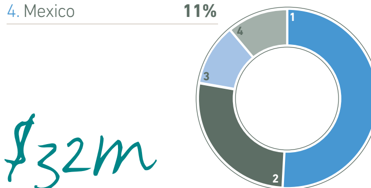
Exploration budget

1. Greenfield	**35%**
2. Brownfield	**30%**
3. Advanced Projects	**19%**
4. Other	**16%**



Greenfield breakdown by country

1. Peru	**51%**
2. Chile	**27%**
3. Argentina	**11%**
4. Mexico	**11%**

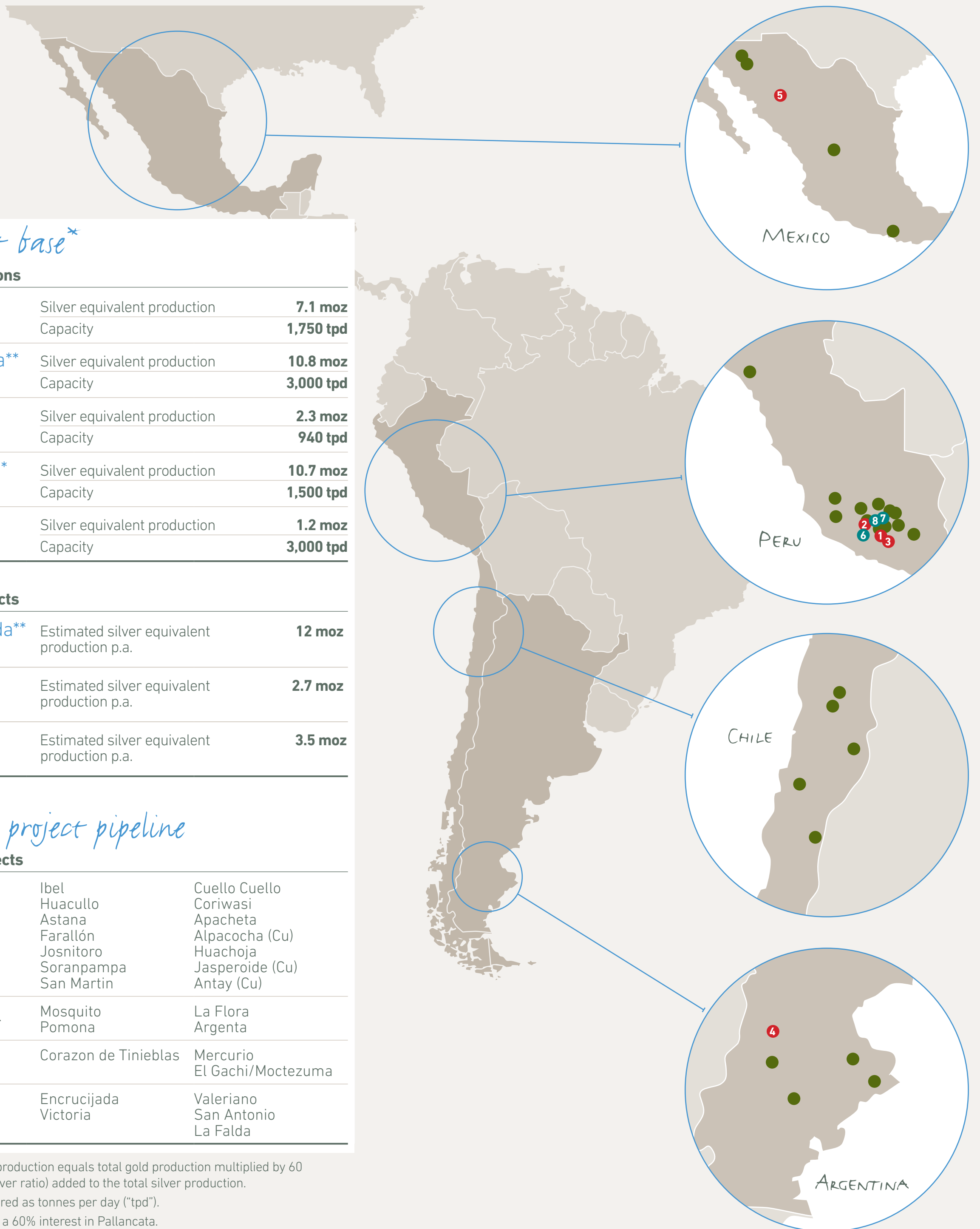


Life-of-mine

9.7 years

+11%

We are a *leading precious metals* company in the Americas, with almost *50 years'* experience in the mining of precious metal deposits.



Solid asset base*

Current operations

	Operation	Metric	Value
1	Arcata Peru	Silver equivalent production Capacity	**7.1 moz** **1,750 tpd**
2	Pallancata** Peru	Silver equivalent production Capacity	**10.8 moz** **3,000 tpd**
3	Ares Peru	Silver equivalent production Capacity	**2.3 moz** **940 tpd**
4	San Jose** Argentina	Silver equivalent production Capacity	**10.7 moz** **1,500 tpd**
5	Moris Mexico	Silver equivalent production Capacity	**1.2 moz** **3,000 tpd**

Advanced Projects

	Project	Metric	Value
6	Inmaculada** Peru	Estimated silver equivalent production p.a.	**12 moz**
7	Crespo Peru	Estimated silver equivalent production p.a.	**2.7 moz**
8	Azuca Peru	Estimated silver equivalent production p.a.	**3.5 moz**

Extensive project pipeline

Greenfield projects

Country	Projects	Projects
Peru	Ibel Huacullo Astana Farallón Josnitoro Soranpampa San Martin	Cuello Cuello Coriwasi Apacheta Alpacocha (Cu) Huachoja Jasperoide (Cu) Antay (Cu)
Argentina	Mosquito Pomona	La Flora Argenta
Mexico	Corazon de Tinieblas	Mercurio El Gachi/Moctezuma
Chile	Encrucijada Victoria	Valeriano San Antonio La Falda

* 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").
** The Company has a 60% interest in Pallancata.
** The Company has a 51% interest in San Jose.
** The Company has a 60% interest in Inmaculada.

Overview

Chief Executive's review

A strong set of full year results with 2011 proving to be a *record year* for Hochschild, reflecting a *solid operational performance* and reinforcing our *organic growth strategy* and financial position.

I am pleased to announce another strong set of full year results with 2011 proving to be a record year for Hochschild, reflecting a solid operational performance and reinforcing our organic growth strategy and financial position. We firmly believe that the combination of our enviable operational, exploration and project development skills, with our premium geological land position spread across the Americas, is the key to maximising long-term sustainable shareholder value.

Strategic progress

The first key pillar of our strategy encompasses our current assets and ensuring their long-term sustainability. We have already increased the life of these assets extensively since our IPO in 2006, and in 2011 we continued this trend with significant increases at all three main operations. Resource life for the Company grew from 8.7 years in 2010 to 9.7 years in 2011 with a 20% increase in resource life at Arcata, a 7% increase at Pallancata in Peru, and a 7% increase at the San Jose mine in Argentina where we continue to find new veins and extensions, thus increasing total resources at this exciting property to 172.2 million silver equivalent ounces.

2011 was also a key year in the development of our project pipeline, the second pillar of our strategy. One of its cornerstones is our aim to ensure the smooth progress of all our projects through their developmental stages. In this regard, the delivery of two feasibility studies on our Inmaculada and Crespo projects early in 2012 provided ample evidence of Hochschild's project management capability. These two exciting opportunities, based in our southern Peru cluster, give us an expected 50% uplift in our production base whilst generating an attractive return even at conservative price and resource assumptions.

Our most exciting asset is the 60% owned Inmaculada project. This is set to start construction with total initial capital expenditure of $315 million for a 3,500 tonne per day underground operation with total average annual production of 12 million silver equivalent ounces and a commissioning date in the fourth quarter of 2013.

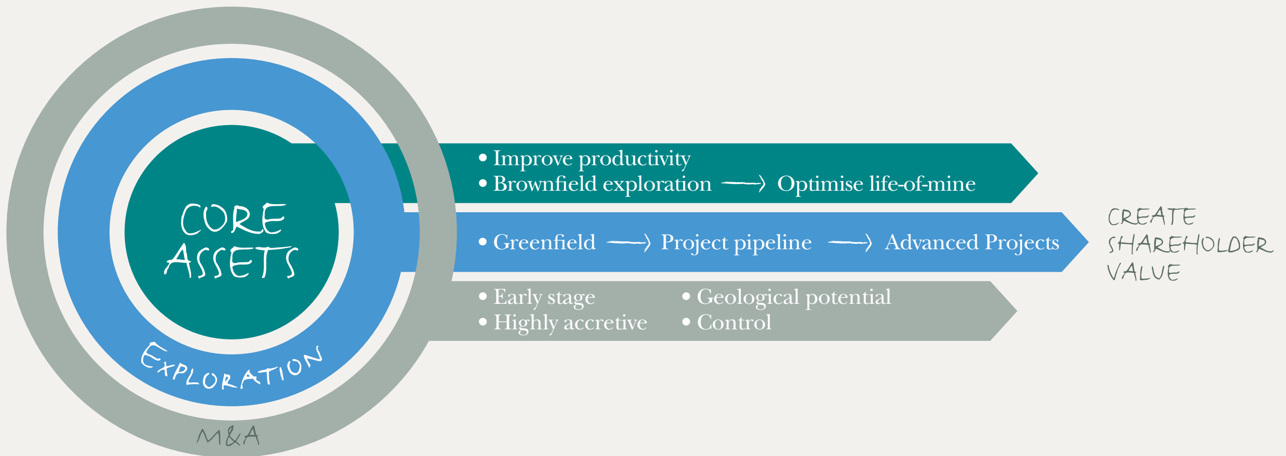
Total resources have now increased to almost 150 million silver equivalent ounces. We are confident that these resources will grow significantly from this excellent starting point in the same manner as our other mines and see Inmaculada develop into a major contributor for the Company.

In addition, Hochschild is pleased to see a positive result from its 100% owned Crespo project which is set to add another 2.7 million silver equivalent ounces from 2014 at an initial capital cost of $111 million for a 6,850 tonne per day operation. This open pit project is expected to have a low unit cost per tonne, high gold recovery rates and, given its proximity to Hochschild's other operations in southern Peru, will benefit from operational synergies. Current Inferred resources at Crespo are likely to deliver more mineable material for the project and the exploration team remains positive about the geological potential of the surrounding areas.

We remain excited by the potential of the Azuca deposit, especially with respect to the ongoing exploration of the newly discovered higher grade Colombiana and Cimoide Vivian veins. It is our intention to continue exploration work at the project throughout 2012 in order to consolidate resources and provide a more comprehensive picture of the complex vein structures present in the area before moving the project on to the feasibility study stage.

Exploration work continued in 2011, with a total of 315,373 metres of drilling completed. At our greenfield targets, we had positive results from our Company Makers pipeline at Victoria, Valeriano and Encrucijada in Chile, Mercurio in Mexico and Soranpampa in Peru, as well as strong progress at the Medium Scale Mosquito project in Argentina. Overall, Hochschild has again reaffirmed its exploration commitment with a $90 million budget for 2012, the largest in the Company's history, which will be invested in our brownfield, Advanced Projects and greenfield exploration programmes, which are expected to encompass drilling campaigns in 26 different locations across the Americas.

strategy key



2011 Overview

Our operations once again met their annual targets with production in 2011 of 22.6 million attributable silver equivalent ounces, comprised of 15.0 million ounces of silver and 127.3 thousand ounces of gold. San Jose continued to deliver, with silver equivalent production up 3% on the previous year – a highly creditable performance, with a particularly strong second half. At Arcata and Pallancata, we continued with our policy of adjusting the extracted grade to ensure a consistent and sustainable level of long-term production as well as taking the opportunity afforded by high precious metal prices to process low grade material at both mines. The high prices have also allowed our Ares mine in southern Peru to continue operations throughout the year and into 2012, whilst our Moris mine in Mexico contributed just over one million silver equivalent ounces before its closure late in the fourth quarter.

In 2011 we continued experiencing cyclical cost inflation in line with the industry trend, primarily resulting from the ongoing high commodity prices. In Peru, unit costs were up by some 14% excluding royalties principally due to wage inflation in the industry and a higher proportion of production from narrower veins in the production mix at Pallancata and Arcata. In Argentina, Hochschild continued to face the challenges of ongoing high local inflation rates of some 25–30%, and although unit costs (excluding royalties) at San Jose only increased by 18%, this was principally due to a devaluation of the local currency of 6%, as well as the extraction of low cost superficial material located in new mine areas and also improvements in operational processes.

We expect overall 2012 unit cost inflation in Argentina to continue to be high, at around 25–30% for the same country specific reasons mentioned above, whilst in Peru we have forecasted an increase in unit costs of approximately 15% excluding royalties and the increased refining cost due to the effects of our dore project at Arcata. The main contributory factors to this increase are anticipated to be expected local industry inflation of 10% and the increasing number of stopes at our main operations.

Production in 2011 of *22.6 million attributable silver equivalent ounces* comprised of *15.0 million ounces* of silver and *127.3 thousand ounces* of gold.

Employees at Arcata

Overview

Chief Executive's review *continued*

The Company again achieved record results with revenue of just under $1 billion, up some 31% on 2010, driven by continuing strong precious metal prices, with the average silver price for 2011 up 53% and the average gold price up by 25%. EBITDA also rose sharply, by 42%, to $563 million (2010: $398 million) with pre-exceptional EPS of $0.49 for the full year, approximately 75% higher than 2010.

We finished 2011 with a continuing strong cash balance of $627 million which together with our healthy operating cash flow, having increased 53% to $464.1 million in 2011, gives us the financial ability to embark on capital expenditure programmes for our Advanced Projects, pursue our ambitious exploration programme in 2012, continue investing in our main operations, and monitor any potential value accretive acquisitions to be assessed against our previously stated criteria. We also have minority investments worth approximately $350 million as at 31 December 2011, principally represented by our 25.2% stake in Gold Resource Corporation.

Outlook

Hochschild's production target for 2012 is 20.0 million attributable silver equivalent ounces, which takes into account the reduction of almost 300,000 silver equivalent ounces that will now not be recovered at Arcata as a result of the implementation of our dore project.

The 2012 production target consists of similar levels of production at each of the core operations to those of 2011, with anticipated further declining production at Ares and Moris.

We have had a very busy start to 2012 with the completion of the Inmaculada and Crespo feasibility studies and we are excited that following the Board's approval of these projects and sanction of their capital expenditure requirements, the key stages of project construction can begin in earnest. Our strategy for this year will once again be to deliver on our production target, execute the first stages of the above mentioned project development and demonstrate consistent progress on our ambitious exploration programme, supported by its $90 million budget.

I am confident that Hochschild's talented and experienced team will continue to create opportunities for future value generation and that realising our 2012 targets will provide more evidence that we have the optimum strategy for long-term growth.

Ignacio Bustamante
Chief Executive Officer

19 March 2012

A geologist at the Crespo Advanced Project

The *potential* of Hochschild has never been stronger. We outline our *strengths* and the *talent* of our *people* on the following pages...

Nicasio Magaño

Aged 42
Mine Supervisor, Arcata

Nicasio is a Mine Supervisor at Arcata, our flagship mine which has been in operation since 1964. In 2011, Arcata produced 7.1 million silver equivalent ounces and the life-of-mine was increased to 11.5 years. We also completed the first stage of the Arcata dore project and by the second half of 2012, 100% of Arcata's concentrate will be converted into dore.

Employees at Pallancata

Years of operational expertise

We have almost 50 years of experience operating underground narrow veined deposits. Our three main assets, Arcata, Pallancata and San Jose are currently ranked amongst the 14 largest primary silver mines globally and continue to deliver a solid base of production.

We are focused on consistently improving the operational productivity and efficiency of our operations and since our IPO in 2006, we have doubled overall Group throughput capacity at our operations and have achieved all of our annual production targets.

Ernesto Calla Hilario

Aged 34
Geologist, Pallancata

Ernesto is a geologist working at our 60% owned Pallancata mine. Pallancata has been in operation since 2007 and Hochschild is the mine operator. In 2011, almost 51,000 metres of exploration drilling was conducted at Pallancata and the life-of-mine was increased to 7.4 years.

Employees operating a drill rig at Azuca

We have an extensive pipeline of brownfield and greenfield projects with drilling campaigns in 26 different locations across four countries in the Americas, as well as over one million hectares of premium geological land. Our record $90 million exploration budget for 2012 demonstrates not only our strong strategic focus on growth through exploration, but also our confidence in the significant potential of our project pipeline.

In 2011 we drilled a total of 315,000 metres at our brownfield, greenfield and copper projects and in 2012 the drilling campaign of over 330,000 metres will be focused on exploration work at our existing operations, our Advanced Projects and our greenfield opportunities.

Focused on exploration

Joel Andia

Aged 28
Geologist, Inmaculada

Joel is a member of the team of geologists based at our Inmaculada project. We recently published positive results from the feasibility study on Inmaculada, which is located close to our existing operations in southern Peru. We believe there is also considerable further geological potential at the property which hosts over 25 kilometres of gold/silver-bearing quartz veins, most of which remain largely untested.

Geologists at Pallancata

Depth of exploration skills

We have an unrivalled knowledge of the Americas, with a team of over 90 geologists and exploration offices in Peru, Argentina, Chile and Mexico.

We believe that our exploration team has the technical experience and expertise required to deliver a steady stream of value accretive project opportunities. Our exploration team all have proven exploration and project development skills and are also continually evaluating new opportunities.

We recognise the contribution our exploration team makes to the long-term success of our business and have devised an incentive programme in order to attract and retain our geologists, with direct economic rewards for geological discoveries. We also have education initiatives including partnerships with local and international universities and a graduate trainee programme where graduates from universities are trained and recruited by the Group.

Natalie Carbonel

Aged 27
Business Development Analyst

Natalie is an Analyst working in the Business Development team in Lima. This highly qualified team has delivered several key acquisitions and projects over the last few years. The team can draw on a vast knowledge of the Americas and the mining industry as a whole, and continues to identify and evaluate projects and acquisitions according to the Group's strict M&A criteria.

View of Crespo, one of a number of properties acquired in 2008 as part of the Southwestern Resources acquisition

Dedicated Business Development team

Our Business Development team is based in Lima. The members of the team are all highly qualified and follow a disciplined approach to the assessment of acquisitions.

Our strong financial position not only supports our significant exploration programme but also gives us the flexibility to capitalise on acquisition opportunities that arise. The team has a clear mandate to pursue opportunities that are early stage, with strong geological potential, highly value accretive, but also with a clear path to control.

Domingo Herrera

Aged 62

Manager, Medical Services, Arcata

Domingo is one of the doctors based at Arcata. Our operations are all in remote regions, where we have almost 50 years' experience of operating, working alongside the local communities and authorities. We have a significant number of programmes in place to improve health services and education facilities and to promote infrastructure development. In addition, we constantly monitor our operations to minimise their impact on the environment and ensure the sustainability of the land where we operate.

The Company's mobile medical units brought into use during the year

We are committed to ensuring a safe and healthy workplace for all of our employees, to manage and minimise the environmental impact of our operations and to encourage sustainability by respecting the communities surrounding our operations.

We seek to comply with all relevant legislation and leading international standards and encourage our employees to adopt the Group's values through the use of training and internal communications.

We strive to work together with our local communities and our strategy to achieve this revolves around three key pillars, to improve health and nutrition, to enhance the provision of education and to promote sustainable economic development. We are committed to establishing and maintaining constructive relationships with our communities with the long-term aim of improving the quality of life.

We also endeavour to minimise the impact of our business on the environment and to ensure the ongoing sustainability of the land where we develop operations and activities.

Committed to responsibility

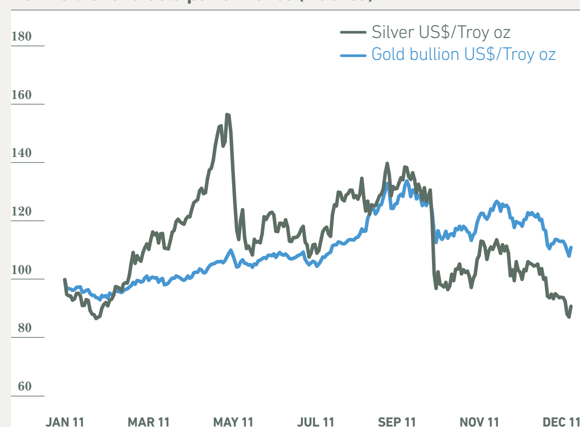
Operating & exploration review

Market & geographic overview

2011 Market overview

Precious metal prices remained strong in 2011, driven mainly by investment demand, as macroeconomic uncertainty continued throughout the year. Both gold and silver achieved record highs during the year, although prices were extremely volatile during the second half.

2011 Silver and Gold performance (indexed)



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 14 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 were the world's two largest producers of silver in 2010.

Country production rankings

	2010 silver ranking	2011 gold ranking*
Peru	2	6
Argentina	10	13
Mexico	1	10
Chile	5	15

* Forecast

Gold summary

Overview

2011 was another strong year for gold prices which reached a record high of $1,896.50/oz in September, with an average annual price of $1,571.64/oz, up 28% year-on-year. Investment demand was again the main factor behind gold's overall price performance in 2011, with strong jewellery demand, contained scrap levels and a surge in official sector buying (to more than five times the 2010 figure) also contributing. These factors helped offset the significant volatility in the gold price towards the end of the year.

Despite the strong price increase continuing until autumn, jewellery demand fell by just 1.9% in 2011, underpinned by strong demand from India and China. For the year as a whole, 2011 saw robust investment inflows into the gold market in spite of periods of large scale investor selling. Although down 7% year-on-year to 1,563 tonnes, by historical standards world investment demand was still very high, at a record US$80 billion. There was also record demand for physical bullion products in 2011, with growing support from Asian markets. World physical bar investment is estimated to have increased by 36% year-on-year, to 1,194 tonnes.

During the summer there was considerable buy-side interest in the OTC ("over-the-counter") and futures markets reflecting the worsening debt problems in Europe and the US credit downgrade. This was later offset by widespread investor selling in the final quarter, resulting from profit taking, US dollar strength and liquidity pressures.

Silver summary

Overview

Silver saw some significant price swings in 2011, closing the year at $28/oz (10% down on end 2010), achieving an average annual price of $35/oz. Investor activity was the main driver for the strong rise in the price to a generational high at just over $48/oz in late April and the subsequent sharp corrections in early May and late September.

Silver remains well underpinned due to its versatility, both with its use in a wide variety of industrial applications, as well as its investment appeal. In 2011 investment demand (including coins and medals) is estimated to have set a new record high in value terms, and despite net outflows in ETFs and COMEX, the demand for physical silver increased considerably, with coin demand rising by an estimated 25% to a new record level.

Total fabrication demand is forecast to have risen by an estimated 4% in 2011. Following its significant rise in 2010, growth in industrial demand in 2011 is expected to have been more modest, at an estimated 4%. Demand from other areas of fabrication was also robust, with jewellery demand currently estimated to have risen by 1%, partly as a result of substitution at the expense of gold. The long-term decline in silverware and photographic demand continued in 2011, reflecting high prices and the ongoing rise of digital photography.

Sources: Bloomberg, Thomson Reuters GFMS, Silver Institute.

Despite seeing *considerable price volatility* in the second half, *precious metal prices remained strong in 2011,* underpinned by robust investor demand.

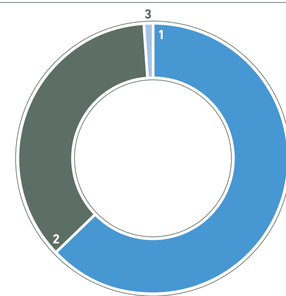
On the supply side, mine production recorded an all time high of 2,812 tonnes in 2011, an increase of 3.8% on 2010. This was offset by an estimated 1.7% fall in global scrap supply. In 2011, following more than a decade of consecutive de-hedging, 12 tonnes of net producer hedging was recorded.

Possible drivers for gold in 2012

- Ongoing robust purchases from the official sector and a forecast moderate decline in scrap supply should offset a stronger US dollar, lower jewellery demand and a small increase in mine supply
- Challenging macroeconomic environment to underpin investment demand
- Further fiscal and monetary loosening by major governments potentially creating inflationary pressure and persistent negative real interest rates
- Further diversification of investment demand with continuing portfolio asset allocation towards commodities

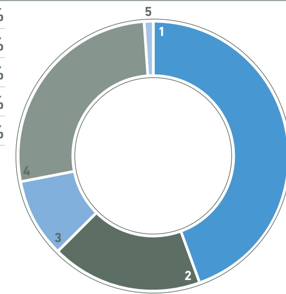
Gold supply 2011*

1. Mine production	63.4%
2. Scrap supply	36.3%
3. Net producer hedging	0.3%



Gold demand 2011*

1. Jewellery	44.6%
2. Other fabrication	17.9%
3. Net official sector purchases	9.7%
4. Physical bar investment	26.9%
5. Implied net investment	0.9%



Total supply is estimated to have been marginally higher in 2011, although the estimated 4% increase in mine production and almost 10% increase in scrap supply were offset by lower government sales, down an estimated 78%, and producer hedging, down 30%.

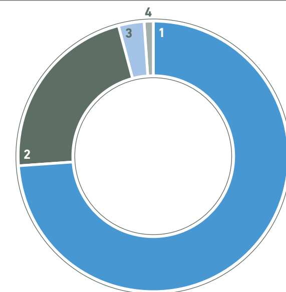
Silver is exposed to the drivers for both precious and base metals due to its unique industrial properties and its role as a safe haven asset. In the near term, investor interest in silver is forecast to remain strong and absorb the anticipated surplus in supply, due to its increased usage in new applications, higher offtake from emerging markets and continued global macroeconomic concerns.

Possible drivers for silver in 2012

- Continued macroeconomic uncertainty providing further support to investment demand
- Silver's link with gold as a safe haven asset
- Forecast supply surplus, although little threat to prices from higher government sales or gains in scrap supply
- Consumer substitution of gold for silver providing support to jewellery demand
- Robust demand for coins from retail investors

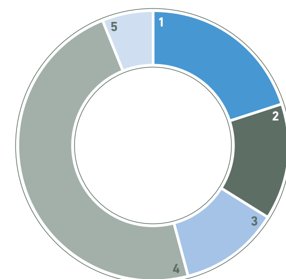
Silver supply 2011*

1. Mine production	74%
2. Scrap supply	22%
3. Producer hedging	3%
4. Government sales	1%



Silver demand 2011*

1. Jewellery & silverware	20%
2. Investment	14%
3. Coins & medals	12%
4. Industrial	48%
5. Photography	6%



* Estimate.
Sources: Bloomberg, Thomson Reuters GFMS, Silver Institute.

Operating & exploration review

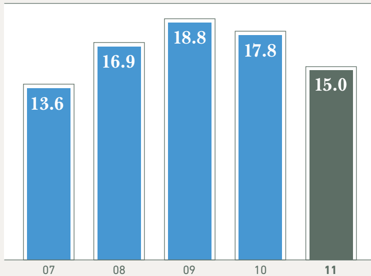
2011 Overview

Hochschild once again met its *full year production target* in 2011, producing *22.6 million* attributable silver equivalent ounces.

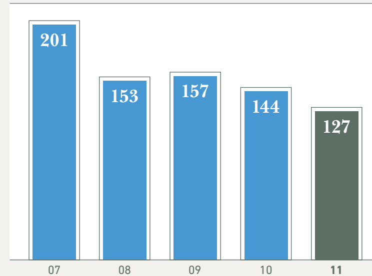
2011 Highlights

- Full year production of 22.6 million attributable silver equivalent ounces, in line with target
- Feasibility studies delivered on Inmaculada and Crespo projects; expected to add ten million attributable silver equivalent ounces per year with production expected to commence at both projects at the end of 2013
- First stage of Arcata dore project completed

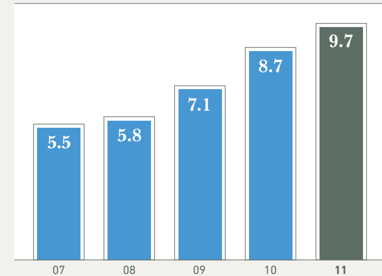
Attributable silver production moz



Attributable gold production koz



Resource life-of-mine Years



Mining works at Pallancata

Employees operating a drill rig

Production

Hochschild once again met its full year production target in 2011, producing 22.6 million attributable silver equivalent ounces, comprised of 15.0 million ounces of silver and 127,287 ounces of gold. In 2011, San Jose continued to deliver a strong performance. Lower production was reported at Pallancata and Arcata as the Company took advantage of high precious metals prices to process low grade material and also continued to adjust extracted grades to provide a sustainable level of long-term production and optimise the resource life of its main operations.

The Company has announced a production target of 20.0 million attributable silver equivalent ounces for 2012. Production at each of the Company's main operations is expected to be in line with 2011. As anticipated, production at the ageing Ares mine will continue to decline, reflecting lower tonnages and grades. Production at the Moris mine in Mexico is not expected to be material.

Costs

In 2011, the Company reported a 14% increase in unit cost per tonne excluding mine royalties at its main Peruvian operations (Arcata and Pallancata), to $60.8 per tonne (2010: $53.2). This increase was primarily due to a rise in labour costs reflecting higher precious metal prices, higher mining costs resulting from an increase in mined areas and a higher proportion of production from narrower veins.

In Argentina, unit cost per tonne excluding royalties increased by 18% to $169.6 per tonne (2010: $144.1) mainly as a result of local inflation impacting labour and materials costs and a higher consumption of plant reagents which in turn provided improved metallurgical recoveries (by approximately 5%). Local inflation was partially offset by local currency devaluation, lower mine development and the extraction of superficial low grade material (Saavedra).

View of the Selene plant

Operating & exploration review

Main operations

Arcata: Peru

Production and sales

Arcata is located in the Department of Arequipa in southern Peru. It is a 100% owned underground operation that commenced production in 1964.

During 2011, the Company continued to adjust the extraction grades at Arcata towards the average reserve grade level in order to ensure a consistent and sustainable level of production. Full year silver equivalent production of 7.1 million ounces was 26% lower than 2010 (9.6 million ounces).

The Company took advantage of strong metal prices to process waste material from previous campaigns (see table below on Macarena Waste Dam Deposit). This material, whilst increasing overall annual treated tonnage by 7% to 687,966 tonnes (2010: 645,974 tonnes), was processed at a decreased average silver grade of 95 g/t. In addition, in 2011 the Company mined in the lower grade border areas with associated narrower veins and increased dilution. This additional material was not part of Arcata's resource base.

In Q4 2011, the first stage of the project to convert 40% of Arcata's concentrate into dore was successfully completed. The second stage of the project will be completed in H2 2012 and subsequently 100% of Arcata's concentrate will be converted into dore. As a result of the metallurgical recoveries involved in the process, there will be an estimated reduction in production in 2012 of 291,000 silver equivalent ounces. Total investment for the project is approximately $14 million and the Company believes that this will be a highly profitable project as the resulting decrease in refining fees, commercial discounts and associated selling expenses will more than offset the treatment costs associated with the process.

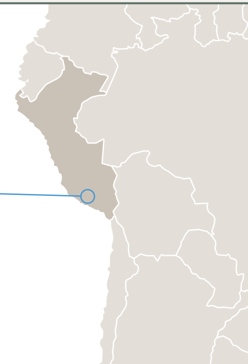
Costs

Unit cost per tonne, excluding royalties, increased by 8% to $70.2 (2010: $65.0). Including royalties, the increase in 2011 was also 8% at $77.0 per tonne (2010: $71.1). Key drivers were a rise in the number of contractors employed in the mine due to the increased number of stopes, higher wage costs in line with industry inflation and higher diesel prices. These effects were partly offset by energy cost savings achieved following price renegotiations and by economies of scale resulting from the increase in treated tonnage.

In 2011, the silver/gold concentrate from Arcata was sold to Cormin, Korea Zinc Co., Ltd and MRI Trading Ag. 10% of Arcata's production was processed into dore; all of which was sold to Johnson Matthey in 2011.

Arcata

Peru
6,081 koz silver
17.38 koz gold
7,124 koz silver equivalent



Resource life

The resource life of Arcata stands at 11.5 years as at 31 December 2011, up 20%, from 9.6 years in 2010, following an intensive drill campaign focused on the Baja, Marion, Blanca, Amparo, Lucrecia and Tunel 4 veins. In total, 94,656 metres of diamond drilling was completed during the year (2010: 76,506 metres) with significant intercepts including[1]:

- **Marion** DDH-028 3.03m at 3.88 g/t Au and 1,008 g/t Ag
  DDH-099 1.90m at 5.18 g/t Au and 1,704 g/t Ag
  DDH-057 2.35m at 4.08 g/t Au and 1,183 g/t Ag
- **Amparo** DDH-935 2.97m at 3.29 g/t Au and 1,736 g/t Ag
  DDH-039 3.36m at 2.06 g/t Au and 751 g/t Ag
- **Blanca** DDH-079 1.17m at 8.35 g/t Au and 3,171 g/t Ag
  DDH-914 0.85m at 4.28 g/t Au and 2,579 g/t Ag
- **Baja** DDH-250 1.09m at 5.19 g/t Au and 706 g/t Ag

In 2012, the exploration drilling campaign of 62,756 metres will focus on the targeting of higher grade structures and increasing the mine resource base.

Employees at the Arcata plant

1 Please note that all mineralised intersections in this release are quoted as down-hole lengths, not true widths.

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 in which Hochschild controls 60% and is the mine operator. Ore from Pallancata is transported 22 kilometres to the Selene plant for processing.

In 2011, full year production at Pallancata was 10.8 million silver equivalent ounces (2010: 12.3 million), a decrease of 12%. Although treated tonnage remained broadly flat compared to 2010, there was a fall in grades reflecting higher dilution from narrower veins, as well as the Company's decision to take advantage of the prevailing high precious metals price environment to process some lower grade economic material extracted from the borders of the main Pallancata vein. This additional material was not part of Pallancata's resource base.

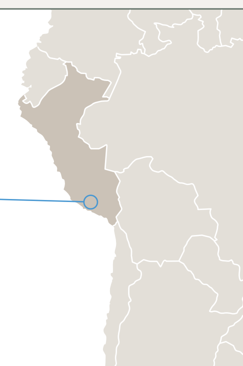
Costs

Excluding mine royalties, unit cost per tonne increased by 18%, to $54.5 per tonne (2010: $46.2). Including royalties, the increase in 2011 was 17%, to $60.4 per tonne (2010: $51.8). This rise was principally due to increased wage costs resulting from industry inflation.

View of the camp at Pallancata

Pallancata

Peru
8,767 koz silver
33.88 koz gold
10,800 koz silver equivalent



In addition, the Company incurred higher mine service costs (transportation, energy and equipment hire) reflecting increased diesel prices and the development of new mine areas. A number of cost initiatives partially offset these factors, including a change to the mine backfill process leading to lower cement consumption, as well as cost efficiencies in explosives consumption.

In 2011, the silver/gold concentrate from Pallancata was sold to Teck Metals Ltd., Aurubis and LS-Nikko Copper.

Resource life

The resource life of the Pallancata operation stands at 7.4 years as at 31 December 2011, up 7% compared to 2010 (6.9 years). During 2011, a total of 50,748 metres of diamond drilling was carried out over the course of the year (2010: 46,547 metres), mainly focused on the San Javier, Virgen del Carmen, Rina, Luisa, Pallancata West and Huararani veins with intercepts including[1]:

- **Luisa** DLLU-A08 9.0m at 1.61 g/t Au and 301 g/t Ag
  3.25m at 4.89 g/t Au and 1,382 g/t Ag
  DLLU-015 8.4m at 2.79 g/t Au and 565 g/t Ag
  DLLU-A01 0.99m at 40.66 g/t Au and 670 g/t Ag
- **Pallancata West** DLPL-A796 4.16m at 6.08 g/t Au and 1,484 g/t Ag
- **Yanina** DLVC-010 0.77m at 6.10 g/t Au and 1,300 g/t Ag
- **Rina** DLRI-A21 1.72m at 6.12 g/t Au and 1,614 g/t Ag
  DLRI-A40 10.36m at 2.76 g/t Au and 812 g/t Ag
- **Huararani** DLPL-A745 4.4m at 18.45 g/t Au and 954 g/t Ag

The 2012 exploration programme at Pallancata will target new mineralised structures to the north, west and south of the main operation area, with 59,140 metres of drilling planned.

1 Please note that all mineralised intersections in this release are quoted as down-hole lengths, not true widths.

Operating & exploration review
Main operations *continued*

San Jose: Argentina

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

San Jose delivered a robust performance in 2011, with silver equivalent production up 3% to 10.7 million ounces (2010: 10.4 million ounces). This was mainly a result of an anticipated increase in silver grades, as well as operational efficiencies that led to an increase in recovery rates to 89% for gold and 86% for silver (an increase of approximately 5% for both gold and silver compared to 2010). Silver grades rose by 12% year-on-year and silver production by 10% to 5.9 million ounces (2010: 5.3 million ounces). In line with the mine plan, the average gold head grade decreased by 5% and gold production by 4% to 80.95 thousand ounces (2010: 84.30 thousand ounces).

On 4 May 2011, following a 15 day production stoppage at the operation, the Group successfully concluded negotiations with the AOMA union (Argentine Mining Labour Association).

Costs
Unit cost per tonne, excluding royalties, increased by 18% to $169.6 (2010: $144.1). Including royalties, the increase in 2011 was 19%, at $181.7 per tonne (2010: $152.3). Local inflation in Argentina continues to run at between 25% and 30% and consequently the key driver of the rise in costs was wage cost inflation. A higher consumption of reagents also contributed to the increase in costs although this was offset by a significant improvement in recoveries. The high local inflation also impacted materials and supplies but was partly offset by a 6% devaluation of the Argentinian peso, lower mine development, the extraction of low cost, low grade, superficial material located in new mine areas (Saavedra) as well as efficiencies gained from improving operational processes (maintenance and other support processes).

Employees at the San Jose mine

The Company expects cost increases in 2012 to be in the range of 25–30%, in line with the above mentioned local inflation.

In 2011, the dore produced at San Jose was sold to Argor Heraeus S.A. and Johnson Matthey Inc. The concentrate produced at the operation was sold to Teck Metals Ltd., Aurubis and LS-Nikko Copper.

Resource life
Following an intensive drill campaign in 2011, the Company increased the resource life of the San Jose property by 7%, to 12.2 years (as at 31 December 2011). A significant portion of the San Jose property continues to be open at depth and laterally.

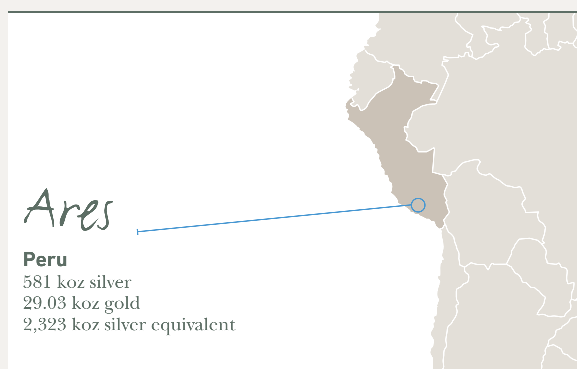
After a successful drilling campaign in the first half of 2011, the second half of the year was dedicated to completing geophysical and magnetometry work in order to identify new targets at the property. This work was successfully completed and provided areas of potential that were targeted in the Q4 drilling campaign and continuing into 2012. During the year, 55,678 metres of diamond drilling was conducted (2010: 53,692 metres), focused on the Luli, Susana, Orión and Pilar veins with significant intercepts including[1]:

- **Luli** SJM-157 1.28m at 20.11 g/t Au and 1,409 g/t Ag
  SJD-1015 2.00m at 45.51 g/t Au and 4,257 g/t Ag
- **Susana** SJD-1020 2.15m at 54.84 g/t Au and 4,949 g/t Ag
  SJD-1033 2.50m at 11.43 g/t Au and 1,105 g/t Ag
- **Pilar** SJD-996 17.17m at 11.33 g/t Au and 436 g/t Ag
  SJD-992 17.72m at 6.28 g/t Au and 356 g/t Ag

In 2012, the exploration programme includes a 93,320 metre drilling campaign (110,583 metres including infill drilling) that will evaluate extensions of already known mineralised structures and also the targeting of new veins.

1 Please note that all mineralised intersections in this release are quoted as down-hole lengths, not true widths.

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. The Ares mine continued to operate for the full year, albeit at a lower level, producing 2.3 million silver equivalent ounces (2010: 2.7 million silver equivalent ounces).

Although production at Ares was expected to end in 2011, the Company continues to extract mineral from new veins and production will continue in 2012. Management also continues to monitor the grade and cost profile of the operation to ensure that it is in line with the Company's policy of producing profitable ounces. A new exploration programme for Ares is currently being developed for 2012, with the aim of identifying new resources.

100% of Ares' production is processed into dore, all of which was sold to Johnson Matthey in 2011.

View of the Ares mine

Moris: Mexico

Production and sales

The 100% owned Moris mine, is an open pit mine and is located in the district of Chihuahua, Mexico. Mine production ceased at Moris in September 2011, although continued leaching of the pads produced further ounces towards the end of the year. Full year production was 1.2 million silver equivalent ounces (2010: 1.4 million ounces).

Moris is currently in the final stage of the pads' cyanidation process although exploration continues in the area and the Company has been able to identify new exploration targets at Moris with the goal of identifying new resources.

In 2011, the gold/silver dore produced at Moris was sold to Johnson Matthey.

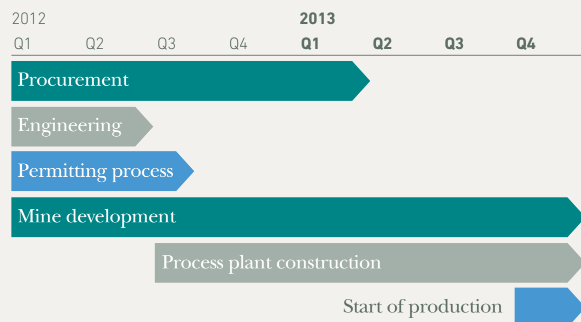
View of the plant at Moris

Operating & exploration review

Advanced Projects

The Company has three Advanced Projects: Inmaculada, Crespo and Azuca. The Company recently announced the results of feasibility studies, conducted by Ausenco, an independent consultant, on Inmaculada and Crespo. These projects are expected to contribute an average attributable annual production of ten million silver equivalent ounces, increasing current production levels by 50%. Both projects are due to be commissioned in Q4 2013 and have an initial combined capital cost estimated at $426 million ($335 million attributable to Hochschild).

At Azuca, the Company has delayed the feasibility study to continue exploration work at the project throughout 2012 in order to consolidate resources and provide a more comprehensive picture of the complex vein structures in the area.



Inmaculada: Peru

Inmaculada is a 20,000 hectare gold-silver project located in the Company's existing operational cluster in southern Peru and 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, International Minerals Corporation ("IMZ").

The project is now set to start construction, with total initial capital expenditure of $315 million for a 3,500 tonne per day ("tpd") underground operation with average annual production of 12 million silver equivalent ounces (seven million attributable ounces), and is due to be commissioned in Q4 2013. The Company is also progressing with the exploration programme at the property which consists of 40 mining concessions with resources which are currently estimated at a total of 150 million silver equivalent ounces.

Changes from the 2010 scoping study resulting from the feasibility study process include: an update of the mineral resource; the use of only Measured & Indicated resources as the basis for the initial reserves; a change in the metallurgical process from flotation to leaching with the resulting change from a concentrate to dore as the final product; and an increase in the plant capacity from 3,000 tpd to 3,500 tpd. In addition, as a result of feasibility level geotechnical studies, the rock quality was determined to be poorer than anticipated which has affected dilution, mine capex and mining costs. All of these factors were incorporated in the new capex, cost and Net Present Value ("NPV") figures presented in the feasibility study results.

The feasibility study was conducted using only measured and indicated resources from the Angela vein. Summary results (on a 100% basis, applying a 1.5 g/t gold equivalent cut-off grade) are as follows:

- Measured & Indicated resources: 7.07 mt at an average grade of 4.07 g/t gold and 144 g/t silver containing approximately 925,100 ounces of gold and 32.8 million ounces of silver
- Inferred resources of 4.94 mt at an average grade of 3.91 g/t gold and 152 g/t silver containing approximately 620,000 ounces of gold and 24.2 million ounces of silver
- Estimated mineral reserves (at a cut-off grade of 2.3 g/t gold equivalent): 7.80 mt at an average grade of 3.37g/t gold and 120 g/t silver containing approximately 845,000 ounces of gold and 30.1 million ounces of silver

The project has been shown to be profitable even under conservative gold and silver price assumptions. The single, wide vein will also allow for lower mining costs and a metallurgical process with estimated recovery rates of 95.6% for gold and 90.6% for silver. The project's proximity to the Company's existing operations also offers logistical synergies and reduces execution risk. The principal execution risks facing the Inmaculada project are possible disruptions to the project schedule resulting from social or political instability and the project's dependence on third party supplies of electricity.

The feasibility study results confirmed that the project provides strong returns based on the existing reserve base. However, Hochschild is confident that the mineable resource base will

be expanded by upgrading the inferred mineral resources in the South West and North East extensions of the Angela vein. Current project economics do not factor in almost five million tonnes of inferred resource containing over 60 million silver equivalent ounces which could almost double the life-of-mine. In addition, there is further geological potential at the Inmaculada property which hosts over 25 kilometres of gold/silver-bearing quartz veins of the low sulphidation type veins which remain largely untested.

In 2011, exploration drilling at Inmaculada totalled 25,341 metres and in 2012, the drilling programme of 54,650 metres will focus on further exploration of the Angela vein and other known veins in the district.

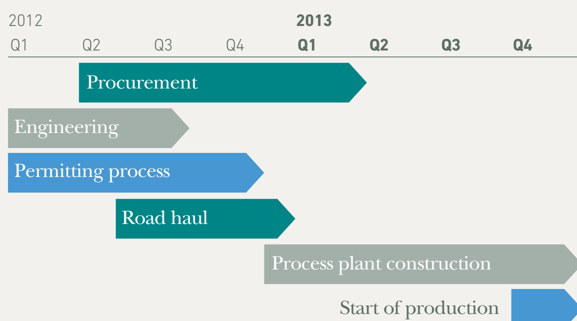
Crespo: Peru

Crespo is 100% owned by Hochschild and is located in the Company's existing operating cluster in southern Peru. Crespo is also set to begin construction, with total initial capital expenditure of $111 million for a 6,850 tpd operation with an average annual production of 2.7 million silver equivalent ounces from 2014. This will be a relatively simple open pit project with high gold recovery rates, and again, will benefit from operational synergies due to its proximity to the Company's existing operations. The principal execution risks facing the Crespo project are possible disruptions to the project schedule resulting from social or political instability and the project's dependence on third-party supplies of electricity.

Changes from the January 2011 scoping study resulting from the feasibility study process include: an update of the mineral resource; an increase in the plant capacity from 5,650 tpd to 6,850 tpd; and a change in the source of power, to a 25 kilometres 60 KV transmission line connecting the Arcata operation to Crespo. Significant metallurgical testing was also carried out in order to review the overall process and optimise recoveries.

These updates were all incorporated in the new capex, cost and NPV figures presented in the feasibility study results.

Crespo estimated timeline



The updated resource estimate for Crespo replaced the previous estimate published in the scoping study and represented an increase in Measured & Indicated gold equivalent resources of 58% (304,000 ounces). Measured & Indicated resources now total 23.4 million tonnes at 0.45 g/t of gold and 39 g/t of silver containing 340,000 ounces of gold and 29.2 million ounces of silver.

Ore reserves, calculated by Ausenco, total 20.48 million tonnes at 0.46 g/t of gold and 39 g/t of silver with a cut-off grade of 0.33 g/t gold equivalent and metals prices of $1,300/ounce gold and $23/ounce silver.

The Crespo feasibility study results do not factor in almost 3.8 million tonnes of in-pit inferred resource, containing 6.6 million silver equivalent ounces with the potential to add almost 18% of mineable material at no further mining cost to the Company. There is also further geological upside at the Queshca gold target, to the north of the current feasibility study resource base. In addition, a drilling gap exists between Crespo and Queshca and encouraging geological evidence would suggest further potential for economic mineralisation.

The 2012 drill programme of 5,500 metres is focused on converting Inferred resources to the Indicated resource category and to increase the resource base and to continue exploring the Queshca target.

Azuca: Peru

The 100% owned Azuca project is also located in the Company's southern Peru operating cluster. In January 2012, the Company took the decision to delay the feasibility study at Azuca and continue exploration work at the project throughout 2012 in order to consolidate resources and to provide a more comprehensive picture of the dispersed vein structures present in the area.

Moreover, the Company believes that the geological potential of the Azuca property may produce richer structures that could further support the investment required to develop the asset but could alter the design and location of future mine and plant infrastructure, tailings ponds and other key equipment. The Hochschild Board has therefore approved an exploration programme for Azuca in 2012.

As of December 2011, the Azuca project has Measured & Indicated resources totalling 7.05 million tonnes at 0.77 g/t of gold and 188 g/t of silver containing 173,500 ounces of gold and 42.7 million ounces of silver.

Exploration at the site is ongoing, with promising higher grade intercepts suggesting the presence of new higher grade veins. The 2012 drilling programme will be focused on identifying further extensions of the Vivian-Yanamayo, Colombiana and Azuca West veins, with a drilling programme of 28,000 metres expected to be carried out in these new areas.

Operating & exploration review

Exploration review

2011 Highlights

- $71 million invested in exploration in 2011; 33% brownfield, 15% Advanced Projects and 36% greenfield[1]
- Resource life up 11% to 9.7 years
- Total resources up 17% to 535 million silver equivalent ounces[2]
- Increase in 'Company Maker' pipeline from eight to 13 projects
- Record 2012 exploration budget of $90 million; 30% brownfield, 19% Advanced Projects, 35% greenfield, others and support 12% and technical support 4%
- 330,804 metres of drilling to be undertaken in 2012

We firmly believe that the combination of our *enviable operational, exploration* and *project development skills,* with our *premium geological land position* spread across the Americas, is key to *maximising long-term sustainable shareholder value.*

Overview

Hochschild's commitment to its exploration strategy has been reaffirmed with a 29% increase in the exploration budget for 2012 to $90 million, (from $70 million in 2010), the largest exploration budget ever for the Company. In 2011, investment in exploration totalled $71 million and 315,373 metres of drilling was completed at the Company's brownfield, Advanced Projects, greenfield and copper projects. The 2012 budget, representing 330,804 metres, will be split between exploration work at the Company's existing operations, the Advanced Projects and greenfield opportunities in Peru, Argentina, Mexico and Chile.

In 2011, the exploration programme delivered positive results, especially in respect to its key aims of increasing the resource life of the Company's core operations and expanding its project pipeline which now includes 13 "Company Makers" and 13 "Medium Scale" projects.

In 2012, exploration work at the Company's core operations will be mainly focused on improving resource quality. The main objective of exploration work at the Advanced Projects will be to incorporate additional resources at Inmaculada and Crespo, and at Azuca, to concentrate on the exploration of high quality resources that better support a significant investment. Exploration at the Company Maker projects will include continued drilling and further analysis. At the Company's Medium Scale projects, work will continue to develop those high-quality, early stage projects that have the potential to move through the pipeline to production. Work will also continue at the Company's copper projects and on the Company's generative programme to conduct further exploration on the Company's extensive land package of premium properties in four key countries. In 2011, the number of geologists employed by the Company was 92.

Geological samples at Pallancata

Assay testing

1 Amount disclosed refers to expenditure from the Group's exploration budget and does not include expenditure from the operational budget.

2 Total resources here exclude base metal resources.

Brownfield exploration

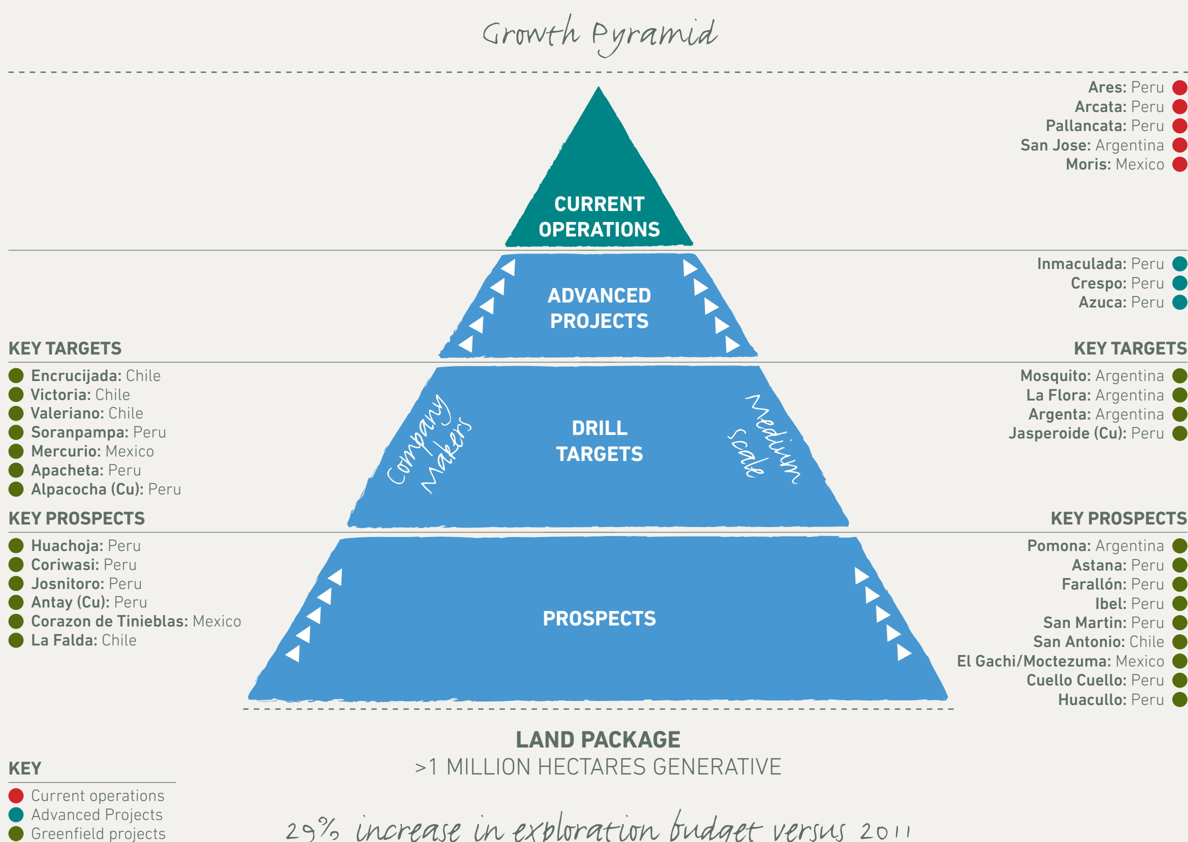
In 2011, approximately 33% of the exploration budget was invested in brownfield drilling in the areas immediately surrounding Hochschild's three main operations. As a result, there was an 11% increase in resource life to 9.7 years (2010: 8.7 years).

The Company takes a very conservative approach to resource delineation and applies the same cut-off grades to reserves and resources. As a result, the Company has a high rate of conversion from resources to reserves.

Greenfield exploration

Approximately 36% of the 2011 exploration budget in 2011 was invested in the Company's greenfield programme, and in 2012, the proportion will be 35%. In 2011, a total of 41,546 metres were drilled as part of the greenfield exploration programme and in 2012, this is expected to increase to 47,500 metres.

See the full Reserves and resources tables
see pages 171 to 175

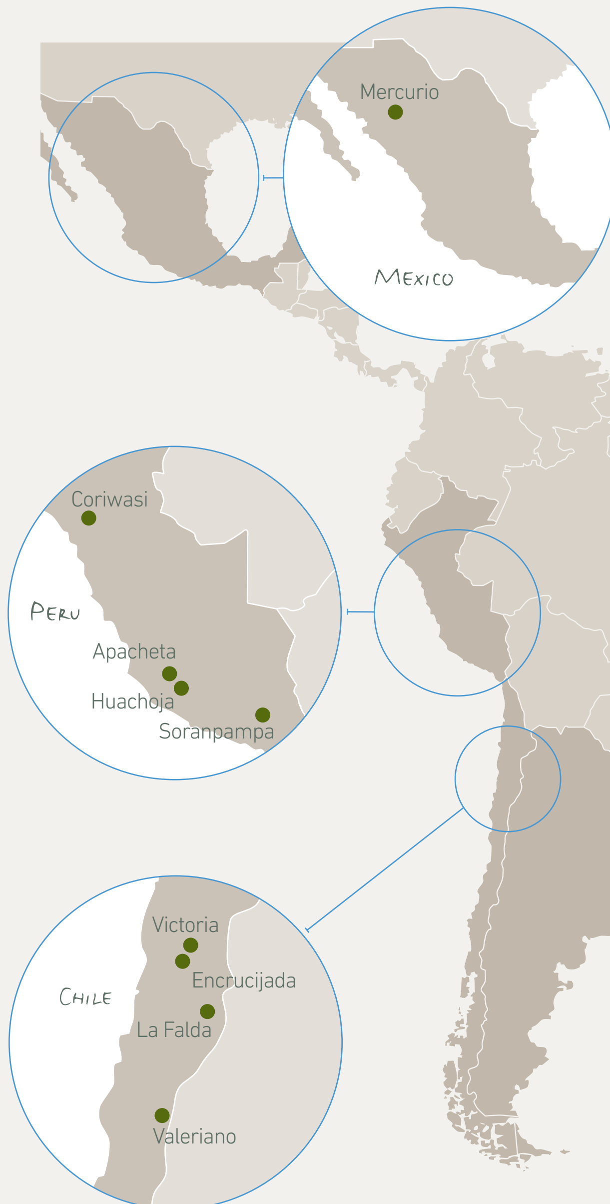


Operating & exploration review

Company Makers

Overview

The Company currently has 13 potential "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 2011, $12.4 million was invested in finding and developing such deposits and the 2012 budget has increased to $15.8 million.



Victoria: Chile

The Victoria project in northern Chile is 60% owned by Hochschild, with the remaining 40% held by Iron Creek Capital. Exploration work is delivering positive results at the property which covers 46,100 hectares of continuous strike length at the highly productive Domeyko Fault Zone. In 2011, 7,359 metres of drilling was completed. Exploration focused on the porphyry potential of the property and work was completed on a number of targets. The Picaron target was drill tested and significant alteration and anomalous copper mineralisation was encountered, proving it to be a true copper porphyry system. The resource is open and may increase in grade and thickness at depth. Selected intercepts from these exploration programmes include[1]:

- **VPI-DD-11-003** From 224.0–265.0m depth – 41.0m at 1,293 ppm Cu
- **VPI-DD-11-003** From 316.0–350.0m depth – 34.6m at 869 ppm Cu, 15.6 ppm Mo
- **VPI-DD-11-003** From 357.0–368.0m depth – 11.0m at 2,102 ppm Cu, 27.8 ppm Mo and 0.1 g/t Au
- **VPI-RC-11-010** From 18.0–32.0m depth – 14.0m at 0.39% Cu and 0.43% Mn
  Includes: 6.0m at 0.53% Cu and 0.62% Mn

The drilling campaign of 6,800 metres in 2012 will include offset drilling of the recently reported intercepts in and around the Picaron target as well as continued definition drilling of the exotic copper oxide deposit. A data compilation and surface exploration programme will also be carried out over the entire Victoria property in 2012 and the drilling of defined targets will subsequently take place in the second half of the year.

Valeriano: Chile

The 100% owned Valeriano property in Chile is located 27 kilometres north of Barrick Gold Corporation's Pascua Lama project, in close proximity to the border with Argentina, and covers an area of 3,750 hectares. The property hosts both high-sulphidation as well as porphyry style disseminated gold mineralisation. The property has been explored by a number of mining companies in the past, including Phelps Dodge (1989–1991) and Barrick (1995–1997), both of which completed drill campaigns totalling 12,575 metres. No significant exploration had been undertaken at the property since 1997.

Hochschild commenced drilling at Valeriano in October 2011 and at the end of the year, 2,302 metres had been drilled, with anomalous gold and molybdenum intercepts reported.

1 Please note that all mineralised intersections in this release are quoted as down-hole lengths, not true widths.

Further detailed geological work has identified targets in and adjacent to the primary tested target. Positive intercepts reported included:

- **VALDD11-001** From 245.12–252.8m depth – 7.68m at 0.75% Cu and 0.08 g/t Au
- **VALDD11-002** From 572.0–606.4m depth – 34.4m at 0.19% Cu and 116.24 ppm Mo Includes 6m at 0.19 g/t Au

In 2012, the 2,500 metre drilling programme will continue the drill testing of the target at depth during the first half of the year, with follow up drilling and drill testing of the near surface high sulphidation target planned for the second half.

Encrucijada: Chile
At the 51% owned Encrucijada property in Chile, 1,397 metres were drilled in 2011. Preliminary results indicated a true porphyry copper – gold system, with individual intercepts of anomalous gold and silver up to 0.26 g/t and 95 g/t respectively. Positive drilling results included the following intercepts[1]:

- **END11-026** From 0–603m depth – 603m at 670ppm Cu
  Includes: 0–68m depth – 68m at 0.12% Cu
  54–66m depth – 12m at 0.20% Cu
  382–404m depth – 22m at 0.13% Cu

In 2012, the exploration programme and 2,000 metre drilling campaign at Encrucijada will continue the offset drilling of results reported in 2011 and will also include additional geophysical interpretation and targeting of the porphyry style mineralisation below the San Bernardo tourmaline breccias and dome complex, and in the surrounding area.

Mercurio: Mexico
Mercurio is a 100% owned 36,388 hectare property in Mexico, located between two high grade mines, Sombrerete and Fresnillo. In 2011, 7,735 metres of drilling was completed; results to date indicate strong base metal, as well as moderate silver mineralisation, associated with a large vein system similar to Fresnillo.

Drilling results included[1]:

- **Hole 21** From 338.55–341.9m depth – 35m at 128.6 g/t Ag, 1.95% Zn, 0.66% Pb and 0.16% Cu
- **Hole 24** From 186.56–189.66m depth – 3.1m at 75 g/t Ag, 7.9% Zn, 6.45% Pb and 0.5% Cu
- **Hole 29** From 368.35–374.25m depth – 5.9m at 115 g/t Ag, 8.5% Zn, 0.67% Pb and 0.6% Cu

In 2012 the Company plans to drill an additional 8,000 metres at Mercurio, around recently reported intercepts and will continue exploration activities, including drilling on adjacent targets.

1 Please note that all mineralised intersections in this release are quoted as down-hole lengths, not true widths.

Apacheta: Peru
At the 100% owned Apacheta project in Peru, 3,044 metres of drilling was completed in 2011 and the project moved up the project pipeline from prospect to drill target. The initial drilling programme tested high sulphidation and porphyry targets identified in the 2010 exploration programme. Drilling intercepted strongly altered rock with anomalous trace element geochemistry. In 2012 the 7,700 metre drilling campaign will complete the initial exploration programme at the Apacheta 1 and 2 targets and further targets will be defined by a surface sampling programme.

Soranpampa: Peru
At the 100% owned Soranpampa project in Peru, 2,896 metres of drilling was carried out in 2011. The first phase of exploration was completed, with anomalous gold and molybdenum intercepts reported. Further detailed geophysical work has identified targets in and adjacent to the primary target already tested. Positive intercepts included[1]:

- **DDHPA1104** From 356.4–374.0m depth – 17.6m at 0.15% Mo
- **DDHPA1109** From 332.0–362.3m depth – 30.3m at 0.15 g/t Au

In 2012, the 2,500 metres drilling programme will focus on targets defined by the IP geophysical survey.

Other Company Maker projects

Coriwasi: Peru
This is a 9,800 hectare high sulphidation epithermal and porphyry copper-gold type target in northern Peru optioned from a private party. The Company is in the process of completing the relevant permits and approvals process for the project.

Huachoja: Peru
This is a 3,000 hectare, high sulphidation epithermal target in southern Peru optioned from Teck Peru SA. A surface mapping and sampling programme will be completed in the first half of 2012 in order to select targets for drilling. An initial 1,500 metres drill programme will then be carried out in the second half of the year to test identified targets.

La Falda: Chile
The La Falda property in northern Chile, is located close to the Company's other projects in the area and was acquired in December 2011 as an earn-in project. The target is a porphyry gold-copper system. The Company has completed the permits and approvals process and will look to assign the necessary exploration budget for the project in order to commence a drilling campaign.

Operating & exploration review

Medium Scale projects

Overview

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

In 2011, $7.9 million was assigned to finding and developing Medium Scale projects, and in 2012 the Company plans to invest $7.0 million in this category. Positive results were reported at a number of the Company's Medium Scale projects in 2011 and a number of properties entered the pipeline. These include the Pomona project in Argentina, the San Antonio project in Chile, and the Huacullo and Cuello Cuello properties in Peru.

Mosquito: Argentina

Two rounds of drilling were completed at the 100% owned Mosquito property in Argentina in 2011. A total of 8,495 metres was drilled, testing over 12 different vein targets. The majority of the drilling did not intercept any anomalous vein mineralisation. In 2012 the 2,000 metre drilling programme will include offset drilling in and around the most anomalous intercepts reported to date. These intercepts are along the extension of the Cerro Morro (Extorre) vein deposit and positive results in 2011 included[1]:

- **MQD11-15** From 149.8–152.4m depth – 2.6m at 3.07 g/t Au and 64 g/t Ag
- **MQD11-16** From 128.25–128.71m depth – 0.46m at 0.56 g/t Au and 64 g/t Ag

La Flora: Argentina

At the La Flora project in Argentina, two large vein systems have been identified since drilling commenced in H2 2010. In 2011, a total of 1,812 metres was drilled at La Flora and a number of vein targets were tested. Drilling was successful in intercepting anomalous gold and silver mineralisation. Positive intercepts included[1]:

- **LFD11-019** From 0.0–3.0m depth – 3m at 0.96 g/t Au and 3.2 g/t Ag
- **LFD11-019** From 11.0–19.3m depth – 8.3m at 1.48 g/t Au and 8.6 g/t Ag

In 2012, the exploration programme and 4,000 metre drilling campaign at La Flora will include a detailed mapping and sampling programme around the anomalous surface samples and drill hole intercepts identified in 2011. An IP geophysical survey will also be completed and identified targets will be subsequently drilled.

1 Please note that all mineralised intersections in this release are quoted as down-hole lengths, not true widths.

Argenta: Argentina

At the 100% owned Argenta project in Argentina, 853 metres were drilled in 2011 to test the known vein system which reports strongly anomalous gold and silver mineralisation at surface and in drill hole. Assay results are being analysed before a drilling programme is put in place for 2012.

Astana/Farallón: Peru

Astana is a 100% owned project located in the Company's southern Peru cluster, with high sulphidation of disseminated gold/silver mineralisation. Historical drilling at superficial levels reported anomalous results in gold and silver associated to pyrite with values of 200 to 390 g/t Ag eq.

Farallón is a 100% owned low sulphidation silver veins system, located 1.5 kilometres to the east of Astana. Previous drilling at superficial levels reported anomalous results in gold, silver, lead and zinc. Work conducted in 2011 was focused on attaining the relevant government and community permits and approvals for both projects. The community permit has been received, and in 2012 the exploration programme will include a 1,106 metre drilling campaign. Exploration activity will be carried out at Farallón, as well as the testing of anomalies in the Astana area.

San Martin: Peru

In 2011, work at the San Martin project in Peru was focused on obtaining the relevant government and community permits and approvals. The community permit has been received, and in 2012 the 1,800 metre drilling campaign will focus on defining potential mineralisation following previous drilling campaigns that intercepted high quality mineralisation.

A drill rig in operation at the Mosquito property in Argentina

Other Medium Scale projects

Huacullo: Peru
At the Huacullo project in Peru, the Company is in the process of completing the relevant government and community permits and approvals process. In 2012 the 485 metre drilling campaign and exploration programme will test potential economic mineralisation in low to intermediate sulphidation veins previously drilled by other companies.

Ibel: Peru
At the Ibel project in Peru, in 2011 work focused on the completion of the relevant government and community permits and approval process. In 2012 the 445 metre drilling campaign at Ibel will test potential economic mineralisation in low to intermediate sulphidation veins and hydrothermal breccias located in sedimentary rocks.

San Antonio: Chile
A mapping and sampling programme to define drill targets is in progress at the San Antonio project in Chile, and drilling should commence in the second quarter of 2012.

Cuello Cuello: Peru
At the Cuello Cuello project in Peru, the relevant government and community permits and approvals were received in December 2011. In 2012 the 1,179 metre drilling campaign that will test potential economic silver-gold mineralisation in a high sulphidation epithermal prospect will commence in the second quarter.

Pomona: Argentina
In 2011, an initial field review was carried out at the Pomona project in Argentina. In 2012 the Company will conduct detailed mapping and sampling and IP geophysical survey programmes in order to define targets for drilling.

Copper projects

Following the acquisition of Southwestern Resources in 2008, the Company currently holds a number of copper projects located in the southern Andes in Peru, within a highly prospective area for copper deposits. The Company has committed 6% of the total 2012 budget and a dedicated exploration team to drilling at the properties in order to establish potential value.

Jasperoide: Peru
In 2011, the exploration programme at Jasperoide included detailed geological mapping on the Huinihuini Mountain area of interest and in the surrounding area, and a 3,726 metre drilling campaign with 20 drill holes. The results of the drilling campaign indicate Inferred Resources for a cut-off with 0.2% Cu: 12.19 mt with 1.32 % Cu, 0.32 g/t Au. Positive intercepts included[1]:

- **JA-001** From 86.0–160.0m depth – 74.0m at 1.54% Cu and 0.20 g/t Au
- **JA-003** From 57.9–208.5m depth – 150.6m at 1.19% Cu and 0.46 g/t Au
- **JA-013** From 0.0–184.0m depth – 184.0m at 0.65% Cu and 0.20 g/t Au
  Includes: From 141.8–158.0m depth – 16.2m at 2.90% Cu and 0.61 g/t Au

In 2012, a second drilling campaign of 3,500 metres will focus on the already identified mineralised zone and surrounding area to locate new skarn blankets and to test for a potential associated porphyritic system.

Alpacocha: Peru
In 2011, 408 metres were drilled at the Alpacocha copper project. Exploration was focused mainly on the Paraiso target, a porphyry-skarn type deposit, where two areas of interest were identified, Paraiso West and Paraiso East. The drilling programme in 2012 will increase significantly, to 3,000 metres and will focus on the Paraiso target (East and West), where geological mapping, sampling and geophysics will also be completed.

Antay: Peru
At the 100% owned Antay copper project, the Company is in the process of obtaining the necessary access permits for the project.

Generative

The Company holds over one million hectares of prime land in key geological regions across four countries and has committed 3% of the total 2012 budget to conduct further exploration in these premium areas.

1 Please note that all mineralised intersections in this release are quoted as down-hole lengths, not true widths.

We respect the wellbeing of our *employees*, the *environment* and the *communities* where we operate.

Corporate responsibility

Letter from the Chairman

Our *business success* is due to our approach of integrating the many aspects of *corporate responsibility* into the Group's decision-making.

Having completed my first year as Chairman of the Corporate Social Responsibility Committee, I am pleased to introduce the Group's 2011 Corporate Responsibility Report.

Since its inception, Hochschild Mining has taken great pride in managing its business in a way that ensures returns not only to shareholders, but to all stakeholders, including its employees and the communities surrounding our operations, and with due regard to the impact of our activities on the environment.

Over time, Hochschild Mining has earned a reputation for translating these values into action as we firmly believe that our business success is due to our approach of integrating the many aspects of corporate responsibility into the Group's decision-making.

Facilitating this process are teams of dedicated professionals who ensure that the many risks we face in our industry are identified and controlled by standards and procedures, supported by proven management systems.

We rely on the goodwill of the members of the communities located close to our assets to be able to operate, whether in early stage exploration or the construction or operation of an active mine. We therefore consider it imperative that local communities are closely involved in our planning processes in order to address their needs and take account of their concerns.

The communities and stakeholders in general are justifiably concerned with the impact of our business on the environment. I am proud that we have invested in world class management information systems to ensure that we meet all targets with respect to air and water quality and the efficient use of natural resources.

Despite our ongoing commitment, it is with deep regret that I report that we had three fatalities at our operations during 2011. In our view, every fatality is avoidable and we remain determined in our pursuit of our zero fatality target. We will continue to monitor, review and enhance our controls and also provide the necessary training. We provide further details on *page 41* of this report.

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

$7.7m

Amount spent in 2011 on social and community welfare activities

Employees at Pallancata

Corporate responsibility
Letter from the Chairman *continued*

External recognition

The Group is proud of the progress made in the area of CSR reporting since our IPO in 2006. In recognition of this, the 2010 CSR Report featured in the shortlist for the Best Practice Awards 2011 drawn up by the UK Investor Relations Society.

This year we plan to join a select group of companies in Peru aiming to enhance their capabilities of monitoring and reporting on CSR matters through the Socially Responsible Company accreditation, granted by "Peru 2021". This non-profit organisation is certified by the Global Reporting Initiative and seeks to promote corporate social responsibility as a sound business management discipline to facilitate sustainable development in Peru.

I would like to express my gratitude to my colleagues across the Group for their continued efforts as we progressively build on our reporting framework and initiatives in this crucial area.

Eduardo Hochschild
Executive Chairman
& Chairman of the CSR Committee

Members of the Caraibamba District community taking part in the "Miners' Day" celebrations at Selene

CR governance

Our fundamental Group principles include a *commitment to safety, health and environmental protection and respect for the community.*

What is Hochschild Mining's approach to 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 performance measurement. In our 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

Management of Corporate Responsibility
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 Corporate Responsibility 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. Eduardo Hochschild has Board-level responsibility for CSR issues.

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 also attended by members of the Group's Legal and HR functions.

Whilst each area has its dedicated area of focus, they often collaborate with each other as required, for example in the provision of health services to the communities.

Corporate responsibility
CR governance *continued*

Terms of Reference of the CSR Committee

Under its terms of reference, the CSR Committee is tasked with:

- Evaluating the effectiveness of the Group's policies and systems for identifying and managing health, safety and environmental risks within the Group's operations
- Assessing the policies and systems within the Group for ensuring compliance with health, safety and environmental regulatory requirements
- Assessing the performance of the Group with regard to the impact of health, safety, environmental and community relations decisions and actions upon employees, communities and other third parties. It also assesses the impact of such decisions and actions on the reputation of the Group
- Receiving reports from management concerning all fatalities and serious accidents within the Group and actions taken by management following each incident
- Evaluating and overseeing, on behalf of the Board, the quality and integrity of any reporting to external stakeholders concerning health, safety, environmental and community relations issues
- Reviewing the results of independent audits commissioned of the Group's performance in regard to health, safety, environmental or community relations matters, reviewing any strategies and action plans developed by management in response to issues raised and, where appropriate making recommendations to the Board concerning the same

The CSR Committee's work in 2011

During the year, the CSR Committee:

- Reviewed the investigations into the three fatalities that occurred during the year and the action plans formulated by management to implement the associated recommendations
- Approved the 2010 Corporate Responsibility Report
- Monitored the execution of the yearly plan in each of the four key areas of focus
- Considered the ongoing progress of the implementation of a number of internationally accredited management information systems to control and monitor CSR related risks
- Monitored the status of the Group-wide initiatives launched to raise the profile of safe working practices to assist with accident prevention
- Considered updates from the work done across the Group to manage community and labour relations

In addition, in November 2011, the full Board received a presentation on the new areas of focus of the Group's Community Relations' strategy (see box on *page 44*).

Reporting

Where Group-wide information is not available, performance indicators are provided in respect of the Peruvian operations, which represent approximately 70% of the Group's attributable production.

Employees at Arcata

Read more about how we mitigate social and environmental risks to our business

See page 59

Our commitment to Corporate Responsibility is reflected in our Executive Remuneration policy. See the Directors' Remuneration Report for more details

See page 80

Safety

The Hochschild approach to safety

Mining has an inherently high risk profile and we therefore consider safety to be our highest priority. The Board and management are committed to ensuring employee safety is an integral part of measuring the successful implementation of corporate strategy.

The Group regrets that there were three fatalities during the year. In the first incident, an assistant to a scoop operator at the San Jose operation was fatally injured after falling down an ore pass. The second fatality occurred after an electric shock was sustained by one of the Group's electricians during routine maintenance at the Selene plant. The third incident took place at the Group's Pallancata operation where a maintenance supervisor sustained fatal injuries from a fall in the process of laying a cable.

Circumstances leading to these tragic events have been investigated by management, reported to the Board and 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 carry out safety briefings.

2011 Performance

Target	Status	Commentary
8% reduction in LTIFR	✗	A reduction of only 2% was achieved
In relation to the DNV Management Information System, to achieve: – Level 5 at Ares – Level 6 at San Jose – Level 7 at Arcata and Pallancata	✓	In addition to achieving our targets for the year, the Group was able to obtain Level 2 as certified by the Group's Internal Audit function, at the Group's Advanced Projects
To continue offering monthly safety awards	✓	
To achieve OHSAS 18001 accreditation at Pallancata and San Jose and recertify Ares, Arcata, and the Selene Plant as OHSAS 18001 compliant	**Partial**	Arcata and Selene were certified OHSAS 18001 compliant by the leading certification company, SGS
To provide Stage 2 training to emergency crews	✓	

Our achievements in 2011

- The Arcata and Selene units obtained OHSAS 18001: 2001 accreditation
- 240 innovative safety ideas were submitted by employees in the second running of the Luis Hochschild Safety Award. The top 10 suggestions were selected for implementation across the Group by each mining unit
- Implementation of the "Fatal Risk Control" software in partnership with Expectra, a South African based consultancy, which will enable the Group to develop a clear Organisational Safety Strategy based on international best practice
- The Det Norske Veritas ("DNV") safety management system was implemented to Level 2 at the Azuca, Crespo and Inmaculada projects, as certified by the Group's internal audit function
- All personnel at the Peruvian operating units attended five mandatory safety training courses
- Employees in the emergency brigades at the operations received training to intermediate level

Safety indicators

	2011	2010	2009
Fatal accidents	**3**	2	2
Lost time accidents[1]	**81**	66	79
LTIFR[2]	**3.63**	3.70	5.22
Accident Severity Index[3]	**910**	777	1,485
Accidentability rate[4]	**3.30**	2.88	7.76

1 Accidents leading to an absence of one day or more.
2 Calculated as total number of accidents per million labour hours.
3 Calculated as total number of days lost per million labour hours.
4 Calculated as LTIFR x Accident Severity divided by 1,000.

2012 Targets

- A 6% reduction in LTIFR
- The Group seeks to achieve the following with respect to the DNV safety management system:
  - Maintain and further develop current levels of implementation at Peruvian and Argentinian units
  - Level 3 at the Inmaculada Project
- Launching a safety campaign highlighting the potential impact on family life
- To evaluate the effectiveness of the "Fatal Risk Control" software at the Pallancata unit with a view to implementation at other Operating units
- To provide training to the Group's emergency brigades to advanced level

Corporate responsibility

Health & hygiene

The Hochschild approach to health & hygiene

Underlining the importance we place on our people and their wellbeing, the Group's Health & Hygiene team is tasked with providing an integrated approach to employee welfare.

The Hygiene team was successfully integrated into the Health team during the year and they have established themselves as key contributors in improving the quality of life at work and preventing incidences of occupational illness.

The team also comprises members with responsibility for occupational psychology.

2011 Performance

Target	Status	Commentary
Complete implementation of the Health & Hygiene SAP module in Peru and Argentina	Partial	Completed in Peru in October 2011 with Argentina scheduled for completion in 2012
Make further progress to include Hygiene-related initiatives within the existing Health team	✓	A number of initiatives were launched during the year including the provision of training and periodic inspections, risk assessments and hazard identification
Build upon the promising start made by the Wellbeing Programme in 2009 and to consider implementation in Argentina	✓	Various activities were undertaken during the year to promote good mental health including: specialist evaluations of drivers and operators of critical machinery post-incident assessments and scheduled health checks

Our achievements in 2011

During the year:

- With regards to **Healthcare Services**, we developed educational programmes on disease prevention and worked in conjunction with our safety colleagues to:
  - Improve our emergency response capacity through training and the acquisition of equipment
  - Review the accident rating procedure to ensure our ongoing compliance with technical and legal standards
- With regard to **Occupational Health**, we improved the health examination process for those joining the Group and the related insurance procedures. By doing so, our people are significantly protected from the moment they start their career with us
- In relation to **Hygiene**, 2011 saw the roll-out of services across all operations and also at the Advanced Projects; Inmaculada, Crespo and Azuca
- The **Occupational Psychology** team embedded processes within the Peruvian and Argentinian operations, and further extended its reach to the Advanced Projects
- As for **Community Relations support**, we updated the design of the mobile medical unit and two new units with revised specifications were presented to the regional authorities (see the Community Relations section for further information)

Health indicators

	2011	2010	2009	2008	2007
Average number of medical attendances at Peruvian operations and at San Jose, per month	**3,065**	2,961	2,690	2,851	2,505
Average number of work-related incidences requiring medical attention at Peruvian operations and at San Jose, per month	**32**	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	**396**	237	406	238	224

2012 Targets

- Complete the uploading of data onto the Health & Hygiene SAP module
- To establish a programme of monitoring occupational illness for research purposes and ultimately improving the provision of our services
- To develop the psychology programme for our units and Advanced Projects

Our people

The Hochschild approach to our people

Training and development

The quality of our people is key to the success of the business in achieving its strategic objectives and we therefore seek to attract and retain the best people. The Group's HR team offers various incentives to ensure that our people contribute to the Group's success which include the provision of competitive remuneration, a positive working environment (measured by the Organisational Climate Survey) and ongoing professional development.

Group values and labour relations

One of the primary responsibilities of the HR team is to ensure the clear ongoing communication of the Group's corporate values: Integrity, Teamwork, Quality and Excellence, Responsibility and Commitment to our People. These values are embodied in our Code of Conduct which, amongst other things, sets out our commitment to the fair treatment of all employees and the right to be free of harassment or intimidation in the workplace. We recognise the core labour rights principles and, in this respect, support the right to freedom of association and collective bargaining. Approximately 59% of our total workforce are represented by trade unions or similar bodies.

2011 Performance

Target	Status
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	✓

Our achievements in 2011

The activities undertaken by the HR team during 2011 described below, provide an indication of how they have sought to accomplish their mission.

Developing our people

The second leadership workshop for senior management took place in Lima facilitated by IAE Business School.

For operational mid-management, the "Developing Leaders" programme was launched in Peru and Argentina, and for administrative managers, the first workshop of the leadership programme entitled "Managerial Skills" was delivered also in conjunction with IAE Business School.

The exploration team continued with a programme entitled "High Performance Team".

Managing our talent

During the year, the key position holders were identified as part of the Group's Talent Inventory Review ("TIR"). Tailored development plans for each individual have been agreed and, in 2012, there will be a focus on implementation with resources specifically allocated for that purpose.

Creating a better place to work

Based on the Organisational Climate Survey of 2010, action plans to improve the working environment were designed and 363 actions were implemented across the Group. These included actions to improve internal communications at one of the Group's offices and, at another office, to encourage team spirit and a sense of collaboration with the Group as a whole.

The next survey is scheduled to be carried out later this year.

Hochschild values

During 2011, a programme was launched which sought to embed the Group's core corporate values through training, briefings and team events. In 2012, the programme will also incorporate active participation by managers with a focus on enhancing personal performance in line with these values.

People indicators

	2011	2010	2009
General			
Average number of group employees	**6,395**	5,776	4,969
Training			
Average number of hours of training undertaken per employee in Peru	**49.42**	17.83	14.03
Percentage of workforce trained during the year in Peru	**90%**	92%	94%
Labour relations			
Number of production days lost as a result of industrial unrest	**28**	1	40.5

2012 Targets

- Implement the development plans designed as part of the TIR
- Continue with the entire leadership programme at all levels of management
- Start the second stage of the "Developing Leaders" programme for mid-management in Peru and Argentina
- Achieve a three point increase in the Organisational Climate Survey against the results of the last survey commissioned in 2010
- Establish a global recruitment strategy

Corporate responsibility

Working together with local communities

The Hochschild approach to working with our communities

We have, since the Group's early days, shaped our community-oriented activities to establish positive relationships with the local communities and to contribute to their development. We try to do this by applying the following principles:

- Foster mutual respect and co-existence with local communities
- Achieve mutually beneficial agreements
- Improve the quality of life of community residents
- Improve the health, education and nutrition of local community members
- Encourage good relationships and co-ordination with stakeholders to promote sustainable development

Community Relations strategic review

The Group reviewed its Community Relations ('CR')strategy during the year, amidst a constantly evolving landscape. The review resulted in the formulation of a strategy that ensures the Community Relations team, its practices and its long-term objectives have adapted to meet the new challenges and, more importantly, to meet the standards expected of a responsible mining company (see opposite).

Revised Community Relations strategy

The Group's CR vision is:

To be a ***role model corporation*** *that* ***promotes sustainable development*** *in its* ***areas of influence*** *and assures* ***social*** *and* ***economic wellbeing*** *for all its stakeholders.*

The Group's CR mission is:

To ***work together*** *with our surrounding communities and the State to* ***improve health, nutrition, and the education*** *of the population and* ***promote*** *their* ***development*** *through* ***sustainable projects****.*

In order to deliver its corporate vision, the Group has indentified its primary Area of Influence as the areas surrounding its southern Peruvian operations covering the regions of Cusco, Apurimac, Ayacucho and Arequipa.

In addition to providing resources to meet the communities' needs locally, the Group has identified towns that benefit from existing infrastructure and that can act as host locations for the various services to be provided by the Group. These "Intermediate Cities" are well positioned to offer better access to health services and opportunities for education.

The Group is currently working on the Development Plans for each of the Intermediate Cities with services to commence in 2012/2013.

Employees from Pallancata competing in a football tournament

Arcata employees and community members participating in one of the events organised by the Group to mark World Environment Day

2011 Performance

Target	Status	Commentary
Ongoing target		
Zero "Loss of Production days" resulting from community conflicts.	✗	One production day was lost at the Selene plant.
Specific targets		
Continue identifying community and economic development initiatives that promote sustainability	✓	Community development plans were updated to prioritise projects that can be supported by the Regional and Local Government (Provincial and District) in Apurimac
Work with government agencies in health and education, and implement meaningful measures of quantitative and qualitative achievements	✓	In implementing our Médico de Cabecera programme (see Case Study below) we co-ordinated with health authorities to improve the provision of State Healthcare (SIS) in Arequipa, and Apurimac. The Health Authority of Arequipa acknowledged the contribution of our service in extending coverage of SIS. In education, progress was made with an initial training programme for teachers through the Maestro Líder Programme (see Case Study on *page 46*)
Facilitate further collaborative projects involving the State and private mining companies for the benefit of local communities	✓	Amongst other things, co-operation agreements were signed with the communities of Pampamarca and Iscahuaca (located close to the Group's Selene mine) and the Regional Government for the joint funding and technical support for projects selected by the communities.
To make further progress in providing adult education	✓	Educational institutions have been identified and implementation plans are being developed to provide services within close proximity to the communities.

Official launch event of the programme attended by Company representatives and members of the Medical team

Médico de Cabecera

Travelling Doctor Programme

During the year, Hochschild Mining launched the Médico de Cabecera programme with the aim of taking health services to the rural communities; initially to those located close to the Group's Pallancata and Ares mines. Through the scheme, the Group provides direct healthcare services, as appropriate and general health advice and co-ordinates health awareness campaigns.

The Group has worked in partnership with regional authorities to link the services with the national health network to ensure complete coverage under the national health system, SIS.

Corporate responsibility

Working together with local communities *continued*

Our achievements in 2011

We made significant progress during the year as described below.

- We demonstrated our commitment to follow through with our promises to our communities by:
  - Designing a system to monitor compliance with our commitments to the community and which is subject to monthly review
  - Establishing Framework Agreements with communities to consolidate commitments acquired over time which set a clear route for our long-term relationship with the communities
- We refocused our medium and long-term projects by:
  - Focusing on categories of beneficiaries, such as: schoolchildren, with an emphasis on supporting students and teachers, and high school students progressing to higher education
- We provided employment opportunities to Community Members by:
  - Implementing an agreement with the communities close to Arcata whereby the Group sponsored the training of community members by the renowned mining technical institute, Cetemin. On completion of the course, participants were offered the opportunity to take up employment with the Group
- We promoted sustainable development through numerous means by:
  - Supporting members of the Chuqñihuaqui community located close to the Arcata operating unit to establish a Community Company which subsequently provided dumper truck services to the Group for the transportation of material
  - The continued commitment of financial and technical resources to Alpaca and trout breeding programmes, the main economic activities in the Peruvian highlands
  - Our support for the local Development Agency of Perito Moreno, the closest town to our San Jose operations in Argentina. Working with governmental authorities (INTA) we have provided advice on agricultural practices and the marketing of handmade crafts made by local artisanal producers

2012 Targets

- Zero "Loss of Production" days arising as a result of community conflicts
- To conclude all agreements envisaged in the mutually approved annual plan
- To make a measurable contribution to improvements in the quality of life of the communities living close to the Group's operations

Community Relations indicators

	2011	2010	2009	2008
Community investment	**$7.7m**	$6.7m	$6.0m	$4.6m
Production days lost as a result of community conflict	**1**	0	1.5	0

Maestro Líder

Teacher Leader Programme

Maestro Líder is a programme developed by the Group to train teachers based in schools within the areas surrounding the Group's operations in Peru. In conjunction with prominent educational organisations, the Group held week long training sessions focused on enhancing teaching skills in order to improve student learning.

Over 300 teachers from elementary and high schools participated in the programme which was delivered across three locations; Lima, Cusco and Arequipa, and each teacher received a certificate in the areas of teaching literacy, the use of Information Technology and management.

Each participant also received a laptop at the end of the course for use as a tool in their ongoing endeavours.

Participants in the Maestro Líder programme held in Lima

Managing our environmental impact

The Hochschild approach to environmental management
We are committed to minimising the environmental impact of our business and to facilitate the ongoing sustainability of the land where we develop operations and activities. In addition, as the most valuable resource, water usage and discharge are subject to strict protocols and procedures in order to comply with local and international regulations.

In order to support our efforts, we are committed to using international best practice. The ISO14001 certification obtained for our five operations demonstrate our efforts in delivering these high standards to all of our main operations.

The structure of the environmental team was revised during the year to ensure sufficient support was provided to the exploration and projects team and thereby ensures our involvement from the inception of a project through to mine closure.

Hochschild Environmental team

Through this structure, dedicated personnel in the environmental team provide the following services:

- **Operations:** Implementing standards, procedures and best practice
- **Permitting and new projects:** assuring compliance with local and international regulations along the mine life cycle
- **Social work:** Communications, training, support and facilitating participation of communities in environmental works
- **Explorations:** Implementing environmental controls in greenfield and brownfield projects
- **Closure:** Rehabilitation and remediation of disturbed areas where mining activity has ceased

The Environmental department works together with the operational teams, community relations and the legal function in the application for, and ongoing compliance with mining permits, thereby assuring continuity of operations.

2011 Performance

Target	Status
Group Compliance Performance Indicator above 80% (see box on *page 48*)	✓
Obtain ISO14001 certification for Ares, Arcata, Selene, Pallancata and San Jose	✓
Submit Crespo and Inmaculada Environmental impact assessments*	✓
Update mine closure plans for Ares, Arcata, Selene and Pallancata	✓

* This target has been restated to exclude Azuca due to the business decision to delay the Feasibility Study at the project. Further details can be found in the Operating and exploration review.

Environmental indicators

	2011	2010	2009
Average monthly fresh water consumption per metric tonne of treated ore (cubic metres)	**0.24**	0.21	0.63
Average monthly electricity consumption per metric tonne of treated ore (Kw-h)	**53.29**	57.75	53.32
Average monthly diesel consumption per metric tonne of treated ore (gallons)	**1.29**	0.97	1.23
Average monthly wood consumption per metric tonne of treated ore (kg)	**11.30**	12.47	10.31
Number of material environmental incidents across entire operations	**0**	0	0
Estimated volume of water withdrawn per day (cubic metres)	**32,424**	30,628	29,668
Estimated proportion of recycled water used (cubic metres)	**69%**	32%	27%
Estimated volume of water discharged per day (cubic metres)	**37,979**	37,538	35,606

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

Corporate responsibility

Managing our environmental impact *continued*

Our achievements in 2011

- Implementation of ISO14001 compliant environmental management systems at the Group's operations at Ares, Arcata, Selene, Pallancata and San Jose
- Environmental impact studies ("EIS") for Inmaculada and Crespo submitted to Peruvian Energy and Mines Ministry according to the operational plan
- Environmental permitting performed in connection with scheduled expansion programmes and in the planning of new infrastructure projects, such as mine capacity increases and the construction of a new tailings dam
- Commencing the mine closure and rehabilitation for the Moris mine in Mexico according to the internal plan
- General update of mine closure provisions, reviewing activities and changes in costs for the different countries
- Group-wide initiatives to raise the general awareness of environmental issues amongst employees

2012 Targets

- Group Compliance Performance Indicator above 89% (see box opposite)
- Maintain ISO14001 certification for Ares, Arcata, Selene, Pallancata and San Jose
- Approval of Crespo and Inmaculada EISs in the last quarter of 2012

Compliance performance indicators (CPI)

Environmental CPIs are the internally designed measures to evaluate the environmental performance of each function and allows us to identify strengths and weaknesses of environmental management.

The CPIs operate under the principle that everybody has a role to play in responsible environmental management.

CPIs have four evaluation criteria:

- Inspections and monitoring: to identify sub-standard conditions and opportunities for improvement
- Environmental quality: a pro-active measure to ensure that all discharges to the environment are within acceptable limits
- Environmental goal and targets: to monitor the accomplishment of the corporate strategic plan
- Environmental management: documents control of standards, procedures, records, etc

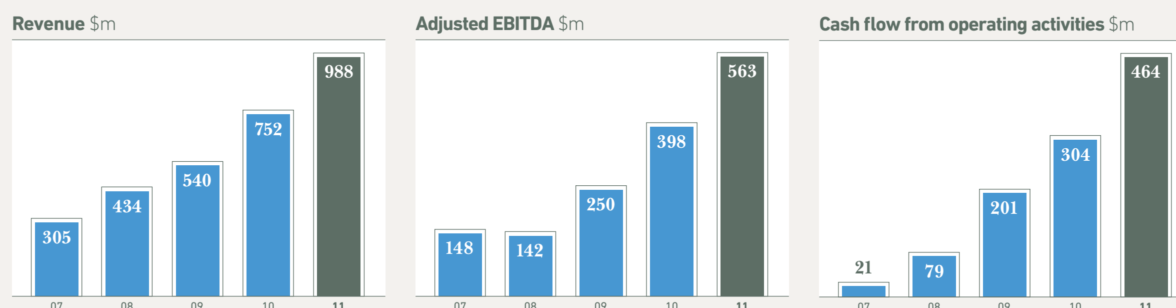
The Group's management systems are internationally accredited

View of the area surrounding Inmaculada

The business has a robust *management structure*, is in *sound financial health*, and has a *committed approach* to governance.

Financial review & Risk management

Financial review



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.

$000 unless otherwise indicated	Year ended 31 Dec 2011	Year ended 31 Dec 2010	% change
Net Revenue[1]	**987,662**	752,322	31
Attributable silver production (koz)	**14,980**	17,768	(16)
Attributable gold production (koz)	**127**	144	(12)
Cash costs ($/oz Ag co-product)[2]	**11.96**	8.74	37
Cash costs ($/oz Au co-product)[2]	**561**	504	11
Adjusted EBITDA[3]	**563,403**	397,731	42
Profit from continuing operations	**268,919**	158,830	69
Profit from continuing operations (post exceptional)	**272,338**	216,665	26
Earnings per share (pre exceptional)	**$0.49**	$0.28	75
Earnings per share (post exceptional)	**$0.50**	$0.46	9
Cash flow from operating activities[4]	**464,110**	304,232	53
Resource life-of-mine (years)	**9.7**	8.7	11

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 Jose. 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 net finance income/(cost), foreign exchange loss 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.

Revenue

Gross revenue

Gross revenue from continuing operations increased 30% to $1,043.7 million in 2011 (2010: $802.7 million) driven by higher metal prices during the year which offset lower Group production.

Silver

Gross revenue from silver increased 37% in 2011 to $755.8 million (2010: $549.7 million) as a result of higher prices. The total amount of silver ounces sold in 2011 decreased to 21,792 koz (2010: 24,283 koz) mainly due to lower year-on-year production.

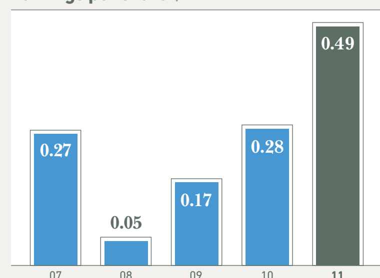
Gold

Gross revenue from gold increased 14% in 2011 to $287.8 million (2010: $253.0 million) also as a result of higher prices. The total amount of gold ounces sold in 2011 decreased to 182.0 koz (2010: 199.9 koz) mainly due to lower year-on-year production.

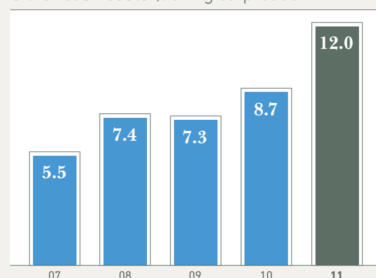
Gross average realised sales prices

The following table provides figures for average realised prices and ounces sold for 2011 and 2010:

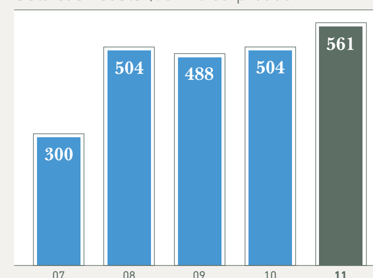
Earnings per share $



Silver cash costs $/oz Ag co-product



Gold cash costs $/oz Au co-product



Average realised prices

	Year ended 31 Dec 2011	Year ended 31 Dec 2010
Silver ounces sold (koz)	**21,792**	24,283
Avg. realised silver price ($/oz)	**34.7**	22.6
Gold ounces sold (koz)	**182.0**	199.9
Avg. realised gold price ($/oz)	**1,582**	1,266

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 2011, the Group recorded commercial discounts of $56.0 million (2010: $50.5 million). The ratio of commercial discounts to gross revenue in 2011 decreased to 5% (2010: 6%).

Net revenue

Net revenue increased by 31% to $987.7 million (2010: $752.3 million), comprising silver revenue of $708.3 million and gold revenue of $279.2 million. In 2011 silver accounted for 72% and gold 28% of the Company's consolidated net revenue compared to 68% and 32% respectively in 2010.

Revenue by mine

$000 unless otherwise indicated	Year ended 31 Dec 2011	Year ended 31 Dec 2010	% change
Arcata	**207,429**	173,942	19
Ares	**21,168**	16,586	28
Selene	**–**	13	(100)
Pallancata	**316,344**	233,789	35
San Jose	**208,579**	123,393	69
Moris	**2,273**	1,946	17
Commercial discounts	**(47,465)**	(41,392)	15
Net silver revenue	**708,328**	508,277	39
Gold revenue			
Arcata	**26,449**	31,264	15
Ares	**46,929**	40,239	17
Selene	**–**	2	(100)
Pallancata	**54,437**	43,712	25
San Jose	**129,994**	108,849	19
Moris	**30,025**	28,953	4
Commercial discounts	**(8,584)**	(9,079)	(5)
Net gold revenue	**279,250**	243,940	14
Other revenue[1]	**84**	105	(20)
Net revenue	**987,662**	752,322	31

1 Other revenue includes revenue from (i) the sale of energy in Peru and, (ii) administrative services in Mexico.

Financial review & Risk management

Financial review *continued*

Costs

Total pre-exceptional cost of sales increased 17% to $404.3 million in 2011 (2010: $345.7 million) mainly as a result of the increase in the direct production cost of 16% to $261.2 million (2010: $225.2 million). The direct production cost increment occurred mainly in mine costs as a result of an increase in the number of stopes mined. Direct costs also increased due to inflation in labour, supplies and oil prices in Peru and Argentina. Depreciation cost was $103.7 million in 2011 (2010: $101.6 million), other items costs which principally includes workers' profit sharing, were $32.4 million in 2011 (2010: $22.6 million) and change in inventories was $6.9 million in 2011 (2010: $(3.7) million).

Unit cost per tonne

The Company reported an overall increase in unit cost per tonne at its main operations of 16% in 2011 to $95.32 (2010: $82.3).

Unit cost per tonne by operation (including royalties)*

Operating unit ($/tonne)	Year ended 31 Dec 2011	Year ended 31 Dec 2010	% change
Main operations	**91.4**	78.8	16
Peru	**67.1**	59.0	14
Arcata	**77.0**	71.1	8
Pallancata	**60.4**	51.8	17
Argentina	**181.7**	152.3	19
San Jose	**181.7**	152.3	19
Others	**53.1**	35.1	51
Ares	**120.6**	107.5	12
Moris	**17.9**	16.3	10
Total Company	**79.1**	61.3	29

* Unit cost per tonne is calculated by dividing mine and geology costs by extracted tonnage and plant and other costs by treated tonnage.

Unit cost per tonne by operation (excluding royalties)*

Operating unit ($/tonne)	Unit cost per tonne 2011	Unit cost per tonne 2010	% change
Main operations	**83.8**	72.5	16
Peru	**60.8**	53.2	14
Arcata	**70.2**	65.0	8
Pallancata	**54.5**	46.2	18
Argentina	**169.6**	144.1	18
San Jose	**169.6**	144.1	18
Others	**52.1**	34.3	52
Ares	**118.0**	103.6	14
Moris	**17.9**	16.3	10
Total Company	**73.5**	57.2	28

* Unit cost per tonne is calculated by dividing mine and geology costs by extracted tonnage and plant and other costs by treated tonnage.

Cash costs

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 $9.3 to $13.0 per ounce and from $535 to $613 per ounce, respectively. Silver and gold cash costs from main operations (Arcata, Pallancata and San Jose) increased from $8.7 to $12.0 per ounce and from $504 to $561 per ounce, respectively. The increase in silver cash costs resulted from higher production costs and grade declines at both main Peruvian operations due to the incorporation of lower grade material. In addition, cash costs also increased due to higher precious metal prices causing rises in workers profit sharing contributions, higher commercial discounts and increased export taxes at San Jose.

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 $4.9 per silver ounce (2010: $3.0 per silver ounce) and ($1,987) per gold ounce (2010: ($1,153) per gold ounce).

Cash cost reconciliation*

$000 unless otherwise indicated	Year ended 31 Dec 2011	Year ended 31 Dec 2010	% change
Group cash cost	**394,225**	323,560	22
(+) Cost of sales	**404,291**	345,667	
(-) Depreciation in cost of sales	**(105,085)**	(99,498)	6
(+) Selling expenses	**38,970**	26,920	45
(+) Commercial deductions	**56,049**	50,471	11
Gold	**8,584**	9,079	(5)
Silver	**47,465**	41,392	15
Revenue	**987,662**	752,322	31
Gold	**279,250**	243,940	14
Silver	**708,328**	508,277	39
Others	**84**	105	(20)
Ounces sold	**21,974**	23,702	(7)
Gold	**182**	196	(7)
Silver	**21,792**	23,506	(7)
Group cash cost ($/oz)			
Co-product Au	**613**	535	15
Co-product Ag	**13.0**	9.30	40
By-product Au	**(1,987)**	(1,153)	72
By-product Ag	**4.88**	3.00	63

* Cash costs are calculated to include cost of sales, treatment charges, and selling expenses before exceptional items less depreciation included in cost of sales.

Cash costs are calculated based on pre-exceptional figures. Co-product cash cost per ounce is the cash cost allocated to the primary metal (allocation based on proportion of revenue), divided by the ounces sold of the primary metal. By-product cash cost per ounce is the total cash cost minus revenue and commercial discounts of the by-product divided by the ounces sold of the primary metal.

Administrative expenses

Administrative expenses before exceptional items decreased by 3% to $64.4 million (2010: $66.2 million) mainly due to a lower provision for the Long Term Incentive Plan and the elimination of the Voluntary Contribution to the Peruvian Government following a revision to the tax regime in Peru.

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 14% to $47.3 million in 2011 (2010: $41.5 million). Further detail on the exploration programme can be found in the exploration section on *page 15*.

In addition, the Group capitalises part of its brownfield exploration, which mostly relates to costs incurred converting potential resource to the Inferred or Measured & Indicated category. In 2011, the Group capitalised $13.2 million relating to brownfield exploration compared to $12.0 million in 2010, bringing the total investment in exploration for 2011 to $60.6 million (2010: $53.5 million). In addition, $10.1 million was invested in the Company's Advanced Projects.

Furthermore, in 2011, in line with the Company's strategy to further develop its production assets, capital expenditure on Advanced Projects and current operations included an additional $14 million to convert Inferred resources into Measured & Indicated resources.

Selling expenses

Selling expenses increased to $39.0 million (2010: $26.9 million) mainly as a result of export duties at San Jose, 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 dore).

Other income/expenses

Other income before exceptional items was $7.1 million (2010: $5.6 million), mainly reflecting a $3.3 million export tax credit in Argentina. Other expenses before exceptional items reached $15.8 million (2010: $11.0 million), the principal component being an increase in mine closure provisions of $8.2 million due to the revision of the mine closure plans in all units.

Profit from continuing operations

Profit from continuing operations before exceptional items, net finance costs and income tax increased to $424.0 million (2010: $266.6 million) as a result of the factors detailed above.

Adjusted EBITDA

Adjusted EBITDA increased by 42% over the period to $563.4 million (2010: $397.7 million) driven primarily by higher silver and gold prices.

Adjusted EBITDA is calculated as profit from continuing operations before net finance income/(cost), foreign exchange loss and income tax plus depreciation and exploration expenses other than personnel and other exploration related fixed expenses.

Financial review & Risk management

Financial review *continued*

Adjusted EBITDA

$000 unless otherwise indicated	**Year ended 31 Dec 2011**	Year ended 31 Dec 2010	% change
Profit from continuing operations before exceptional items, net finance cost, foreign exchange loss and income tax	**423,973**	266,626	59
Operating margin	**43%**	35%	
Depreciation and amortisation in cost of sales	**105,085**	99,498	6
Depreciation and amortisation in administrative expenses	**1,903**	2,048	(7)
Exploration expenses	**47,336**	41,537	14
Personnel and other exploration related fixed expenses	**(14,894)**	(11,978)	(24)
Adjusted EBITDA	**563,403**	397,731	42
Adjusted EBITDA margin	**57%**	53%	

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 $11.7 million in 2011 (2010: ($4.6) million), a result of the gain in the value of the Group's holding of Gold Resource Corp's common shares.

Finance income

Finance income before exceptional items increased by 15% to $4.7 million (2010: $4.1 million) mainly due to the increase of interest received on time deposits.

Finance costs

Finance costs decreased by 28% to $21.3 million in 2011 (2010: $29.5 million). Interest costs decreased to $15.3 million in 2011 (2010: $17.3 million). In addition, finance costs in 2010 included a $7.6 million loss on Zero Cost Collar derivative contracts.

In January 2011 Hochschild repaid in full its syndicated bank loan facility. The Group has no outstanding positions on currency or commodity hedges.

Foreign exchange losses

The Group recognised a foreign exchange loss of $1.6 million (2010: $0.03 million gain) as a result of transactions in currencies other than the functional currency.

Income tax

The Group's pre-exceptional effective tax rate increased to 35.6% in 2011 (2010: 32.9%). This increase is mainly explained by three new taxes introduced in Peru in Q4 2011, the New Mining Royalty ("NMR"), the Special Mining Tax ("SMT") and the Special Mining Assessment ("SMA"); detailed information on these taxes (collectively referred to as the "New Taxes") is provided below. In addition, in 2011 Hochschild recognised the impact of a withholding tax related to dividends declared from the operating companies to the UK parent company.

Overview of the New Taxes

The application of the New Taxes is dependent on the presence or otherwise of a tax stability agreement with the Peruvian Government. These taxes replace a royalty, (the "Former Royalty") and a Voluntary Contribution (the "Voluntary Contribution"). The Voluntary Contribution was calculated using a formula which, in the case of Hochschild, is approximate to 1.25% of Net Income.

NMR

The NMR applies to operating assets without stability agreements. It differs from the Former Royalty by changing the basis of calculation from sales to operating income. The NMR is calculated by applying a progressive scale of rates that range from 1% to 12% depending on the level of operating margin. A minimum amount of NMR is payable equivalent to 1% of Revenue. The Former Royalty was accounted for in the Cost of Sales line but the NMR will be accounted for in the Income Tax line.

SMT

The SMT is a new tax, also payable by mining companies with respect to operating assets without stability agreements, and is calculated on the same basis as the NMR. The rate of the SMT ranges from 2% to 8.4% depending on the level of operating margin. Unlike the NMR however, there is no minimum tax payable. The SMT is accounted for in the Income Tax line.

SMA

The SMA is an assessment raised on mining companies with respect to operating assets with stability agreements, to calculate an amount payable to the State on a voluntary basis. The rate used to calculate the assessment ranges from 4% to 13.12% of operating income, depending on the level of operating margin. The SMA is calculated on operating income after the deduction of payments due under the Former Royalty, which continues to be payable.

Hochschild does not have a stability agreement in place for Ares or Pallancata, and is therefore required to pay the NMR and the SMT in respect of those assets. The same will also apply for mines operated by the Company in Peru in the future (for example Inmaculada and Crespo).

In the case of Arcata, having reported to the Government that it waived its tax stability agreement in June 2009, the Company is required to pay the SMT. However the Peruvian Government is yet to confirm the waiver of the stability agreement. Therefore, Arcata will continue to pay the Former Royalty (which is accounted for in the Cost of Sales line).

The NMR and SMT payments will be deductable for the calculation of workers' profit share and Income Tax.

Exceptional items

Exceptional items in 2011 totalled $3.4 million after tax (2010: ($57.8 million). This mainly comprises:

Positive exceptional items

Main items	$000	Description of main items
Reversal/(Impairment and write-off of assets) (net)	**1,210**	Corresponds to the reversal of the write-off recorded in 2010 related to the 100% dore project at the San Jose mine.
Finance income	**5,989**	Corresponds to the gain of $6,386,000 on the sale of the residual stake in Lake Shore Gold, net of the loss generated by the sale of Golden Minerals Company shares of $397,000.

Negative exceptional items

Main items	$000	Description of main items
Other expenses	**(1,408)**	The provision of termination benefits due to workers as a result of the closure of the Moris mine.
Share of post-tax losses of associates and joint ventures accounted under equity method	**(261)**	Loss resulting from dilution of holding in Gold Resource Corp.
Loss from changes in the fair value of financial instruments	**(2,111)**	Mainly corresponds to the fair value adjustment of the warrants in Golden Minerals Company and Iron Creek Capital Corp of $1,563,000 and $139,000 respectively. In addition, this amount includes the impairment of Brionor Resources and Empire Petroleum Corp of $380,000 and $50,000 respectively.

Cash flow and balance sheet review

Cash flow

$000	Year ended 31 Dec 2011	Year ended 31 Dec 2010	Change
Net cash generated from operating activities	**464,110**	304,232	159,878
Net cash used in investing activities	**(139,898)**	198,963	(338,861)
Cash flows generated/(used) in financing activities	**(221,901)**	(55,010)	(166,891)
Net (decrease)/increase in cash and cash equivalents during the period	**102,311**	448,185	(345,874)

Operating cash flow increased 53% to $464.1 million from $304.2 million in 2010, mainly due to higher metal prices. Net cash from investing activities decreased to $(139.9) million in 2011 from $199.0 million in 2010, primarily due to the reduction in the Company's holding in Lake Shore Gold during 2010 and planned increases in capital expenditure commitments during 2011 including the costs associated with progressing the Advanced Projects through to feasibility. Finally, cash from financing activities decreased to $(221.9) million from $(55.0) million in 2010, primarily as a result of the prepayment of the syndicated loan ($114.3 million), and incremental dividend payments to Hochschild Mining plc shareholders ($13.5 million in 2011 compared to $20.3 million in 2010) and to IMZ, the Group's joint venture partner in Pallancata ($26.0 million in 2011 compared to $54.0 million in 2010). As a result, total cash generated decreased from $448.2 million in 2010 to $102.3 million in 2011 ($346 million difference).

Working capital

$000	Year ended 31 Dec 2011	Year ended 31 Dec 2010
Trade and other receivables	**175,672**	182,752
Inventories	**53,032**	55,130
Net other financial assets/(liabilities)	**(12,803)**	18,732
Net Income tax receivable/(payable)	**(23,859)**	(10,977)
Trade and other payables and provisions	**(259,907)**	(246,781)
Working capital	**(67,865)**	(1,144)

The Group's working capital position decreased to $(67.8) million in 2011 from $(1.1) million in 2010 primarily due to a decline of $31.5 million that resulted in a net other financial liability position in 2011, driven by a change in the value of embedded derivatives. The decrease was also a result of a higher net income tax position in 2011 compared to 2010 reflecting higher commodity prices, and higher trade and other payables and provisions in 2011 compared to 2010, due to higher workers profit sharing and mine closure provisions.

Financial review & Risk management

Financial review *continued*

Net cash

$000	Year ended 31 Dec 2011	Year ended 31 Dec 2010
Cash and cash equivalents	**627,481**	525,482
Long-term borrowings	**(104,866)**	(248,380)
Short-term borrowings*	**(46,334)**	(69,272)
Net cash	**476,281**	207,830

* Includes pre-shipment loans which were previously reported under working capital.

The Group reported net cash of $476.3 million as at 31 December 2011 (2010: $207.8 million). This was primarily driven by the increase in cash and cash equivalents from operating activities (of $102.0 million) and the decrease in long-term and short-term borrowings. In January 2011, the Group paid down full its syndicated loan facility of $114.3 million.

In October 2011, the Group's 51% owned Joint Venture entity in Argentina repaid the entire outstanding principal and accrued interest on its shareholder and project finance loans. Hochschild received net proceeds of approximately $96 million from this repayment, consisting of approximately $66 million from the repayment of the project finance loan and approximately $30 million from the shareholder loan. Hochschild's joint venture partner, McEwen Mining Inc (formerly named Minera Andes Inc), received net proceeds of approximately $29 million from this repayment.

The Company's Convertible Bond has a conversion price (before adjustment for the recommended dividend) of £3.94 and allows the Company to force conversion of the bonds at any time after 20 October 2012 if, on each of at least 20 dealing days out of 30 consecutive dealing days, the Company's share price exceeds 130% of the conversion price (currently £5.12).

Capital expenditure[1]

$000	Year ended 31 Dec 2011	Year ended 31 Dec 2010
Arcata	**33,040**	30,230
Ares	**2,673**	5,422
Selene	**4,570**	5,839
Pallancata	**50,489**	38,116
San Jose	**62,994**	55,183
Moris	**555**	2,728
Inmaculada	**19,447**	–
Crespo	**10,232**	2,738
Azuca	**31,641**	13,741
Other	**2,306**	2,486
Total[2]	**217,947**	156,483

1 Includes additions in property, plant and equipment and evaluation and exploration assets (confirmation of resources) and excludes increases in the closure of mine assets.

2 Additions of $90.6 million in respect of the acquisition of Inmaculada is not reflected in this table.

2011 capital expenditure of $217.9 million (2010: $156.5 million) includes operating capex of $141.4 million, capitalised exploration costs of $13.2 million in respect of the Group's operating mines, $61.3 million capitalised in respect of Advanced Projects (Inmaculada, Crespo and Azuca) and administrative capex of $2.0 million.

Capital expenditure at Pallancata rose by $12.4 million in 2011 due to higher mine development costs reflecting an increase in mined areas developed, and higher mine contractors' rates. The construction of a new tailings dam and higher equipment costs also contributed to the rise.

Capital expenditure at San Jose increased by $7.8 million in 2011, reflecting local inflation in mine development costs.

Dividends

The Directors recommend a final dividend of $0.03 per ordinary share which, subject to shareholder approval at the 2012 AGM, will be paid on 29 May 2012 to those shareholders appearing on the register on 4 May 2012. If approved, this will result in a total dividend for the year of $0.06 per share. Dividends are declared in US dollars. Unless a shareholder elects to receive dividends in US dollars, they will be paid in pound 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	2012
Ex-dividend date	2 May
Record date	4 May
Deadline for return of currency election forms	9 May
Payment date	29 May

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 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 70 and 71*. The key business risks affecting the Group are set out in the table below. The steps taken by the Group to mitigate these risks, where possible, are also described.

Financial risks

Type of risk	Description of risk	Mitigating steps
Commodity price	*Adverse movements in precious metals' prices could have a material impact on the Group's results of operations*	Derivative facilities have been negotiated with major banking institutions to facilitate hedging activity as and when considered appropriate. To mitigate the impact of this risk, and other risks which could potentially impact the Group's results of operations, the Company continuously focuses on reducing costs and expenses and maintains a low leverage policy thus maintaining the lowest level of fixed commitments possible.
Counterparty credit risk	*Loss of revenue resulting from defaulting customers*	The Company has invested during 2011, and continues to invest, in increasing its dore capabilities, significantly reducing its exposure to counterparty risk (since the sale of dore, as opposed to concentrates, is settled almost immediately). The Group's sales contracts for concentrate incorporate various protection measures including (i) inbuilt provision for advance payment or the delay in transferring title of goods sold in the event of non-payment, and (ii) the requirement to provide parent company guarantees where possible. In addition, the Group implements risk profiling to appraise key and new customers. The Group's diversified customer base further mitigates the risk of default.
	The Group may lose financial resources through the failure of financial institutions	The Company has elected a small number of top tier financial counterparties with whom to invest excess cash. Management and the Board have defined limits for the amount of exposure to each counterparty based on a credit risk assessment. The Board receives regular reports on the management of cash and, in particular, oversees the implementation of procedures to monitor counterparty risk.
Liquidity	*The Group may be unable to raise funds to meet its financial commitments as they fall due*	Notwithstanding the strength of the Company's balance sheet, the Board and senior management continually monitor the Group's requirements for short- and medium-term liquidity. The Company maintains strong banking relationships and access to credit lines to ensure an appropriate level of financing.
Foreign currency	*Given the combination of US dollar denominated sales and certain costs denominated in local currencies, adverse foreign currency movements may impact the Group's results*	Local currency exposures may be partially mitigated by offsetting variances in revenues due to silver and gold price movements. However, management periodically reviews the profitability of every operation, which may be impacted by foreign currency movements, to ensure their positive cash flow generation.

Financial review & Risk management

Risk management *continued*

Operational risks

Type of risk	Description of risk	Mitigating steps
Costs	*Increase in production costs could impact on the Group's profitability*	As stated in the Operating Review there has been cost inflation during the year across the mining industry and the Group seeks to mitigate the impact of this by entering into long-term supply contracts, where possible. Costs are monitored by management on a monthly basis.
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 appointed advisers. Management reporting systems have been implemented to ensure that an appropriate level of inventory of critical parts is maintained. Adequate preventative maintenance programmes, supported by the SAP Maintenance Module, are in place in the operating units. Annual inspections by insurance brokers and insurers take place and recommendations are addressed in order to mitigate operational risks. Contingent power supplies are provided at each of the Group's operations.
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 $70 million in 2011 to fund its exploration and geology activities. The 2012 budget has been increased to $90 million. Specific initiatives have been, and continue to be taken to retain and incentivise the Group's Geologists (see Mitigating Steps for Personnel-related risks below for further information). The Group has an annual drilling plan which is revised on a monthly basis with exploration targets continually evaluated and new targets incorporated. In parallel, the Group's Business Development function continually evaluates acquisition and joint-venture opportunities.
Personnel	*(i) Loss of key senior management and personnel including highly skilled engineers and geologists;* *(ii) the lack of availability of individuals with relevant mining experience in the vicinity of the Group's operations, particularly when neighbouring projects commence operations; and* *(iii) failure to maintain good labour relations with workers and/or unions which may result in work slowdown, stoppage or strike*	(i) The Group seeks to provide competitive compensation arrangements and develop well-defined career plans for positions of strategic importance through the Group's Talent Inventory Review. With respect to incentives, in addition to the launch of a Long Term Incentive Plan, during 2011 the Group designed and implemented the Exploration Incentive Plan which provides additional rewards for geologists based on the mineral content of a given project; (ii) and (iii), a labour relations strategy focusing on working conditions, management style, development opportunities, motivation and communication has been developed to ensure that employees' needs are identified and met. Regular meetings are held with workers and unions to ensure a full and accurate understanding of matters of concern and requirements.

Macroeconomic risks

Type of risk	Description of risk	Mitigating steps
Political, legal and regulatory	*Costs associated with ensuring compliance with all relevant laws and regulations are substantial. Furthermore, changes in the legal or regulatory landscape including increases in taxes and/or royalties could 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*	2011 saw new administrations take office in Peru and Argentina which resulted in a number of legislative developments impacting on mining companies. The Group has local teams to monitor constantly and react, as necessary, to policy changes. It also seeks to participate actively in legislative consultations either directly or through participation in trade associations. 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 responsibility risks

Type of risk	Description of risk	Mitigating steps
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 accidents, a work slowdown, stoppage or strike and/or may damage the reputation of the Group and hence its ability to operate*	During the year, the Group attained Level 7 of the DNV safety management information system at Arcata and Pallancata and Level 6 at San Jose. A number of initiatives were taken during 2011 further reinforcing the Group's commitment to safety.
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. 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. Our operations are ISO14001 certified.
Community Relations	*Communities living in the areas surrounding Hochschild's operations may oppose the activities carried out by the Group at existing mines or, with respect to development projects and prospects, may invoke their rights to be consulted under new laws enacted during the year.* *These actions may result in longer lead times and additional costs in bringing assets into production and lead to an adverse impact on the Group's ability to obtain the relevant permissions for current or future projects.*	During the year, the Group has restructured its Community Relations ("CR") department to facilitate an ongoing dialogue with local communities. A specific CR strategy focusing on Education, Health & Nutrition, and Sustainable Development was designed, with associated action plans. Furthermore, the Group maintains a database of all agreements with communities to ensure that all social commitments are met. Specific initiatives during the year include the "Maestro Líder" campaign, a training programme for community teachers, and "Médico de Cabecera", a programme taking healthcare to the rural populations.

Further information on financial risks can be found in note 36 to the Consolidated Financial Statements.

Details on the Group's activities in Corporate Social Responsibility can be found in the Corporate Responsibility Report on *pages 37 to 48*.

Governance

Board of Directors & Senior management

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 TECSUP, the Sociedad Nacional de Minería y Petróleo and the Conferencia Episcopal Peruana. In addition, Eduardo serves as Chairman of the Board of the Universidad de Ingeniería y Tecnología.

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 & Special Adviser to the Chairman and Senior Management
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 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 and is a Non-Executive Director of a number of companies including Gold Fields Limited.

Sir Malcolm Field Senior Independent 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 as has held non-executive directorships with numerous companies, including Scottish and Newcastle plc and Evolution Beeson Gregory.

Dr Graham Birch Non-Executive Director
Dr Graham Birch joined the Board on 1 July 2011. Prior to his retirement in 2009, Dr Birch was a Director of BlackRock Commodities Investment Trust plc and manager of BlackRock's World Mining Trust and Gold and General Unit Trust. Previously he worked at Kleinwort Benson Securities and Ord Minnett/Fleming Ord Minnett before joining Mercury Asset Management in 1993, where he launched a number of mining and natural resources funds. In 1997, Mercury Asset Management was acquired by Merrill Lynch Investment Managers which was itself eventually acquired by BlackRock in 2006. Graham has a PhD in mining geology from Imperial College, London and is currently Senior Non-Executive Director of Petropavlovsk PLC, Vice Chairman of Rothamsted Research and is also a Non-Executive Director of the asset management company, ETF Securities.

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 and Deputy Chairman of Bunge Limited and Mutual Investment Limited. In addition, Jorge is a Director of Dufry South America S.A. of Rio de Janeiro and 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 The TEG Group PLC and as a Non-Executive Director of The Vitec Group plc, JKX Oil & Gas plc and Ascent Resources plc. 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.

Rupert Pennant-Rea Non-Executive Director
Rupert Pennant-Rea joined the Board on 1 September 2011. He is Chairman of Henderson Group plc and of the Economist Group and is a Non-Executive Director of Go-Ahead Group plc and Gold Fields Limited (South Africa). He was Deputy Governor of the Bank of England from 1993 to 1995, prior to which he spent 16 years with The Economist, where he was editor from 1986 to 1993. Rupert served on the Board of First Quantum Minerals Limited between 2001 and 2011 and various other companies including British American Tobacco p.l.c. (between 1998 and 2007), Rio Narcea Gold Mines, Ltd (between 2003 and 2007), Sherritt International Corporation (between 1995 and 2008), Acuity VCT Plc (between 2001 and 2011) and Acuity Growth VCT Plc (between 2004 and 2011).

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 Unipart Group of Companies UK, GP Investments Ltd and Dinamia SCR S.A.
He was a director of European Goldfields Limited until its acquisition by Eldorado Gold Corporation in February 2012. 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

César Aguirre Vice President, Exploration & Geology
César Aguirre joined Hochschild Mining as VP of Exploration & Geology in April 2011. César has over 20 years' experience in exploration and project management in South America, principally in Peru, Argentina and Chile. Prior to joining Hochschild, he worked for Newcrest Mining, Yanacocha, Noranda Inc. and Barrick Gold Corp. César holds a BSc in Geological Engineering from the Universidad Nacional de Ingeniería and an MSc in Economic Geology from the University of Tasmania.

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.

Ramón Barúa Chief Financial Officer
Ramón Barúa was appointed CFO of Hochschild Mining on 1 June 2010. Prior to his appointment, he served as CEO of Fosfatos del Pacifico S.A, 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.

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 Ingeniería, 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.

José Augusto Palma Vice President and General Counsel
José Augusto Palma joined Hochschild in July 2006 after a 13 year legal career in the United States, where he was a partner at the law firm of Swidler Berlin and subsequently, at the World Bank. He also served two years in the Government of Peru. José has Law degrees from Georgetown University and the Universidad Iberoamericana in Mexico and is admitted to practice as a lawyer in Mexico, New York and the District of Columbia. Prior to his current role José served as Senior Adviser to the Executive Committee.

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

Governance

Directors' report

The Directors have pleasure in presenting their report for the year ended 31 December 2011.

Principal activities

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

Information incorporated by reference

This Directors' Report should be read in conjunction with the following parts of the Annual Report which are incorporated by reference to satisfy the relevant disclosure requirements.

Business Review

The information required to be disclosed in the Business Review can be located as summarised below.

Business Review contents

Section	Pages	Requirement
Chairman's statement	*2 and 3*	Main trends and factors likely to affect the Group
Chief Executive's review	*6 to 8*	
Market & geographic overview	*20 and 21*	
Operating & exploration review	*22 to 35*	Review of performance (with KPIs), development of the Group's business, year-end position and prospects
Financial review	*50 to 56*	
Corporate responsibility	*37 to 48*	Information on employees, environmental and social matters
Risk management	*57 to 59*	Principal risks and uncertainties

Corporate Governance Statement

The requirements for a Corporate Governance Statement are fulfilled by the Corporate Governance report on *pages 65 to 76*.

Results and dividend

The Group's adjusted EBITDA[1] for the year amounted to $563.4 million (2010: $397.7 million). Revenue for the year was $987.7 million (2010: $752.3 million) and attributable profit to equity shareholders after tax (before exceptional items) was $165.9 million (2010: $94.9 million).

An interim dividend of $0.03 per share was paid to shareholders of the Company on 22 September 2011. The Directors recommend the payment of a final dividend of $0.03 per share (2010: $0.03 per share). Subject to shareholders approving this recommendation at the forthcoming Annual General Meeting ("AGM"), the dividend will be paid in UK pound sterling on 29 May 2012 to shareholders on the register at the close of business on 4 May 2012. Shareholders may elect to receive their dividend in US dollars. The US dollar dividend will be converted into UK pound sterling at the exchange rate prevailing at the time of payment.

1 Calculated as profit from continuing operations before net finance income/(cost), foreign exchange loss and income tax plus depreciation and exploration expenses other than personnel and other exploration related fixed expenses.

The trustee of the Hochschild Mining Employee Share Trust ("the Employee Trust") has waived dividends declared by the Company after 20 June 2011 on shares held by the Employee Trust.

Directors

The names and biographical details of the Directors serving at the date of this report are given on *pages 60 and 61*.

All Directors were in office for the duration of the year under review except for Graham Birch and Rupert Pennant-Rea who were appointed by the Board on 1 July 2011 and 1 September 2011 respectively.

With the exception of Dionisio Romero who will be retiring at the forthcoming Annual General Meeting, each of the Directors will be retiring and seeking re-election by shareholders in line with the recommendation of the UK Corporate Governance Code.

Directors' interests

Details of the interests of the Directors in the Company's shares are shown below:

	Ordinary shares as at 31 December 2011	Ordinary shares as at 1 January 2011 or date of appointment, if later
Eduardo Hochschild[1]	**182,415,206**	182,415,206
Roberto Dañino[2]	**200,000**	500,000
Ignacio Bustamante	**14,054**	0
Sir Malcolm Field	**14,285**	14,285
Graham Birch[3]	**0**	0
Jorge Born Jr.	**0**	0
Nigel Moore	**14,285**	14,285
Rupert Pennant-Rea[4]	**7,000**	7,000
Dionisio Romero	**100,000**	100,000
Fred Vinton	**25,000**	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 Graham Birch was appointed a Director of the Company on 1 July 2011.
4 Rupert Pennant-Rea was appointed a Director of the Company on 1 September 2011.

In addition, Fred Vinton has 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 2011 to 19 March 2012.

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, 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.

Further details on the Relationship Agreement with regards to the conduct of the Major Shareholder are set out in the Corporate Governance report on *page 66* and with regards to the right to appoint Directors to the Board are set out on *page 68*.

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 2011, the Company had an average of 31 days' purchases owed to trade creditors (2010: 24 days).

Political and charitable donations

The Company does not make political donations. During the year, the Group expended $7.7 million (2010: $6.7 million) on social and community welfare activities surrounding its mining units.

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 140 and 141*.

Essential contractual and other arrangements

The Directors consider that the following are the contractual and other arrangements with customers, suppliers or contracts 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 governmental authorities in the jurisdictions of the Group's operations; and
- the 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 36 to the Consolidated financial statements. Information on the Company's exposures to foreign currency, commodity prices, credit, equity, liquidity, interest rate and capital risks can be found in this note.

Directors' and officers' liability insurance

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

Accordingly, the 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

This Annual Report provides details of the Company's business activities, its financial position and a description of the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit and liquidity risks.

The Company benefits from considerable financial resources and long-term relationships with a number of customers and suppliers across different geographic areas. These factors, together with the general macroeconomic outlook which supports gold and silver prices, provide the Directors with reassurance that the Company is well placed to manage its business risks successfully.

Having regard to the Financial Reporting Council's document entitled "Going Concern and Liquidity Risk: Guidance for Directors of UK Companies 2009", the Directors have considered five year cash flow forecasts presented by management which, amongst other things, reflect the financial requirements of the Group's significant capital projects including the Inmaculada and Crespo

Governance
Directors' report *continued*

projects, and the Arcata dore project. Consequently, the Directors have arrived at a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

AGM
The sixth AGM of the Company will be held at 10 am on 23 May 2012 at the offices of Linklaters LLP. The shareholder circular incorporating the Notice of AGM will be sent separately to shareholders or, for those who have elected to receive electronic communications, will be available for viewing at *www.hochschildmining.com*

The shareholder circular contains details on the business to be considered at the meeting.

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

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

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

Statement of Directors' responsibilities
The Directors confirm that to the best of their knowledge:

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

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

The names and functions of the current Directors of the Company are set out on *pages 60 and 61* of this Annual Report.

On behalf of the Board

Raj Bhasin
Company Secretary
19 March 2012

Corporate governance report

Your Board considers that *high standards* of *corporate governance* are essential elements of *preserving* and *enhancing shareholder value.*

Dear Shareholder

Your Board believes that the Company's participation in an established investment market carries significant responsibility to manage the Company transparently and in a manner appropriate to a successful business.

2011 has seen continued progress in the ongoing development and evolution of the corporate governance framework at Hochschild Mining.

We are delighted that as part of the Board succession process, we were able to welcome Dr Graham Birch and Rupert Pennant-Rea to the Board as independent Non-Executive Directors. They each bring with them a wealth of mining and markets' experience and they have already established themselves as valued additions to the Board.

In the past we have seen significant improvements made to Board processes and Board composition as a result of the internally led annual Board evaluation assessment. This year has been no different. During 2011, the recommendations arising from the 2010 assessment were implemented which led to, amongst other things, my assuming the Chairmanship of the Group's CSR Committee, and improvements in Board reporting. Further details on the evaluation process can be found on *pages 68 and 69*.

The year also saw the implementation of the UK Bribery Act. This provided an opportunity for management to reiterate to our key stakeholders, our core values of working honestly, openly and with transparency.

A review of our policies and procedures resulted in a refreshed Group Code of Conduct which sets out the values expected to be upheld by our key stakeholders, supplemented by a tailored Anti-bribery policy to reinforce our commitment to ethical working practices. Responsibility for ongoing review in this area has been delegated to the Audit Committee.

As Chairman, it is incumbent upon me to promote standards of good corporate governance which are embodied in the UK Corporate Governance Code which we report against for the first time.

I am delighted to be able to introduce and endorse this Corporate Governance Report with the hope that it provides you with an insight into the approach taken by the Board and its Committees in discharging their governance responsibilities.

Eduardo Hochschild
Executive Chairman
19 March 2012

Governance

Corporate governance report *continued*

Introduction and statement of compliance

This report, together with the Directors' Remuneration Report, sets out how the Company has applied the Main Principles set out in the UK Corporate Governance Code ("the Code") a copy of which is available on the website of the Financial Reporting Council at *www.frc.org.uk*

Disclosures to be included in the Corporate Governance Report in relation to share structure, shareholder agreements and the Company's constitutional provisions pursuant to the Disclosure and Transparency Rules are provided in the Supplementary Information section on *pages 74 to 76*.

The Board confirms that in respect of the year ended 31 December 2011, the Group has complied with the provisions contained in Section 1 of the Code except that a significant part of the Executive Chairman's remuneration is not performance-related.

As previously disclosed, the remuneration arrangements for the Executive Chairman were reviewed in early 2010. In agreeing the structure, the Board felt that the arrangements should reflect the importance of the Chairman's 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 Group by providing adequate financial and human resources and an appropriate system of financial control to ensure these resources are fully monitored and utilised.

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.

Composition

As at the date of this report, the Board comprises two Executive Directors; the Chairman and the Chief Executive Officer, and eight Non-Executive Directors.

Chairman and Chief Executive

The Company is jointly led by the Executive Chairman, Eduardo Hochschild, and the Chief Executive Officer, Ignacio Bustamante.

The document which sets out the division of responsibilities between the Chairman and the CEO was reviewed during the year and has been approved by the Board.

The Chairman and the Chief Executive Officer are collectively responsible for the formulation of the vision and long-term corporate strategy of the Group the approval of which is a matter for the Board.

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

Whilst the Chairman is not considered to be independent, the Board is satisfied that given its structure, decisions can be made without any one Director exercising undue influence. This sentiment has been reiterated by the views expressed by Directors during the annual Board Evaluation process undertaken in 2011.

Additional safeguards come in the form of the Relationship Agreement entered into by Eduardo Hochschild, Pelham Investment Corporation ("the Major Shareholder") and the Company prior to the IPO in November 2006, which seeks 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.

Furthermore, 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.

Senior Independent Director

Sir Malcolm Field acts as Senior Independent Director and, as such, acts as a sounding board for the Chairman as necessary. Sir Malcolm is also available to meet with major shareholders if their concerns have not been resolved by the executive management team.

Non-Executive Directors

Each of the Company's Non-Executive Directors hold, or have held, senior positions in the corporate sector and bring their experience and independent perspective to enhance the Board's capacity to help develop proposals on strategy and to oversee and grow the operations within a sound framework of corporate governance.

Details on the tenure of appointment of Non-Executive Directors are provided in the Directors' Remuneration Report.

Independence of the Non-Executive Directors

The Board considers that, excepting Roberto Dañino in light of his previous role as an Executive Director of the Company and his ongoing role as Special Adviser to the Chairman and senior management team, all of the Non-Executive Directors are independent of the Company.

In reaching this conclusion, the Board took into account the following circumstances which were not considered to be of a nature to materially interfere with the exercise of the relevant director's independent judgement:

- Dionisio Romero's involvement with TECSUP (a not-for-profit educational institution established by the Hochschild Group) and his former position as Chairman of Banco Credito del Peru, an occasional provider of short-term finance to the Group;
- Dr Graham Birch's previous positions, until January 2009, as Director of BlackRock Commodities Investment Trust plc, and manager of Blackrock's World Mining Trust and Gold and General Unit Trust given Blackrock's status as one of the Company's largest shareholders, and that Dr Birch and Sir Malcolm Field both serve on the Board of Petropavlovsk PLC; and
- that Roberto Dañino and Rupert Pennant-Rea both serve on the Board of Gold Fields Limited.

Board Meetings held in 2011

Four meetings of the Board were held during the year, attendance at which has been summarised in the following table:

	Maximum possible attendance	**Actual attendance**
Eduardo Hochschild	4	**4**
Roberto Dañino	4	**4**
Ignacio Bustamante	4	**4**
Sir Malcolm Field	4	**4**
Dr Graham Birch[1]	2	**2**
Jorge Born Jr.	4	**4**
Nigel Moore	4	**4**
Rupert Pennant-Rea[2]	1	**1**
Dionisio Romero	4	**3**
Fred Vinton	4	**3**

1 Dr Graham Birch was appointed a Director of the Company on 1 July 2011
2 Rupert Pennant-Rea was appointed a Director of the Company on 1 September 2011

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

Senior executives of the organisation are invited to attend board meetings and to make presentations on their areas of responsibility.

Principal matters considered by the Board during 2011 include:

Financial

- the 2010 Annual Report and the 2011 Half-Yearly Report;
- Dividend, Cash Management and Hedging policies;
- the 2012 Budget.

Strategy

- the Group's long-term strategic plan.

Business Performance

- status of the Group's portfolio of assets;
- progress of the feasibility studies for the Group's Advanced Projects;
- presentations on a number of corporate development initiatives;
- a presentation on the Group's IT infrastructure.

Governance/Risk

- the strategic risks faced by the Group;
- the impact on the Group of the Bribery Act 2010 and consideration, and subsequent adoption of, a revised Group Code of Conduct and Anti-Bribery Policy;
- the annual review of Directors' conflicts of interest and assessment of independence of each of the Non-Executive Directors;
- update on the implementation of the 2010 Board Evaluation recommendations and the outcome of the 2011 Board Evaluation process;
- the appointments of Dr Graham Birch and Rupert Pennant-Rea as Non-Executive Directors.

Health & Safety, Environmental & Community Relations

- detailed reports on the 3 fatalities occurring during the year, and the remedial steps taken; and
- the Group's Community Relations strategy.

In between Board Meetings, Directors are kept abreast of latest developments through monthly reports on the Company's operations, exploration activity and financial situation.

Governance
Corporate governance report *continued*

Appointments 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 appointments of Dr Graham Birch and Rupert Pennant-Rea as Non-Executive Directors of the Company.

The Code recommends that directors of FTSE 350 companies seek re-election by shareholders on an annual basis, a practice that was adopted by the Company last year. Biographical details of the Directors are given on *pages 60 and 61*.

Under the terms of the Relationship 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.

Board development
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. This is achieved through various means.

Induction
New Board appointees are offered the opportunity to meet with key management personnel and the Company's principal advisers as well as undertake visits to the Group's operations. This process is currently being reviewed to ensure the provision of a comprehensive and structured introduction to the Group.

Briefings
The Directors receive regular briefings from the Company Secretary on their responsibilities as Directors of a UK listed company and on relevant developments in the corporate governance landscape. In addition, the Chairman has made arrangements to ensure that the Directors have ongoing access to the Company's officers and advisers.

2011 San Jose site visit
During the year, a site visit to the Group's joint venture in Argentina was organised. Directors received presentations from the General Manager of the operations, and had the opportunity to meet with personnel on-site.

Advice
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.

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.

Board evaluation
The Board is committed to the process of self evaluation as a means of continually improving its efficiency.

Implementation of 2010 Board evaluation
During the year, a number of steps were taken by the Board or the management team, as appropriate, to implement the recommendations arising from the 2010 Board Evaluation process.

In summary these actions included:

- the search for a Non-Executive Director with a mining or geological background, which resulted in the appointment, during the year, of Dr Graham Birch;
- the design and roll-out of the Talent Inventory Review which identifies and documents the training and development needs of key senior management position holders;
- presentations to the Board on the Group's IT organisation and infrastructure, and tax strategy;
- revisions to the format of the monthly management accounts to accommodate specific information requests from the Board;
- the inclusion of standing reports to the Board on Cash and Debt Management; and
- a Board visit to the Group's joint venture operations in southern Argentina.

2011 Board evaluation
In keeping with past practice, the 2011 Board Evaluation process was undertaken through one-to-one interviews conducted by the Senior Independent Director assisted by the Company Secretary. Given the timing of his appointment to the Board, Rupert Pennant-Rea did not participate in the exercise.

The interviews were structured to elicit Directors' views on a number of subject areas (see box below).

2011 Board Evaluation – Areas of focus

The Board

- Composition, focusing in particular on:
  - Whether the profile of the Board is aligned with the medium-term strategic plan
  - The role and contribution of the Non-Executive Directors
- Board process
- Succession Planning
- Risk Management and Governance

The Committees

- Composition and overall workings
- Discussion on specific aspects of the principal Board Committees

The Chairman

With particular focus on:

- his ability to lead the Board
- facilitating open discussion
- interaction with shareholders

In addition to the above, Directors were requested to provide feedback on the performance of their fellow Board members.

The findings relating to the evaluation of the Board and the Committees 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 outcome of the Chairman's performance evaluation was collated by the Senior Independent Director and considered by the Non-Executive Directors collectively before being relayed to the Chairman.

The principal recommendations arising from the year's Board Evaluation process are:

- enhancements to the annual strategic review;
- the opportunity to speak with experts in the field of Community Relations in Latin America given its strategic importance;
- a more active role to be taken on by the Nominations Committee with particular focus on succession planning;
- improvements in the linkages between the Board committees and the Board; and
- the need for additional update meetings during the year to take place between the four scheduled Board meetings.

External Board evaluation

The Board notes the recommendation of the Code to undertake an externally facilitated evaluation at least once every three years.

The Board acknowledges the benefits of an external evaluation which will be commissioned by 2013.

The Board's committees

The Board has delegated authority to the following standing committees.

Audit Committee *see page 70*

- Nigel Moore (Committee Chairman)
- Dr Graham Birch (Non-Executive Director)
- Sir Malcolm Field (Non-Executive Director)
- Fred Vinton (Non-Executive Director)

Remuneration Committee *see page 72*

- Sir Malcolm Field (Committee Chairman)
- Jorge Born Jr. (Non-Executive Director)
- Nigel Moore (Non-Executive Director)
- Rupert Pennant-Rea (Non-Executive Director)

Nominations Committee *see page 72*

- Eduardo Hochschild (Committee Chairman)
- Sir Malcolm Field (Non-Executive Director)
- Dionisio Romero (Non-Executive Director)

Corporate Social Responsibility Committee *see page 72*

- Eduardo Hochschild (Committee Chairman)
- Sir Malcolm Field (Non-Executive Director)
- Roberto Dañino (Non-Executive Director)

The terms of reference for each Board committee is available for inspection on the Company's website at *www.hochschildmining.com*

Governance

Corporate governance report *continued*

Report of the Audit Committee

Terms of reference

The key responsibilities of the Audit Committee are to:

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

In advance of the implementation of the Bribery Act 2010 during the year, the terms of reference of the Audit Committee were extended thereby enabling it to review, on behalf of the Board, the Company's procedures for detecting fraud and the Company's systems and controls for the prevention of bribery, and to receive reports on non-compliance.

Membership

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 who acts as Audit Committee Chairman for a number of other listed companies. Further details are given in Mr Moore's biography on *page 61*.

The other members of the Audit Committee are Sir Malcolm Field, Fred Vinton and Dr Graham Birch who was appointed to the Committee following his appointment to the Board on 1 July 2011.

All Committee members are considered to be independent Directors.

Attendees

The lead partner of the external auditors, Ernst & Young LLP, the Chairman of the Company, the Chief Executive Officer, the Chief Financial Officer and the Head of Internal Audit attend each Audit Committee meeting by invitation.

The Company Secretary acts as Secretary to the Committee.

Activity during the year

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

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

- Financial reporting – The 2010 Annual Report and Accounts and the 2011 Half-Yearly Report were reviewed by the Committee 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.
- Audit plans – In line with its usual practice, the Committee considered reports from the external auditors on the scope and structure of the forthcoming review of the half-yearly results and audit of the annual results.
- Risk management – Consideration of Risk Management assessments which incorporate a risk matrix detailing (i) the most significant risks facing the Group; (ii) an evaluation reflecting the likelihood of the occurrence of the risk and the extent of the potential impact on the Group, and (iii) commentary on the steps taken to manage each specific risk. See *pages 57 to 59* for a description of the principal risks and uncertainties faced by the Group.
- Internal audit – The Audit Committee has continued to oversee the Group's adoption of a risk-based approach to internal audit.
- Internal control – Through the processes described on the following page, the Audit Committee reviewed the adequacy of the Group's internal control environment and risk management systems.
- Whistleblowing – The Audit Committee reviewed the adequacy of the Group's Whistleblowing Policy which was subsequently circulated across the organisation as part of the Group's procedures to combat fraud and bribery (see section below with respect to activities undertaken in connection with the UK Bribery Act).
- 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, reviewed and agreed audit fees and evaluated the auditors' performance.
- Bribery Act – Under its extended terms of reference, the Audit Committee reviewed the actions taken by management as a result of the implementation of the UK Bribery Act 2010. Furthermore, the Committee has instigated a timetable of reports during the current year to ensure continuous review, monitoring and follow-up.

The Committee Chairman routinely meets with the external auditors in the absence of executive management. During the year, the Committee members held meetings with the external auditors without executive management to discuss matters relating to the 2010 annual audit and the 2011 half-yearly report.

Auditor independence

The Audit Committee continues to oversee the implementation of specific policies designed to safeguard the independence and objectivity of the auditors which includes the Group's policy on the provision of non-audit services.

Policy on the use of Auditors for non-audit services

This policy lists 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.

Safeguards

Additional safeguards to ensure auditor objectivity and independence include:

- any permitted assignment over $100,000 may only be awarded after competitive tender;
- six monthly reports to the Audit Committee from the auditors analysing the fees for non-audit services rendered; and
- an annual assessment, by the Committee, of the auditors' objectivity and independence in light of all relationships between the Company and the audit firm.

2011 Audit and non-audit fees

Details on fees paid to the external auditors are provided in note 31 to the Consolidated financial statements.

Internal control and risk management

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. Notwithstanding this delegation of authority, the Board continues to monitor the strategic risks to which the Company is exposed.

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 risk management and internal control systems includes:

- 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

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.

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 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.

Governance
Corporate governance report *continued*

Nominations Committee
Terms of reference
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 seeking candidates for appointment to the Board, regard is given to relevant experience and the skills required to complete the composition of a balanced Board. The benefits of Board diversity, including gender diversity, are acknowledged by the Directors, however, decisions on appointments to the Board will continue to be taken on merit. For this reason, the Board does not consider the setting of specific measurable targets to be appropriate.

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.

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

The Company Secretary acts as Secretary to the Committee.

Activity during the year
The Committee met four times during the year in connection with the appointments of Dr Graham Birch and Rupert Pennant-Rea to the Board as Non-Executive Directors ("the Appointments").

All meetings were attended by all members with the exception that Dionisio Romero was unable to attend one meeting and therefore relayed in advance his approval to the matter in question.

The Appointments proceeded on the basis of the candidates' proven and sought-after experience having served on the Boards of other UK listed mining companies. In addition, following the 2010 Board Evaluation process, as the holder of a Doctorate in Mining Geology, Dr Graham Birch's profile was considered particularly suited to a position on the Board.

For these reasons, open advertising and external search consultancies were not considered necessary in connection with the Appointments.

Areas of focus in 2012
As previously mentioned, one of the recommendations of the 2011 Board Evaluation process was that the Nominations Committee should play a more active role with particular focus on succession planning.

Consequently, the Nominations Committee met subsequent to the financial year-end and has timetabled meetings during the year specifically to consider succession planning with respect to the Non-Executive Directors and members of senior management.

Corporate Social Responsibility Committee
Terms of reference
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.

Membership
The Committee is chaired by Eduardo Hochschild and counts Sir Malcolm Field and Roberto Dañino as its other members.

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

The Company Secretary acts as Secretary to the Committee.

Activity during the year
The Committee held four meetings during the year, each of which was fully attended except that Roberto Dañino was unable to attend one meeting.

Details relating to the CSR Committee and the Group's activities in this area are set out in the Corporate Responsibility report on *pages 37 to 48*.

Remuneration Committee
Details on the composition and activities of the Remuneration Committee are set out in the Directors' Remuneration Report on *pages 78 to 87*.

Shareholder relations

Overview

The Company is fully committed to achieving an excellent relationship with shareholders.

Responsibility for communications with shareholders on strategy and business performance rests with the Chief Executive Officer, the Chief Financial Officer and the Head of Investor Relations. Communications with shareholders with respect to the administration of shareholdings and matters of governance are co-ordinated by the Company Secretary.

Shareholder contact in 2011

The following table summarises the principal means by which management communicated with investors during the year:

Date	Event
January, April, July, October	Conference Calls following the Quarterly Production Reports (and Interim Management Statements, when appropriate)
February	Extraordinary General Meeting to approve the disposal of the Group's residual holding in Lake Shore Gold Corporation
	Consultation by the Remuneration Committee Chairman with major shareholders on the proposed CEO LTIP
March	2011 Annual Results presentation
	UK, European and North American Roadshow
June	Annual General Meeting
August	2011 Half-Yearly results presentation
September	UK, European and North American Roadshow

In addition, an extensive Investor Relations schedule resulted in management holding over 150 investor meetings as well as presenting at 10 sector specific conferences in Canada, the US, Europe and South America.

Principal Shareholder Contacts

The Chairman, Deputy Chairman, Chief Executive Officer and the Chief Financial Officer are available to discuss the concerns of major shareholders. Alternatively, shareholders may discuss any matters of concern with Sir Malcolm Field, as the Company's Senior Independent Director.

The Chairman and the Chief Executive Officer in particular are responsible for discussing strategy with the Company's shareholders and conveying their views to the other members of the Board.

2011 AGM

Notice of the 2011 AGM was circulated to all shareholders at least 20 working days prior to the meeting and the Chairmen of the Board Committees were available at the meeting to answer questions. A poll vote was taken on each of the resolutions put to shareholders with results announced shortly after the meeting and published on the Company's website.

Further information on matters of particular interest to investors is available on *page 179* and on the Company's website at *www.hochschildmining.com*

Governance

Supplementary information

Introduction

References in this section 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 in this section to "the Companies Act" are to the Companies Act 2006.

Share capital

Issued share capital

The issued share capital of the Company as at 1 January 2011 was 338,085,226 ordinary shares of 25 pence each. No shares were issued by the Company during the year to 31 December 2011.

The Hochschild Mining Employee Share Trust ("the Trust") is an employee share trust established during the year to hold ordinary shares of the Company on trust for the benefit of employees within the Group. The Trustee of the Trust has absolute discretion to vote or abstain from voting in relation to the ordinary shares held by it from time to time and in doing so may take into account the interests of current and future beneficiaries and other considerations.

Substantial shareholdings

As at 31 December 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 voting rights (indirect)	Percentage of voting rights (direct)
Eduardo Hochschild	182,415,206		53.96%
Vanguard Group Inc.	37,291,964		11.03%
Prudential plc Group of Companies*	22,277,961	0.18%	6.41%
Blackrock Global Funds**	15,442,182		4.57%
Altima Global Special Situations Master Fund Limited	12,003,175	3.55%	n/a

* In addition to the holding disclosed above, Prudential plc Group of Companies has notified the Company of an interest in 931,666 ordinary shares through a holding of the Company's Convertible Bonds

** In addition to the holding disclosed above, Blackrock Global Funds has notified the Company of an interest in 1,579,236 ordinary shares through a holding of the Company's Convertible Bonds

The Company has not been notified of any changes in the above interests as at 19 March 2012.

Current share repurchase authority

The Company obtained shareholder approval at the AGM held in June 2011 for the repurchase of up to 33,808,522 ordinary shares which represents 10% of the Company's current issued share capital ("the 2011 Authority"). Whilst no purchases were made by the Company pursuant to the 2011 Authority, it is intended that shareholder consent will be sought on similar terms at this year's AGM when the 2011 Authority expires.

Additional share capital information

This section provides additional information as at 31 December 2011.

(a) Structure of share capital

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

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 or her if any call or other sum then payable by him or her 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 or she 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.

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.

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 million 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 associates 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.

Governance
Supplementary information *continued*

Summary of constitutional and other provisions

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 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.

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.

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.

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 minimum price which must be paid for such shares is specified in the relevant shareholder resolution.

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.

Directors' remuneration report

Hochschild seeks to achieve a level of remuneration that is both *fair* and an *incentive* to achieve *value-enhancing performance.*

Introduction by the Chairman of the Remuneration Committee

I am pleased to present the Directors' Remuneration Report for the year ending 31 December 2011.

My fellow members of the Committee and I do not underestimate the level of responsibility in ensuring that we oversee the implementation of a remuneration policy that rewards fairly and incentivises for good performance. Whilst 2011 was dominated by continued weakness in the global economy, the Company has achieved its key operational objectives of meeting its annual production target, significantly increasing life-of-mine and, securing future value drivers through the delivery of two key feasibility studies.

Having been impressed by the Chief Executive Officer's performance since his appointment in April 2010, it became clear to the Board that Ignacio Bustamante would play a critical role in securing the Group's future success. For this reason, and mindful of the intense competition amongst international mining companies to recruit talented senior executives, the Committee designed an Enhanced Long Term Incentive Plan which would pay out over up to six years which was approved by shareholders at the 2011 Annual General Meeting.

The issue of executive remuneration has fallen increasingly under the spotlight and justifiably, Remuneration Committees are having to consider the design and operation of their bonus plans and long-term incentive arrangements. I can report that trends in these areas have been continually monitored by the Committee.

Driven by a desire to ensure fair remuneration which motivates and ensures alignment with shareholders' interests, we have maintained claw backs in two principal elements of executive remuneration; the Annual Bonus Plan and the Long Term Incentive Plan. Furthermore, during the year, the Committee has reviewed the market trends with respect to performance conditions incorporated within long term plans and as a result, we intend to supplement the current sole performance condition which we believe will make the plan more robust. Further details can be found on *page 83* of this report.

We have also endeavoured to make this report clearer through more focused disclosure and, for the first time, by highlighting the alignment of our Remuneration Policy with our strategic objectives.

I hope you find this report informative.

Sir Malcolm Field
Chairman of the Remuneration Committee
19 March 2012

Governance
Directors' remuneration report *continued*

Overview

Introduction

This Directors' Remuneration Report sets out information on the remuneration of the Directors of Hochschild Mining plc for the year ended 31 December 2011. 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 tables in the sections entitled 'Director's LTIP awards' and 'Director's Enhanced LTIP award' and the table on Directors' total remuneration and accompanying notes has been audited by Ernst & Young LLP as they contain the information upon which the auditors are required to report to the Company's shareholders.

Remuneration Committee

Membership

The Remuneration Committee is chaired by Sir Malcolm Field and its other members are Jorge Born Jr., Nigel Moore and Rupert Pennant-Rea who joined the Committee on his appointment to the Board on 1 September 2011. All of the members of the Remuneration Committee are independent Non-Executive Directors.

The composition of the Remuneration Committee and its terms of reference comply with the provisions of the UK Corporate Governance 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 his own remuneration arrangements are considered by the Committee.

The Committee's terms of reference

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.

Meetings

The Committee held three meetings during the year under review at which all serving members were in attendance.

Activity during the year

During the year, the Committee:

- considered and consulted with shareholders on the vesting of the 2008 LTIP Awards;
- having obtained the approval of shareholders at the last Annual General Meeting to the CEO Enhanced LTIP, approved the grant of an award of Conditional Shares to the CEO under the plan (see *page 84* for further details);
- considered the performance of the Executive Directors in office during 2010 and approved the associated bonus payments;
- considered the performance conditions to be attached to the 2011 LTIP Awards;
- approved the 2010 Directors' Remuneration Report;
- adopted the rules of the Exploration Incentive Plan to incentivise the Group's team of geologists;
- considered a provisional assessment of the CEO's performance against his 2011 objectives; and
- considered an interim assessment of the Company's Total Shareholder Return performance for the purposes of the 2010 and 2011 LTIP grants.

Advisers

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

Policy

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, operational and other relevant 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. An additional incentive was designed during the year specifically for the Chief Executive Officer, the CEO Enhanced LTIP, which was put to, and approved by, shareholders at the 2011 Annual General Meeting.

The Committee takes into consideration the remuneration arrangements for the wider employee population in making its decisions on remuneration for senior executives however, it is acknowledged that such decisions are driven by specific considerations not least, the global demand for talent.

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 have been set to ensure that the majority of remuneration is performance-based, except in relation to the Executive Chairman whose remuneration arrangements were revised in early 2010 to exclude all performance related elements given his majority shareholding and strategic role with the Group.

Executive Director Pay Mix (% of total remuneration)

Components of fixed pay for the Executive Directors for the year ended 31 December 2011 are detailed in the following table.

Director	Base salary US$000	Pension supplement US$000	Total US$000
Eduardo Hochschild[1]	1,100	200	1,300
Ignacio Bustamante[2]	450	0	450

1 Eduardo Hochschild has a service contract with Hochschild Mining plc and Compañía Minera Ares S.A.C. ("Ares"), a Group subsidiary. Salary paid by Ares includes all legal labour benefits and compensation such as, but not restricted to vacation salaries and compensation for time services (ruled by Peruvian Legislative Decree 650) but excludes legal profit sharing.

2 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 650).

Governance
Directors' remuneration report *continued*

Alignment of remuneration policy with the Group's strategic objectives

The Committee considers that the Remuneration Policy it seeks to apply to Executive Directors and senior management should be aligned with the long-term interests of shareholders and furthermore, should facilitate the achievement of key strategic objectives. The table below indicates how this alignment is achieved.

Strategic Objectives for Growth	Annual Bonus	Long Term Incentive Plans
Maximising Core Assets		
– Extend Life-of-Mine	Resource Life-of-Mine targets	
– Optimise production	Numerous measures focusing on the delivery of sustainable production targets and levels of profitability (primarily through EBITDA) and control of cash costs	
Exploration		
Developing a pipeline of high quality projects	Targets set key milestones to be achieved with respect to the Group's Advanced Projects and their progress towards production Non-Financial objectives requiring support for the Group's greenfields exploration programme	Underpinned by relative Total Shareholder Return, the Long Term Incentive Plans indirectly reward sustained increases in operational performance over three year periods (or in the case of the CEO Enhanced LTIP, over four, five and six year periods)
Mergers & Acquisitions		
To seek early stage value accretive opportunities with strong geological potential with a clear path to control	Non-Financial objectives set requiring the identification and execution of M&A opportunities	
With a commitment to		
Corporate Responsibility	Stretching targets seeking to achieve a reduction in the Group's accident frequency rate	Clawback provision entitles the Remuneration Committee to either refuse or reduce payment on the occurrence of an adverse event related to *health & safety*, the *environment* or *community relations*
Our people		
Ensuring the continued service of key position holders and their professional development	Non-Financial objectives on the implementation of the Group's key management succession tool, the Talent Inventory Review	Given their time horizons, the Long Term Incentive Plans act as key tools in retaining plan participants

Aligning remuneration with strategy is considered to be a crucial element in constructing remuneration packages that reward fairly. For this reason, the rationale explained in the above table is reflected in the remuneration of management below Board level.

Elements of remuneration

Base salaries

Payment of base salaries

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

2011 Salary review

As reported in last year's Remuneration Report, following a review of the CEO's remuneration in late 2010, the Committee increased Mr Bustamante's salary from $370,000 to $450,000 with effect from 1 January 2011. This decision was taken in light of the fierce competition amongst international mining companies to secure the employment of talented senior executives. As previously reported, even at this revised level, Mr Bustamante's salary remains significantly below median for comparable roles at other mining companies of similar size.

2012 Salary review

A salary review by the Remuneration Committee has concluded that, in the normal course, no salary increases will be awarded to the Executive Directors for 2012.

Subsequent to the year end, the Committee approved a proposal prompted by a recent and sustained strengthening of the Peruvian Nuevo Sol against the US dollar, to re-denominate the salaries of a number of senior employees, including the Chief Executive Officer who is based in Peru, from US dollars to Peruvian Nuevo Soles. As a result, it was agreed that, with effect from 1 March 2012, Ignacio Bustamante's base salary shall be PEN 1,312,200 which incorporates an 8% increase relative to his US dollar denominated 2011 salary, to compensate for the appreciation of the Peruvian currency and the increase in living costs.

Short-term incentives

Overview

The Remuneration Committee is responsible for setting the objectives for 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.

Adjustments to reflect underlying business performance

In line with the Committee's usual practice, a review of the quality of earnings is conducted which may result in adjustments to reported profit to arrive at a level of profit for bonus payouts. This ensures that bonus payments are not impacted by unbudgeted non-recurring or one-off items, or circumstances outside of management's control such as increased commodity prices that could distort the overall quality of earnings.

2011 Bonus award

Ignacio Bustamante, being the only Executive Director entitled to an annual bonus, has a maximum bonus opportunity of 125% of salary.

A summary of the objectives set for Ignacio Bustamante for the year and performance against them is given below:

- achieving annual production of 22.5 moz which was within the range of targets set;
- maintaining adjusted cash cost of $10.3/Ag Eq Oz in line with the lowest of the targets set;
- achieving adjusted EBITDA of $315 million which was in the middle of the range set for the year;
- assuring future growth of the business by increasing resource life-of-mine and advancing the Group's greenfield exploration programme, in respect of which the highest target was exceeded;
- finalising the feasibility studies in respect of two of the Group's Advanced Projects (the third, with respect to Azuca, having been delayed by the Board);
- contribution to the completion of the Group's Talent Inventory Review, which documents development and succession plans for the most senior employees; and
- an accident frequency rate for the year of 3.63 which was within the range set for the year.

In light of the performance against his specified objectives, and taking his very strong personal performance during the year into account, the Remuneration Committee has approved the maximum level of annual bonus payable (equivalent to 125% of Mr Bustamante's salary).

2012 Bonus award

With respect to 2012, the Committee has approved objectives for Mr Bustamante which will continue to reward the achievement of a wide range of targets relating to business growth, profitability, corporate responsibility and leadership.

Governance
Directors' remuneration report *continued*

Pensions, statutory profit sharing and benefits-in-kind
The Group does not provide pension benefits to the Executive Directors however, in respect of the year under review, it did pay Eduardo Hochschild a cash supplement of $200,000 in lieu of pension. 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.

The Group provides the Executive Directors with medical insurance and allowances for the use of a car and driver, and personal security.

Long Term Incentive Plan ("LTIP")
Overview
In order to achieve its policy objective of motivating the CEO and senior employees over the long-term, the Company has adopted a cash-based LTIP which helps align selected executives' long-term interests with those of shareholders.

LTIP Awards were initially granted in 2008 with the intention that awards would be made every three years. In 2010, the Committee reviewed the plan and it was felt that the retentive and motivational aspects of the plan would be enhanced through the grant of annual awards. For Executive Directors participating in the scheme, 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 2008 LTIP Awards (see table below)). The equivalents of these upper limits also apply to annual awards i.e. an annual grant limit of no more than two times' salary in normal circumstances.

Subsisting awards
A summary of the performance targets and other information with respect to the LTIP awards subsisting as at the date of this report is given below.

	Plan		
	2008 LTIP	2010 LTIP	2011 LTIP
Performance Period	1 January 2008 to 31 December 2010 (47% vested)	1 January 2010 to 31 December 2012	1 January 2011 to 31 December 2013
Vesting[1]	50% on third anniversary and remaining 50%, together with notional interest, on fourth anniversary of date of grant	100% on third anniversary of date of grant	100% on third anniversary of date of grant
Performance Conditions	Relative TSR Performance Full Vesting: Upper Decile 75% Vesting: Upper Quartile 25% Vesting: Median Straight line between lower and mid thresholds, and mid and upper thresholds	Relative TSR Performance Full Vesting: Upper Decile 75% Vesting: Upper Quartile 25% Vesting: Median Straight line between lower and mid thresholds, and mid and upper thresholds	Relative TSR Performance Full Vesting: Upper Decile 75% Vesting: Upper Quartile 25% Vesting: Median Straight line between lower and mid thresholds, and mid and upper thresholds
TSR Comparator Group	Tailored Peer Group[2] ("the 2008 Comparator Group")	The 2008 Comparator Group	The 2008 Comparator Group plus Fresnillo plc, Centamin Egypt Limited, African Barrick Gold plc and Randgold Resources Ltd
Other Information – Clawback provisions[3]	Yes	Yes	Yes
– Basis of TSR calculation of Comparator Group	After shareholder consultation, local currency was used	Common currency	Average of local and common currencies

1 Subject to meeting the relevant performance condition.

2 At the start of the plan, the tailored peer group 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.

3 Potential clawback if, before vesting, the Remuneration Committee determines either that (i) the overall underlying business performance of the Company is not satisfactory or (ii) an unacceptable position has occurred regarding safety, the environment, community relations, and/or compliance with legal obligations of the Company.

Proposed 2012 LTIP awards

During 2011 the Committee undertook a review of the LTIP with regard to the performance conditions governing the vesting of awards to help ensure the LTIP remains robust, competitive and aligned with shareholders. In its review, the Committee took into account market practice amongst UK-listed and other global mining companies, the possibility of incorporating financial measures (e.g. EPS, cash flow) or non-financial measures to reinforce the achievement of our key business objectives, and the sensitivity of performance measures to uncontrollable factors such as commodity prices.

Following considerable discussion, the Committee concluded that relative TSR remains the most appropriate performance measure for the long-term incentive as it:

- helps ensure alignment with shareholders;
- is robust to commodity prices;
- is commonly used in long-term incentives in the mining sector; and
- is less sensitive to possible forecasting inaccuracies when setting long-term targets.

However, for the 2012 awards the Committee has made the following changes to the performance condition to improve its robustness:

(i) The TSR benchmark will be based on two comparator groups: 70% of awards vest according to the Company's TSR relative to the existing TSR Comparator Group and 30% will vest on TSR relative to the constituents of the FTSE 350 Mining Index at the start of the performance period.

Rationale: The use of two benchmarks helps to ensure that LTIP vesting is not unduly sensitive to the TSRs of any one single company. The Committee selected the FTSE 350 Mining Index on the basis that it represents an alternative investment in the UK-listed mining sector.

(ii) For the 70% of awards vesting on performance against the existing TSR Comparator Group, the vesting schedule will be such that full vesting is delivered at upper quintile, 75% for upper tercile and 25% vesting for median.

Rationale: The Committee has observed that the full-vesting performance level under the 2010 and 2011 LTIP Awards which demanded top decile is extremely stretching relative to that required at TSR-based LTIPs at other UK-listed companies, which generally set the full-vesting level at upper quartile. The Committee considers the change in the full-vesting performance requirement from top decile to top quintile to be necessary to help ensure the LTIP remains motivational. Furthermore, the pay levels of the Company's most senior executives are significantly below the median of the market and the Committee therefore felt that the imbalance was exacerbated by continuing to set the LTIP full vesting level at above-market levels of toughness.

(iii) For the 30% of the awards vesting on performance against the FTSE 350 Mining Index, vesting will be based on the Company's TSR percentage outperformance of the median TSR of the index constituents: with 25% vesting of this portion of the award occurring at Median TSR, and full vesting occurring at Median TSR+10% p.a.

Rationale: The Committee believes the use of TSR percentage outperformance is more appropriate when measuring performance against the FTSE 350 Mining Index as the index comprises companies with a greater diversity of mining operations than those comprising the existing TSR Comparator Group. The Committee believes that setting the full vesting level on the basis of a fixed outperformance of median TSR will help ensure the full-vesting performance requirement is less sensitive to the relative movements in metals/minerals prices than it would if a ranking were used. At 10% p.a., the outperformance required for full vesting is consistent with market practice amongst UK-listed companies taking into account company size.

The Remuneration Committee believes the revisions described above are important to ensure the Company is able to motivate and retain its executives, and are in the interests of shareholders.

Governance

Directors' remuneration report *continued*

Director's LTIP awards

Details of the LTIP awards held by Ignacio Bustamante, being the only Executive Director eligible to participate in the plan are given in the table below.

Plan	Value of maximum award held at 31 December 2010 or date of appointment, if later	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 2011
2008 LTIP[1]	$1.6m	–	$0.376m	$0.848m	$0.376m
2010 LTIP[2]	$0.74m	–	–	–	$0.74m
2011 LTIP[3]	–	$0.9m	–	–	$0.9m

1 The performance conditions attached to the 2008 LTIP award are summarised in the table on *page 82* in the section entitled 'Subsisting awards'. The rules governing the award provide for equal vesting on the third and fourth anniversaries of the date of grant of the award. Ignacio Bustamante will therefore be entitled to receive $376k together with notional interest, on 9 May 2012 subject to continued employment with the Group on that date.

2 The performance conditions attached to the 2010 LTIP award are summarised in the table on *page 82* in the section entitled 'Subsisting awards'.

3 The performance conditions attached to the 2011 LTIP award are summarised in the table on *page 82* in the section entitled 'Subsisting awards'. Ignacio Bustamante is required to invest in the Company's shares at least 20% of any amount paid to him upon vesting of the 2011 LTIP award until such time as he has accumulated a shareholding with a value of two times' salary.

Enhanced LTIP

Introduction

Ignacio Bustamante was appointed to the CEO role in March 2010. His salary was set initially at US$370k and the rest of his remuneration package was in line with that offered to other senior executives (i.e. annual bonus opportunity of up to 125 per cent of salary and an LTIP opportunity of up to two times his salary p.a.).

Having reviewed relevant market pay benchmarks for the CEO (based on three comparator groups comprising (i) FTSE 350 miners, (ii) international gold miners, and (iii) international mining companies), the Committee was concerned that the CEO's remuneration package was significantly below lower quartile against market. Consequently, the Committee approved an increase in the CEO's salary (as disclosed earlier in this report) and received shareholder approval at the 2011 AGM for an enhancement to the CEO's 2011 LTIP award designed to reinforce his alignment with shareholder interests and to ensure his total remuneration package remained competitive.

The enhanced LTIP award is in the form of Conditional Shares with a value, on the date of grant, equivalent to six times' the CEO's salary that vests over an extended performance period of four, five and six years.

Subsisting Enhanced LTIP award

A summary of the performance targets and other information about the enhanced LTIP award subsisting as at the date of this report is given below.

Performance Periods	1 January 2011 to 31 December 2014 in respect of 25% of the Award 1 January 2011 to 31 December 2015 in respect of 25% of the Award 1 January 2011 to 31 December 2016 in respect of 50% of the Award
Vesting[1]	28 April 2015 in respect of 90,549 Shares 28 April 2016 in respect of 90,549 Shares 28 April 2017 in respect of 181,098 Shares
Performance Conditions	Relative TSR Performance Full Vesting: Upper Decile 75% Vesting: Upper Quartile 25% Vesting: Median Straight line between lower and mid thresholds, and mid and upper thresholds
TSR Comparator Group	As for the 2011 LTIP Awards
Other Information – Clawback provisions[2]	Yes
– Basis of TSR calculation of Comparator Group	Average of local and common currencies
– Shareholding requirement	50% of the after-tax vested shares is required to be retained until an overall beneficial shareholding equal to two times' salary has been achieved

1 Subject to meeting the relevant performance condition.

2 Potential clawback if, before vesting, the Remuneration Committee determines either that (i) the overall underlying business performance of the Company is not satisfactory or (ii) an unacceptable position has occurred regarding safety, the environment, community relations, and/or compliance with legal obligations of the Company.

Director's Enhanced LTIP award

Details of the Conditional Shares held by Ignacio Bustamante under the Enhanced LTIP are provided in the table below.

Number of Conditional Shares at 31 December 2010	Number of Conditional Shares granted during the year	Number of Conditional Shares vesting during the year	Number of Conditional Shares lapsing during the year	Number of Conditional Shares held at 31 December 2011	Exercise Price	Market Value of each share at date of award (pence)	Vesting of Awards
0	362,196[1]	0	0	362,196	Nil	428	See note 2

1 Details of the performance conditions attached to the award of Conditional Shares are provided in the table on the previous page.

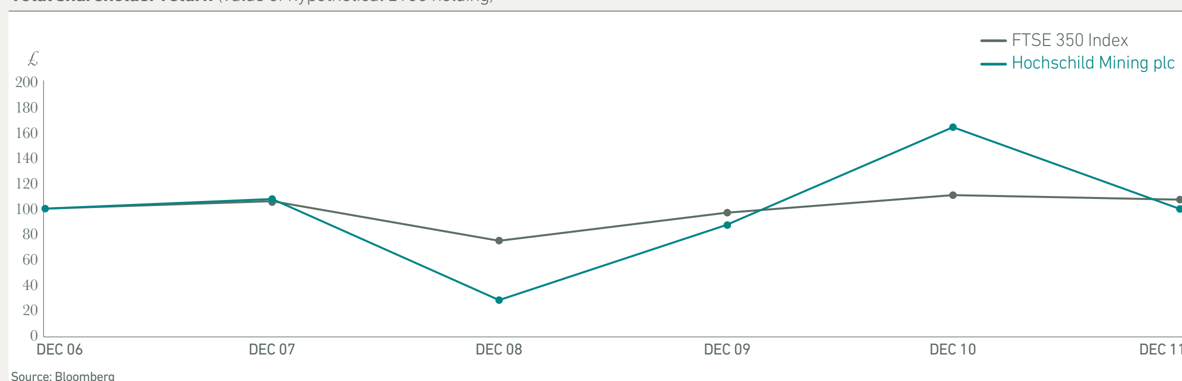
2 Details on the timing of vesting of awards are provided in the table on the previous page.

Other information

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 31 December 2006. 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

Directors' contractual arrangements

Executive Directors

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

Eduardo Hochschild is 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 the Director's contract.

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 12 months' base salary.

Governance
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, all Directors are subject to annual re-election by the Company in general meeting in line with the UK Corporate Governance Code, and the appointments of Non-Executive Directors may be determined by the Board or the Director giving not less than three months' notice.

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

The 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 Dr Graham Birch and Rupert Pennant-Rea who were both appointed during the year, as detailed in the footnotes accompanying the following table.

Director	Letter of Appointment dated	Director's fee per annum
Sir Malcolm Field[1]	16 October 2006	£120,000 ($192,000)
Jorge Born Jr.	16 October 2006	£100,000 ($160,000)
Nigel Moore[1]	16 October 2006	£120,000 ($192,000)
Dionisio Romero	16 October 2006	£100,000 ($160,000)
Fred Vinton	9 July 2009	£100,000 ($160,000)
Roberto Dañino	11 January 2011	£100,000 ($160,000)
Dr Graham Birch[2]	20 June 2011	£100,000 ($160,000)
Rupert Pennant-Rea[3]	30 August 2011	£100,000 ($160,000)

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

2 Dr Graham Birch was appointed a Non-Executive Director of the Company with effect from 1 July 2011.

3 Rupert Pennant-Rea was appointed a Non-Executive Director of the Company with effect from 1 September 2011.

External appointments
The Board recognises that Executive Directors may, in addition, serve as directors of other companies which can bring benefits to the Group. The table below details the fees received by Eduardo Hochschild during the year, in respect of his other directorships, which are retained by him.

Name of Director	Company	Fees received
Eduardo Hochschild	Banco Crédito del Perú	PEN 275,100 ($99,865)
	Cementos Pacasmayo S.A.A.[1]	PEN 8,689,782 ($3,154,513)
	Cementos Selva	PEN 724,950 ($263,167)
	Inversiones Pacasmayo SA	PEN 3,483,900 ($1,264,705)
	Corianta S.A.	PEN 970,650 ($352,360)
	Pacifico Peruano Suiza Cia. De Seguros	PEN 124,875 ($45,331)

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

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 2011 and 31 December 2010.

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 2011 (or date of appointment if later) to 31 December 2011 (or date of resignation, if earlier) US$000**	Total remuneration from 1 January 2010 (or date of appointment if later) to 31 December 2010 US$000
Eduardo Hochschild[2,3,4,5]	1,102	200	42	434	0	0	1,778	1,813
Roberto Dañino	160	0	0	61[6]	0	235[7]	456	1,509[8]
Ignacio Bustamante[9]	488	0	48	22	562	0	1,120	822
Sir Malcolm Field	192	0	0	0	0	0	192	170
Dr Graham Birch[10]	80	0	0	0	0	0	80	–
Jorge Born Jr.	160	0	0	0	0	0	160	155
Nigel Moore	192	0	0	0	0	0	192	186
Rupert Pennant-Rea[11]	53	0	0	0	0	0	53	–
Dionisio Romero	160	0	0	0	0	0	160	155
Fred Vinton	160	0	0	0	0	0	160	155
Total	**2,747**	**200**	**90**	**517**	**562**	**235**	**4,351**	**4,965**

1 Amounts disclosed include sums paid by way of expense allowances.
2 Eduardo Hochschild has a service contract with both Hochschild Mining plc and Compañía Minera Ares S.A.C., a Group subsidiary.
3 One-fifth of Eduardo Hochschild's salary was paid by the Company with the balance paid by Compañía Minera Ares S.A.C. In addition, US$40,000 of his annual pension supplement 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 650) but exclude legal profit sharing.
5 Following a review of Eduardo Hochschild's remuneration conducted during 2010, it was agreed that he would receive an increased salary but he would not be entitled to participate in any Long Term Incentive Plan or Bonus Plans in respect of 2010 and subsequent years.
6 Benefits-in-kind relate to the benefits provided to Mr Dañino pursuant to his engagement as a Special Adviser to the Chairman and Senior Management team (see note 7 below for further details) which include transportation and out-of-pocket expenses.
7 The amount represents the fee of £150,000 per annum payable to Mr Dañino in respect of his engagement as Special Adviser to the Chairman and the Senior Management team pursuant to a contract between Mr Dañino and Compania Minera Ares S.A.C. ("Ares") dated 28 December 2010. The contract provides for a one-year term which renews automatically for further one-year periods and can be terminated by either party on 30 days' written notice. In the event that Ares terminates the contract before 31 December 2015, Mr Dañino is entitled to receive 30% of the fee payable to him in the period from the date of termination until 31 December 2015.
8 Reflects the remuneration received by Mr Dañino in respect of his role as an Executive Director of the Company in 2010.
9 Ignacio Bustamante was appointed a Director of the Company with effect from 1 April 2010. The amount of the base salary disclosed in respect of 2010 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 650) but excludes legal profit sharing. The amount disclosed in respect of 2010 also includes the amount of CAD 39,900 (US$39,593) received by him during that year in his capacity as a Hochschild-nominated director of Lake Shore Gold Corporation.
10 Dr Graham Birch was appointed a Director of the Company on 1 July 2011.
11 Rupert Pennant-Rea was appointed a Director of the Company on 1 September 2011.

Directors' interests in shares

The interests of the Directors in the Company's shares are set out in the Directors' Report on *page 62*.

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

19 March 2012

Governance
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"
- Present information
- Provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions
- State that the Group and parent company has complied with IFRS
- Prepare the accounts on a going concern basis unless
- Select suitable accounting policies in accordance with IAS 8: "Accounting Policies"
- Present information
- Provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions

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 to the members of Hochschild Mining plc

We have audited the financial statements of Hochschild Mining plc for the year ended 31 December 2011 which comprise the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated statement of financial position, the Consolidated statement of cash flows, the Consolidated statement of changes in equity and the related notes 1 to 36. We have also audited the Parent company financial statements of Hochschild Mining plc for the year ended 31 December 2011 which comprise the Parent company statement of financial position, the Parent company statement of cash flows, the Parent company statement of changes in equity and the related notes 1 to 15. 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 set out on *page 88*, 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. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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 2011 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the Corporate Governance Statement set out on *pages 65 to 76* in the Corporate Governance report with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

Governance

Independent auditor's report to the members of Hochschild Mining plc *continued*

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

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

Under the Listing Rules we are required to review:

- the Directors' statement, set out on *pages 63 and 64*, in relation to going concern;
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on Directors' remuneration.

Steve Dobson (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
19 March 2012

Financial statements

Consolidated income statement

For the year ended 31 December 2011

	Notes	Year ended 31 December 2011 Before exceptional items US$000	Exceptional items US$000	Total US$000	Year ended 31 December 2010 Before exceptional items US$000	Exceptional items US$000	Total US$000
Continuing operations							
Revenue	3,5	**987,662**	**–**	**987,662**	752,322	–	752,322
Cost of sales	6,11	**(404,291)**	**–**	**(404,291)**	(345,667)	(8,861)	(354,528)
Gross profit		**583,371**	**–**	**583,371**	406,655	(8,861)	397,794
Administrative expenses	7	**(64,354)**	**–**	**(64,354)**	(66,221)	–	(66,221)
Exploration expenses	8	**(47,336)**	**–**	**(47,336)**	(41,537)	–	(41,537)
Selling expenses	9	**(38,970)**	**–**	**(38,970)**	(26,920)	–	(26,920)
Other income	11	**7,062**	**–**	**7,062**	5,605	77,197	82,802
Other expenses	11	**(15,800)**	**(1,408)**	**(17,208)**	(10,956)	–	(10,956)
Impairment and write-off of assets (net)	11	**–**	**1,210**	**1,210**	–	(24,018)	(24,018)
Profit from continuing operations before net finance income/(cost), foreign exchange loss and income tax		**423,973**	**(198)**	**423,775**	266,626	44,318	310,944
Share of post-tax profit/(losses) of associates and joint ventures accounted under equity method	11,18	**11,707**	**(261)**	**11,446**	(4,607)	(1,473)	(6,080)
Finance income	11,12	**4,689**	**5,989**	**10,678**	4,140	9,204	13,344
Finance costs	11,12	**(21,331)**	**(2,111)**	**(23,442)**	(29,542)	–	(29,542)
Foreign exchange loss		**(1,562)**	**–**	**(1,562)**	29	–	29
Profit from continuing operations before income tax		**417,476**	**3,419**	**420,895**	236,646	52,049	288,695
Income tax (expense)/benefit	13	**(148,557)**	**–**	**(148,557)**	(77,816)	5,786	(72,030)
Profit for the year from continuing operations		**268,919**	**3,419**	**272,338**	158,830	57,835	216,665
Attributable to:							
Equity shareholders of the Company		**165,890**	**2,826**	**168,716**	94,924	61,687	156,611
Non-controlling interests		**103,029**	**593**	**103,622**	63,906	(3,852)	60,054
		268,919	**3,419**	**272,338**	158,830	57,835	216,665
Basic earnings per ordinary share from continuing operations for the year (expressed in US dollars per share)	14	**0.49**	**0.01**	**0.50**	0.28	0.18	0.46
Diluted earnings per ordinary share from continuing operations for the year (expressed in US dollars per share)	14	**0.49**	**0.01**	**0.50**	0.29	0.17	0.46

Financial statements

Consolidated statement of comprehensive income

For the year ended 31 December 2011

	Notes	Year ended 31 December 2011 US$000	2010 US$000
Profit for the year		**272,338**	216,665
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		**(1,143)**	2,982
Change in fair value of available-for-sale financial assets	19	**(33,078)**	47,573
Recycling of the gain on available-for-sale financial assets		**(6,836)**	(5,915)
Change in fair value of cash flow hedges taken to equity		**–**	(2,346)
Recycling of the change in fair value of cash flow hedges taken to equity		**1,930**	429
Deferred income tax relating to components of other comprehensive income	13	**7,164**	(7,189)
Other comprehensive income for the period, net of tax		**(31,963)**	37,677
Total comprehensive income for the year		**240,375**	254,342
Total comprehensive income attributable to			
Equity shareholders of the Company		**136,689**	194,288
Non-controlling interests		**103,686**	60,054
		240,375	254,342

Consolidated statement of financial position

As at 31 December 2011

	Notes	As at 31 December 2011 US$000	As at 31 December 2010 US$000
ASSETS			
Non-current assets			
Property, plant and equipment[1]	15	**461,554**	406,914
Evaluation and exploration assets[1]	16	**274,507**	212,080
Intangible assets	17	**18,772**	20,166
Investments accounted under equity method	18	**83,201**	79,068
Available-for-sale financial assets	19	**40,769**	153,620
Trade and other receivables	20	**8,741**	36,817
Income tax receivable		**–**	2,401
Deferred income tax assets	28	**–**	5,229
		887,544	916,295
Current assets			
Inventories	21	**53,032**	55,130
Trade and other receivables	20	**166,931**	145,935
Income tax receivable		**601**	917
Other financial assets	22	**28**	20,662
Cash and cash equivalents	23	**627,481**	525,482
		848,073	748,126
Total assets		**1,735,617**	1,664,421
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
Treasury shares	27	**(898)**	–
Other reserves		**(207,117)**	(175,244)
Retained earnings		**677,218**	528,788
		1,023,768	908,109
Non-controlling interests		**195,299**	147,120
Total equity		**1,219,067**	1,055,229
Non-current liabilities			
Trade and other payables	24	**8**	2,393
Borrowings	25	**104,866**	248,380
Provisions	26	**68,430**	86,443
Deferred income tax liabilities	28	**68,152**	28,534
		241,456	365,750
Current liabilities			
Trade and other payables	24	**117,037**	116,074
Other financial liabilities	22	**12,831**	1,930
Borrowings	25	**46,334**	69,272
Provisions	26	**74,432**	41,871
Income tax payable		**24,460**	14,295
		275,094	243,442
Total liabilities		**516,550**	609,192
Total equity and liabilities		**1,735,617**	1,664,421

1 31 December 2010 figures are subject to a reclassification as disclosed in note 2(z).

These financial statements were approved by the Board of Directors on 19 March 2012 and signed on its behalf by:

Ignacio Bustamante
Chief Executive Officer
19 March 2012

Financial statements

Consolidated statement of cash flows

For the year ended 31 December 2011

	Notes	Year ended 31 December 2011 US$000	2010 US$000
Cash flows from operating activities			
Cash generated from operations	32	**520,262**	351,261
Interest received		**13,690**	1,749
Interest paid		**(29,474)**	(20,604)
Payment of mine closure costs	26	**(4,113)**	(4,634)
Tax paid		**(36,255)**	(23,540)
Net cash generated from operating activities		**464,110**	304,232
Cash flows from investing activities			
Purchase of property, plant and equipment		**(140,004)**	(122,836)
Purchase of evaluation and exploration assets		**(73,010)**	(35,980)
Proceeds from sale of investment in associates		**–**	383,614
Acquisition of subsidiary	4(a)	**(15,594)**	–
Dividends received from associates		**6,603**	2,633
Investment in associates		**–**	(20,336)
Purchase of available-for-sale financial assets		**(491)**	(20,785)
Purchase of intangibles		**–**	(94)
Proceeds from sale of available-for-sale financial assets		**82,485**	11,915
Proceeds from sale of property, plant and equipment		**113**	832
Net cash (used in)/generated from investing activities		**(139,898)**	198,963
Cash flows from financing activities			
Proceeds of borrowings		**117,670**	37,650
Repayment of borrowings		**(272,379)**	(52,447)
Transaction costs associated with borrowing		**–**	(690)
Purchase of treasury shares		**(898)**	–
Dividends paid	29	**(74,285)**	(39,523)
Capital contribution from non-controlling interests		**7,991**	–
Cash flows (used in)/generated from financing activities		**(221,901)**	(55,010)
Net increase/(decrease) in cash and cash equivalents during the year		**102,311**	448,185
Exchange difference		**(312)**	(547)
Cash and cash equivalents at beginning of year		**525,482**	77,844
Cash and cash equivalents at end of year	23	**627,481**	525,482

Consolidated statement of changes in equity

For the year 31 December 2011

					Other reserves										
	Notes	Equity share capital US$000	Share premium US$000	Treasury shares 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	Share-based payment 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 2010		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/(loss)		–	–	–	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 interests		–	–	–	–	–	–	–	–	–	–	–	–	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
Other comprehensive income/(loss)		–	–	–	(32,750)	1,930	–	(1,207)	–	–	(32,027)	–	(32,027)	64	(31,963)
Profit for the year		–	–	–	–	–	–	–	–	–	–	168,716	168,716	103,622	272,338
Total comprehensive income for 2011		–	–	–	(32,750)	1,930	–	(1,207)	–	–	(32,027)	168,716	136,689	103,686	240,375
Capital contribution from non-controlling interest		–	–	–	–	–	–	–	–	–	–	–	–	7,991	7,991
CEO LTIP provision		–	–	–	–	–	–	–	–	154	154	–	154	–	154
Treasury shares		–	–	(898)	–	–	–	–	–	–	–	–	(898)	–	(898)
Dividends declared during the year	29	–	–	–	–	–	–	–	–	–	–	(20,286)	(20,286)	–	(20,286)
Dividends declared to non-controlling interests	29	–	–	–	–	–	–	–	–	–	–	–	–	(63,498)	(63,498)
Balance at 31 December 2011		**158,637**	**395,928**	**(898)**	**5,058**	**–**	**8,432**	**(10,715)**	**(210,046)**	**154**	**(207,117)**	**677,218**	**1,023,768**	**195,299**	**1,219,067**

Financial statements
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 Jose) located in Argentina and one plant (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 19 March 2012.

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

			Equity interest at 31 December	
Company	Principal activity	Country of incorporation	**2011 %**	2010 %
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
Southwestern Gold (Bermuda) Limited	Holding company	Bahamas	**100**	100
0848818 BC Ltd	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.	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.	Subsidiary	Mauritius	**100**	100
Southwest Minerals Inc.	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.	Service company	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.[1]	Holding company	Mexico	**–**	100
Servicios Corporativos Hochschild Mining Mexico, S.A. de C.V.[2]	Service company	Mexico	**–**	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	**99.1**	96.8
Empresa de Transmisión Callalli S.A.C.	Power transmission	Peru	**100**	100
Asociación Sumac Tarpuy[3]	Not-for-profit	Peru	**–**	–

1 Corporate information (continued)

Company	Principal activity	Country of incorporation	Equity interest at 31 December 2011 %	2010 %
Minera Suyamarca S.A.C.	Production of gold & silver	Peru	**60**	60
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.	Exploration office	Peru	**100**	100
Minera Quellopata S.A.C.[4]	Exploration office	Peru	**–**	60
Minas Pacapausa S.A.C.[5]	Exploration office	Peru	**–**	100
Minera Minasnioc S.A.C.	Subsidiary	Peru	**100**	100
Hochschild Mining (US) Inc. (formerly MH Nevada, Inc.)	Subsidiary	USA	**100**	100
Inmaculada Holdings S.A.C.	Holding company	Peru	**100**	100

1 On 1 January 2011, Hochschild Mining Mexico, S.A. de C.V. absorbed 100% of the issued share capital of Moris Holdings, S.A. de C.V.
2 On 1 January 2011, HMX, S.A. de C.V. absorbed 100% of the issued share capital of Servicios Corporativos Hochschild Mining Mexico, S.A. de C.V.
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 October 2011, Minera Suyamarca S.A.C. absorbed 100% of the issued share capital of Minera Quellopata S.A.C.
5 On 1 January 2011, Minera Suyamarca S.A.C. absorbed 100% of the issued share capital of Minas Pacapausa S.A.C.

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 2011 and 2010 are set out below. These accounting policies have been consistently applied, except for the effects of the adoption of new and amended accounting standards (refer to note 2(c)).

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 previously 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 2012 or later periods but which the Group has not previously adopted. Those that are applicable to the Group are as follows:

- IFRS 9 "Financial Instruments: Classification and Measurement", applicable for annual periods beginning on or after 1 January 2015;

  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. The Group has determined however that the effect shall be quantified in conjunction with the other phases, when issued, to present a comprehensive picture.

- 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.

- IFRS 7 "Financial Instruments: Disclosures", applicable for annual periods beginning on or after 1 July 2012;

  The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. The amendment affects disclosure only and has no impact on the Group's financial position or performance.

Financial statements
Notes to the consolidated financial statements *continued*

2 Significant accounting policies (continued)

- IFRS 10 "Consolidated Financial Statements", applicable for annual periods beginning on or after 1 January 2013;

  IFRS 10 replaces the portion of IAS 27 "Consolidated and separate financial statements" that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 "Consolidation-special purposes entities". IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The application of this new standard has no impact on the Group's financial position or performance.

- IFRS 11 "Joint arrangements", applicable for annual periods beginning on or after 1 January 2013;

  IFRS 11 replaces IAS 31 "Interests in joint ventures" and SIC-13 "Jointly-controlled entities non-monetary contributions by venturers". Instead, jointly-controlled entities that meet the definition of a joint venture must be accounted for using the equity method. The application of this new standard has no impact on the Group's financial position or performance.

- IFRS 12 "Disclosure of involvement with other entities", applicable for annual periods beginning on or after 1 January 2013;

  IFRS 12 applies to an entity that has an interest in subsidiaries, joint arrangements, associates and/or structured entities. Many of the disclosure requirements of IFRS 12 were previously included in IAS 27, IAS 31, and IAS 28. A number of new disclosures are also required. The standard affects disclosure only and has no impact on the Group's financial position or performance.

- IFRS 13 "Fair value measurement", applicable for annual periods beginning on or after 1 January 2013;

  IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Group is currently assessing the impact that this standard will have on the financial position and performance.

- IAS 1 "Financial statements presentation – Presentation of items in other comprehensive income", applicable for annual periods beginning on or after 1 July 2012;

  The amendments to IAS 1 change the grouping of items presented in other comprehensive income. Items that could be reclassified (or recycled) to profit and loss at a future point in time would be presented separately from items that will never be reclassified. The amendment affects presentation only and has no impact on the Group's financial position and performance.

- IAS 19 "Employee benefits (amendment)", applicable for annual periods beginning on or after 1 January 2013;

  The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The application of this new standard has no impact on the Group's financial position or performance.

- IFRIC 20 "Stripping costs in the production phase of a surface mine", applicable for annual periods beginning on or after 1 January 2013;

  This interpretation would apply to waste removal (stripping) costs incurred in surface mining activity, during the production phase of the mine. There can be two benefits accruing to the entity from the stripping activity: usable ore that can be used to produce inventory and improved access to further quantities of material that will be mined in future periods. When the benefit from the stripping activity is the production of inventory, an entity would be required to account for the stripping activity costs as part of the cost of inventory. When the benefit is the improved access to ore, the entity would recognise these costs as a non-current asset only if certain criteria are met, which is referred to as the stripping activity asset. The amendment has no impact on the Group's financial position and performance.

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

2 Significant accounting policies (continued)

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

- Determination of functional currencies – note 2(e).
- The determination of functional currency requires management judgement, particularly where there may be several currencies in which transactions are undertaken and which impact the economic environment in which the entity operates
- Determination of useful lives of assets for depreciation and amortisation purposes – note 2(f).
- Estimates are required to be made by management as to the useful lives of assets. For depreciation calculated under the unit-of-production method, estimated recoverable reserves are used in determining the depreciation and/or amortisation of mine specific assets. This results in a depreciation/amortisation charge proportional to the depletion of the anticipated remaining life-of-mine production. Each item's life, which is assessed annually, has regard to both its physical life limitations and to present assessments of economically recoverable reserves of the mine property at which the asset is located. These calculations require the use of estimates and assumptions, including the amount of recoverable reserves. Changes are accounted for prospectively.
- Determination of ore reserves and resources – note 2(h).
- 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.
- Review of asset carrying values and impairment charges – notes 2(i), (k), (v) and note 15 and 16.
- The assessment of asset carrying values 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.
- The impairment testing of goodwill is based on significant judgements and assumptions made by the management when performing the annual impairment testing. Changes to be made to these assumptions may alter the results of the impairment testing, the impairment charges recorded in profit or loss and the resulting carrying values of the non-current assets tested.
- Estimation of the amount and timing of mine closure costs – notes 2(o) and 26.
- The Group assesses its mine closure cost provision annually. Significant estimates and assumptions are made in determining the provision for mine closure cost 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, mine life and changes in discount rates. Those uncertainties may result in future actual expenditure differing from the amounts currently provided. The provision at the balance sheet date represents management's best estimate of the present value of the future closure costs required. Changes to estimated future costs are recognised in the balance sheet by adjusting the mine closure cost liability and the related asset originally recognised. If, for mature mines, the revised mine assets net of mine closure cost provisions exceed the recoverable value, that portion of the increase is charged directly to expense. For closed sites, changes to estimated costs are recognised immediately in the income statement.
- Income tax – notes 2(t), 13 and 28.
- Judgement is required in determining whether deferred tax assets are recognised on the balance sheet. Deferred tax assets, including those arising from un-utilised 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 balance sheet date could be impacted.
- Recognition of evaluation and exploration assets and transfer to development costs – note 2(g).
- Judgement is required in determining when the future economic benefit of a project can reasonably be regarded as assured, at which point evaluation and exploration expenses are capitalised. For this purpose, the future economic benefit of the project can reasonably be regarded as assured when either the Board authorises management to conduct a feasibility study, mine-site exploration is being conducted to convert resources to reserves or mine-site exploration is being conducted to confirm resources, all of which is based on supporting geological information. Expenditure is transferred to mine development assets once the work completed to date supports the future development of the property and such development receives appropriate approval.

Financial statements
Notes to the consolidated financial statements *continued*

2 Significant accounting policies (continued)
(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:

- IAS 24 "Related Party Transactions (Amendment)", applicable for annual periods beginning on or after 1 January 2011;

  The IASB has issued an amendment to IAS 24 that clarifies the definitions of a related party. The new definitions emphasise a symmetrical view of related party relationships as well as clarifying in which circumstances persons and key management personnel affect related party relationships of an entity. Secondly, the amendment introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The adoption of the amendment did not have any impact on the financial position or performance of the Group.

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

  The amendment 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. This amendment did not have any impact on the Group after initial application.

- 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 did not have any 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 did not have any 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 including IFRS 3 Business Combinations, IFRS 7 Financial Instruments – Disclosures, IAS1 Presentation of Financial Statements and IAS 34 Interim Financial Statements.

(d) Basis of consolidation
The consolidated financial statements set out the Group's financial position, performance and cash flows as at 31 December 2011 and 31 December 2010 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 "NCI"; (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.

NCI 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 attributable to the NCI even if that results in a deficit balance.

2 Significant accounting policies (continued)

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 NCI in the acquiree. The choice of measurement of NCI, 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 NCI (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 NCI (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.

(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.

Financial statements
Notes to the consolidated financial statements *continued*

2 Significant accounting policies (continued)
(f) Property, plant and equipment
Property, plant and equipment is stated at cost or deemed cost less accumulated depreciation and impairment losses. Cost comprises its purchase price and directly attributable costs of acquisition or construction required to bring the asset to the condition necessary for the asset to be capable of operating in the manner intended by management. Economical and physical conditions of assets have not changed substantially over this period.

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

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

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

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

	Years
Buildings	3 to 33
Plant and equipment	5 to 10
Vehicles	5

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

When a mine construction project moves into the production stage, the capitalisation of certain mine construction costs ceases and costs are either regarded as part of the cost of inventory or expensed, except for costs which qualify for capitalisation relating to mining asset additions or improvements, underground mine development or mineable reserve development.

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.

2 Significant accounting policies (continued)

(g) Evaluation and exploration assets

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

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

Expenditure is transferred to mine development costs once the work completed to date supports the future development of the property and such development receives appropriate approval.

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.

(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 NCI in the subsidiaries of the associate.

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

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

(j) 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 equal to that of the mine to which it relates and that is amortised applying the units of production method for that mine.

Financial statements
Notes to the consolidated financial statements *continued*

2 Significant accounting policies (continued)
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.

(k) 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.

(l) 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.

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.

(m) 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.

(n) 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.

(o) 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.

2 Significant accounting policies (continued)

Mine closure cost

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

Workers' profit sharing and other employee benefits

In accordance with Peruvian legislation, 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 (note 10) and is considered deductible for income tax purposes. The Group has no pension or retirement benefit schemes.

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.

(p) Share-based payments

Cash-settled transactions

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.

Equity-settled transactions

The cost of equity-settled transactions is recognised, together with a corresponding increase in other reserves in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that vest. The income statement expense for a period represents the movement in cumulative expense recognised as at the beginning and end of that period and is recognised in personnel expenses (note 10). During 2011, the Group has approved an equity-settled scheme for its CEO.

(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 dore and concentrate containing both gold and silver. Concentrate is sold directly to customers. Dore bars are sent to a third-party for further refining into gold and silver which is then sold.

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

Revenue associated with the sale of concentrate and gold and silver from dore 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.

Financial statements
Notes to the consolidated financial statements *continued*

2 Significant accounting policies (continued)

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.

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.

Financial statements
Notes to the consolidated financial statements *continued*

2 Significant accounting policies (continued)
Fair values
The fair value of quoted investments is determined by reference to bid prices at the close of business on the statement of financial position date. Where there is no active market, fair value is determined using valuation techniques. These include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; discounted cash flow analysis and pricing models.

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.

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.

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 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.

(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. This includes the reclassification of the costs associated with the Crespo and Azuca projects which were previously classified as Mining properties and development costs. Given the stage of the projects, the capitalised costs of US$50,269,000 have been reclassified to Evaluation and exploration assets. The reclassification has been made in the 2010 financial statements, to ensure comparability of the two balance sheets presented.

Financial statements
Notes to the consolidated financial statements *continued*

2 Significant accounting policies (continued)
(aa) Hedging

The Group has used 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 – Pallancata, which generates revenue from the sale of concentrate
- Operating unit – San Jose, 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 2011 the amount disclosed includes the profit or loss generated by Empresa de Transmisión Callalli S.A.C. (a power generation company), HMX, S.A. de C.V. (a service company in Mexico), and the Selene mine, that closed in 2009 which, as a consequence, is not considered to be a reportable segment . For 2010 the amount disclosed includes the profit or loss generated by Empresa de Transmisión 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.

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.

Financial statements
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 Jose US$000	Moris US$000	Exploration US$000	Other[1] US$000	Adjustment and eliminations US$000	**Total US$000**
Year ended 31 December 2011									
Revenue for external customers	68,097	209,239	352,642	325,302	32,298	–	84		**987,662**
Inter segment revenue	–	–	–	–	–	–	7,966	(7,966)	**–**
Total revenue	68,097	209,239	352,642	325,302	32,298	–	8,050	(7,966)	**987,662**
Segment profit/(loss)	20,297	125,209	230,281	160,017	9,086	(50,048)	6,864	(4,641)	**497,065**
Others[2]									**(76,170)**
Profit/(loss) from continuing operations before income tax									**420,895**
Other segment information									
Depreciation[3]	(1,291)	(22,502)	(34,923)	(43,343)	(1,929)	(383)	(1,903)	–	**(106,274)**
Amortisation	–	–	–	(1,454)	–	–	(100)	–	**(1,554)**
Impairment	–	–	–	–	–	–	–	–	**–**
Assets									
Capital expenditure	2,673	33,040	55,059	62,994	555	61,629	1,997	–	**217,947**
Current assets	4,798	31,826	62,348	59,064	7,338	276	2,761	–	**168,411**
Other non-current assets[4]	10,971	94,583	141,635	231,757	–	255,473	20,414	–	**754,833**
Total segment assets	15,769	126,409	203,983	290,821	7,338	255,749	23,175	–	**923,244**
Not reportable assets[5]	–	–	–	–	–	–	812,373	–	**812,373**
Total assets	**15,769**	**126,409**	**203,983**	**290,821**	**7,338**	**255,749**	**835,548**	**–**	**1,735,617**

1 "Other" revenue primarily relates to revenues earned by HMX S.A. de C.V. for services provided to the Moris mine, and the Mexican exploration activities.
2 Comprised of administrative expenses of US$64,354,000, other income of US$7,062,000, other expenses of US$17,208,000, reversal of impairment of assets of US$ 1,210,000, share of gains of associates and joint ventures of US$11,446,000, finance income of US$10,678,000, finance cost of US$23,442,000, and foreign exchange loss of US$1,562,000.
3 Includes US$28,000 of depreciation capitalised in Minera Hochschild Mexico S.A. de C.V. due to the San Felipe project.
4 Includes goodwill in respect of San Jose amounting to US$2,091,000.
5 Not reportable assets are comprised of investments accounted under the equity method of US$83,201,000, available-for-sale financial assets of US$40,769,000, other receivables of US$60,293,000, income tax receivable of US$601,000, deferred income tax assets of US$Nil, other financial assets of US$28,000 and cash and cash equivalents of US$627,481,000.

3 Segment reporting (continued)
(a) Reportable segment information (continued)

	Ares US$000	Arcata US$000	Pallancata US$000	San Jose 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)
Impairment	(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 Jose 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.

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	
	2011 US$000	2010 US$000
External customer		
USA	**153,301**	147,701
Peru	**82,223**	158,540
Canada	**148,023**	137,713
Germany	**185,447**	128,834
Switzerland	**152,612**	88,457
United Kingdom	**50,540**	38,802
Korea	**215,516**	52,275
Total	**987,662**	752,322
Inter-segment		
Peru	**667**	882
Mexico	**7,299**	6,110
Total	**995,628**	759,314

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 2011			Year ended 31 December 2010		
	US$000	**% Revenue**	**Segment**	US$000	% Revenue	Segment
Aurubis AG (formerly Nordeutsche Affinerie AG)	**185,447**	**19%**	**Pallancata and San Jose**	128,834	17%	Selene Pallancata San Jose
LS Nikko	**176,397**	**18%**	**Pallancata and San Jose**	52,275	7%	Pallancata and San Jose
Teck Metals Ltd. (formerly Teck Cominco Metals Ltd)	**148,023**	**15%**	**Pallancata and San Jose**	137,713	18%	Arcata Pallancata
Johnson Matthey Inc.	**96,293**	**10%**	**Ares Arcata San Jose and Moris**	79,384	11%	Ares Arcata San Jose Moris
Consorcio Minero S.A.	**82,174**	**8%**	**Arcata and San Jose**	158,464	21%	Arcata San Jose

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	
	2011 US$000	2010 US$000
Peru	**496,395**	399,905
Argentina	**231,892**	210,265
Mexico	**26,224**	28,699
Chile	**146**	68
United Kingdom	**83,377**	79,291
Total non-current segment assets	**838,034**	718,228
Available-for-sale financial assets	**40,769**	153,620
Trade and other receivables	**8,741**	36,817
Deferred income tax assets	**–**	5,229
Income tax receivable	**–**	2,401
Total non-current assets	**887,544**	916,295

4 Acquisitions and disposals

(a) Acquisition of assets

Minera Quellopata S.A.C.

On 12 October 2010, the Group signed a Framework Agreement with International Minerals Corporation ("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, and (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 transferred to Minera Quellopata S.A.C. ("Quellopata"), together with the Puquiopata project. The Group is the operator of the new venture pursuant to a separate management agreement similar in form and substance to the Pallancata management agreement.

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

As a result of the acquisition, the Group obtained control over Quellopata and consolidated it as a subsidiary. The net assets received in the asset acquisition were US$91,782,000 and the IMZ interest generated by the transaction was US$36,940,000. At 31 December 2010, the Group recognised a contingent consideration of US$39,243,000 and an obligation to IMZ of US$15,594,000.

During 2011 the Group paid to IMZ its obligation of US$15,594,000.

Gold Resource Corporation

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

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

At 31 December 2011 the Group's ownership in Gold Resource Corp. was 25.2% on a fully diluted basis.

(b) Disposal of shares

Lake Shore Gold Corp.

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 common 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 held an interest of approximately 5.4%, no longer had the right to Board representation and no longer exercised significant influence over 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 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$6,385,878 was recognised in 2011 in respect of the disposal.

Financial statements
Notes to the consolidated financial statements *continued*

5 Revenue

	Year ended 31 December	
	2011 US$000	2010 US$000
Gold (from dore bars)	**144,812**	125,613
Silver (from dore bars)	**155,122**	98,431
Gold (from concentrate)	**134,438**	118,327
Silver (from concentrate)	**553,206**	409,846
Services	**84**	105
Total	**987,662**	752,322

Included within revenue is a gain of US$12,395,086 relating to provisional pricing adjustments representing the change in the fair value of embedded derivatives (2010: gain of US$60,473,436) arising on sales of concentrates and dore (refer to notes 2(r) and footnote 1 to note 22).

6 Cost of sales

Included in cost of sales are:

	Year ended 31 December	
	2011 US$000	2010 US$000
Depreciation and amortisation	**105,897**	102,705
Personnel expenses[1] (note 10)	**109,011**	97,055
Mining royalty (note 35)	**17,950**	15,091
Change in products in process and finished goods	**6,893**	(3,609)

1 2010 personnel expenses includes an exceptional item that corresponds to a one-off bonus paid to the mining workers in Peru, relating to 2009, of US$8,861,000.

7 Administrative expenses

	Year ended 31 December	
	2011 US$000	2010 US$000
Personnel expenses	**32,376**	34,337
Professional fees	**6,256**	9,557
Social and community welfare expenses[1]	**7,717**	6,686
Lease rentals	**1,088**	1,176
Travel expenses	**1,878**	1,756
Communications	**823**	133
Indirect taxes	**3,147**	2,008
Depreciation	**1,869**	1,747
Amortisation of software licences	**34**	301
Contribution to Peruvian Government	**26**	1,814
Technology and systems	**565**	1,354
Security	**457**	437
Supplies	**453**	250
Other	**7,665**	4,665
Total	**64,354**	66,221

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

8 Exploration expenses

	Year ended 31 December	
	2011 US$000	2010 US$000
Mine site exploration[1]		
Arcata	**4,512**	2,476
Ares	**2**	–
Pallancata	**2,917**	3,742
San Jose	**1,612**	2,153
	9,043	**8,371**
Prospects[2]		
Peru	**2,952**	5,292
Argentina	**3,534**	2,767
Mexico	**2,419**	1,485
Chile	**6,558**	7,607
	15,463	**17,151**
Generative[3]		
Peru	**7,093**	3,356
Argentina	**117**	46
Mexico	**562**	460
Chile	**164**	175
	7,936	**4,037**
Personnel	**10,882**	7,851
Others	**4,012**	4,127
Total	**47,336**	41,537

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.

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	
	2011 US$000	2010 US$000
Liabilities related to exploration activities	**1,808**	1,117

Cash flows of exploration activities are as follows:

	As at 31 December	
	2011 US$000	2010 US$000
Payments	**22,708**	21,036

Financial statements
Notes to the consolidated financial statements *continued*

9 Selling expenses

	Year ended 31 December	
	2011 US$000	2010 US$000
Transportation of dore, concentrate and maritime freight	**5,215**	7,559
Sales commissions	**3,300**	1,466
Personnel expenses	**340**	296
Warehouse services	**27,151**	15,146
Other	**2,964**	2,453
Total	**38,970**	26,920

10 Personnel expenses[1]

	Year ended 31 December	
	2011 US$000	2010 US$000
Salaries and wages	**90,061**	77,803
Workers' profit sharing	**31,444**	22,830
Other legal contributions	**17,780**	15,215
Statutory holiday payments	**6,202**	5,406
Long Term Incentive Plan	**2,574**	6,975
Termination benefits	**2,232**	2,768
Other	**12,170**	14,307
Total	**162,463**	145,304

1 Personnel expenses are distributed in cost of sales, administrative expenses, exploration expenses, selling expenses and capitalised as property plant and equipment amounting to US$109,011,000 (2010: US$97,055,000), US$32,376,000 (2010: US$34,337,000), US$10,882,000 (2010: US$7,851,000), US$340,000 (2010: US$296,000) and US$9,854,000 (2010: US$5,765,000) respectively.

Average number of employees for 2011 and 2010 were as follows:

	As at 31 December	
	2011	2010
Peru	**2,402**	2,323
Argentina	**1,188**	1,083
Mexico	**148**	160
Chile	**28**	19
United Kingdom	**11**	9
Total	**3,777**	3,594

11 Pre-tax exceptional items

	Year ended 31 December 2011 US$000	Year ended 31 December 2010 US$000
Cost of sales		
Personnel expenses (see footnote 1 to note 6)	**–**	(8,861)
Total	**–**	(8,861)
Other income		
Gain on sale of investment in El Quevar[1]	**–**	6,010
Gain on sale of investment in Zincore Metals Inc.[2]	**–**	7,533
Gain on sale of investment in Lake Shore Gold[3]	**–**	63,654
Total	**–**	77,197
Other expenses		
Termination benefits[4]	**(1,408)**	–
Total	**(1,408)**	–
Impairment and write-off of assets (net)		
Impairment and write-off of assets[5]	**–**	(24,018)
Reversal of write-off of assets[6]	**1,210**	–
Total	**1,210**	(24,018)
Share of post-tax losses of associates and joint ventures accounted under equity method	**(261)**	(1,473)
Total	**(261)**	(1,473)
Finance income		
Gain on sale and exchange of available-for-sale financial assets[7]	**5,989**	5,915
Gain from changes in the fair value of financial instruments[8]	**–**	3,289
Total	**5,989**	9,204
Finance expenses		
Loss from changes in the fair value of financial instruments[9]	**(2,111)**	–
Total	**(2,111)**	–

1 Corresponds to the gain generated from 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 from 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 from the sale of 109,000,000 Lake Shore Gold shares on 3 November 2010.

4 Relates to the provision of termination benefits due to workers as a result of the closure of Moris mine.

5 Mainly comprises the effects of the result of the physical verification exercise performed every three years at the Peruvian unit mines 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, includes a write off of US$12,000 in Mexico, US$747,000 in Peru related to the Crespo project and US$6,728,000 in Argentina related to the proposed conversion of San Jose's production to dore only. In 2010, the Group 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.

6 Corresponds to the reversal of the write-off recorded in 2010 related to the 100% dore project at the San Jose mine.

7 The 2011 amount corresponds to the gain on sale of the remaining Lake Shore Gold shares held of US$6,386,000, net of the loss generated by the sale of Golden Minerals Company shares of US$397,000. In 2010 the amount 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, and the gain for receiving shares of International Minerals Corporation due to the merger with Ventura Gold Corp of US$202,000.

8 The 2010 amount corresponds to the gain from change in the fair value of Golden Minerals Company and Iron Creek Capital Corp warrants of US$2,972,000 and US$168,000 respectively. In addition, it includes US$149,000 related to the fair value adjustment on acquisition of International Minerals shares in November 2010.

9 Mainly corresponds to the fair value adjustment of the Golden Minerals Company and Iron Creek Capital Corp warrants of US$1,563,000 and US$139,000 respectively. In addition the amount includes the impairment of Brionor Resources and Empire Petroleum Corp of US$380,000 and US$50,000 respectively.

Financial statements
Notes to the consolidated financial statements *continued*

12 Finance income and finance costs before exceptional items

	Year ended 31 December 2011 Before exceptional items US$000	Year ended 31 December 2010 Before exceptional items US$000
Finance income		
Interest on deposits and liquidity funds[1]	**2,225**	350
Interest on loans to non-controlling interests[1] (note 20)	**2,352**	2,514
Change in discount rate	**–**	283
Other	**112**	993
Total	**4,689**	4,140
Finance costs		
Interest on bank loans and long-term debt[1] (note 25)	**(6,517)**	(8,744)
Interest on convertible bond[1] (note 25)	**(8,760)**	(8,588)
Unwind of discount rate	**(1,684)**	(538)
Loss from changes in the fair value of financial instruments	**(1,810)**	(9,094)
Other	**(2,560)**	(2,578)
Total	**(21,331)**	(29,542)

1 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	
	2011 US$000	2010 US$000
Interest income from financial assets that are not at fair value through the profit and loss	**4,577**	2,864
Interest expense from financial liabilities that are not at fair value through the profit and loss	**(15,277)**	(17,332)
Total	**(10,700)**	(14,468)

13 Income tax expense

	Year ended 31 December 2011			Year ended 31 December 2010		
	Before exceptional items US$000	**Exceptional items US$000**	**Total US$000**	Before exceptional items US$000	Exceptional items US$000	Total US$000
Current corporate income tax from continuing operations						
Current corporate income tax charge	**86,154**	**–**	**86,154**	50,138	(2,659)	47,479
Current mining royalty charge (note 35)	**2,536**	**–**	**2,536**	–	–	–
Current special mining tax charge (note 35)	**3,002**	**–**	**3,002**	–	–	–
Withholding taxes	**4,963**	**–**	**4,963**	513	–	513
	96,655	**–**	**96,655**	50,651	(2,659)	47,992
Deferred taxation						
Origination and reversal of temporary differences from continuing operations (note 28)	**54,277**	**–**	**54,277**	41,690	(3,127)	38,563
Recognition of deferred tax not previously recognised following a change in estimate/outlook (note 28)	**(2,375)**	**–**	**(2,375)**	(14,525)	–	(14,525)
	51,902	**–**	**51,902**	27,165	(3,127)	24,038
Total taxation charge in the income statement	**148,557**	**–**	**148,557**	77,816	(5,786)	72,030

The weighted average statutory income tax rate was 31.8% for 2011 and 31.4% for 2010. 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	
	2011 US$000	2010 US$000
Deferred taxation:		
Deferred income tax relating to fair value gains on available-for-sale financial assets	**(7,164)**	7,189
Total tax charge in the statement of other comprehensive income	**(7,164)**	7,189

Financial statements
Notes to the consolidated financial statements *continued*

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	
	2011 US$000	2010 US$000
Profit from continuing operations before income tax	**420,895**	288,695
At average statutory income tax rate of 31.8% (2010: 31.4%)	**133,881**	90,594
Expenses not deductible for tax purposes	**2,742**	2,250
Non-taxable income[1]	**(3,096)**	(17,976)
Recognition of previously unrecognised deferred tax assets[2]	**(2,375)**	(14,525)
Non-taxable share of losses/(gains) of associates	**(3,033)**	1,702
Net deferred tax assets generated in the year not recognised	**8,636**	8,179
Deferred tax recognised on special investment regime	**(2,092)**	(1,017)
Derecognition of deferred income tax assets	**5,981**	–
Adjustment of tax base of Minera Quellopata S.A.C.	**(2,692)**	–
Withholding tax	**4,963**	513
Special mining tax and new royalty[3]	**5,538**	–
Foreign exchange rate effect[4]	**4,532**	(430)
Other	**(4,428)**	2,740
At average effective income tax rate of 35.3% (2010: 25.0%)	**148,557**	72,030
Taxation charge attributable to continuing operations	**148,557**	72,030
Total taxation charge in the income statement	**148,557**	72,030

1 Mainly corresponds to the non-taxable gain on the sale of Lake Shore Gold shares of US$1,692,000 (2010: US$17,743,000).
2 The amount for 2011 mainly corresponds to the recognition of a previously unrecognised mine closure provision of US$8,278,000. The amount for 2010, mainly corresponds to the use of previously unrecognised tax losses.
3 Corresponds to the impact of the new mining royalty and special mining tax (note 35).
4 Mainly corresponds to the foreign exchange effect from converting tax bases and monetary items from local currency to the functional currency.

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 2011 and 2010, EPS has been calculated as follows:

	As at 31 December	
	2011	2010
Basic and earnings per share from continuing operations		
Before exceptional items (US$)	**0.49**	0.28
Exceptional items (US$)	**0.01**	0.18
Total for the year and from continuing operations (US$)	**0.50**	0.46
Diluted earnings per share from continuing operations		
Before exceptional items (US$)	**0.49**	0.29
Exceptional items (US$)	**0.01**	0.17
Total for the year and from continuing operations (US$)	**0.50**	0.46

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

	As at 31 December	
	2011	2010
Profit for the year from continuing operations (US$000)	**272,338**	216,665
Less non-controlling interests (US$000)	**(103,622)**	(60,054)
Profit attributable to equity holders of the parent – continuing operations (US$000)	**168,716**	156,611
Exceptional items after tax – attributable to equity holders of the parent (US$000)	**(2,826)**	(61,687)
Profit from continuing operations before exceptional items attributable to equity holders of the parent (US$000)	**165,890**	94,924
Interest on convertible bond (US$000)	**8,760**	8,588
Diluted profit from continuing operations before exceptional items attributable to equity holders of the parent (US$000)	**174,650**	103,512

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

	As at 31 December	
	2011	2010
Basic weighted average number of ordinary shares in issue (thousands)	**338,022**	338,085
Dilutive potential ordinary shares related to convertible bond (thousands)	**18,161**	18,161
Diluted weighted average number of ordinary shares in issue and dilutive potential ordinary shares (thousands)	**356,183**	356,246

Financial statements
Notes to the consolidated financial statements *continued*

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 2011							
Cost							
At 1 January 2011	299,871	120,948	234,888	3,606	56,093	61,925	777,331
Additions	79,284	5,806	16,345	9	782	43,654	145,880
Change in discount rate	–	–	–	–	2,884	–	2,884
Disposals	–	–	(1,867)	(155)	–	–	(2,022)
Write-off	(6,379)	–	(321)	(21)	–	–	(6,721)
Change in mine closure estimate	–	–	–	–	3,318	–	3,318
Transfers and other movements	509	17,040	16,028	1,192	–	(34,769)	–
Transfers from evaluation and exploration assets	9,269	–	–	–	–	–	9,269
Foreign exchange	2	(30)	(125)	(17)	108	26	(36)
At 31 December 2011	382,556	143,764	264,948	4,614	63,185	70,836	929,903
Accumulated depreciation and impairment							
At 1 January 2011	179,672	52,987	94,332	1,562	40,766	1,098	370,417
Depreciation for the year	59,830	17,763	26,329	664	1,871	(183)	106,274
Write-off	(6,379)	–	(261)	(15)	–	–	(6,655)
Disposals	–	–	(1,500)	(104)	–	–	(1,604)
Transfers to evaluation and exploration assets	(22)	–	–	–	–	–	(22)
Foreign exchange	2	–	(68)	(16)	–	21	(61)
At 31 December 2011	233,103	70,750	118,832	2,091	42,637	936	468,349
Net book amount at 31 December 2011	**149,453**	**73,014**	**146,116**	**2,523**	**20,548**	**69,900**	**461,554**

1 The carrying value of plant and equipment held under finance leases at 31 December 2011 was US$5,741,000 (2010: US$7,936,000). Additions during the year included US$900,000 (2010: US$1,239,000) of plant and equipment under finance leases. Leased assets are pledged as security for the related finance lease.

There were no borrowing costs capitalised in property, plant and equipment as no significant qualifying assets were constructed during 2011.

15 Property, plant and equipment (continued)

	Mining properties and development costs US$000	Land and buildings US$000	Plant and equipment US$000	Vehicles US$000	Mine closure asset US$000	Construction in progress and capital advances US$000	Total US$000
Year ended 31 December 2010							
Cost							
At 1 January 2010	283,887	109,127	215,577	3,708	55,131	59,284	726,714
Reclassification	(60,173)	–	–	–	–	–	(60,173)
Restated balance at 1 January 2010	223,714	109,127	215,577	3,708	55,131	59,284	666,541
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	(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	299,871	120,948	234,888	3,606	56,093	61,925	777,331
Accumulated depreciation and impairment							
At 1 January 2010	135,750	37,667	74,768	1,541	36,932	1,098	287,756
Reclassification	(9,904)	–	–	–	–	–	(9,904)
Restated balance at 1 January 2010	125,846	37,667	74,768	1,541	36,932	1,098	277,852
Depreciation for the year	54,027	17,976	26,201	408	3,834	–	102,446
Write-off	(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	179,672	52,987	94,332	1,562	40,766	1,098	370,417
Net book amount at 31 December 2010	120,199	67,961	140,556	2,044	15,327	60,827	406,914

Financial statements

Notes to the consolidated financial statements *continued*

16 Evaluation and exploration assets

	Azuca US$000	Crespo US$000	Inmaculada US$000	San Felipe US$000	Others US$000	Total US$000
Cost						
Balance at 1 January 2010	7,079	1,238	–	53,185	10,857	72,359
Reclassification	8,076	52,097	–	–	–	60,173
Restated balance at 1 January 2010	15,155	53,335	–	53,185	10,857	132,532
Additions	13,162	2,436	91,507	581	15,078	122,764
Foreign exchange	–	–	–	3,058	–	3,058
Transfers to property, plant and equipment	22	–	–	–	(4,271)	(4,249)
Balance at 31 December 2010	28,339	55,771	91,507	56,824	21,664	254,105
Additions	30,014	9,927	16,920	39	15,949	72,849
Foreign exchange	–	(280)	62	(913)	–	(1,131)
Transfers from/(to) property plant and equipment	–	–	188	–	(9,457)	(9,269)
Balance at 31 December 2011	**58,353**	**65,418**	**108,677**	**55,950**	**28,156**	**316,554**
Accumulated impairment						
Balance at 1 January 2010	–	–	–	15,360	1,171	16,531
Reclassification	–	9,904	–	–	–	9,904
Restated balance at 1 January 2010	–	9,904	–	15,360	1,171	26,435
Impairment	–	–	–	14,702	–	14,702
Foreign exchange	–	–	–	888	–	888
Balance at 31 December 2010	–	9,904	–	30,950	1,171	42,025
Transfers from property, plant and equipment	22	–	–	–	–	22
Balance at 31 December 2011	**22**	**9,904**	**–**	**30,950**	**1,171**	**42,047**
Net book value as at 31 December 2010	20,263	53,943	91,507	25,874	20,493	212,080
Net book value as at 31 December 2011	**58,331**	**55,514**	**108,677**	**25,000**	**26,985**	**274,507**

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 2010	2,091	22,157	989	25,237
Additions	–	–	111	111
Balance at 31 December 2010	2,091	22,157	1,100	25,348
Additions	–	–	161	161
Foreign exchange difference	–	–	(1)	(1)
Balance at 31 December 2011	2,091	22,157	1,260	25,508
Accumulated amortisation				
Balance at 1 January 2010	–	2,165	647	2,812
Amortisation for the year[1]	–	2,067	301	2,368
Foreign exchange difference	–	–	2	2
Balance at 31 December 2010	–	4,232	950	5,182
Amortisation for the year[1]	–	1,454	100	1,554
Balance at 31 December 2011	–	5,686	1,050	6,736
Net book value as at 31 December 2010	2,091	17,925	150	20,166
Net book value as at 31 December 2011	**2,091**	**16,471**	**210**	**18,772**

1 The amortisation for the period is included in cost of sales and administrative expenses in the income statement.

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 Jose 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 2012 budget (2010: 2011 budget) and external market consensus forecasts. The prices considered in the 2011 (2010) impairment tests were:

Year	2011	2012	2013	2014	2015	2016	2017	2018–2022
2011 – Gold – US$/oz	**–**	**1,825.0**	**1,750.0**	**1,500.0**	**1,400.0**	**1,324.6**	**1,323.1**	**1,300.0**
2011 – Silver – US$/oz	**–**	**40.0**	**35.0**	**29.6**	**30.0**	**25.5**	**25.4**	**25.0**
2010 – Gold – US$/oz	1,300.0	1,367.50	1,300.0	1,200.0	1,175.0	1,175.0	1,000.0	1,000.0
2010 – Silver – US$/oz	25.0	26.3	23.8	21.7	21.7	23.5	16.9	16.9

- 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 (2010: 12 days);
- Capital expenditure – The cash flows for each mining unit include capital expenditures to maintain the mine and to convert resources to reserves;
- Operating costs – Costs are based on historical information from previous years and current mining conditions;
- Discount rates – The cash flows are discounted at real pre-tax rates that reflect the current market assessments of the time value of money and the risks specific to the cash-generating unit. These rates are based on the weighted average cost of capital specific to each cash-generating unit. The pre-tax discount rate used in the 2011 impairment test was 24.18% (2010: 16.63%).

Financial statements
Notes to the consolidated financial statements *continued*

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	2011 Variation	2010 Variation
Gold price	**(37.1)%**	(13.1)%
Silver price	**(27.1)%**	(10.7)%
Reserves and resources	**(67.9%)**	(52.9)%
Costs	**35.3%**	11.9%
Discount rates	**292.3%**	107.0%

Headroom for the 2011 and 2010 impairment tests were US$193,591,000 and US$61,523,000 respectively.

Cash flows used for impairment tests were based on the annual 2012 budget presented and approved by the Board, subject to a number of conditions, in November 2011. The starting point in all cases was January 2012. Individual cash flows are based on the annual 2012 budget and an estimated set of reserves and resources as of December 2011 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 2012 budget. Future capital expenditure is based on the 2012 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
(a) Gold Resource Corp.
The Group has a 25.2% interest in Gold Resource Corp., which is involved in the exploration for and production of gold and silver in Mexico. The company was organised under the laws of the State of Colorado, USA, where the principal executive offices are located. The operations are conducted through two wholly-owned subsidiaries, located in Mexico, Don David Gold S.A. de C.V. and Golden Trump Resources S.A. de C.V.

At 31 December 2011, the capital and reserves were US$132,582,000, and US$3,978,000 (loss on currency translation) respectively.

The profit for the period was US$46,464,000.

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

	Year ended 31 December	
	2011 US$000	2010 US$000
Share of the associate's statement of financial position:		
Current assets	**20,258**	15,087
Non-current assets	**57,919**	56,065
Current liabilities	**(7,605)**	(1,632)
Non-current liabilities	**(11,727)**	(14,808)
Net assets	**58,845**	54,712
Goodwill on acquisition	**24,356**	24,356
Share of the associate's revenue, profit and loss:		
Revenue	**26,496**	3,730
Profit[1]	**11,446**	3,711
Carrying amount of the investment	**83,201**	79,068

1 Share of the associate's profit in 2011 includes (1) a pre-exceptional gain from the Group's share in the results of the period of Gold Resource Corp. of US$11,707,000 (2010: loss of US$3,171,000) and (2) an exceptional loss from dilution of US$261,000 (2010: gain of US$6,882,000).

(b) Lake Shore Gold Corp.
The profit and loss effect in 2010 was a loss of US$9,785,000 which included (1) a pre-exceptional loss from the Group's share in the results for 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.

19 Available-for-sale financial assets

	Year ended 31 December	
	2011 US$000	2010 US$000
Beginning balance	**153,620**	19,185
Additions[1]	**2,910**	25,786
Impairment	**(198)**	–
Fair value change recorded in equity	**(33,078)**	47,573
Disposals[2]	**(82,485)**	(11,924)
Reclassification from investments accounted under equity method[3]	**–**	73,000
Ending balance	**40,769**	153,620

1 The amount represents the fair value of shares at the date of acquisition and mainly includes: (i) the conversion of Golden Minerals Company warrants into shares of U$2,419,000, (ii) the conversion of Iron Creek Capital Corp warrants into shares of US$83,000 and the purchase of shares of Iron Creek Capital Corp. for US$408,000.

2 Explained by the sale of: (i) 21,540,992 shares of Lake Shore Gold Corp, and (ii) 104,889 shares of Golden Minerals Company. The amount for 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.

3 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, as the Group no longer had significant influence over this company.

Available-for-sale financial assets include the following:

	Year ended 31 December	
	2011 US$000	2010 US$000
Equity securities – quoted Canadian companies	**27,175**	131,603
Equity securities – quoted US companies	**31**	39
Equity securities – quoted British companies	**1,722**	8,397
Equity securities – unquoted[1]	**11,841**	13,581
Total	**40,769**	153,620

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

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 ECI Exploration and Mining Inc.) were recognised at cost given that there is not an active market for these investments. The investment in ECI Exploration and Mining Inc. is fully impaired.

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

	2011 US$000	2010 US$000
Canadian dollars	**39,016**	145,184
US dollars	**31**	39
Pound sterling	**1,722**	8,397
Total	**40,769**	153,620

Financial statements

Notes to the consolidated financial statements *continued*

20 Trade and other receivables

	As at 31 December			
	2011		2010	
	Non-current US$000	**Current US$000**	Non-current US$000	Current US$000
Trade receivables (note 36(c))	**–**	**115,379**	–	89,404
Advances to suppliers	**–**	**13,008**	–	9,050
Credit due from exports of Minera Santa Cruz	**5,413**	**964**	578	4,004
Loan to non-controlling interests[1]	**–**	**1,025**	32,165	9,393
Receivables from related parties (note 30)	**–**	**932**	–	1,609
Loans to employees	**2,051**	**1,350**	2,128	3,297
Interest receivable	**–**	**711**	–	4
Receivable from Kaupthing, Singer and Friedlander Bank	**–**	**515**	–	648
Other	**23**	**1,986**	25	1,027
Provision for impairment[2]	**–**	**(2,406)**	–	(2,533)
Financial assets classified as receivables	**7,487**	**133,464**	34,896	115,903
Prepaid expenses	**526**	**6,305**	933	4,252
Value Added Tax (VAT)[3]	**728**	**27,162**	988	25,780
Total	**8,741**	**166,931**	36,817	145,935

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

1 Corresponds to a loan to International Minerals Corporation. At 31 December 2010, this related to loans to Minera Andes Inc. with an effective interest rate of 7%. These loans were repaid during 2011.
2 Includes the provision for impairment of trade receivable from a customer in Peru of US$1,108,000 (2010: US$1,108,000), the impairment of deposits in Kaupthing, Singer and Friedlander of US$515,000 (2010: US$648,000) and other receivables of US$783,000 (2010: US$777,000).
3 This includes an amount of US$16,315,000 (2010: US$14,593,000) of VAT paid in the development and plant expansion of the San Jose project that will be recovered through future sales of gold and silver by Minera Santa Cruz S.A. It also includes the VAT of Minera Suyamarca of US$3,040,000 (2010: US$2,282,000), Compañía Minera Ares S.A.C. of US$6,503,000 (2010: US$1,678,000) and Minas Santa María de Moris of US$1,256,000 (2010: US$2,456,000). The VAT is valued at its recoverable amount.

Movements in the provision for impairment of receivables:

	Individually impaired US$000	Total US$000
At 1 January 2010	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
Provided for during the year	76	76
Released during the year	(203)	(203)
At 31 December 2011	**2,406**	**2,406**

20 Trade and other receivables (continued)

As at 31 December, the ageing analysis of financial assets classified as receivables net of impairment is as follows:

Year	Total US$000	Neither past due nor impaired US$000	Past due but not impaired 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
2011	**140,951**	**140,951**	**–**	**–**	**–**	**–**	**–**
2010	150,799	150,799	–	–	–	–	–

21 Inventories

	As at 31 December 2011 US$000	As at 31 December 2010 US$000
Finished goods	**1,791**	4,601
Products in process	**13,537**	17,620
Raw materials	**5**	255
Supplies and spare parts	**40,240**	33,788
	55,573	56,264
Provision for obsolescence of supplies	**(2,541)**	(1,134)
Total	**53,032**	55,130

Finished goods include ounces of gold and silver and concentrate. Dore 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 dore on hand at 31 December 2011 included in products in process is US$1,379,000 (2010: US$4,995,000).

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 of supplies, spare parts and raw materials is US$72,105,000 (2010: US$67,907,000).

The amount of the expense related to the increase of the inventory provision is US$695,000 (2010: US$1,252,000).

The amount of income relating to the reversal of the inventory provision is US$21,000 (2010: US$Nil).

Financial statements
Notes to the consolidated financial statements *continued*

22 Other financial assets and liabilities

	As at 31 December	
	2011 US$000	2010 US$000
Other financial assets		
Warrants in Golden Minerals Company	**–**	3,982
Warrants in Iron Creek Capital Corp.	**28**	168
Embedded derivatives[1]	**–**	16,512
Total financial assets at fair value through profit or loss	**28**	20,662
Other financial liabilities		
Embedded derivatives[1]	**12,831**	–
Total financial liabilities at fair value through profit or loss	**12,831**	–
Swap contracts	**–**	1,930
Total derivatives designated as hedge instruments	**–**	1,930
Total financial liabilities	**12,831**	1,930

1 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 dore 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).

23 Cash and cash equivalents

	As at 31 December	
	2011 US$000	2010 US$000
Cash at bank	**349**	694
Liquidity funds[1]	**370,021**	424,049
Current demand deposit accounts[2]	**45,030**	44,346
Time deposits[3]	**212,081**	56,393
Cash and cash equivalents considered for the statement of cash flows	**627,481**	525,482

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 papers and floating rate notes with a weighted average maturity between 5 to 24 days as at 31 December 2011 (2010: between 33 and 56 days). In addition, liquidity funds include US Treasury bonds amounting to US$199,924,000 (note 36(g)).

2 Relates to bank accounts which are freely available and bear interest .

3 These deposits have an average maturity from 10 to 83 days (2010: 1 to 30 days) (refer to note 36(g)).

24 Trade and other payables

	As at 31 December			
	2011		2010	
	Non-current US$000	**Current US$000**	Non-current US$000	Current US$000
Trade payables[1]	**–**	**57,720**	–	49,407
Salaries and wages payable[2]	**–**	**24,748**	2,385	21,120
Dividends payable	**–**	**9,797**	–	339
Taxes and contributions	**–**	**6,302**	–	11,157
Accrued expenses	**8**	**5,873**	8	3,777
Guarantee deposits	**–**	**4,197**	–	2,697
Mining royalty (note 35)	**–**	**1,205**	–	3,537
Professional fees	**–**	**1,131**	–	1,247
Interest payable	**–**	**192**	–	88
Accounts payable to related parties (note 30)	**–**	**32**	–	–
Other	**–**	**5,840**	–	22,705
Total	**8**	**117,037**	2,393	116,074

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.
2 Salaries and wages payable were as follows:

	2011 US$000	2010 US$000
Remuneration payable	**21,039**	16,633
Board members' remuneration	**652**	947
Executive Long Term Incentive Plan	**3,057**	5,925
Total	**24,748**	23,505

Financial statements

Notes to the consolidated financial statements *continued*

25 Borrowings

	As at 31 December					
	2011			2010		
	Effective interest rate	**Non-current US$000**	**Current US$000**	Effective interest rate	Non-current US$000	Current US$000
Secured bank loans (a)						
• Pre-shipment loans in Minera Santa Cruz (note 21)	**1.3% to 6.0%**	**–**	**38,500**	1.6% to 2.4%		20,000
• Leasing agreement with Banco de Credito del Peru	**3.25% to 3.5%**	**336**	**760**	3.25%	817	2,897
• Leasing agreement with Banco Interamericano de Finanzas	**5% to 6%**	**24**	**461**	5.5%	486	877
• Syndicated loan with JP MorganChase Bank N.A.	**–**	**–**	**–**	1.75%	84,222	29,256
Amount due to non-controlling interests (b)	**–**	**–**	**–**	7%	59,028	11,074
Convertible bond payable (c)	**5.75%**	**104,506**	**6,613**	5.75%	103,827	5,145
Amounts due to related parties (note 30)	**–**	**–**	**–**	0%	–	23
Total		**104,866**	**46,334**		248,380	69,272

(a) The following table demonstrates the present value and maturity of future minimum lease payments as at 31 December 2011 and 2010:

	As at 31 December	
	2011 US$000	2010 US$000
Not later than one year	**1,221**	3,774
Between 1 and 2 years	**360**	1,279
Between 2 and 5 years	**–**	24
Total	**1,581**	5,077

The following table reconciles the total minimum lease payments and their present values as at 31 December 2011 and 2010:

	As at 31 December	
	2011 US$000	2010 US$000
Present value of leases	**1,581**	5,077
Future interest	**40**	155
Total minimum lease payments	**1,621**	5,232

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

25 Borrowings (continued)

(b) Amounts due to non-controlling interests

The balance as at 31 December 2010 mainly corresponded to a loan from Minera Andes Inc. to Minera Santa Cruz S.A. for an amount of US$64,070,000 with an interest rate of 7%, and a further loan of US$6,032,000 advanced to Minera Santa Cruz S.A. by Minera Andes S.A. with an interest rate of 7% (refer to note 36(g)). These loans were repaid in full during 2011.

(c) Convertible bond payable

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 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 Price (before adjustment for the recommended 2011 Final Dividend): GBP 3.94;
- Fixed Exchange Rate: US$1.59/GBP 1.00.

The balance as at 31 December 2011 is comprised of the principal of US$115,000,000 (2010: US$115,000.000) plus accrued interest of US$7,292,000 (2010: US$5,145,000), net of transaction costs of US$2,741,000 (2010: US$2,741,000) and the bond equity component of US$8,432,000 (2010: US$8,432,000).

The maturity of non-current borrowings is as follows:

	As at 31 December	
	2011 US$000	2010 US$000
Between 1 and 2 years	**1,039**	59,265
Between 2 and 5 years	**103,827**	136,951
Over 5 years	**–**	52,164
Total	**104,866**	248,380

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	
	2011 US$000	2010 US$000	**2011 US$000**	2010 US$000
Secured bank loans	**360**	85,525	**375**	84,728
Amounts due to non-controlling interests and related parties (fixed rates)	**–**	59,028	**–**	80,184
Convertible bond payable	**104,506**	103,827	**116,413**	121,709
Total	**104,866**	248,380	**116,788**	286,621

Financial statements
Notes to the consolidated financial statements *continued*

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	Contingent consideration[4] US$000	Other US$000	Total US$000
At 1 January 2010	61,321	1,996	893	–	–	2,371	66,581
Additions	1,081	30,199	1,814	1,061	39,243	378	73,776
Accretion	538	–	–	–	–	–	538
Change in discount rate	1,137	–	–	–	–	–	1,137
Change in estimate	2,583	–	–	–	–	–	2,583
Payments	(4,634)	(10,862)	(725)	–	–	–	(16,221)
Foreign exchange	–	(26)	(162)	–	–	108	(80)
At 31 December 2010	62,026	21,307	1,820	1,061	39,243	2,857	128,314
Less current portion	(10,592)	(21,307)	(1,820)	–	(5,859)	(2,293)	(41,871)
Non-current portion	51,434	–	–	1,061	33,384	564	86,443
At 1 January 2011	**62,026**	**21,307**	**1,820**	**1,061**	**39,243**	**2,857**	**128,314**
Additions	782	31,444	38	2,594	–	1,000	35,858
Accretion	533	–	–	–	204	–	737
Change in discount rate	3,541	–	–	–	313	–	3,854
Change in estimate[5]	10,856	–	–	–	7	–	10,863
Payments	(4,113)	(23,398)	(1,776)	–	(7,389)	(484)	(37,160)
Foreign exchange	–	478	(82)	–	–	–	396
At 31 December 2011	**73,625**	**29,831**	**–**	**3,655**	**32,378**	**3,373**	**142,862**
Less current portion	(9,791)	(29,831)	–	–	(32,378)	(2,432)	(74,432)
Non-current portion	63,834	–	–	3,655	–	941	68,430

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 2011 and 2010 respectively, and the cash flows have been adjusted to reflect the risk attached to these cash flows. Uncertainties on the timing for use of this provision include changes in the future that could impact the time of closing the mines, as new resources and reserves are discovered.

2 Corresponds to the legal and voluntary workers' profit sharing of the Group. Legal workers' profit sharing represents 8% of taxable income of Peruvian companies. Voluntary workers' profit sharing is determined by the Group taking into account the market conditions of employment. The balance of the provision as at 31 December 2011 is: (i) Legal (US$21,584,000), (ii) Voluntary (US$8,247,000).

3 Corresponds to the provision related to awards granted under the Long Term Incentive Plan to designated personnel of the Group. Includes the following benefits: (i) 2011 awards, granted in April 2011, payable in April 2014, (ii) 2010 awards, granted in May 2010, payable in May 2013, and (iii) Exploration incentive plan awards, granted in January 2011, payable 50% in March 2013 and 50% in March 2014. Only employees who remain in the Group's employment on the vesting date will be entitled to a cash payment, 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 2011 there is a provision of US$2,594,000 that is disclosed under administrative expenses (US$1,467,000), exploration expenses (US$146,000) and capitalised as evaluation and exploration expenses (US$981,000).

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 mining operations within the Inmaculada property.

5 During 2011 the Group conducted an external review of the provision for mine closure costs for all its mining units. Consequently, at 31 December 2011 an increase of US$10,856,000 in this provision was recognised.

27 Equity

(a) Share capital and share premium

Issued share capital

The issued share capital of the Company as at 31 December 2011 and 2010 is as follows:

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

At 31 December 2011 and 2010, all issued shares with a par value of 25 pence each were fully paid (2011: weighted average of US$0.469, 2010: weighted average of US$0.469 per share).

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.

(b) Treasury shares

Treasury shares represent the cost of Hochschild Mining plc shares purchased in the market and held by the trustee of the Hochschild Mining Employee Share Trust to satisfy the award of conditional shares under the Group's Enhanced Long Term Incentive Plan granted to the CEO (note 2(p)). During 2011, the Group purchased 126,769 shares for the purposes of the plan, for a total consideration of £561,477.91 (equivalent to $897,214).

(c) 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.

Share-based payment reserve

Is used to recognise the value of equity-settled share-based payment transactions provided to employees, as a part of their remuneration.

Financial statements
Notes to the consolidated financial statements *continued*

28 Deferred income tax

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

	As at 31 December	
	2011 US$000	2010 US$000
Beginning of the year	**(23,305)**	5,190
Income statement (charge)/credit	**(51,902)**	(24,038)
Deferred income tax arising on net unrealised gains on available-for-sale financial assets recognised in equity	**7,164**	(7,189)
Initial balance of deferred tax asset of Minera Quellopata S.A.C.	**–**	1,762
Reclassification of withholding tax	**–**	1,208
Foreign exchange effect	**(109)**	(238)
End of the year	**(68,152)**	(23,305)

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 2010	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
Income statement (credit)/charge	16,433	38,289	(6,560)	280	48,442
Net deferred income tax from unrealised loss on available-for-sale financial assets	–	–	(5,055)	–	(5,055)
Foreign exchange	–	109	–	–	109
At 31 December 2011	**31,987**	**73,350**	**–**	**1,185**	**106,522**

	Differences in cost of PP&E US$000	Provision for mine closure US$000	Tax losses US$000	Interest payable US$000	Financial instruments US$000	Others US$000	Total US$000
Deferred income tax assets							
At 1 January 2010	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
Income statement credit/(charge)	5,653	3,647	(5,973)	(5,142)	–	(1,645)	(3,460)
Net deferred income tax from unrealised loss on available-for-sale financial assets	–	–	–	–	2,109	–	2,109
At 31 December 2011	**17,333**	**10,101**	**643**	**–**	**2,109**	**8,184**	**38,370**

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	
	2011 US$000	2010 US$000
Deferred income tax assets	**–**	5,229
Deferred income tax liabilities	**(68,152)**	(28,534)

Tax losses expire in the following years:

	As at 31 December	
	2011 US$000	2010 US$000
Recognised[1]		
Expire in one year	**–**	–
Expire in two years	**–**	–
Expire in three years	**–**	–
Expire in four years	**–**	–
Expire after four years	**1,855**	23,789
	1,855	23,789
Unrecognised		
Expire in one year	**1,486**	624
Expire in two years	**3,428**	2,997
Expire in three years	**4,632**	2,548
Expire in four years	**6,384**	4,592
Expire after four years	**92,010**	55,416
	107,940	66,177
Total tax losses (recognised and unrecognised)	**109,795**	89,966

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 comprise (gross amounts):

	As at 31 December	
	2011 US$000	2010 US$000
Provision for mine closure[1]	**38,822**	39,350
Impairments of assets[2]	**14,702**	14,702

1 This relates to provision for mine closure expenditure which is expected to be incurred in periods in which taxable profits are not expected against which the expenditure can be offset.

2 Corresponds to the impairment of the San Felipe project recognised in 2010.

Unrecognised deferred tax liability on retained earnings

At 31 December 2011, there was no recognised deferred tax liability (2010: 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.

Financial statements
Notes to the consolidated financial statements *continued*

29 Dividends paid and proposed

	2011 US$000	2010 US$000
Declared and paid during the year		
Equity dividends on ordinary shares:		
Final dividend for 2010: US$0.03 (2009: US$0.02)	**10,143**	6,762
Interim dividend for 2011: US$0.03 (2010: US$0.02)	**10,143**	6,761
Dividends paid to non-controlling interest: US$0.55 (2010: US$0.40)	**53,999**	26,000
Dividends declared to non-controlling interest: US$0.06 (2010: nil)	**9,499**	–
Dividends declared and paid	**83,784**	39,523
Proposed for approval by shareholders at the AGM		
Final dividend for 2011: US$0.03 (2010: US$0.03)	**10,135**	10,143

Dividends per share

The dividends declared in August 2011 were US$10,142,557 (US$0.03 per share). A dividend in respect of the year ending 31 December 2011 of US$0.03 per share, amounting to a total dividend of US$10,134,951 is to be proposed at the Annual General Meeting on 23 May 2012. 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 2011 and 2010. 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	
	2011 US$000	2010 US$000	2011 US$000	2010 US$000
Current related party balances				
Fosfatos del Pacífico S.A.	**–**	28	**–**	–
Cementos Pacasmayo S.A.A.	**222**	291	**32**	23
Gold Resource Corp (note 18(a))	**710**	1,290	**–**	–
Total	**932**	1,609	**32**	23

As at 31 December 2011 and 2010 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:

	Year ended	
	2011 US$000	2010 US$000
Income		
Gain on sale of Zincore Metals Inc. shares to Inversiones Pacasmayo S.A.	**–**	7,533
Dividend recognised for Gold Resource Corp. investment (note 18(a))	**7,313**	2,633
Revenue recognised for services provided to Gold Resource Corp	**35**	29
Expenses		
Expense recognised for the rental paid to Cementos Pacasmayo S.A.A.	**(170)**	(231)

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

30 Related-party balances and transactions (continued)

(b) Compensation of key management personnel of the Group

Compensation of key management personnel (including Directors)	As at 31 December 2011 US$000	2010 US$000
Short-term employee benefits	**6,504**	6,751
Termination benefits	**–**	1,170
Long Term Incentive Plan	**1,200**	2,348
Workers' profit sharing	**184**	205
Others	**950**	647
Total compensation paid to key management personnel	**8,838**	11,121

This amount includes the remuneration paid to the Directors of the parent company of the Group of US$4,816,370 (2010: US$6,996,557), out of which US$199,660 (2010: US$239,975) relates to pension payments.

(c) Purchase of additional interest in Inmaculada project

During 2010, the Group acquired an additional interest in the Inmaculada project effectively diluting the interest of its joint-venture partner, 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 (note 4(a)).

31 Auditor's remuneration

The auditor's remuneration for services provided to the Group during the years ended 31 December 2011 and 2010 is as follows:

	Amounts paid to Ernst & Young in the year ended 31 December		Amounts paid to others in the year ended 31 December	
	2011 US$000	2010 US$000	**2011 US$000**	2010 US$000
Audit fees pursuant to legislation[1]	**1,292**	1,250	**1**	38
Other services pursuant to legislation	**156**	150	**–**	–
Other services relating to taxation	**194**	139	**–**	–
Services relating to corporate finance transactions	**110**	241	**–**	–
Total	**1,752**	1,780	**1**	38

1 The total audit fee in respect of local statutory audits of subsidiaries is US$844,000 (2010: US$865,000).

In 2011 and 2010, all fees are included in administrative expenses, with the exception of 2011 fees related to the sale of shares in Lake Shore Gold which were deducted from the gain on the sale of Lake Shore Gold shares and not disclosed within administrative expenses (note 4(b)).

Financial statements
Notes to the consolidated financial statements *continued*

32 Notes to the statement of cash flows

	As at 31 December	
	2011 US$000	2010 US$000
Reconciliation of profit for the year to net cash generated from operating activities		
Profit for the year	**272,338**	216,665
Adjustments to reconcile Group operating profit to net cash inflows from operating activities		
Depreciation (note 3(a))	**106,246**	102,446
Amortisation of intangibles	**1,554**	2,368
Impairment and write-off of assets (net)	**31**	24,018
Gain on sale of available-for-sale financial assets	**(5,989)**	(5,915)
Gain on sale of investment in associates	**–**	(77,197)
Share of post-tax (gains)/losses of associates and joint ventures accounted under equity method	**(11,446)**	6,080
Increase in provision for mine closure	**8,728**	3,838
Finance income	**(4,689)**	(7,146)
Finance costs	**23,442**	29,542
Income tax expense	**148,557**	72,030
Other	**1,268**	4,066
Increase (decrease) of cash flows from operations due to changes in assets and liabilities		
Trade and other receivables	**(30,522)**	(42,239)
Income tax receivable	**2,717**	7,264
Other financial assets and liabilities	**27,125**	(27,389)
Inventories	**828**	(10,095)
Trade and other payables	**(22,919)**	31,140
Provisions	**2,993**	21,785
Cash generated from operations	**520,262**	351,261

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	
	2011 US$000	2010 US$000
Offset of income tax payable with value added tax receivable	**43,413**	31,065

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	
	2011 US$000	2010 US$000
Commitment for the subsequent 12 months	**4,064**	1,208
More than one year	**19,200**	5,760

Some of the significant transactions are explained below:

(i) Teck Peru S.A. (Huachoja Project)

On 9 August 2011 the Group entered into an option agreement with Teck Peru S.A. ("Teck") to explore and develop minerals in the Huachoja property located in Peru.

Under the agreement, the Group will have the right to acquire a 60% interest in the property by investing US$4,000,000 and by drilling 4,000 metres at the property before 31 August 2015. The Group has a binding commitment for the first US$500,000 (the "Committed Expenditures") and for the first 1,500 metres of drilling (the "Committed Drilling") before 31 August 2012.

If the Group has not completed the Committed Expenditures and the Committed Drilling before this date, the mine option will expire and the Group shall pay to Teck the shortfall in Committed Expenditures and the shortfall in Committed Drilling at the rate of US$200 per metre.

The Group has made a provision for US$800,000 in respect of these commitments.

(ii) Minera Coriwasi S.A. (Incognitas Project)

On 27 June 2011 the Group entered into an exploration and option agreement with Minera Coriwasi S.A. ("Minera Coriwasi") to explore and develop minerals in the Incognitas properties located in Peru. Upon signing of the agreement the Group paid US$70,000 to Minera Coriwasi.

Under the agreement, the Group will have the right to acquire a 100% interest in the property by investing US$940,000 and by investing US$1,300,000 within four years. The Group can withdraw from the agreement at any time without incurring any further expenditures or penalties.

(iii) Sociedad Contractual Minera Valleno (Valeriano)

On 10 November 2010, the Group entered into a purchase option agreement with Sociedad Contractual Minera Valleno ("Minera Valleno") amongst others, to earn the right to purchase 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$500,000 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 work 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 exploration expenditure necessary to vest the option but only after having funded the first US$1,000,000 in exploration expenditure. As at 31 December 2011 the Group has funded US$2,200,000.

(iv) 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 the right to purchase 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 expenditure necessary to vest the option. At 31 December 2011 the Group had invested US$806,000 in the project.

Financial statements

Notes to the consolidated financial statements *continued*

33 Commitments (continued)

(v) Robert Schnell Dresel and John Chellew Urzúa (San Antonio Project)

On 12 December 2011 a Purchase Option Agreement between Mr. Robert Schnell Dresel and MH Chile S.C.M. was signed in respect of an option to acquire "Susy 1 to 9" and "San Antonio 1 to 10" properties, within a term of 36 months, extendable to 60 months.

In order to exercise the option, the Group is required to make a fixed payment of US$2,100,000 and a variable payment of 2% of the gold value in the measured and inferred resources if the 4% gold value exceeds US$10,000,000; or US$500,000 if the 4% gold value is below US$10,000,000. The Group is required to undertake exploration work comprising 1,000 metres of drilling by 31 December 2012.

If the Group wants to extend the period of the agreement, it is required to pay US$1,500,000 to extend the period to 48 months and a further US$1,500,000 to extend it to 60 months.

On 12 December 2011 a Purchase Option Agreement between Mr. John Chellew Urzúa, Sociedad de Inversiones Puelche Ltda. ("SCM Puelche") and MH Chile S.C.M. was signed in respect of an option to acquire all of the outstanding shares of SCM Puelche. SCM Puelche holds the "Tres Amantes" Option Agreement with the Gomez family, for the "Tres Amantes 1 to 20" and "Antonia 1 to 80" properties.

In order to exercise the option, the Group is required to make a fixed payment of US$7,900,000 and a variable payment of 2% of the gold value in the measured and inferred resources if the 4% gold value exceeds US$10,000,000; or US$500,000 if the 4% gold value is below US$10,000,000. The Group is required to incur exploration expenditure of US$400,000 by 31 December 2012.

If the Group wishes to extend the term of the agreement, it must pay US$1,500,000 to extend the period to 48 months and a further US$1,500,000 to extend it to 60 months.

The Group can withdraw from the agreements at any time without incurring any further expenditure or penalties.

(b) Operating lease commitments

The Group has a number of operating lease agreements, as lessee.

The lease expenditure charged to the income statement during the years 2011 and 2010 are included in the production costs (2011: US$6,699,000, 2010: US$4,905,000), administrative expenses (2011: US$1,088,000, 2010: US$1,176,000) and selling expenses (2011:US$115,000, 2010: nil).

As at 31 December 2011 and 2010, the future aggregate minimum lease payments under the operating lease agreements are as follows:

	For the year ended 31 December	
	2011 US$000	2010 US$000
Not later than one year	**1,306**	2,245
Later than one year and not later than five years	**520**	1,490

(c) Capital commitments

	For the year ended 31 December	
	2011 US$000	2010 US$000
Peru	**39,472**	39,490
Mexico	**51**	34
Argentina	**3,472**	6,200
	42,995	45,724

34 Contingencies

As at 31 December 2011, 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. As at 31 December 2011, the Group had exposures totalling US$29,243,000 (2010: US$26,760,000) which are assessed as "possible", rather than "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.

35 Mining royalties

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 have been calculated with rates ranging from 1% to 3% of the value of mineral concentrate or equivalent, based on quoted market prices.

In October 2011 changes came into effect for mining companies, with the following features:

a) Introduction of a Special Mining Tax ("SMT"), levied on mining companies at the stage of exploiting mineral resources. The new tax is calculated by applying a progressive scale of rates ranging from 2% to 8.4%, of the quarterly operating profit. This new tax is in addition to existing mining royalties.

b) Modification of the mining royalty calculation, which consists of applying a progressive scale of rates ranging from 1% to 12%, of the quarterly operating profit. The former royalty was calculated on the basis of monthly sales value of mineral concentrates.

The SMT and modified mining royalty are accounted for as an income tax in accordance with IAS 12.

c) For companies that have mining projects benefiting from tax stability regimes, mining royalties are calculated and recorded as they were previously, applying an additional new special charge on mining that is calculated using progressive scale rates, ranging from 4% to 13.12% of quarterly operating profit. This was the case for the Arcata mine unit.

As at 31 December 2011, the amount payable as under the former mining royalty (for the Arcata mining unit), the new mining royalty (for the Ares and Pallancata mining units), and the SMT amounted to US$709,000 (2010: US$2,946,000), US$1,261,000 (2010: nil), and US$1,394,000 (2010: nil) respectively. The former mining royalty is recorded as "Trade and other payables", and the new mining royalty and SMT as "Income tax payable" in the Statement of Financial Position. The amount recorded in the income statement was US$11,921,000 comprising the former mining royalty, disclosed as cost of sales (2010: US$11,223,000), and US$2,536,000 of new mining royalty and US$3,002,000 of SMT, both disclosed as income tax (2010: nil).

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 Jose, the mining royalty is fixed at 1.85% of the pit-head value of the production where the final product is dore and 2.55% where the final product is mineral concentrate or precipitates. As at 31 December 2011, the amount payable as mining royalties amounted to US$496,000 (2010: US$591,000). The amount recorded in the income statement as cost of sales was US$6,029,000 (2010: US$3,868,000).

Financial statements
Notes to the consolidated financial statements *continued*

36 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, and the head of the internal audit function. The Risk Committee is responsible for implementing the Group's policy on risk management and internal control in support of the Company's business objectives, and monitoring the effectiveness of risk management within the organisation.

(a) Commodity price risk

Silver and gold prices have a material impact on the Group's results of operations. Prices are significantly affected by changes in global economic conditions and related industry cycles. Generally, producers of silver and gold are unable to influence prices directly; thus, the Group's profitability is ensured through the control of its cost base and the efficiency of its operations.

The Group is committed to remain hedge free, however management continuously monitors silver and gold prices and reserves the right to take the necessary action, where appropriate and within Board approved parameters, to mitigate the impact of this risk.

The Group has embedded derivatives arising from the sale of concentrate and dore which were provisionally priced at the time the sale is recorded (refer to notes 5 and 22(1)). For these derivatives, 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
2011	**Gold**	
	+/–10%	**+/–523**
	Silver	
	+/–10%	**+/–716**
2010	Gold	
	+/–10%	+/–713
	Silver	
	+/–10%	+/–5,334

36 Financial risk management (continued)

(b) Foreign currency risk

The Group produces silver and gold which are typically priced in US dollars. A proportion of the Group's costs are incurred in pound 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
2011			
Pound sterling	**+/–10%**	**+/–1**	**+/–172**
Argentinian pesos	**+/–10%**	**–/+1,049**	**–**
Mexican pesos	**+/–10%**	**+/–110**	**–**
Peruvian nuevos soles	**+/–10%**	**–/+4,414**	**–**
Canadian dollars	**+/–10%**	**+/–22**	**+/–3,882**
2010			
Pound sterling	+/–10%	–/+107	+/–840
Argentinian pesos	+/–10%	–/+227	–
Mexican pesos	+/–10%	+/–679	–
Peruvian nuevos soles	+/–10%	+/–852	–
Canadian dollars	+/–10%	+/–415	+/–14,519

Financial statements

Notes to the consolidated financial statements *continued*

36 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 trade receivables, embedded derivatives and cash balances in banks as at 31 December 2011 and 31 December 2010:

Summary commercial partners – Trade receivables	As at 31 December 2011 US$000	Credit rating or % collected as at 16 March 2012	As at 31 December 2010 US$000	Credit rating or % collected as at 23 March 2011
LS Nikko.	**36,972**	A1	10,691	A1
Teck Metals Ltd (formerly Teck Cominco Metals Ltd.)	**22,025**	BBB	30,274	BBB
Korea Zinc Co., Ltd	**19,091**	AA	–	–
Aurubis AG (formerly Nordeutsche Affinerie AG)	**18,848**	90%	24,802	99%
Argor Heraus S.A.	**6,672**	97%	215	100%
Standard Bank	**4,713**	100%	–	–
MRI Trading AG	**4,135**	98%	6,380	92%
Consorcio Minero S.A.	**1,475**	80%	11,577	82%
Doe Run Peru S.R.L.	**1,108**	0%	1,108	0%
Johnson Matthey Inc.	**318**	100%	4,313	100%
Traxys Peru S.A.C.	**–**	–	34	0%
Others	**22**	0%	10	0%
	115,379		89,404	

Summary commercial partners – Embedded derivatives	As at 31 December 2011 US$000	Credit rating or % collected as at 16 March 2012	As at 31 December 2010 US$000	Credit rating or % collected as at 23 March 2011
LS Nikko.	**(5,097)**	A1	2,916	A1
Teck Metals Ltd (formerly Teck Cominco Metals Ltd.)	**(3,129)**	BBB	6,464	BBB
Korea Zinc Co., Ltd	**(2,447)**	AA	–	–
Aurubis AG (formerly Nordeutsche Affinerie AG)	**(1,437)**	90%	2,498	99%
Consorcio Minero S.A.	**(461)**	80%	4,347	82%
Argor Heraus S.A.	**(200)**	97%	24	100%
MRI Trading AG	**(61)**	98%	245	92%
Traxys Peru S.A.C.	**–**	–	18	0%
	(12,832)		16,512	

36 Financial risk management (continued)

Financial counterparties	As at 31 December 2011 US$000	Credit rating[1]	As at 31 December 2010 US$000	Credit rating[1]
US Treasury bonds	**199,924**	–	–	–
HSBC	**186,883**	A+ S&P	618	AA
JP Morgan	**141,398**	A-1 S&P	380,887	A+
Deutsche Bank	**40,000**	A-1 S&P	–	–
Citibank	**32,080**	A S&P	92,406	A
Banco de Crédito del Peru	**8,669**	A-3 S&P	30,474	BBB–
Banco Bilbao Vizcaya Argentaria	**3,101**	AA- S&P	5,426	AA
Banorte	**1,298**	BBB-	1,519	BBB–
Interbank	**300**	BBB S&P	–	–
Others (including cash in hand)	**13,828**	NA	14,152	NA
Total	**627,481**		525,482	

1 The long-term credit rating.

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 or contracting directly with parent company 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
- Limiting exposure to financial counterparties according to Board approved limits
- Investing cash in short-term, highly liquid and low risk instruments (money market accounts, term deposits, US Treasuries)
- 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.

Financial statements
Notes to the consolidated financial statements *continued*

36 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
2011	**+25%**	**–375**	**+10,137**
	–25%	**–1,020**	**–9,867**
2010	+25%	+1,895	+38,405
	–25%	–2,066	–38,300

(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 2011 and 2010, the Group held the following financial instruments measured at fair value:

Assets measured at fair value	**31 December 2011 US$000**	Level 1 US$000	Level 2 US$000	Level 3 US$000
Equity shares (note 19)	**40,769**	28,928	–	11,841
Warrants	**28**	–	28	–
Liabilities measured at fair value				
Embedded derivatives (note 22(1))	**12,831**	–	–	12,831

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

During the period ending 31 December 2011 and 2010, 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 1 January 2010	695	(175)	11,743
Gain from the period recognised in revenue (note 22(1))	15,817	175	–
Fair value change through equity	–	–	1,838
Balance at 31 December 2010	16,512	–	13,581
Loss from the period recognised in revenue (note 22(1))	(16,512)	(12,831)	–
Fair value change through equity	–	–	(1,740)
Balance at 31 December 2011	**–**	**(12,831)**	**11,841**

36 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 2011 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 2011					
Trade and other payables	106,538	8	–	–	**106,546**
Embedded derivative liability	12,831	–	–	–	**12,831**
Borrowings	46,660	6,977	112,129	–	**165,766**
Provisions	32,378	2,726	997	–	**36,101**
Total	198,407	9,711	113,126	–	**321,244**
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

(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 at fixed rate.

	As at 31 December 2011				
	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)	**349**	**–**	**–**	**–**	**349**
Time deposits (note 23)	**212,081**	**–**	**–**	**–**	**212,081**
Loans to non-controlling interests (note 20)	**1,025**	**–**	**–**	**–**	**1,025**
Liquidity funds (note 23)	**199,924**	**–**	**–**	**–**	**199,924**
Secured bank loans (note 25)	**(39,721)**	**(360)**	**–**	**–**	**(40,081)**
Convertible bond payable (note 25)	**(6,613)**	**(679)**	**(103,827)**	**–**	**(111,119)**
Floating rate					
Liquidity funds (note 23)	**170,097**	**–**	**–**	**–**	**170,097**

Financial statements
Notes to the consolidated financial statements *continued*

36 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					
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

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 2011 and 2010 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
2011	**+/–50bps**	**+/–850**
2010	+/–50bps	+/–1,904

(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 (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.

Management also retains the right to fund operations (fully owned and joint ventures) with a mix of equity and joint venture partners' debt.

Parent company statement of financial position

As at 31 December 2011

	Notes	2011 US$000	2010 US$000
		As at 31 December	
ASSETS			
Non-current assets			
Property, plant and equipment	4	**176**	223
Investments in subsidiaries	5	**2,319,649**	2,319,649
		2,319,825	2,319,872
Current assets			
Other receivables	6	**3,903**	3,128
Cash and cash equivalents	7	**1,671**	1,191
		5,574	4,319
Total assets		**2,325,399**	2,324,191
EQUITY AND LIABILITIES			
Equity share capital	8	**158,637**	158,637
Share premium	8	**416,154**	416,154
Treasury shares	8	**(898)**	–
Other reserves		**1,323,982**	1,321,898
Retained earnings		**138,445**	177,661
Total equity		**2,036,320**	2,074,350
Non-current liabilities			
Trade and other payables	9	**–**	223
Borrowings	10	**104,506**	188,049
Provisions	11	**123**	44
		104,629	188,316
Current liabilities			
Trade and other payables	9	**177,837**	25,194
Other financial liabilities	12	**–**	1,930
Borrowings	10	**6,613**	34,401
		184,450	61,525
Total liabilities		**289,079**	249,841
Total equity and liabilities		**2,325,399**	2,324,191

The financial statements on pages 153 to 168 were approved by the Board of Directors on 19 March 2012 and signed on its behalf by:

Ignacio Bustamante
Chief Executive Officer

19 March 2012

Financial statements

Parent company statement of cash flows

For the year ended 31 December 2011

	Notes	2011 US$000	2010 US$000
		Year ended 31 December	
Reconciliation of (loss)/profit for the year to net cash used in operating activities			
(Loss)/profit for the year		**(18,930)**	950,487
Adjustments to reconcile Company operating profit to net cash outflows from operating activities			
Depreciation	4	**47**	93
Reversal of impairment of subsidiary		**–**	(967,630)
Gain on sale of associates		**–**	(4,947)
Income tax expense		**1**	8
Finance income		**(10)**	(55)
Finance costs (excluding impairment of available-for-sale financial assets)		**11,917**	12,389
Foreign exchange loss/(gain)		**(197)**	52
Increase (decrease) of cash flows from operations due to changes in assets and liabilities			
Other receivables		**(3,314)**	814
Trade and other payables		**815**	(439)
Provision for Long Term Incentive Plan		**233**	44
Cash used in operating activities		**(9,438)**	(9,184)
Interest received		**64**	40
Interest paid		**(8,869)**	(8,249)
Net cash used in operating activities		**(18,243)**	(17,393)
Cash flows from investing activities			
Investments in subsidiaries	5	**–**	(1,624)
Receipts on sale of associates		**–**	9,598
Loans to subsidiaries		**2,485**	(9)
Net cash generated from investing activities		**2,485**	7,965
Cash flows from financing activities			
Proceed of borrowing		**151,545**	18,613
Repayment of borrowings		**(114,320)**	–
Dividends paid	14	**(20,286)**	(13,523)
Purchase of treasury shares	8	**(898)**	–
Cash flows generated from financing activities		**16,041**	5,090
Net increase/(decrease) in cash and cash equivalents during the year		**283**	(4,338)
Foreign exchange gain/(loss)		**197**	(52)
Cash and cash equivalents at beginning of year		**1,191**	5,581
Cash and cash equivalents at end of year	7	**1,671**	1,191

Parent company statement of changes in equity

For the year ended 31 December 2011

					Other reserves						
	Notes	Equity share capital US$000	Share premium US$000	Treasury Shares US$000	Unrealised gain/(loss) on available-for-sale financial assets and valuation of cash flow hedges US$000	Bond equity component US$000	Share-based payment reserve US$000	Merger reserve US$000	Total other reserves US$000	Retained earnings US$000	Total equity US$000
Balance at 1 January 2010		158,637	416,154	–	(13)	8,432	–	347,766	356,185	208,327	1,139,303
Recycling of the change in fair value of cash flow hedges		–	–	–	429	–	–	–	429	–	429
Unrealised gain/(loss) in the valuation of cash flow hedges		–	–	–	(2,346)	–	–	–	(2,346)	–	(2,346)
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	14	–	–	–	–	–	–	–	–	(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
Recycling of the change in fair value of cash flow hedges	12	–	–	–	1,930	–	–	–	1,930	–	1,930
Other comprehensive income					1,930				1,930	–	1,930
Loss for the year		–	–	–	–	–	–	–	–	(18,930)	(18,930)
Total comprehensive loss for 2011		–	–	–	1,930	–	–	–	–	(18,930)	(17,000)
Treasury shares	8	–	–	(898)	–	–	–	–	–	–	(898)
CEO LTIP		–	–	–	–	–	154	–	154	–	154
Dividends	14	–	–	–	–	–	–	–	–	(20,286)	(20,286)
Balance at 31 December 2011		**158,637**	**416,154**	**(898)**	–	**8,432**	**154**	**1,315,396**	**1,323,982**	**138,445**	**2,036,320**

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

Financial statements

Notes to the parent company financial statements

For the year ended 31 December 2011

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. The financial statements are presented in US dollars (US$) and all monetary amounts are rounded to the nearest thousand ($000) except when otherwise indicated.

The ability for the Company to continue as a going concern is dependent on Hochschild Mining Holdings Limited providing additional funding to the extent that the operating inflows of the Company are insufficient to meet future cash requirements. As Hochschild Mining Holdings Limited has committed to provide this support, is a going concern itself and can provide financial support if necessary, the Directors have prepared the financial statements for the Company on the going concern basis.

(b) Exemptions

The Company's financial statements are included in the Hochschild Mining Group consolidated financial statements for the years ended 31 December 2011 and 31 December 2010. 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:

- IAS 24 "Related Party Transactions (Amendment)";

  The IASB has issued an amendment to IAS 24 that clarifies the definitions of a related party. The new definitions emphasise a symmetrical view of related party relationships as well as clarifying in which circumstances persons and key management personnel affect related party relationships of an entity. Secondly, the amendment introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The adoption of the amendment did not have any impact on the financial position or performance of the Company.

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

  The amendment 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. This amendment did not have any impact on the Company after initial application.

2 Significant accounting policies (continued)

- 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 did not have any impact on the financial statements of the Company.

- 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 did not have any effect on the financial statements of the Company.

- "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 including IFRS 3 Business Combinations, IFRS 7 Financial Instruments – Disclosures, IAS1 Presentation of Financial Statements and IAS 34 Interim Financial Statements.

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 2012 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 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.

(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.

Financial statements

Notes to the parent company financial statements *continued*

2 Significant accounting policies (continued)

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.

(h) Dividends receivable

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

(i) Other receivables

Current receivables are carried at the original amount less provision made for impairment of these receivables. A provision for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivable. The amount of the provision is the difference between the original carrying amount and the recoverable amount and this difference is recognised in the income statement.

(j) Cash and cash equivalents

Cash and cash equivalents are carried in the 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.

(k) Share capital

Ordinary shares issued by the Company are recorded at the net proceeds received, which is the fair value of the consideration received less costs that are incurred in connection with the share issue. The nominal par value of the shares issued is taken to the share capital account and any excess is recorded in the share premium account, including the costs that were incurred with the share issue.

(l) Provisions

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

(m) Share-based payments

Cash-settled transactions

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.

Equity-settled transactions

The cost of equity-settled transactions is recognised, together with a corresponding increase in other reserves in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group´s best estimate of the number of equity instruments that vest. The income statement expense for a period represents the movement in cumulative expense recognised as at the beginning and end of that period and is recognised in personnel expenses. During 2011, the Company has approved an equity-settled scheme for its CEO.

2 Significant accounting policies (continued)

(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.

(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 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:

- 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.

(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.

A detailed description of this policy is included in the Group's financial statements (note 2(v)).

(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 loss attributable to equity shareholders of US$18,930,000 (2010: gain of US$950,487,000).

Financial statements
Notes to the parent company financial statements *continued*

4 Property, plant and equipment

	Office building US$000	Equipment US$000	Total US$000
Year ended 31 December 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
Year ended 31 December 2011			
Cost			
At 1 January 2011 and 31 December 2011	277	267	544
Accumulated depreciation			
At 1 January 2011	74	247	321
Depreciation	28	19	47
At 31 December 2011	102	266	368
Net book value at 31 December 2011	**175**	**1**	**176**

5 Investments in subsidiaries

	Total US$000
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
Year ended 31 December 2011	
Cost	
At 1 January 2011	2,319,649
At 31 December 2011	2,319,649
Accumulated impairment	
At 1 January 2011	–
At 31 December 2011	–
Net book value at 31 December 2011	**2,319,649**

5 Investments in subsidiaries (continued)

The breakdown of the investments in subsidiaries is as follows:

	As at 31 December 2011			As at 31 December 2010		
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%	2,319,649
Total			**2,319,649**			2,319,649

The list of subsidiaries of the Group is presented in note 1 (Corporate information) of the notes to the consolidated financial statements.

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.

6 Other receivables

	Year ended 31 December	
	2011 US$000	2010 US$000
Amounts receivable from subsidiaries (note 13)	**3,479**	2,773
Prepayments	**324**	255
Receivable from Kaupthing, Singer and Friedlander	**421**	461
Other debtors	**100**	100
	4,324	3,589
Provision for impairment[1]	**(421)**	(461)
Total	**3,903**	3,128

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$421,000 accrued in 2008 and partially recovered in 2011 (2010: US$461,000).

Movements in the provision for impairment of receivables:

	Total US$000
At 1 January 2010	500
Amounts recovered	(39)
At 31 December 2010	461
Amounts recovered	(400)
At 31 December 2011	**421**

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
2011	**3,903**	**3,903**	–	–	–	–	–
2010	3,128	3,128	–	–	–	–	–

Financial statements
Notes to the parent company financial statements *continued*

7 Cash and cash equivalents

	Year ended 31 December	
	2011 US$000	2010 US$000
Bank current account[1]	**850**	43
Time deposits[2]	**821**	–
Liquidity funds	**–**	1,148
Cash and cash equivalents considered for the cash flow statement	**1,671**	1,191

1 Relates to bank accounts which are freely available and bear interest.
2 These deposits have an average maturity of 83 days.

8 Equity
(a) Share capital and share premium
Issued share capital

The issued share capital of the Company as at 31 December 2011 and 2010 is as follows:

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

At 31 December 2011 and 2010, all issued shares with a par value of 25 pence (2011: weighted average of US$0.469, 2010: 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.

(b) Treasury shares
Treasury shares represent the cost of Hochschild Mining plc shares purchased in the market and held by the trustee of the Hochschild Mining Employee Share Trust to satisfy the award of conditional shares under the Company's Enhanced Long Term Incentive Plan granted to the CEO (note 2(m)). During 2011, the Company purchased 126,769 shares for the purposes of the plan, for a total consideration of £561,477.91 (equivalent to $897,214).

(c) 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.

Bond equity component
Represents the equity component of the Convertible bond issued on 20 October 2009. 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.

Share-based payment reserve
Is used to recognise the value of equity-settled share-based payment transactions provided to employees, as a part of their remuneration.

9 Trade and other payables

	As at 31 December			
	2011		2010	
	Non-current US$000	Current US$000	Non-current US$000	Current US$000
Trade payables	–	28	–	784
Payables to subsidiaries (note 13)	–	176,619	–	23,019
Professional fees	–	102	–	95
Board members' remuneration	–	–	–	120
Remuneration payable	–	358	223	465
Audit fees	–	403	–	497
Accrued expenses	–	138	–	86
Taxes and contributions	–	189	–	128
Total	–	177,837	223	25,194

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.

10 Borrowings

	As at 31 December			
	2011		2010	
	Non-current US$000	Current US$000	Non-current US$000	Current US$000
Secured bank loans[1]	–	–	84,222	29,256
Convertible bond payable[2]	104,506	6,613	103,827	5,145
Total	104,506	6,613	188,049	34,401

1 Secured bank loans
As at 31 December 2010, the balance corresponds to the loan facility with a syndicate of lenders with JP Morgan Chase Bank N.A. acting as the Administrative Agent. The secured term loan facility of US$200,000,000 accrued an effective interest rate of LIBOR + 1% and was guaranteed by all the equity share capital, free and clear of any liens, of Compania Minera Aves S.A.C. The balance as at 31 December 2010 comprised of the principal of US$114,320,000 plus accrued interest of US$2,393,000 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 Price (before adjustment for the recommended 2011 Final Dividend): GBP 3.94
- Fixed Exchange Rate: US$1.59/GBP 1.00

The balance as at 31 December 2011 is comprised of the principal of US$115,000,000 (2010: US$115,000,000) plus accrued interest of $7,292,000 (2010: US$5,145,000), net of transaction costs of US$2,741,000 (2010: US$2,741,000) and the bond equity component of US$8,432,000 (2010: US$8,432,000).

Financial statements
Notes to the parent company financial statements *continued*

10 Borrowings (continued)
The maturity of non-current borrowings is as follows:

	As at 31 December	
	2011 US$000	2010 US$000
Between 1 and 2 years	**679**	56,318
Between 2 and 5 years	**103,827**	131,731
	104,506	188,049

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	
	2011 US$000	2010 US$000	**2011 US$000**	2010 US$000
Bank loans				
Secured	**–**	84,222	**–**	83,351
Convertible bond payable	**104,506**	103,827	**116,413**	121,709
Total	**104,506**	188,049	**116,413**	205,060

11 Provisions

	As at 31 December	
	2011 US$000	2010 US$000
Beginning balance	**44**	–
Increase of provision	**79**	44
At 31 December 2011	**123**	44
Less current portion	**–**	–
Non-current portion	**123**	44

1 Corresponds to the provision related to the Long Term Incentive Plans granted to designated personnel of the Company. Includes the following benefits: (i) Long Term Incentive Plan, granted April 2011, payable April 2014, and (ii) Long Term Incentive Plan, granted May 2010, payable May 2013. Only employees who remain in the Company's employment until the vesting date will be entitled to a cash payment, 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.

12 Other financial liabilities

	As at 31 December	
	2011 US$000	2010 US$000
Swap contracts[1]	**–**	1,930
Total liabilities	**–**	1,930

1 The swap contract was paid in January 2011.

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.

At 31 December 2011, the Company did not hold any financial instrument measured at fair value.

During the period ending 31 December 2011, there were no transfers between these levels.

12 Other financial liabilities (continued)

The reconciliation of the financial instruments categorised as Level 2 is as follows:

	Swap contracts US$000
Balance at 1 January 2010	(13)
Loss on valuation through equity	(1,917)
Balance at 31 December 2010	(1,930)
Recycling to profit and loss	1,930
Balance at 31 December 2011	**–**

13 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 2011 and 31 December 2010.

	As at 31 December 2011		As at 31 December 2010	
	Accounts receivable US$000	**Accounts payable US$000**	Accounts receivable US$000	Accounts payable US$000
Subsidiaries				
Compañía Minera Ares S.A.C.[1]	**117**	**2,631**	1	1,484
0848818 BC (formerly Southwestern Resources)[2]	**–**	**3,182**	–	2,894
Southwestern Gold Bermuda[3]	**–**	**600**	–	–
Hochschild Mining Holdings Ltd.[4]	**3,338**	**170,183**	209	18,638
Minas Santa María de Moris S.A. de C.V.[5]	**–**	**–**	2,554	–
Other subsidiaries	**24**	**23**	9	3
	3,479	**176,619**	2,773	23,019

1 Mainly relates to the services performed by Compañía Minera Ares S.A.C. to Hochschild Mining plc during 2011 of US$1,284,000 (2010: US$1,562,455).

2 Mainly relates to the purchase of 38,100,000 shares of Zincore Metals Inc. made on 10 September 2009. The amount outstanding at 31 December 2011 and 2010 was CAD$2,651,544 and CAD$2,809,799 respectively, equivalent to US$2,607,263 and US$2,825,056 respectively. In addition, during 2011, 0848818 BC made payments on behalf of Hochschild Mining plc amounting to US$507,464.

3 Relates to collection of an account receivable by Hochschild Mining plc on behalf of Southwestern Gold Bermuda.

4 Relates to loans receivable by and payable to Hochschild Mining Holdings Ltd. The loan payable is repayable on demand and is free of interest.

5 Corresponded 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 loan was repaid in full during 2011.

The fair values of the receivables and payables approximate their book values. Transactions between the Company and these companies are on an arm's length basis.

(b) Compensation of key management personnel of the Company

Key management personnel include the Directors who receive remuneration. The amount of this remuneration totals US$1,567,083 (2010: US$1,322,000), out of which US$39,900 (2010: US$79,975) relates to cash supplements in lieu of pension contributions.

	As at 31 December	
Compensation of key management personnel (including directors)	**2011 US$000**	2010 US$000
Short-term employee benefits	**1,413**	1,322
Long Term Incentive Plan	**154**	–
Total compensation	**1,567**	1,322

Financial statements
Notes to the parent company financial statements *continued*

14 Dividends paid and proposed

	2011 US$000	2010 US$000
Declared and paid during the year		
Equity dividends on ordinary shares:		
Final dividend for 2010: US$0.03 (2009: US$0.02)	**10,143**	6,762
Interim dividend for 2011: US$0.03 (2010: US$0.02)	**10,143**	6,761
Dividends paid	**20,286**	13,523
Proposed for approval by shareholders at the AGM		
Final dividend for 2011: US$0.03 (2010: US$0.03)	**10,135**	10,143

Dividends per share

The dividends declared in August 2011 were US$10,142,557 (US$0.03 per share). A dividend in respect of the year ended 31 December 2011 of US$0.03 per share, amounting to a total dividend of US$10,134,951 is to be proposed at the Annual General Meeting on 23 May 2012. These financial statements do not reflect this dividend payable.

15 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 pound sterling and Canadian dollars. Accordingly, 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
2011			
Pound sterling	**+/–10%**	**–/+503**	**–**
2010			
Canadian dollars	+/–10%	–/+289	–
Pound sterling	+/–10%	–/+335	–

15 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 statement of financial position date.

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 note 6.

(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 2011 of US$1,671,000 and US$526,247,000 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 2011					
Trade and other payables	**177,648**	**–**	**–**	**–**	**177,648**
Borrowings	**6,613**	**6,613**	**112,129**	**–**	**125,355**
Provisions	**–**	**97**	**29**	**–**	**126**
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

(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.

Financial statements
Notes to the parent company financial statements *continued*

15 Financial risk management (continued)

As at 31 December 2011	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 (note 7)	**850**	**–**	**–**	**–**	**850**
Time deposits (note 7)	**821**	**–**	**–**	**–**	**821**
Convertible bond payable (note 10)	**(6,613)**	**(679)**	**(103,827)**	**–**	**(111,119)**

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 (note 7)	43	–	–	–	43
Amounts receivable from subsidiaries (note 13)	2,554	–	–	–	2,554
Secured bank loans (note 10)	(29,256)	(56,318)	(27,904)		(113,478)
Convertible bond payable (note 10)	(5,145)	–	(103,827)	–	(108,972)
Floating rate					
Liquidity funds (note 7)	1,148	–	–	–	1,148

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 2011 and 2010 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
2011	**+/–50bps**	**–**
2010	+/–50bps	+/–10

(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.

Further information

Profit by operation[1]

(Segment report reconciliation) for the year ended 31 December 2011

Company (US$000)	Ares	Arcata	Pallancata	San Jose	Moris	Consolidation adjustment	Total
Revenue	68,097	209,239	352,642	325,302	32,298	84	**987,662**
Cost of sales (pre-consolidation)	(47,708)	(80,962)	(118,206)	(133,599)	(23,212)	(604)	**(404,291)**
Consolidation adjustment	75	567	970	(395)	(613)	(604)	**–**
Cost of sales (post-consolidation)	(47,783)	(81,529)	(119,176)	(133,204)	(22,599)	–	**(404,291)**
Production cost w/o depreciation	(42,168)	(52,970)	(63,496)	(86,749)	(15,859)	–	**(261,242)**
Depreciation in production cost	(1,023)	(23,291)	(34,863)	(42,608)	(1,929)	–	**(103,714)**
Other items	(4,738)	(6,575)	(17,475)	(3,654)	–	–	**(32,442)**
Change in inventories	146	1,307	(3,342)	(193)	(4,811)	–	**(6,893)**
Gross profit	20,389	128,277	234,436	191,703	9,086	(520)	**583,371**
Administrative expenses	–	–	–	–	–	(64,354)	**(64,354)**
Exploration expenses	–	–	–	–	–	(47,336)	**(47,336)**
Selling expenses	(92)	(3,068)	(4,155)	(31,686)	–	31	**(38,970)**
Other income/expenses	–	–	–	–	–	(10,146)	**(10,146)**
Operating profit before impairment	20,297	125,209	230,281	160,017	9,086	(122,325)	**422,565**
Impairment of assets	–	–	–	–	–	1,210	**1,210**
Investments under equity method	–	–	–	–	–	11,446	**11,446**
Finance income	–	–	–	–	–	10,678	**10,678**
Finance costs	–	–	–	–	–	(23,442)	**(23,442)**
FX gain/(loss)	–	–	–	–	–	(1,562)	**(1,562)**
Profit/(loss) from continuing operations before income tax[2]	20,297	125,209	230,281	160,017	9,086	(123,995)	**420,895**
Income tax	–	–	–	–	–	(148,557)	**(148,557)**
Profit/(loss) for the year from continuing operations	20,297	125,209	230,281	160,017	9,086	(272,552)	**272,338**

1 On a post-exceptional basis.
2 Hochschild profit before income tax reflected in 2011 annual report.

Further information
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 171 to 175* 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 2011, 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$1,080 per ounce and Ag Price: US$18 per ounce.

Attributable metal reserves as at 31 December 2011

Reserve category	Proved and probable (t)	Ag (g/t)	Au (g/t)	Ag (moz)	Au (koz)	Ag Eq (moz)
MAIN OPERATIONS[1]						
Arcata						
Proved	1,059,998	343	1.0	11.7	34.4	13.7
Probable	1,304,008	313	1.0	13.1	40.7	15.6
Total	2,364,006	327	1.0	24.8	75.1	29.3
Pallancata						
Proved	1,643,165	289	1.4	15.3	72.6	19.6
Probable	426,591	278	1.3	3.8	18.4	4.9
Total	2,069,755	287	1.4	19.1	91.1	24.6
San Jose						
Proved	410,654	475	7.0	6.3	92.3	11.8
Probable	446,672	354	5.8	5.1	83.1	10.1
Total	857,326	412	6.4	11.4	175.4	21.9
Main operations total						
Proved	**3,113,817**	**332**	**2.0**	**33.2**	**199.3**	**45.2**
Probable	**2,177,270**	**315**	**2.0**	**22.0**	**142.3**	**30.6**
Total	**5,291,087**	**325**	**2.0**	**55.3**	**341.6**	**75.8**
OTHER OPERATIONS						
Ares						
Proved	159,677	106	4.1	0.5	20.9	1.8
Probable	67,445	138	2.5	0.3	5.4	0.6
Total	227,122	115	3.6	0.8	26.3	2.4
Other operations total						
Proved	**159,677**	**106**	**4.1**	**0.5**	**20.9**	**1.8**
Probable	**67,445**	**138**	**2.5**	**0.3**	**5.4**	**0.6**
Total	**227,122**	**115**	**3.6**	**0.8**	**26.3**	**2.4**
Group total						
Proved	**3,273,494**	**321**	**2.1**	**33.8**	**220.2**	**47.0**
Probable	**2,244,715**	**310**	**2.0**	**22.3**	**147.7**	**31.2**
TOTAL	**5,518,209**	**316**	**2.1**	**56.1**	**367.8**	**78.2**

Note: Where reserves are attributable to a joint venture partner, reserve figures reflect the Company's ownership only. Includes discounts for ore loss and dilution.

1 Main operations were audited by P&E Consulting.

Further information
Reserves and resources *continued*

Attributable metal resources as at 31 December 2011

Resource category	Tonnes (t)	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													
Arcata													
Measured	1,339,610	492	1.46	–	–	–	579	21.2	62.9	25.0	–	–	–
Indicated	1,335,478	423	1.32	–	–	–	502	18.2	56.7	21.6	–	–	–
Total	2,675,088	457	1.39	–	–	–	541	39.3	119.6	46.5	–	–	–
Inferred	4,424,489	376	1.45	–	–	–	463	53.4	205.9	65.8	–	–	–
Pallancata													
Measured	2,517,648	382	1.76	–	–	–	487	30.9	142.6	39.5	–	–	–
Indicated	491,568	323	1.53	–	–	–	414	5.1	24.1	6.6	–	–	–
Total	3,009,216	372	1.72	–	–	–	476	36.0	166.7	46.0	–	–	–
Inferred	1,687,576	347	1.46	–	–	–	434	18.8	79.4	23.6	–	–	–
San Jose													
Measured	589,252	560	8.21	–	–	–	1,053	10.6	155.6	20.0	–	–	–
Indicated	1,791,762	423	6.53	–	–	–	815	24.4	376.2	46.9	–	–	–
Total	2,381,014	457	6.95	–	–	–	874	35.0	531.9	66.9	–	–	–
Inferred	924,843	384	5.30	–	–	–	702	11.4	157.6	20.9	–	–	–
Main operations total													
Measured	**4,446,510**	**439**	**2.53**	**–**	**–**	**–**	**590**	**62.7**	**361.1**	**84.4**	**–**	**–**	**–**
Indicated	**3,618,808**	**409**	**3.93**	**–**	**–**	**–**	**645**	**47.6**	**457.1**	**75.1**	**–**	**–**	**–**
Total	**8,065,319**	**425**	**3.16**	**–**	**–**	**–**	**615**	**110.3**	**818.1**	**159.4**	**–**	**–**	**–**
Inferred	**7,036,908**	**370**	**1.96**	**–**	**–**	**–**	**487**	**83.7**	**442.9**	**110.2**	**–**	**–**	**–**
OTHER OPERATIONS													
Ares													
Measured	470,660	161	6.18	–	–	–	532	2.4	93.5	8.0	–	–	–
Indicated	151,650	157	3.63	–	–	–	375	0.8	17.7	1.8	–	–	–
Total	622,310	160	5.56	–	–	–	493	3.2	111.2	9.9	–	–	–
Inferred	379,639	167	3.32	–	–	–	367	2.0	40.6	4.5	–	–	–
Other operations total													
Measured	**470,660**	**161**	**6.18**	**–**	**–**	**–**	**532**	**2.4**	**93.5**	**8.0**	**–**	**–**	**–**
Indicated	**151,650**	**157**	**3.63**	**–**	**–**	**–**	**375**	**0.8**	**17.7**	**1.8**	**–**	**–**	**–**
Total	**622,310**	**160**	**5.56**	**–**	**–**	**–**	**493**	**3.2**	**111.2**	**9.9**	**–**	**–**	**–**
Inferred	**379,639**	**167**	**3.32**	**–**	**–**	**–**	**367**	**2.0**	**40.6**	**4.5**	**–**	**–**	**–**

Attributable metal resources as at 31 December 2011 (continued)

Resource category	Tonnes (t)	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)
ADVANCED PROJECTS													
Inmaculada													
Measured	1,970,058	128	4.10	–	–	–	374	8.1	259.7	23.7	–	–	–
Indicated	2,269,691	159	4.05	–	–	–	402	11.6	295.4	29.3	–	–	–
Total	4,239,749	144	4.07	–	–	–	389	19.7	555.0	53.0	–	–	–
Inferred	2,962,666	152	3.91	–	–	–	387	14.5	372.0	36.8	–	–	–
Crespo													
Measured	4,582,255	51	0.49	–	–	–	80	7.5	71.6	11.8	–	–	–
Indicated	18,804,956	36	0.44	–	–	–	63	21.7	268.4	37.8	–	–	–
Total	23,387,211	39	0.45	–	–	–	66	29.2	340.0	49.6	–	–	–
Inferred	5,171,188	31	0.35	–	–	–	52	5.2	58.5	8.7	–	–	–
Azuca													
Measured	190,602	244	0.77	–	–	–	290	1.5	4.7	1.8	–	–	–
Indicated	6,858,594	187	0.77	–	–	–	233	41.2	168.8	51.3	–	–	–
Total	7,049,197	188	0.77	–	–	–	234	42.7	173.5	53.1	–	–	–
Inferred	6,946,341	170	0.89	–	–	–	223	37.9	199.5	49.9	–	–	–
Advanced Projects total													
Measured	**6,742,915**	**79**	**1.55**	**–**	**–**	**–**	**172**	**17.1**	**336.0**	**37.2**	**–**	**–**	**–**
Indicated	**27,933,241**	**83**	**0.82**	**–**	**–**	**–**	**132**	**74.5**	**732.6**	**118.4**	**–**	**–**	**–**
Total	**34,676,157**	**82**	**0.96**	**–**	**–**	**–**	**140**	**91.6**	**1,068.6**	**155.7**	**–**	**–**	**–**
Inferred	**15,080,195**	**119**	**1.30**	**–**	**–**	**–**	**197**	**57.6**	**630.0**	**95.4**	**–**	**–**	**–**
OTHER PROJECTS													
Jasperoide													
Measured	–	–	–	–	–	–	–	–	–	–	–	–	–
Indicated	–	–	–	–	–	–	–	–	–	–	–	–	–
Total	–	–	–	–	–	–	–	–	–	–	–	–	–
Inferred	12,187,270	–	0.32	–	–	1.32	147	–	126.8	57.6	–	–	161.2
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	**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	**13,445,001**	**8**	**0.30**	**0.58**	**0.21**	**1.22**	**160**	**3.4**	**128.6**	**69.0**	**77.8**	**28.5**	**163.6**
GRAND TOTAL													
Measured	**13,053,802**	**203**	**1.89**	**0.76**	**0.33**	**0.04**	**343**	**85.3**	**791.5**	**143.8**	**99.3**	**43.1**	**5.5**
Indicated	**33,057,961**	**119**	**1.14**	**0.25**	**0.11**	**0.01**	**196**	**126.5**	**1,209.9**	**208.2**	**83.2**	**37.0**	**4.2**
Total	**46,111,762**	**143**	**1.35**	**0.40**	**0.17**	**0.02**	**237**	**211.8**	**2,001.3**	**352.0**	**182.4**	**80.1**	**9.7**
Inferred	**35,941,742**	**127**	**1.07**	**0.22**	**0.08**	**0.46**	**242**	**146.7**	**1,242.2**	**279.1**	**77.8**	**28.5**	**163.6**

Further information
Reserves and resources *continued*

Change in total reserves and resources

Ag equivalent content (million ounces)	Category	December 2010	Production[1]	Movements[2]	**December 2011**	Net difference	% change
Arcata	Resource	98.7		13.6	**112.3**	13.6	13.8
	Reserve	29.1	7.8	8.0	**29.3**	0.2	0.7
Pallancata	Resource	109.0		6.9	**116.0**	7.0	6.4
	Reserve	49.4	13.1	4.7	**41.0**	(8.4)	(17.0)
San Jose	Resource	156.9		15.2	**172.1**	15.2	9.7
	Reserve	39.2	11.8	15.6	**42.9**	3.7	9.4
Main operations total	Resource	364.7		35.7	**400.4**	35.7	9.8
	Reserve	117.8	32.7	28.2	**113.2**	(4.6)	(3.9)
Ares	Resource	12.4		1.9	**14.3**	1.9	15.3
	Reserve	1.7	2.3	3.0	**2.4**	0.7	41.2
Moris	Resource	1.8		(1.8)	**0.0**	(1.8)	(100.0)
	Reserve	1.3	1.7	0.4	**0.0**	(1.3)	(100.0)
Other operations total	Resource	14.2		0.1	**14.3**	0.1	0.7
	Reserve	3.1	4.0	3.4	**2.4**	(0.7)	(22.6)
Inmaculada	Resource	137.3		12.3	**149.7**	12.4	9.0
	Reserve						
Crespo	Resource	47.4		10.9	**58.3**	10.9	23.0
	Reserve						
Azuca	Resource	70.3		32.7	**103.0**	32.7	46.5
	Reserve						
Advanced Projects total	Resource	255.0		55.9	**310.9**	55.9	21.9
	Reserve						
Jasperoide	Resource	0.0		57.6	**57.6**	57.6	–
	Reserve						
San Felipe	Resource	38.5		0.0	**38.5**	0.0	0.0
	Reserve						
Other projects total	Resource	38.5		57.6	**96.0**	57.5	149.3
	Reserve						
Total	Resource	672.4		149.3	**821.7**	149.3	22.2
	Reserve	120.8	36.7	31.5	**115.6**	(5.2)	(4.3)

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.

Change in attributable reserves and resources

Ag equivalent content (million ounces)	Category	Percentage attributable December 2011	December 2010 Att.[1]	December 2011 Att.[1]	Net difference	% change
Arcata	Resource	**100%**	98.7	**112.3**	13.6	13.8
	Reserve		29.1	**29.3**	0.2	0.7
Pallancata	Resource	**60%**	65.4	**69.6**	4.2	6.4
	Reserve		29.7	**24.6**	(5.1)	17.2
San Jose	Resource	**51%**	80.0	**87.8**	7.8	9.8
	Reserve		20.0	**21.9**	1.9	9.5
Main operations total	Resource		244.2	**269.7**	25.5	10.4
	Reserve		78.8	**75.8**	(3.0)	(3.8)
Ares	Resource	**100%**	12.4	**14.3**	1.9	15.3
	Reserve		1.7	**2.4**	0.7	41.2
Moris	Resource	**100%**	1.8	**0.0**	(1.8)	(100.0)
	Reserve		1.3	**0.0**	(1.3)	(100.0)
Other operations total	Resource		14.2	**14.3**	0.1	0.7
	Reserve		3.1	**2.4**	(0.7)	(22.6)
Inmaculada[2]	Resource	**60%**	82.4	**89.8**	7.4	9.0
	Reserve					
Crespo	Resource	**100%**	47.4	**58.3**	10.9	23.0
	Reserve					
Azuca	Resource	**100%**	70.3	**103.0**	32.7	46.5
	Reserve					
Advanced Projects total	Resource		200.1	**251.1**	51.0	25.5
	Reserve					
Jasperoide	Resource	**100%**	0.0	**57.6**	57.6	–
	Reserve					
San Felipe	Resource	**100%**	38.5	**38.5**	0.0	–
	Reserve					
Other projects total	Resource		38.5	**96.0**	57.5	149.3
	Reserve					
Total	Resource		497.0	**631.1**	134.1	27.0
	Reserve		81.8	**78.2**	(3.6)	(4.4)

1 Attributable reserves and resources based on the Group's percentage ownership of its joint venture projects.
2 The Company increased its holding in the Inmaculada project to 60% in 2010.

Further information
Production

2011 Total Group production[1]

	Year ended 31 December 2011	Year ended 31 December 2010	% change
Silver production (koz)	**21,363**	24,430	(13)
Gold production (koz)	**180.51**	200.05	(10)
Total silver equivalent (koz)	**32,193**	36,434	(12)
Total gold equivalent (koz)	**536.56**	607.23	(12)
Silver sold (koz)	**21,792**	24,283	(10)
Gold sold (koz)	**182.0**	199.9	(9)

1 Total production includes 100% of all production, including production attributable to joint venture partners at San Jose and Pallancata.

Attributable Group production[2]

	Year ended 31 December 2011	Year ended 31 December 2010	% change
Silver production (koz)	**14,980**	17,768	(16)
Gold production (koz)	**127.29**	144.40	(12)
Attributable silver equivalent (koz)	**22,617**	26,432	(14)
Attributable gold equivalent (koz)	**377.0**	440.5	(14)

2 Attributable production includes 100% of all production from Arcata, Ares and Moris, 60% from Pallancata and 51% from San Jose.

Production by mine
Arcata

Product	Year ended 31 December 2011	Year ended 31 December 2010	% change
Ore production (tonnes)	**687,966**	645,974	7
Average head grade silver (g/t)	**312**	439	(29)
Average head grade gold (g/t)	**0.88**	1.40	(37)
Silver produced (koz)	**6,081**	8,099	(25)
Gold produced (koz)	**17.38**	25.83	(33)
Silver equivalent produced (koz)	**7,124**	9,649	(26)
Silver sold (koz)	**5,979**	8,095	(26)
Gold sold (koz)	**16.7**	24.9	(33)

Ares

Product	Year ended 31 December 2011	Year ended 31 December 2010	% change
Ore production (tonnes)	**344,085**	301,726	14
Average head grade silver (g/t)	**61**	92	(34)
Average head grade gold (g/t)	**2.90**	3.58	(19)
Silver produced (koz)	**581**	786	(26)
Gold produced (koz)	**29.03**	32.53	(11)
Silver equivalent produced (koz)	**2,323**	2,738	(15)
Silver sold (koz)	**598**	810	(26)
Gold sold (koz)	**29.7**	32.7	(9)

Pallancata[1]

Product	Year ended 31 December 2011	Year ended 31 December 2010	% change
Ore production (tonnes)	**1,070,466**	1,071,617	(0.1)
Average head grade silver (g/t)	**301**	344	(13)
Average head grade gold (g/t)	**1.33**	1.41	(6)
Silver produced (koz)	**8,767**	10,135	(13)
Gold produced (koz)	**33.88**	35.85	(6)
Silver equivalent produced (koz)	**10,800**	12,286	(12)
Silver sold (koz)	**9,064**	9,998	(9)
Gold sold (koz)	**33.9**	33.7	0.6

1 The Company has a 60% interest in Pallancata.

San Jose[2]

Product	Year ended 31 December 2011	Year ended 31 December 2010	% change
Ore production (tonnes)	**462,825**	461,134	0.4
Average head grade silver (g/t)	**444**	397	12
Average head grade gold (g/t)	**5.86**	6.14	(5)
Silver produced (koz)	**5,870**	5,324	10
Gold produced (koz)	**80.95**	84.30	(4)
Silver equivalent produced (koz)	**10,727**	10,382	3
Silver sold (koz)	**6,087**	5,284	15
Gold sold (koz)	**82.4**	85.0	(3)

2 The Company has a 51% interest in San Jose.

Moris

Product	Year ended 31 December 2011	Year ended 31 December 2010	% change
Ore production (tonnes)	**858,028**	1,148,826	(25)
Average head grade silver (g/t)	**5.02**	4.44	13
Average head grade gold (g/t)	**0.96**	1.14	(16)
Silver produced (koz)	**64**	86	(26)
Gold produced (koz)	**19.26**	21.53	(11)
Silver equivalent produced (koz)	**1,220**	1,378	(11)
Silver sold (koz)	**64**	95	(33)
Gold sold (koz)	**19.3**	23.5	(18)

Further information
Glossary

Ag
Silver

Adjusted EBITDA
Adjusted EBITDA is calculated as profit from continuing operations before net finance income/(cost), foreign exchange loss and income tax plus depreciation and exploration expenses other than personnel and other exploration related fixed 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

CAD$
Canadian dollar

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.

Dore
Dore bullion is an impure alloy of gold and silver and is generally the final product of mining and processing; the dore 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 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 tonnes

ktpa
Thousand 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 25 pence 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 23 May 2012 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 9 May 2012.

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 9 May 2012. This arrangement is only available in respect of dividends paid in UK pound sterling. Shareholders who have already completed one or both of these forms need take no further action.

Investor relations
For investor enquiries please contact our Investor Relations team by writing to the London Office address (see below), by phone on 020 7907 2933 or via the website by visiting the 'Contact Us' section.

Financial calendar

Ex-dividend date	2 May 2012
Record date	4 May 2012
Deadline for return of currency election form	9 May 2012
Final dividend payable	29 May 2012
Half-yearly results announced	August 2012

London Office and Registered Office address
46 Albemarle Street
London
W1S 4JL
United Kingdom

Company Secretary
R D Bhasin

Advice to shareholders concerning Boiler Room Scams

In recent years, many companies have become aware that their shareholders have received unsolicited phone calls or correspondence concerning investment matters. These are typically from overseas based 'brokers' who target UK shareholders, offering to sell them what often turn out to be worthless or high risk shares in US or UK investments. These operations are commonly known as 'boiler rooms'. These 'brokers' can be very persistent and extremely persuasive, and a 2006 survey by the Financial Services Authority (FSA) has reported that the average amount lost by investors is around £20,000.

It is not just the novice investor that has been duped in this way; many of the victims had been successfully investing for several years. Shareholders are advised to be very wary of any unsolicited advice, offers to buy shares at a discount or offers of free company reports. If you receive any unsolicited investment advice:

- Make sure you get the correct name of the person and organisation
- Check that they are properly authorised by the FSA before getting involved by visiting *www.fsa.gov.uk/register/home.do* and contacting the firm using the details on the register
- Report the matter to the FSA either by calling 0845 606 1234 or visiting *www.moneyadviceservice.org.uk*
- If the calls persist, hang up

If you deal with an unauthorised firm, you will not be eligible to receive payment under the Financial Services Compensation Scheme. The FSA can be contacted by completing an online form at *www.fsa.gov.uk/pages/doing/regulated/law/alerts/overseas.shtml*

Details of any share dealing facilities that the company endorses will be included in company mailings.

More detailed information on this or similar activity can be found on the Money Advice Services website at *www.moneyadviceservice.org.uk*

Notes

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.

Designed and produced by
Radley Yeldar www.ry.com

Printed by the Pureprint Group
This report is printed on stock which is certified as FSC® Mixed Sources and is completely biodegradable and recyclable.

Hochschild Mining plc
46 Albemarle Street
London W1S 4JL
United Kingdom
Tel: +44 (0)20 7907 2930
Fax: +44 (0)20 7907 2931
info@hocplc.com
www.hochschildmining.com