ANNUAL REPORT & ACCOUNTS 2013

POSITIONED FOR GROWTH

HOCHSCHILD MINING PLC

POSITIONED FOR GROWTH

WE BELIEVE WE HAVE THE PROVEN OPERATIONAL AND GEOLOGICAL EXPERTISE, COMPETITIVE COST POSITION, SOLID BALANCE SHEET AND EXPERIENCED MANAGEMENT TEAM TO NAVIGATE VOLATILE MARKETS AND DELIVER VALUE ACCRETIVE GROWTH INTO THE FUTURE.

WE ARE A LEADING UNDERGROUND PRECIOUS METALS COMPANY, FOCUSING ON THE EXPLORATION, MINING, PROCESSING AND SALE OF SILVER AND GOLD IN THE AMERICAS.

With 50 years of experience in the mining of precious metal epithermal vein deposits, we are among the lowest cost primary silver producers in the world, based on co-product cash costs. We are headquartered in Lima, Peru, and have various exploration offices in South America and Mexico. We currently have four underground mines in operation, with three located in southern Peru and one in southern Argentina. Three of these mines are among the 13 largest primary silver mines in the world.

We also have one Advanced Project that we expect will foster our short and medium term growth: Inmaculada in Peru, a large silver and gold project, which is expected to begin operating in the fourth quarter of 2014 and produce approximately 12 million ounces of silver equivalent per year. We also have an extensive portfolio of greenfield exploration projects across premium geological locations throughout South America and Mexico.

HOCHSCHILD REMAINS IN A STRONG POSITION

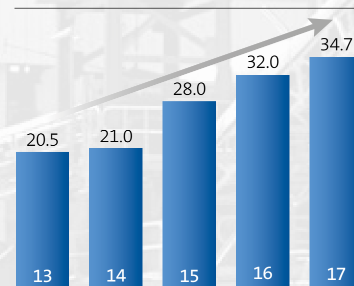
- Leading Peruvian mining house with 100-year history
- Strong operational flexibility to adapt to diverse market conditions
- Set to commence four years of production growth
- Low risk Inmaculada project development expected to bolster cashflow generation and lower average costs
- Cluster in rich southern Peru mining region
- Proven ability to replace resources through brownfield exploration

CASHFLOW OPTIMISATION PROGRAMME

- Approximately $200m of annualised savings
- Savings include costs, capex and expenses
- Reductions in business areas including Operations, Exploration, Advanced Projects, Administration
- Focus on most promising greenfield prospects

PRODUCTION GROWTH

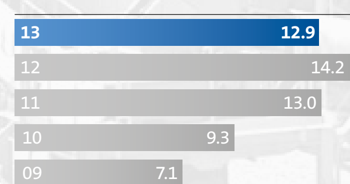
We are set to deliver four years of production growth



60% PRODUCTION GROWTH

TOTAL SILVER CASH COSTS

We have achieved a significant improvement in our cost position in 2013.



9% 2013 CASH COST REDUCTION

DISCOVER MORE ABOUT POSITIONED FOR GROWTH ONLINE

- Learn more about our history, our people and our strategy
- Explore our operations and extensive project pipeline
- Read more on our approach to sustainability

www.hochschildmining.com

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POSITIONED FOR GROWTH: INMACULADA

THE 100% OWNED INMACULADA PROJECT IS HOCHSCHILD'S FLAGSHIP GROWTH PROJECT AND IS EXPECTED TO CONTRIBUTE ALMOST 12 MILLION SILVER EQUIVALENT OUNCES PER ANNUM WITH COMMISSIONING DUE TOWARDS THE END OF 2014.

OVERVIEW

- Gold-silver project located in Southern Peru Cluster
- 112km from Pallancata mine
- Expected average annual production: 64% gold/36% silver
- Expected to start operations in Q4 2014
- Inmaculada project expected to be amongst Hochschild's lowest cost operations and largest cashflow generator

DEVELOPMENT

- Environmental Impact Statement (EIS) and construction permit already approved
- Infrastructure and electricity transmission line almost complete
- Over 10km of tunnelling already carried out
- Engineering and contract targets almost complete
- Plant construction ongoing with most major equipment already delivered

FUTURE GROWTH

- 150m Ag Eq ounce resource base
- Already identified inferred resources within main Angela vein almost doubles life-of-mine
- Further veins already identified in surrounding Quellopata system
- Significant prospectivity in overall Inmaculada land package

12M OZ
Ag Eq per annum

Q4 2014
Commissioning starts

150M OZ
Ag Eq resource base

OUR KEY PERFORMANCE INDICATORS

2013 PROVED TO BE ONE OF THE MOST CHALLENGING IN HOCHSCHILD MINING'S HISTORY BUT WE ARE CONFIDENT THAT THE NECESSARY MEASURES SO SWIFTLY IMPLEMENTED BY OUR TEAM HAVE RESULTED IN AN ORGANISATION WITH A SUSTAINABLE GROWTH STRATEGY AND A LOWER COST, LEANER STRUCTURE THAT IS APPROPRIATE FOR ALL STAGES OF SUCH VOLATILE PRECIOUS METAL PRICE CYCLES.

OUR STRATEGY OVERVIEW, OPERATING AND EXPLORATION REVIEWS AND SUSTAINABILITY REPORT PROVIDE MORE DETAIL OF OUR PERFORMANCE IN RELATION TO OUR KEY STRATEGIC PRIORITIES.

REVENUE
$m

Year	Value
13	622
12	818
11	988
10	752
09	540

ADJUSTED EBITDA
$m

Year	Value
13	195
12	385
11	563
10	398
09	250

EARNINGS PER SHARE
$

Year	Value
13	(0.15)
12	0.19
11	0.49
10	0.28
09	0.17

PROPOSED TOTAL DIVIDEND
$

Year	Value
13	Nil
12	0.06
11	0.06
10	0.05
09	0.04

TOTAL SILVER CASH COSTS
$/oz Ag co-product

Year	Value
13	12.9
12	14.2
11	13.0
10	9.3
09	7.1

TOTAL GOLD CASH COSTS
$/oz Au co-product

Year	Value
13	801
12	781
11	613
10	535
09	476

LTIFR

Year	Value
13	2.08
12	3.33
11	3.63
10	3.70
09	5.22

Calculated as total number of accidents per million labour hours.

ACCIDENT SEVERITY INDEX

Year	Value
13	598
12	1,058
11	910
10	777
09	1,485

Calculated as total number of days lost per million labour hours.

COMMUNITY INVESTMENT
$m

Year	Value
13	3.2*
12	6.5
11	7.7
10	6.7
09	6.0

For further details please see the Sustainability report.

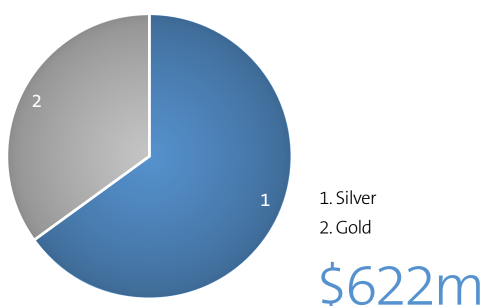
* Total social expenditure for 2013 amounted to $10.1 million.

For more information visit www.hochschildmining.com

PRODUCTION: DELIVERING ON TARGETS

We once again met our full-year production target in 2013, producing 20.5 million attributable silver equivalent ounces, comprised of 13.6 million ounces of silver and 115.7 thousand ounces of gold. In 2013, our gross silver revenue was $433 million and our gross gold revenue, $226 million.

2013 REVENUE BY PRODUCT



1. Silver	65%
2. Gold	35%

$622m

2013 ATTRIBUTABLE PRODUCTION

Silver equivalent moz

Year	Silver equivalent moz
13	**20.5**
12	20.3
11	22.6
10	26.4
09	28.2

RESOURCE BASE

Silver equivalent moz

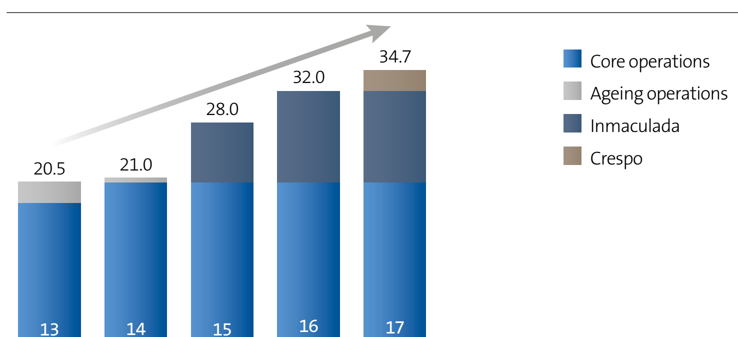
Year	Silver equivalent moz
13	**1,300**
12	1,100
11	535
10	453
09	342

RECOMMENCING PRODUCTION GROWTH

Following the completion of the International Minerals acquisition in December 2013, we now own 100% of the flagship Inmaculada project and are embarking on several years of production growth. Over the next four years, Hochschild has targeted production from our core assets and from our projects to reach almost 35m ounces.

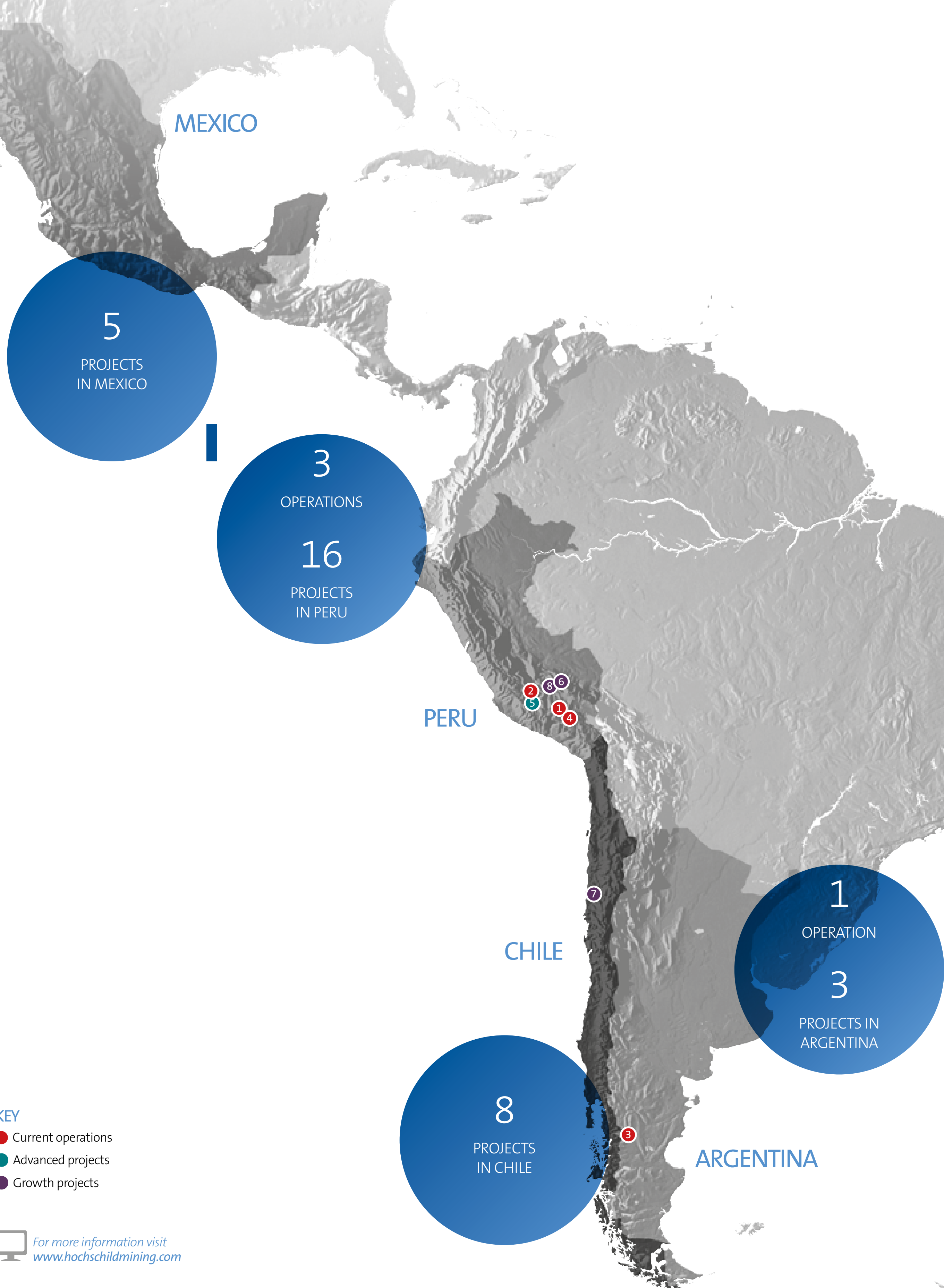
EXPECTED ATTRIBUTABLE PRODUCTION CAPACITY

(millions Ag Eq oz)



Inmaculada

WHERE WE OPERATE



KEY
- Current operations
- Advanced projects
- Growth projects

For more information visit www.hochschildmining.com

WE HAVE HALF A CENTURY'S OPERATING EXPERIENCE IN THE AMERICAS AND HAVE BUILT UP A COMPREHENSIVE PORTFOLIO OF THREE UNDERGROUND OPERATIONS IN PERU, ONE OPERATION IN ARGENTINA AND A TOTAL OF 38 EXPLORATION PROGRAMMES IN FOUR COUNTRIES ACROSS THE CONTINENT.

CURRENT OPERATIONS[1]		
1 Arcata Peru	Silver equivalent production Capacity	6.0 moz 1,750 tpd
2 Pallancata Peru	Silver equivalent production Capacity	9.3 moz 3,000 tpd
3 San Jose[1] Argentina	Silver equivalent production Capacity	12.3 moz 1,650 tpd
4 Ares Peru	Silver equivalent production Capacity	2.2 moz 1,000 tpd
ADVANCED PROJECTS[2]		
5 Inmaculada Peru	Estimated silver equivalent production p.a.	12 moz
GROWTH PROJECTS		
6 Crespo Peru	Estimated silver equivalent production p.a.	2.7 moz
7 Volcan Chile	Estimated silver equivalent production p.a.	n/a
8 Azuca Peru	Estimated silver equivalent production p.a.	3.5 moz

GREENFIELD PROJECTS	
Peru	Ibel, Huacullo, Astana, Sipan, Pausi, Santo Tomas, Fresia, Julieta, Antay (Cu), Alpacocha (Cu), Numa, Carmen Carelli, Suckuytambo
Argentina	El Mosquito, Pomona, La Flora
Mexico	Corazon de Tinieblas, Mercurio, Pachuca, Elefante, Riverside JV
Chile	Victoria, Valeriano, Encrucijada, Bambu, Medio, Trinchera, Isla, Miocene Chile

1 The Company has a 51% interest in San Jose.

2 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").

HOW WE DO IT

WE BELIEVE THAT OUR SUSTAINABLE BUSINESS MODEL AND CORE STRENGTHS OFFER A UNIQUE INVESTMENT PROPOSITION.

OUR BUSINESS MODEL

CORPORATE GOVERNANCE FRAMEWORK

EXPERIENCED MANAGEMENT TEAM

OPERATIONAL & GEOLOGICAL EXPERTISE

CREATING VALUE

HOCHSCHILD

FOCUS ON EXPLORATION

COMMITMENT TO SUSTAINABILITY

SOLID FINANCIAL POSITION

For more information visit
www.hochschildmining.com

OUR UNIQUE PROPOSITION

WE BELIEVE THAT THE FOLLOWING QUALITIES OF HOCHSCHILD MINING SET US APART:

OPERATIONAL & GEOLOGICAL EXPERTISE

Our Company is more than 100 years old and we have 50 years of experience successfully operating precious metal mines. We have been able to maintain annual production targets throughout this period despite significant volatility in precious metal prices as well as significantly changing political and economic environments. Since 2007, we have doubled the overall throughput capacity at our operations and have consistently been able to achieve our annual production targets, increase our resource base and achieve positive results from our brownfield exploration at existing mines. The operational and geological experience we have been able to develop over many years and across multiple operations has made it possible for us to maximise the productivity of our Core Assets, develop mining projects and find new deposits in the Americas.

Workers underground at Arcata

FOCUS ON EXPLORATION

We have always placed a strong emphasis on exploration as a key measure to secure the long-term sustainability of our core producing assets as well as finding new projects for our portfolio. The goal of our brownfield exploration programme is to continuously seek to optimise the life-of-mine of our mines and the quality of their resources. Our success is underpinned by the fact that the Company currently has the largest resource base in its history. From a greenfield standpoint, we have discovered several mines and acquired early-stage projects to ensure the long-term sustainability of our business. Prudent capital allocation, strong technical processes and a high quality team of geologists are key to our greenfield strategy.

Camp at Jasperoide

SOLID FINANCIAL POSITION

Our solid financial position gives us significant flexibility to support commodity price variations. Our conservative financial management practices are designed to promote financial robustness even under a volatile commodity price environment. Historically, we have maintained significant cash positions whilst incurring limited indebtedness. We believe that the combination of a competitive and flexible cost structure and a strong financial position with modest leverage is key to supporting our business for the long term.

Crespo

EXPERIENCED MANAGEMENT TEAM

Our management team has extensive experience in the mining industry and a proven track record of sustainable mining, developing successful projects and adding economic mineral resources. We believe this experience has enabled us to manage our operations efficiently and to maintain profitability through volatile commodity price cycles for 50 years. Our management team has also managed joint venture operations and successfully integrated several acquisitions and business expansions.

Lima office exterior

COMMITMENT TO SUSTAINABILITY

We seek to achieve successful operations adhering to our historical commitment to safety as well as social and environmental sustainability, with operational safety being one of our core values. We consider our surrounding communities our long-term business partners and commit skilled professionals as well as financial resources to support programmes in three different categories: health, safety and sustainable development. As a result, we have been able to operate collaboratively with our neighbours in our Southern Peru Cluster for 50 years.

Safety

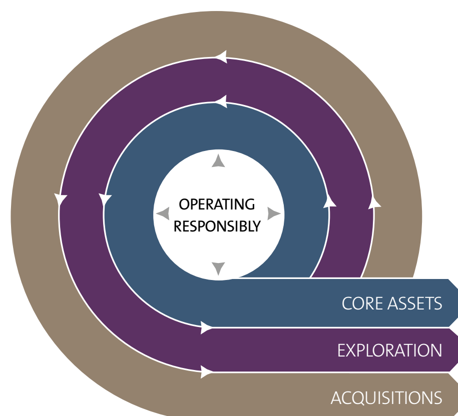
For more information please see our Sustainability report on page 36

HOW WE ARE GOING TO GET THERE

OUR STRATEGY IS TO CREATE VALUE FOR ALL OUR SHAREHOLDERS BY OPTIMISING OUR CURRENT OPERATIONS, FOCUSING ON EXPLORATION AND PURSUING OPPORTUNISTIC EARLY-STAGE ACQUISITIONS.

OUR STRATEGY

THIS STRATEGY IS UNDERPINNED BY OUR COMMITMENT TO ALL OF OUR EMPLOYEES' SAFETY, TO MANAGE AND MINIMISE THE ENVIRONMENTAL IMPACT OF OUR OPERATIONS AND TO ENCOURAGE SUSTAINABILITY BY RESPECTING THE COMMUNITIES SURROUNDING OUR OPERATIONS. WE INTEND TO ACHIEVE OUR OBJECTIVES THROUGH THE FOLLOWING PRINCIPAL STRATEGIES:



For more information on our strategy please see our Chief Executive's review on page 16

CORE ASSETS

- Improve productivity
- Optimise life-of-mine

At our Core Assets we are focused on improving operational productivity, reducing costs, optimising the life-of mine and ensuring their long-term sustainability. Since our IPO, we have doubled the overall throughput capacity at our operations and have achieved all of our annual production targets. We have also expanded our resource base, not only replacing the mined resources, but by consistently increasing our life-of-mine. This has had a tangible effect in improving our mine planning process, a key step to achieving efficient operations. We strongly believe that constantly improving the efficiency of our operations is key to maintaining a competitive position in the industry, thus allowing us to support our business in the long term.

EXPLORATION

- Land package
- People
- Incentives
- Budget

We believe that significant value can be created for our Company by discovering economic mineral resources. In order to be successful, we have formed a highly reputable team of geologists to focus on discoveries in the Americas. We have developed processes utilising computer-designed models to generate geological theories, which, together with extensive on-site prospecting, have allowed us to build a land package of promising geological sites totalling more than one million hectares in the Americas. Furthermore, we have developed disciplined and stringent internal processes to evaluate and prioritise our pipeline of projects in order to adequately allocate financial resources, based on our conservative financial policies, to drill and develop our exploration projects. We believe that this disciplined strategy will allow us to access attractive mineral resources for the long term sustainability of our mining business.

EARLY-STAGE ACQUISITIONS

- Early stage
- Geological potential
- Highly accretive
- Control

Our business development team is dedicated to pursuing early-stage opportunities that demonstrate strong geological potential, value accretion and a clear path to control. This strategy is implemented in line with our conservative financial policies. We have a proven track record of identifying such opportunities, such as our acquisition of a controlling stake in the Inmaculada Advanced Project and the acquisition of Andina Minerals, which added the Volcan Growth Project to our pipeline. We believe the recent acquisition of the remaining 40% of Inmaculada fits our strategy of adding highly prospective early-stage projects.

OUR GROWTH PYRAMID

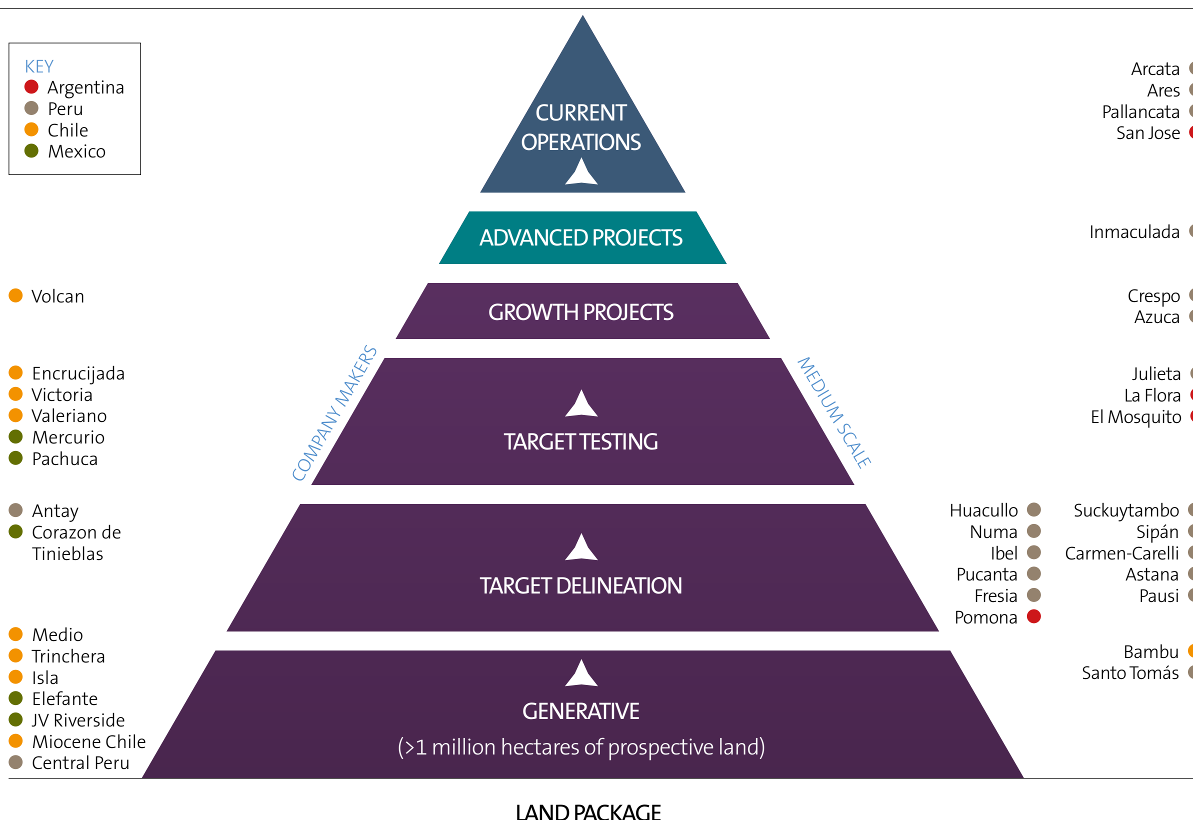
OUR GROWTH PYRAMID INCLUDES AND CATEGORISES OUR PROJECTS, FROM CURRENT OPERATIONS, TO ADVANCED PROJECTS, TO COMPANY MAKER AND MEDIUM SCALE TARGETS AND PROSPECTS, AND FINALLY, OUR PREMIUM LAND PACKAGE. THE PYRAMID ALSO ILLUSTRATES HOW THESE PROJECTS MOVE UP THE PIPELINE FROM TARGETS/PROSPECTS, TO DRILL TESTING, TO ADVANCED PROJECTS THROUGH TO PRODUCING OPERATIONS.

COMPANY MAKERS:

We currently have 12 potential 'Company Makers' which are projects that have the potential to achieve 20-30 million silver equivalent ounces of production per year.

MEDIUM SCALE:

We currently have 19 potential 'Medium Scale' projects which have the potential to achieve 5-10 million silver equivalent ounces of production per year.



LAND PACKAGE

18 *For more information please see our Operating review and Exploration review on pages 18-28*

OUR MARKET OVERVIEW

GOLD SUMMARY

OVERVIEW

Gold prices rose to historically high levels over the course of a decade into late 2011. Gold prices have remained at historically elevated levels since then. Even as prices have declined from their short-term peaks in 2011, they remain far higher than most periods before in history. Gold prices moved between $1,179.40 and $1,697.80 during 2013. The annual average price of gold was $1,409.43 during 2013, down 15.6% from 2012 after dramatic falls in April and June. It nonetheless was the third highest annual average price of gold on record.

Investors purchased a large volume of gold in 2013. Net gold purchases by investors in 2013 were 29.7 million ounces. Longer term investors viewed the decline in gold prices during 2013 as a buying opportunity and were the primary buyers during the year. These investors were purchasing gold mainly as a hedge against a variety of long-term structural problems that the global economy is faced with, such as growing government debt and trade imbalances. However, shorter term investors and trend followers reacted to the decline in gold prices as a reason to sell, using every price rally as a selling opportunity and moved their funds into other asset classes such as equities and property that were showing price strength.

Central banks displayed increased price sensitivity during 2013, pulling back from making fresh purchases during the second half of the year. One possible explanation is that, following the decline in gold prices in April and June, central banks were waiting to see at what level gold prices would stabilise before making fresh purchases. Between January and May 2013 central banks purchased 5.11 million ounces on a gross basis, an average of a little over a million ounces a month. Contrastingly, purchases between June and November amounted to only 1.82 million ounces. However, ongoing Central Bank interest in gold ownership can be seen in the relatively small amount of metal sold during 2013.

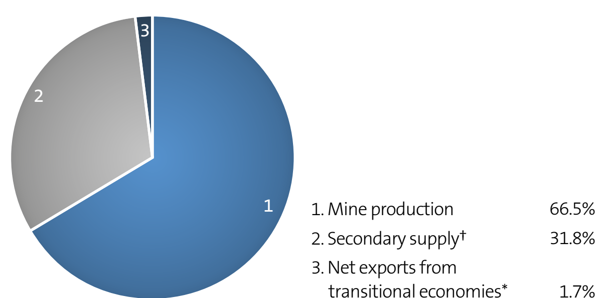
Global gold mine supply is estimated at 82.1 million ounces in 2013, up 2.8% from 2012 levels. The increase in mine supply was led primarily by an increase in Chinese output but also as a result of new projects that were being ramped up in other countries. Secondary supply of gold declined sharply to 39.3 million ounces during 2013, down from 47.2 million ounces in 2012. This weakness was in response to the decline in gold prices and would have declined even more sharply if it had not been for India, where continuing restrictions on gold imports resulted in a supply shortage with secondary supply rising in response.

Gold fabrication demand is estimated to have risen to 90.5 million ounces in 2013, up around 10% from 2012 levels. Jewellery demand, the largest component of gold fabrication demand, benefits from softness in gold prices and this helped push jewellery demand to an estimated 77.2 million ounces in 2013, up 11.8% from 2012.

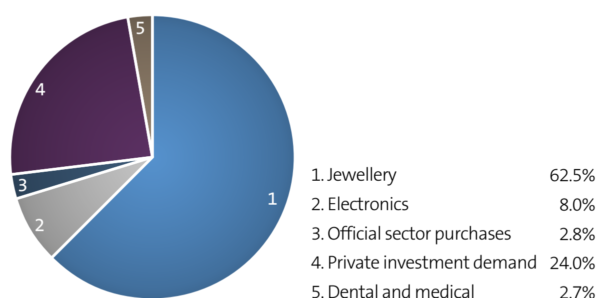
POSSIBLE DRIVERS FOR GOLD IN 2014:

- Investment demand is forecast to remain at elevated levels during 2014, driven by ongoing demand from longer term buyers and a possible change in sentiment from shorter term buyers as the year progresses.
- Central banks are expected to continue to diversify their foreign exchange reserves with gold. A period of relative stability in gold prices during 2014 is expected to draw these market participants back into the market.
- Secondary supply of gold is expected to continue declining in 2014, albeit at a slower pace than in 2013. Mine supply is forecast to rise at a moderate pace in 2014, driven by the ongoing ramp-up of new mines.
- Fabrication demand for gold is forecast to continue rising in 2014, possibly reaching multi-year highs.

2013 GOLD SUPPLY



2013 GOLD DEMAND



† Secondary supply includes metal recovered from old jewellery, decorative objects, statues, coins, scrapped electronics, and dental alloys.

* Exports from transitional economies: the export of silver and gold mine productions from countries including the former Soviet Union Republics, North Korea, Vietnam and Cuba.

Source: CPM Group LLC

SILVER SUMMARY

OVERVIEW

The silver investment market was divided in 2013, with some investors selling large volumes of silver and others buying larger amounts with overall volumes of nearly 100 million ounces of silver bullion and coins purchased in 2013. However, the price of silver fell sharply in reaction to the first group's selling, with prices averaging $23.75 for the year on a nominal basis, down from annual averages of $31.17 in 2012 and $35.29 in 2011, which was a record high.

Fabrication demand rose to 838.7 million ounces in 2013, up 2.9% from 2012. The primary driver of silver fabrication demand in 2013 was an increase in jewellery and silverware demand, which rose 7.4% from 2012. The decline in silver prices during 2013 helped push silver demand higher with jewellery markets being price-sensitive. In addition to the decline in prices, demand for jewellery and silverware was supported by growing consumer purchases from India. Government import restrictions on gold as well as a weakening rupee against the US dollar has pushed gold prices higher in the Indian market, which made silver jewellery more attractive to consumers.

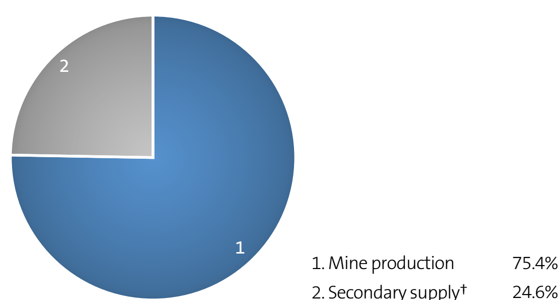
Demand for silver from the electronics sector, the second largest source of fabrication demand, declined marginally by 0.21% from 2012. Demand in this sector has been affected by a shift in consumer demand from desktop and laptop computers to tablets, which contain a significantly smaller amount of silver than computers. Silver demand from the photography sector continued to decline, down 8.6% year-on-year. However, healthy growth was recorded in a variety of products and manufacturing processes that use silver, including solar panels, ethylene oxide catalysts and biocides.

Total supply declined in 2013 to 936.2 million ounces, down 5% from 2012. However, mine supply rose to a record high of 706.2 million ounces in 2013, up 0.7% from 2012 – an increase of a marginal 4.8 million ounces. This increase was not enough to offset the weakness in secondary supply, however, which resulted in the decline in total supply.

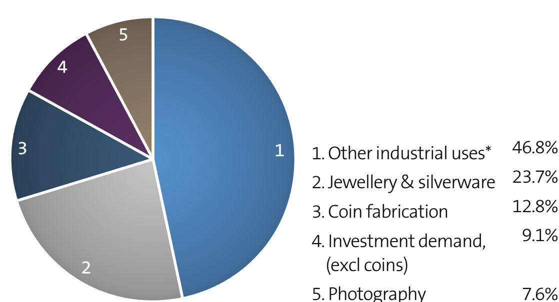
POSSIBLE DRIVERS FOR SILVER PRICES IN 2014

- Jewellery demand is expected to grow at a healthy rate.
- Demand growth for silver from solar panels and other new and emerging applications are expected to grow strongly year-on-year.
- Growth in mine production is expected to be slightly stronger in 2014. However, secondary supply is expected to further decline.
- Investment demand is expected to be lower in 2014 as investors are expected to continue to add silver to their portfolios, but at a slower rate, with increased focus on bargain buying.

2013 SILVER SUPPLY



2013 SILVER DEMAND



† Secondary supply includes metal recovered from photographic materials, scrapped electronics, dental alloys, spent chemical catalysts, solar panels, batteries, old coins, jewellery, and decorative objects.

* Other industrial uses include electronics, solar panels, biocides, mirrors, batteries, brazing alloys and solders, dental alloys and chemical catalysts.

Source: CPM Group LLC

CHAIRMAN'S STATEMENT

"I AM OPTIMISTIC THAT THE ENTIRE ORGANISATION HAS MOVED SWIFTLY IN INITIATING A COST-CUTTING PROGRAMME THAT IS ALREADY DELIVERING TANGIBLE RESULTS."

HIGHLIGHTS FROM 2013

- Acquisition of IMZ minorities completed
- Strong progress achieved at Inmaculada project
- Cashflow optimisation programme delivering substantial savings
- Long-term fundamentals for precious metal markets remain strong

2013 OVERVIEW

2013 proved to be a challenging year due to the considerable drop in gold and silver prices but also presented significant opportunities that we were able to capitalise on through the acquisition of International Minerals ("IMZ"). We believe that the fundamental case for stronger precious metal prices remains in place due to the financial difficulties in the world's biggest economies continuing to threaten the confidence in currencies, and our observation of a growing scarcity of new world class assets in the precious metals universe. However, the markets have been ruthless in imposing a short-term lower price environment.

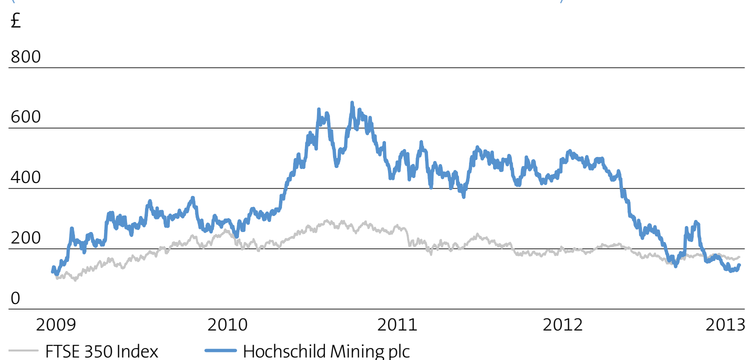
In the first half of the year, the industry was confronted with extreme falls in precious metals prices that far exceeded existing market forecasts. In response and within a very short space of time, our management team initiated a comprehensive cashflow optimisation programme and we have already seen some very positive results with improvements in margins ensuring a better second half of the year and better prospects for 2014. However, notwithstanding another year of very solid operational performance, given the prevailing market conditions and ahead of sizeable capital expenditure on our flagship Inmaculada project, the Board proposes to not reinstate the dividend until the Company´s cash position improves.

The price fall provided Hochschild with a value enhancing opportunity that will allow us not only to improve our cost position in the short term, but also to grow the Company in a precious metals market in which we truly believe. In September, we announced the acquisition of IMZ, a company that owned the 40% minority stakes in our Pallancata mine and Inmaculada project. It is my firm belief that our management has chosen an opportune stage in the cycle to execute the acquisition of assets we know extremely well and already control.

In line with the IMZ transaction, Hochschild also undertook a broad corporate refinancing initiative in order to meet the cost of the acquisition, fully support the Company's anticipated remaining capital expenditure at Inmaculada and to provide capacity to satisfy the upcoming convertible bond maturity towards the end of this year. It is a great credit to our whole team that, at a time of unprecedented industry volatility, we retained the focus to deliver a complex refinancing package that places the Company in an excellent position to capitalise on a period of opportunistic growth.

In addition, one of the key consequences of the dramatic price falls was the necessity to reduce discretionary expenditure and refocus the exploration programme for the year, reducing the budget and prioritising

TOTAL SHAREHOLDER RETURN
(INDEXED TO THE HOCHSCHILD MINING PLC SHARE PRICE SINCE START 2009)



San Jose

Exploration

Drilling at Mosquito

the most promising prospects. The Board remains convinced by the importance of the ongoing exploration strategy to the future growth potential of the Company but recognises the need to adjust the financial commitment depending on the stage in the cycle.

OUTLOOK

The short-term outlook for the precious metals markets remains uncertain. However, the Company continues to believe that the long-term fundamentals for both silver and gold will eventually reassert themselves. I am confident that, despite a difficult 2013, we have the proven operational and geological expertise, an improving cost position, solid balance sheet and an experienced management team to navigate volatile markets and deliver profitable production into the future.

OPERATING RESPONSIBLY

Our commitment to our people, the communities and the environment remains at the core of our business model. During 2013, the Company produced its first standalone Sustainability Report demonstrating our commitment to informing our stakeholders of our progress in this area. Our ability to operate in a way that respects the environment is supported by our reporting systems which continue to be certified compliant with the international standard, ISO 14001. We have also made further progress with our key Travelling Doctor and Teacher Leader initiatives and I am proud that our flagship Digital Chalhuanca project has been recognised externally for its innovation and as an example of successful public/private collaboration. Further details of all of these initiatives are provided in the Annual Report.

In 2013, we made an unprecedented level of improvement in our safety record with a 37% reduction in the Group's accident frequency rate and a 43% reduction in the accident severity rate. However, as impressive as these figures are, we must continue with our efforts as there were two fatalities at our operations during 2013. We consider each accident to be avoidable and for this reason the management team is in the process of implementing a behaviour-based safety programme that will encourage our people to value safety above all else and continue improving the safety culture.

BOARD CHANGES

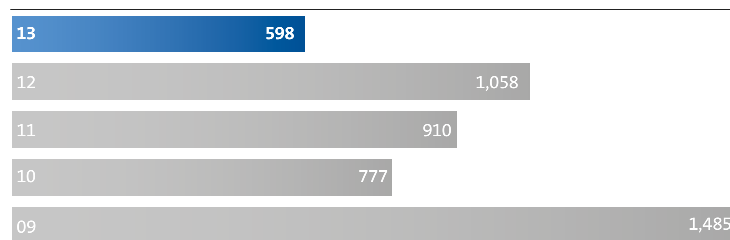
In acknowledgement of the Board's own contribution to the cashflow optimisation programme, we announced in July reductions in Directors' remuneration and the size of the Board. I would like to convey my gratitude to both Fred Vinton and Rupert Pennant-Rea for their long-standing support and commitment.

These changes to the composition of the Board necessitated a review of our non-executive succession plans and I wish to record my appreciation to Sir Malcolm Field for delaying his retirement from the Board and for his ongoing support as Enrico Bombieri succeeds to the role of Senior Independent Director.

On a final note, I wish to thank the entire Hochschild team for their contributions and our shareholders for their continued support in what will be remembered as a tough year but one from which I believe we have emerged in a stronger position.

EDUARDO HOCHSCHILD
Executive Chairman
11 March 2014

ACCIDENT SEVERITY INDEX



Calculated as total number of days lost per million labour hours.

CHIEF EXECUTIVE'S REVIEW

"I AM CONFIDENT THAT WE ARE IN A STRONGER POSITION WITH A KEY ACQUISITION COMPLETED, A CLEAN FINANCIAL STRUCTURE, STRONG GROWTH PROSPECTS AND A FOCUS ON PROJECT DELIVERY."

STRATEGIC HIGHLIGHTS FROM 2013

- Acquisition of minorities in our lowest cost mine and flagship growth project
- Rapidly initiated major cashflow optimisation programme
- Corporate refinancing swiftly completed

POSITIONED FOR GROWTH: 2014 TARGETS

- Delivery of high value, 100% owned Inmaculada project
- Target further savings in administration, operations and exploration
- Manage conservative balance sheet
- Target further brownfield exploration upside

2013 presented Hochschild Mining with an unprecedented level of gold and silver price declines, prompting the management team to implement a series of pre-planned measures throughout the Company. The actions taken were aimed at conserving capital and to position the Company to operate profitably at all stages of the precious metals cycle whilst delivering our key growth project in 2014. The strategy remains focused on creating value for shareholders by optimising current operations, focusing on exploration and pursuing opportunistic, early-stage acquisitions and is underpinned by our commitment to operate responsibly.

STRATEGIC PROGRESS

We announced in September a strategic milestone for Hochschild by consolidating ownership in Pallancata, currently our biggest cash flow generator and in Inmaculada, our most exciting growth project. The transaction represented an important low risk opportunity to increase our exposure to our attractive Southern Peru Cluster, reduce our overall operating cost position and to potentially enhance our cash flow generating potential at no additional ongoing administrative cost. At the same time, we announced the launch of a refinancing process, which we successfully completed in January 2014 with our inaugural senior note offering raising approximately $350 million at a highly competitive rate against a backdrop of extremely difficult markets for the mining industry. We remain in a solid financial position with capacity to fund the remaining Inmaculada project capital expenditure as well as the convertible bond maturity later in 2014 whilst retaining flexibility to continue to pursue our strategic priorities.

The construction of the Inmaculada project is clearly the strategic focus for 2014 with the Company commencing significant production increases with the aim of reaching a target of almost 35 million ounces by 2017. In September, we received, as expected, the mill construction permit from the Peruvian government, signalling the start of the crucial final phase of this key project's development. In this regard, we have made excellent progress in 2013 with significant steps made in procurement, infrastructure, engineering and, importantly, mine development and commissioning is set to begin at the end of the year. After a ramp-up period, the average annual production for the life of mine is set at approximately 12 million silver equivalent ounces per annum. Initial production is scheduled to be sourced from one single wide vein (Angela) with reduced dilution and overall operating costs and sustaining capital expenditure expected to be the lowest of all of Hochschild's operating assets.

As previously announced, the strategy with regard to the Crespo Advanced Project was revised in the light of the acquisition of IMZ, resulting in the decision to delay the project in order to better sequence capital allocation with this move postponing approximately $80 million of remaining project expenditure.

The key area of operational focus during the last nine months has been our organisational reaction to the precious metal price falls that occurred during H1. With a plan initially prepared during the budgeting process towards the end of 2012, we were able to rapidly implement our cashflow optimisation programme. This resulted in the identification of almost $200 million of cash savings within the business, encompassing operating costs, sustaining capital expenditure, administrative costs and a refocused exploration programme. The overall exploration budget was reduced from $77 million to approximately $50 million and the greenfield programme, in particular, was significantly reduced with the focus narrowed to the most promising prospects.

The brownfield exploration programme, which has been so successful over the last few years, also continued with the focus on improvements in our resource base. Attributable resources increased by 8% to almost 1.3 billion silver equivalent ounces

Workers at Arcata

Road between Arcata and Selene

Selene

with the overall resource life-of-mine now at a comfortable 10 years. In line with the reduction in discretionary expenditure, we have also scaled back exploration work at the Volcan gold project in Chile although we can look forward to a new geological model of the porphyry system early this year and remain excited by the long-term potential of this project which already has almost 10 million ounces of gold resources.

Other key individual initiatives included significant cuts to administrative and exploration headcount, renegotiation with suppliers and contractors, the temporary suspension of work at the Azuca project and $33 million of reductions to sustaining capital expenditure in 2013. As a team, we are confident that, although the full annualised effects of the programme will only be evident through 2014, the strong improvements already achieved in the Company's underlying profitability allied with the concurrent fall in industry cost inflation, leave the Company in a much more robust position to withstand any further price volatility.

2013 OVERVIEW

It is particularly pleasing that, despite all the volatility in the industry and the cashflow optimisation measures in place within the Company, Hochschild met the annual production target for the seventh year in a row, producing 20.5 million silver equivalent ounces and therefore exceeding the 20.0 million ounce target. Both Pallancata in Peru and San Jose in Argentina enjoyed a very solid operational performance and, at Arcata, the team has skilfully handled the complicated flow of reserve grade material from an increasing number of stopes and the low grade, low cost material from the Macarena waste dam which is now almost exhausted. Hochschild will continue to adhere to its policy of mining close to the average reserve grade at its core operations throughout the cycle. The two ageing operations, Ares in Peru and Moris in Mexico, have now finally reached the end of their lives with Moris already closed and Ares scheduled to cease operations towards the middle of the year.

A number of the cost savings initiatives from our cashflow optimisation programme started to have a positive effect on the overall cost performance of the Company during the second half of the year. In addition, although 2013 began with continuing industry cost inflation, this began to subside as the year went on and allied to unanticipated devaluation in both the Peruvian Sol and the Argentinean Peso, Hochschild was able to achieve year-on-year reductions in 'all-in sustaining costs' ("AISC") at our main operations of around 14%. This is expected to continue into 2014 with further reductions forecast although the quantum is expected to be lower at between 0% and 5% on an AISC basis, notwithstanding any further major local currency devaluation.

Hochschild has achieved a resilient set of financial results, in particular in the second half, with the 30% fall in the average silver price received in 2013 leading to a decline in revenue to $622.2m. Pre-exceptional EBITDA was at $195.5 million but with the second half much improved by the Company's cost savings initiatives and representing 54% of the total under a significantly lower average price received. Pre-exceptional EPS was $(15) cents per share but, again, the second half saw Hochschild reduce the loss to only 5 cents per share. The cash balance is currently $291.0 million with minority investments valued at just over $52 million which takes into account two sales from our non-core investment in Gold Resource Corporation.

OUTLOOK

Hochschild's production target for 2014 is 21.0 million attributable silver equivalent ounces. This increase is explained by the inclusion of the remaining 40% of Pallancata following the completion of the IMZ acquisition, offsetting the effect of the closure of Moris and the significant fall in the contribution from Ares. Management will continue to be focused on implementing measures to further optimise costs, expenses and capex. 2014 also promises to be a year of peak project capital expenditure as we focus our efforts on beginning commissioning the now 100% owned Inmaculada project by the year end marking a new chapter of growth for the Company. However, in order to provide the Company with a degree of cashflow certainty in a crucial year of investment and with precious metal prices remaining volatile, Hochschild has forward sold four million ounces of silver equivalent production. This does not reflect our view of the long-term direction of precious metal prices but increases our short-term confidence as we invest in the future extraction of sustainable low cost ounces from Inmaculada.

We remain committed to an exploration-led long-term growth strategy and the budget of almost $30 million for 2014 reflects a belief that our extensive pipeline of both brownfield, greenfield projects and current operations offer not only optionality but further scope for creating value at all stages of the investment cycle.

The entire Hochschild organisation has had to endure a very difficult 2013 with a significant number of job losses throughout the Company and therefore the management team is grateful for the resilience and commitment shown by all our teams in making an important contribution to an exciting future for Hochschild Mining. Although 2014 is expected to be a transitional year for us, I am confident that we are in a stronger position with a key acquisition completed, a clean financial structure, strong growth prospects and a focus on project delivery.

IGNACIO BUSTAMANTE
Chief Executive Officer
11 March 2014

OPERATING REVIEW
CORE ASSETS

IN 2013, HOCHSCHILD ONCE AGAIN MET ITS FULL-YEAR PRODUCTION TARGET, PRODUCING 20.3 MILLION ATTRIBUTABLE SILVER EQUIVALENT OUNCES.

2013 HIGHLIGHTS

- Full-year production of 20.5 million attributable silver equivalent ounces achieved, exceeding guidance
- Main operation all-in sustaining costs reduced by 14% in 2013
- Excellent progress at Inmaculada Advanced Project with mill permit received from Peruvian government and on track for first commissioning at the end of 2014

Arcata plant

Ramp at Pallancata

CURRENT OPERATIONS

Production

In 2013, Hochschild has once again successfully exceeded its full year production target, delivering attributable production of 20.5 million silver equivalent ounces, including 13.6 million ounces of silver and 116 thousand ounces of gold. Hochschild's production target for 2014 is 21.0 million attributable silver equivalent ounces. The increase is explained by the inclusion of the remaining 40% of Pallancata following the completion of the IMZ acquisition offsetting the effect of the closure of Moris and a significant reduction in the contribution from the ageing Ares operation, which is also set to close in H1 2014.

Costs

Although significant industry inflation persisted in the first few months of the year, the Company's all-in sustaining costs at its main operations were reduced by 14% in 2013 to $18.6 per ounce driven by operational initiatives resulting from the cashflow optimisation programme, devaluation of local operating currencies and a subsequent fall in industry cost inflation. Unit cost per tonne at its main Peruvian operations was reduced to $74.2 (2012: $75.1). In Argentina, unit cost per tonne increased by 4% to $210.0 (2012: $202.2). Please see page 31 in the Financial Review section for further details on costs.

OUR CORE ASSET KEY PERFORMANCE INDICATORS

ATTRIBUTABLE SILVER PRODUCTION
moz

Year	moz
13	13.6
12	13.6
11	15.0
10	17.8
09	18.8

ATTRIBUTABLE GOLD PRODUCTION
moz

Year	moz
13	116
12	112
11	127
10	144
09	157

RESOURCE LIFE-OF-MINE
Years

Year	Years
13	10.0
12	9.8
11	9.7
10	8.7
09	7.1

CORE ASSETS
ARCATA

2013 HIGHLIGHTS

SILVER PRODUCTION KOZ
4,984

GOLD PRODUCTION KOZ
16.83

SILVER EQUIVALENT PRODUCTION KOZ
5,994

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

PRODUCTION AND SALES

Full-year silver equivalent production at Arcata in 2013 was 6.0 million ounces (2012: 6.6 million ounces), slightly lower than 2012 as a result of lower grades from stopes and developments in line with the Company's policy of mining close to average reserve grade. Tonnage was higher than that of 2012 due to the planned increase in volumes processed from the low grade Macarena waste dam deposit, facilitated by the 500 tonne per day capacity expansion at the Arcata plant (completed in H2 2012). Macarena tonnage continued in the second half and after the expected processing of a small volume in Q1 2014 is now considered to be exhausted and will be replaced by tonnage from stopes and developments in 2014. In addition, production at Arcata included the decrease in ounces recovered as a result of processing 100% of Arcata's concentrate into Doré.

Contribution from Macarena Waste Dam Deposit	12 mths 2013	12 mths 2012
Total		
Tonnage	**900,861**	773,498
Average head grade gold (g/t)	**0.74**	0.83
Average head grade silver (g/t)	**217**	271
Macarena		
Tonnage	**290,226**	133,825
Average head grade gold (g/t)	**0.29**	0.30
Average head grade silver (g/t)	**88**	105
Stopes and Developments		
Tonnage	**610,635**	639,673
Average head grade gold (g/t)	**0.95**	0.94
Average head grade silver (g/t)	**278**	306

In 2013, the silver/gold doré from Arcata was sold to Johnson Matthey, Standard Bank, HSBC Bank, Argor Heraeus INTL Commodities and Auramet Trading.

COSTS

In 2013, the unit cost per tonne at Arcata was materially better than expectations, decreasing by 6% versus the same period last year to $81.3 per tonne, despite continuing industry inflation at the start of the year. This was mainly due to the overall effects of the cost savings initiatives initiated towards the end of the first half of the year as well as the processing of higher volumes of low cost Macarena material and a significant local currency weakening versus expectations.

RESOURCE LIFE AND BROWNFIELD EXPLORATION

The resource life of Arcata stands at 11.6 years as at 31 December 2013. In 2013, a total of 10,899 metres of drilling was carried out at Arcata. The exploration programme in the first half of the year focused on the definition of new high-grade structures from known vein systems (potential drilling) and a new geological interpretation of the Ares-Arcata corridor that identified high-grade structures. In addition, diamond drilling was conducted at the Pamela, Blanca 2, Baja 2, Tunel 3, Ramal Leslie, Tunel 4, Irma and Blanca veins. Significant intercepts included:

- **Pamela**
  DDH425-LM13: 1.41m at 7.83 g/t Au & 2,028 Ag
  DDH399-GE13: 1.76m at 6.19 g/t Au & 1,479 Ag
  DDH389-GE13: 1.00m at 2.84 g/t Au & 1,208 Ag
- **Blanca 2**
  DDH373-EX13: 1.17m at 0.33 g/t Au & 1,295 Ag
- **Baja**
  DDH434-S13: 1.90m at 3.10 g/t Au & 612 Ag
- **Baja 2**
  DDH427-S13: 1.60m at 2.8 g/t Au & 1,901 Ag
- **Tunel 3**
  DDH401-GE13: 0.78m 1.82 g/t Au & 1,213 Ag
- **Tunel 4**
  DDH506-LM13: 1.20m at 1.65 g/t Au & 1,054 Ag
- **Irma**
  DDH492-GE13: 1.18m at 0.75 g/t Au & 5,029 g/t Ag
- **Blanca**
  DDH526-LM13: 1.09m at 3.24 g/t Au & 1,146 g/t Ag

In 2014, the 25,000 metre exploration and drilling programme at Arcata will focus on the potential, near mine and inferred resource exploration, focusing on the definition of new high-grade structures from known vein systems.

Arcata summary	Year ended 31 Dec 2013	Year ended 31 Dec 2012	% change
Ore production (tonnes)	**900,861**	773,498	16
Average silver grade (g/t)	**217**	271	(20)
Average gold grade (g/t)	**0.74**	0.83	(11)
Silver produced (koz)	**4,984**	5,526	(10)
Gold produced (koz)	**16.83**	17.27	(3)
Silver equivalent produced (koz)	**5,994**	6,562	(9)
Silver sold (koz)	**4,924**	5,236	(6)
Gold sold (koz)	**15.95**	15.94	(0)
Unit cost ($/t)	**81.3**	86.3	(6)
Total cash cost ($/oz Ag co-product)[1]	**12.7**	14.5	(12)
All-in sustaining cost ($/oz)	**20.9**	23.9	(13)

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

CORE ASSETS
PALLANCATA

KEY SITE INFORMATION

SILVER PRODUCTION KOZ
7,628

GOLD PRODUCTION KOZ
27.83

SILVER EQUIVALENT PRODUCTION KOZ
9,298

Selene plant near Pallancata

The 100% owned 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 up until December 2013 was a joint venture, in which Hochschild held a controlling interest of 60% with International Minerals Corporation ("IMZ"). Following the purchase of IMZ, Hochschild now owns 100% of the operation. Ore from Pallancata is transported 22 kilometres to the Selene plant for processing.

PRODUCTION AND SALES

Overall in 2013, Pallancata enjoyed a very solid year of production, delivering silver equivalent production of 9.3 million ounces (2012: 9.0 million) with higher average grades the result of a higher proportion of material from stopes.

In 2013, the silver/gold concentrate from Pallancata was sold to Teck Metals Ltd., LS-Nikko Copper Inc and Glencore.

COSTS

Unit cost per tonne at Pallancata also enjoyed a better 2013 than expected, increasing by only 2% in 2013 to $68.3 despite continuing industry inflation at the start of the year. As at Arcata, costs were positively impacted by the cashflow optimisation programme as well as the higher than expected depreciation of the local currency. Further positive pressure resulted from lower personnel and supply costs as a higher proportion of mineral was extracted using mechanised methods.

RESOURCE LIFE AND BROWNFIELD EXPLORATION

The resource life of the Pallancata operation has been increased substantially in 2013 to 8.2 years as at 31 December 2013. During 2013, a total of 20,972 metres of diamond drilling was carried out over the course of the year (2012: 50,326 metres). Both infill and potential drilling were carried out at Pallancata during the year to further delineate inferred resources and to test new possible vein extensions.

The Yurika West vein mapping programme continued and identified major structural lineaments trending NE-EW associated with silicified hydrothermal breccias. New gold-rich high-grade structures were identified in the northern part of the district with resource development drilling continuing at the Yurika and Charo veins. Step-out drilling was conducted in the Teresa vein with strong silicification results and, towards the end of the year, mapping campaigns focused on the south side of Pallancata (at the Sonia, San Angela, Virgen del Carmen, Lilina and Debora veins) with total coverage for the whole year of 1,164 ha.

Significant intercepts included:

- **Yurika**
  DLYU-A08: 1.02m at 17.86 g/t Au & 1,702 g/t Ag
  DLYU-A16: 2.17m at 11.17 g/t Au & 949 g/t Ag
  DLYU-A20: 2.75m at 6.35 g/t Au & 931 g/t Ag
  DLYU-A12: 0.91m at 6.72 g/t Au & 539 g/t Ag
- **Luisa**
  DLLU-A134: 1.96m at 1.11 g/t Au & 727 g/t Ag
  DLLU-A136: 1.17m at 1.09 g/t Au & 420 g/t Ag
- **Yanely**
  DLYU-A02: 0.82m at 33.91 g/t Au & 326 g/t Ag
- **Nine**
  DLRI-A107: 1.35m at 4.19 g/t Au & 1,026 g/t Ag

In 2014, the 25,000 metre exploration programme at Pallancata will focus on increasing life-of-mine through drilling in the Yurika, Charo, Mercedes and Sonia veins with potential drilling set to be targeting the Mercedes, Jacqueline, San Cayetano, Charo, Paola and Rina veins.

Pallancata summary	Year ended 31 Dec 2013	Year ended 31 Dec 2012	% change
Ore production (tonnes)	**1,088,712**	1,094,250	(1)
Average silver grade (g/t)	**264**	256	3
Average gold grade (g/t)	**1.13**	1.09	4
Silver produced (koz)	**7,628**	7,441	3
Gold produced (koz)	**27.83**	26.23	6
Silver equivalent produced (koz)	**9,298**	9,014	3
Silver sold (koz)	**7,567**	7,280	4
Gold sold (koz)	**26.67**	25.07	6
Unit cost ($/t)	**68.3**	67.2	2
Total cash cost ($/oz Ag co-product)	**10.3**	11.4	(10)
All-in sustaining cost ($/oz)	**16.7**	19.5	(14)

CORE ASSETS
SAN JOSE

KEY SITE INFORMATION

SILVER PRODUCTION KOZ
6,258

GOLD PRODUCTION KOZ
98.83

SILVER EQUIVALENT PRODUCTION KOZ
12,286

San Jose plant

Workers at San Jose mine

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 holds a controlling interest of 51% of the joint venture and is the mine operator.

PRODUCTION AND SALES

2013 has been a strong year for the San Jose operation with silver equivalent production up 11% to 12.3 million ounces (2012: 11.1 million) driven by increased tonnages and increased grades, in particular gold. Higher tonnage was explained by the 10% plant capacity increase completed in December 2012 with higher grades resulting from incorporation of new high-grade reserves into the mine plan.

In 2013, the dore produced was sold to Argor Heraeus and Republic Metals whilst the concentrate produced at the operation was sold to Teck Metals Ltd., Aurubis AG, LS-Nikko Copper Inc, Consorcio Minero and Glencore.

COSTS

At San Jose, unit cost per tonne rose by only 4% versus 2012 to $210.0. The increase was slightly below the 2013 revised guidance of 5-10% due to the impact of the cashflow optimisation initiatives and a stronger than expected devaluation of the Argentine peso offsetting the effects of continuing high local inflation and a number of brief stoppages at the mine during the first half.

RESOURCE LIFE AND BROWNFIELD EXPLORATION

The resource life of San Jose stands at 11.8 years as at 31 December 2013. The key event in exploration at the mine was the incorporation of various surrounding properties, from both Hochschild and McEwen Mining, into the Minera Santa Cruz JV.

For much of 2013, the exploration programme at San Jose focused on the geological mapping of the district area and identifying new structures, with new high-grade structures identified in the northern part of the district. A total of 10,529 metres of diamond drilling was completed during 2013. In addition, new structures were identified in the Juanita vein system located in the south of the property. Drilling was conducted on the Huevos Verdes, Emilia and Juanita veins with detailed surface mapping and sampling being completed over the Colorado Grande, Juanita, Saavedra and Tres Colores areas. Significant intercepts included:

Significant intercepts included:

- **Ramal Huevos Verdes**
  SJD-1387: 0.87m at 70.03 g/t Au & 2060 g/t Ag
  SJD-1387: 0.73m at 2.08 g/t Au & 234 g/t Ag
- **Emilia**
  SJD-1393: 5.00m at 40.08 g/t Au & 882 g/t Ag
  SJD-1398: 1.50m at 4.28 g/t Au & 152 g/t Ag
- **Antonella**
  SJD-1450: 0.70m at 2.27 g/t Au & 210 g/t Ag
- **Kospi SE**
  SJD-1408: 1.00m at 7.42 g/t Au & 522 g/t Ag

In 2014, the 2,000 metre potential drilling campaign will focus on the definition of the new Ayelen, Nuevo 1 and Karina veins as well as drilling in the Los Pinos area.

San Jose summary*	Year ended 31 Dec 2013	Year ended 31 Dec 2012	% change
Ore production (tonnes)	**536,937**	509,851	5
Average silver grade (g/t)	**425**	417	2
Average gold grade (g/t)	**6.42**	5.79	11
Silver produced (koz)	**6,357**	5,953	7
Gold produced (koz)	**98.83**	85.77	15
Silver equivalent produced (koz)	**12,286**	11,099	11
Silver sold (koz)	**6,278**	5,897	6
Gold sold (koz)	**94.76**	84.29	12
Unit cost ($/t)	**210.0**	202.2	4
Total cash cost ($/oz Ag co-product)	**13.4**	14.4	(7)
All-in sustaining cost ($/oz)	**19.0**	22.1	(14)

* The Company has a 51% interest in San Jose.

OTHER OPERATIONS
ARES & MORIS

Moris, Mexico

Ares, Peru

KEY SITE INFORMATION

SILVER PRODUCTION KOZ
757

GOLD PRODUCTION KOZ
23.40

SILVER EQUIVALENT PRODUCTION KOZ
2,162

ARES: PERU

The Ares mine, which commenced production in 1998, is a 100% owned operation located approximately 25 kilometres from Hochschild's Arcata mine in southern Peru.

PRODUCTION AND SALES

The Company's ageing Ares mine in Peru continued to operate in 2013, delivering total silver equivalent production of 2.2 million silver equivalent ounces, a 5% improvement on the 2012 figure of 2.1 million ounces. Ares is currently expected to cease production in H1 2014. The Company continues to monitor production closely at Ares to ensure the extraction of profitable ounces during the last few months of its mine life.

100% of Ares' production is processed into dore, all of which was sold to Johnson Matthey in 2013.

BROWNFIELD EXPLORATION

The exploration programme at Ares in 2013 focused on the exploration of potential mineralisation in the extensions of known veins and the definition of new high-grade structures. In addition, exploration continued at the Isabel, Paola, Karina and Victoria veins. In the Paola, Falla Marion and Ares West veins, surface mapping and sampling was conducted over an area of 3,567 ha. A new geophysical survey was also completed.

In 2014, geological work will continue to generate targets within the Ares-Arcata corridor and a 2,000 metre drilling campaign is planned.

Ares summary	Year ended 31 Dec 2013	Year ended 31 Dec 2012	% change
Ore production (tonnes)	**329,095**	336,423	(2)
Average silver grade (g/t)	**82**	54	52
Average gold grade (g/t)	**2.39**	2.65	(10)
Silver produced (koz)	**757**	481	57
Gold produced (koz)	**23.40**	26.28	(11)
Silver equivalent produced (koz)	**2,162**	2,058	5
Silver sold (koz)	**761**	473	61
Gold sold (koz)	**23.25**	25.75	(10)

KEY SITE INFORMATION

SILVER PRODUCTION KOZ
27

GOLD PRODUCTION KOZ
8.33

SILVER EQUIVALENT PRODUCTION KOZ
527

MORIS: MEXICO

The 100% owned Moris mine is an open pit mine and is located in the district of Chihuahua, Mexico.

PRODUCTION AND SALES

Despite mine production having ceased in September 2011, in 2013 continued leaching of the pads produced a further 527 thousand silver equivalent ounces (2012: 570 thousand ounces). However, towards the end of the year the Moris operation was finally closed and subsequently transferred to a local third party.

In 2013, the gold/silver dore produced at Moris was sold to Johnson Matthey, INTL Commodities and Auramet Trading.

BROWNFIELD EXPLORATION

Exploration work at Moris during 2013 continued to focus on identifying new economic structures and the completion of the potential geological model of the property to identify new drill targets. Two new structures were discovered to the north of the original mine location including the Los Alamos area, and preliminary data suggested significant mineralisation in the surrounding extensions of the veins. However, the final conclusion was that no further work was needed in the area.

Moris summary	Year ended 31 Dec 2013	Year ended 31 Dec 2012	% change
Ore production (tonnes)	**–**	–	–
Average silver grade (g/t)	**–**	–	–
Average gold grade (g/t)	**–**	–	–
Silver produced (koz)	**27**	43	(37)
Gold produced (koz)	**8.33**	8.79	(5)
Silver equivalent produced (koz)	**527**	570	(8)
Silver sold (koz)	**26**	42	(38)
Gold sold (koz)	**7.9**	8.74	(9)

ADVANCED PROJECT
INMACULADA

Inmaculada camp

Hochschild started 2013 with one Advanced Project, Inmaculada and three Growth Projects, Crespo, Azuca and Volcan. Following the significant price declines towards the middle of the year, the Company renewed its commitment to the flagship Inmaculada project. The acquisition of the IMZ minorities, completed in December 2013, gave the Company 100% of this project which is expected to contribute, after a ramp-up period, almost 12 million silver equivalent ounces on average per annum with the start of commissioning due towards the end of 2014.

INMACULADA

Inmaculada is a 20,000 hectare gold-silver project located in the Company's existing operational cluster in southern Peru and is 100% owned and controlled by Hochschild, following the acquisition of the remaining 40% from IMZ stake in December 2013.

Following the announcement on 20 September 2013 that the Peruvian government had approved the mill construction permit for the Inmaculada project, work began in Q4 on the construction of the plant with major site clearance and earthworks ongoing throughout the quarter. Procurement of the main plant equipment is also almost complete with only lime slakers still to be delivered. These are expected in March.

The detailed civil and underground engineering continued throughout the year and is close to completion with mine development plans updated in line with a recently completed and approved mine schedule. In addition, the detailed engineering for the electricity transmission line was also completed during the first half, and procurement commenced and was completed in the third quarter. Tests were also successfully carried out on the main equipment and electrical substations.

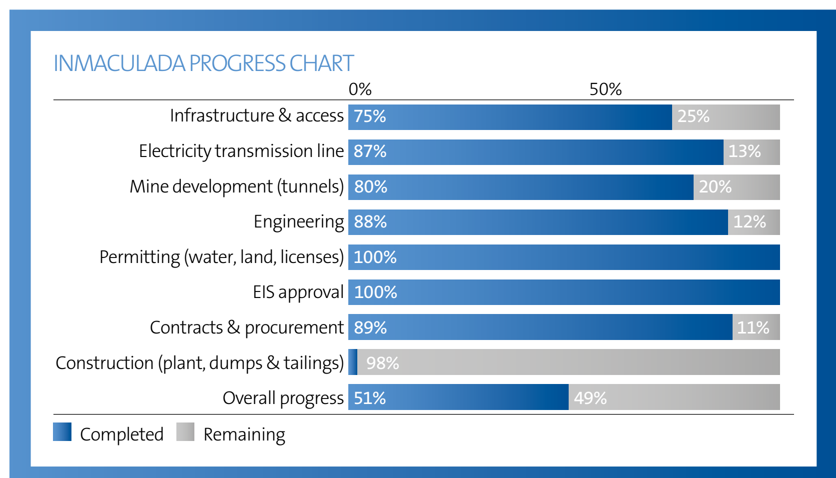
Underground mine development progressed well during 2013 with almost 5.7km of tunnelling and 1.8km of raised boring carried out during the year bringing the total to over 10.4km achieved since the project's commencement. In addition, the project's infrastructure requirements also made good progress with construction of the camp now complete, and the main access road expected to be finished in the first quarter of 2014.

The exploration drilling programme in and around the Inmaculada project continued in 2013. Surface exploration drilling was completed, with one drill rig in operation to test geophysical anomalies and alteration lineaments parallel to the Mirella vein, and to test the NE extension of the Martha vein. In addition, a new potential high-grade vein, Mayte, was intercepted. In the second half of the year surface mapping and sampling campaigns started over the Huarmapata 3 area identifying a high sulphidation system with advanced argillic alteration.

During the year, a total of 4,796 metres were drilled in Shakira, Mirella, Susana, Angela, Roxana and Mayte veins, with significant results including:

- **Mayte**
  MIR13001: 1.51m at 2.37 g/t Au & 9 g/t Ag
- **Mirella**
  MIR13-001: 1.53m at 4.21g/t Au & 72 g/t Ag
- **Shakira**
  SHK13003: 1.10m at 4.10 g/t Au & 10 g/t Ag
- **Martha**
  MIR13001: 0.20m at 31.02 g/t Au & 3,269 g/t Ag
- **Roxana**
  MIR13-003: 0.88m at 5.96 g/t Au & 330 g/t Ag

In 2014, the exploration programme will involve a 5,000 metre programme consisting of potential drilling in the Mayte vein corridor as well as near mine exploration at selected targets, in order to expand the number of current resources.



GROWTH PROJECTS
CRESPO, AZUCA & VOLCAN

The strategy with regards to Crespo has been revised and, in early October 2013, the Company announced plans to delay the project in order to better sequence overall Company capital allocation, with the focus now firmly on the construction of the Inmaculada project and the acquisition of the IMZ minorities. This is expected to postpone approximately $80 million of remaining Crespo project expenditure. Despite the prioritisation of Inmaculada, Crespo remains an important component of the Company's portfolio of development assets. It is management's intention that, in the event that precious metals markets show sustained improvement, this would allow the Company to re-allocate capital to the Crespo project and potentially re-initiate development sooner than would be otherwise anticipated.

The Volcan gold project in Chile, acquired following the acquisition of Andina Minerals Inc in November 2012, also had its budgeted exploration capital expenditure reduced as part of the Company's cashflow optimisation programme. However, Hochschild remains excited by the potential for this long-term project, which has almost 10 million ounces of gold resources and will continue with desktop geological work in the first part of 2014.

Although a portion of drilling was completed at Azuca during the first half, work has since ceased and the project is now on hold. The Company remains excited by the potential of this large mineralised district but capital allocation is now refocused on more advanced projects.

CRESPO

Crespo is 100% owned by Hochschild and is located in the Company's existing operating cluster in southern Peru. This has the potential to be a relatively simple open pit project with high gold recovery rates and, as with the Inmaculada project, will benefit from operational synergies due to its proximity to the Company's existing operations. The project has an estimated total capital expenditure of approximately $110 million for a 6,850 tonne per day operation with an average annual production of 2.7 million silver equivalent ounces.

Work continued on the Crespo project up until the decision to delay the development in the third quarter. In the first half of the year, the detailed integration engineering continued and was completed in Q3 2013. Basic and detailed engineering for the mine also progressed as did construction of the new access road to the mine site which was completed in December.

With regards to the permit application process, the surface land agreement for the project was approved by the local community on 11 January 2013 and the underground water study was approved in Q2 2013. In addition, in July, the Company received the Environmental Impact Study ('EIS') permit. Hochschild also submitted the project's construction permit application at the end of February and received positive feedback from the Peruvian government and currently remains under evaluation.

Although exploration work ceased altogether in the third quarter, in the first half of the year district surface exploration was carried out and a new high sulphidation target, Jackelin, was identified. Furthermore, surface geochemistry sampling programmes were completed, with gold and silver anomalies reported.

VOLCAN

Exploration was not scheduled at the long-term Volcan project for 2013. However, work continued throughout the second half in line with the refocused exploration budget and comprised systematic relogging of 56,331 metres of the Andina Minerals drill core in order to construct a more robust geological model of the porphyry system which is expected to be completed in the first half of this year.

AZUCA

In H1 2013, a total of 13,108 metres of diamond drilling were completed at Azuca although these campaigns were subsequently halted in late April following the decision to place the project on hold.

Crespo

EXPLORATION REVIEW

WE REMAIN COMMITTED TO AN EXPLORATION-LED LONG-TERM GROWTH STRATEGY AND A BELIEF THAT OUR EXTENSIVE PIPELINE OF BROWNFIELD AND GREENFIELD PROJECTS OFFERS OPTIONALITY AND FURTHER SCOPE FOR CREATING VALUE AT ALL STAGES OF THE INVESTMENT CYCLE.

2013 HIGHLIGHTS

- Strong brownfield exploration results with attributable resources increased by 8% to 1.3 billion silver equivalent ounces
- Overall resource life-of-mine now stands at 10.0 years, an increase of 72% since 2008
- 91,429 metres of drilling completed at the Company's brownfield, Advanced Projects and greenfield projects
- Exploration at main operations focused on development of potential resources

POSITIONED FOR GROWTH

- 2014 exploration budget reduced to $30 million as part of cashflow optimisation programme
- Greenfield programme curtailed to concentrate on most promising prospects

In 2013, investment in exploration totalled $51.9 million and 91,429 metres of drilling were completed at the Company's brownfield, Advanced and Growth Projects and greenfield projects. As part of Hochschild's cashflow optimisation programme, initiated as a response to the volatility in precious metal prices towards the middle of the year, the Company conducted a detailed review of discretionary elements of its exploration budget with the result that the Company reduced its 2013 exploration budget from the original $77 million forecast. Exploration at the Company's main operations focused on the development of potential resources as opposed to increasing resource life-of-mine, reflecting the Company's confidence in their long-term sustainability. In addition, the Company's greenfield exploration programme was significantly curtailed to concentrate only on the Company's most promising prospects.

The 2014 budget, representing 63,500 metres, will be split between exploration work at the Company's existing operations, Advanced Projects and greenfield opportunities in Peru and Mexico. The main focus will continue to be brownfield exploration.

In 2014, exploration work at the core operations will be mainly focused on identifying new potential and near mine high-grade areas to further improve the resource quality whilst at the Inmaculada Advanced Project, efforts will be focused on identifying new potential high-grade areas.

Exploration at Company Maker projects will include continued drilling and further analysis and 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. Hochschild also aims to continue its generative programme to conduct further exploration on the Company's extensive land package of premium geological properties.

BROWNFIELD EXPLORATION

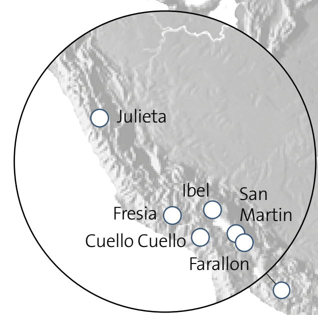
Approximately 33% of the exploration budget was invested in mines and Advanced and Growth Project exploration in 2013.

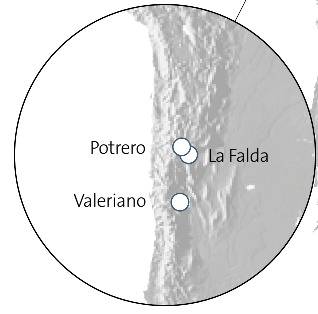
GREENFIELD EXPLORATION

In 2013, approximately 41% of the 2013 exploration budget was invested in the Company's greenfield programme, with the proportion set to be 17% in 2014. In 2013, a total of 27,958 metres was drilled at the Company's greenfield projects.

Geologists in Chile

EXPLORATION
DRILL TARGETS – COMPANY MAKERS





VALERIANO

At the Valeriano Company Maker project, a total of 6,669 metres was drilled during 2013 to further test at depth the porphyry copper and gold mineralisation encountered in the 2012 drilling campaign. The exploration confirmed the discovery of a potentially significant porphyry Cu-Au deposit at depth. However, there are no plans for further drilling in 2014 until market conditions improve.

PACHUCA

The Pachuca project is located in Mexico and was added to the Company's project pipeline as a Company Maker project in Q2 2013. The Pachuca property encompasses approximately 19,000 hectares of mineral rights in and around the Pachuca silver-gold mining district. Historic production from the Pachuca district totals approximately 1.4 billion ounces of silver and over 7.0 million ounces of gold, making it one of the largest silver-gold districts in the world.

The JV with Solitario Exploration & Royalty Corp (TSX: SLR) has been focusing on the northwestern extension of the historical vein mining district. Following extensive geological mapping and geochemical sampling along the vein systems, almost half of the 5,000 metre programme has already been drilled during November and December. The assay results from the Escondida vein have shown some significant intersections and a new reinterpretation of the data has led to further drilling focus on the Sorpresa vein, a splay off the Escondida vein, with a potential extension of 2km. In light of this progress, a further 3,000 metres of drilling is scheduled for 2014.

LA FALDA

At the La Falda Company Maker project in Chile, four holes were completed in the drilling campaign, totalling 2,605 metres. Surface exploration was held to identify new drill targets but no further work has been scheduled for 2014, or until market conditions improve.

POTRERO

At the Potrero Company Maker project in Chile, drilling commenced in January 2013 and centred around known mineralised structures as well as to the North East along the projected strike of the mineralisation. During the first quarter, a total of 2,763 metres of diamond drilling were completed and significant gold anomalies were reported. No further drilling campaign has been scheduled for 2014.

MERCURIO

In 2013, a total of 2,898 metres of drilling were carried out at the Mercurio Company Maker project in Mexico focused on the Barite zone. As a result of the cashflow optimisation programme, the project area was significantly refocused to the more

Geologists in Peru

prospective northwestern Barite area. Soil sampling has delineated a zone of Au mineralisation, which will be followed up by a geochemistry grid over the relevant area. No further drilling has been scheduled for 2014.

BABORIGAME

At the Baborigame Company Maker project in Mexico, exploration drilling commenced in March 2013. Drilling was carried out on the Cebolla target to test for mineralisation following the indication of gold mineralisation from surface geochemistry. A total of 4,018 metres of diamond drilling were completed in the quarter. No further work has been scheduled for 2014, or until market conditions improve.

JULIETA

At the Julieta project, Hochschild completed a 2,000 metres diamond drill programme during Q4 2013. The programme was aimed at testing the hydrothermal breccias found during the surface reconnaissance of the area. Seven drill holes were completed in December 2013 employing two rigs. Favourable alteration was encountered throughout the volcanic sequence in six of the holes, some of which show lengthy anomalous gold intercepts. The seventh hole cut a wide mineralised hydrothermal breccia with locally significant gold mineralisation although the extent of this breccia body has not been determined. Significant results from the drill programme are summarised opposite:

RESULTS

DDHJU-1303: from 145 to 338 // 189m at 0.16 g/t Au
DDHJU-1307: from 182 to 252 // 70m at 0.33 g/t Au
DDHJU-1307: from 195 to 207 // 12m at 1.07 g/t Au

RIVERSIDE JV

Hochschild has supplied Riverside with additional funding to carry out further target generation on the Clemente project in the northern part of the state of Sonora, Mexico. The funding will be used for further mapping, geochemistry and trenching work in order to better delineate drill targets within the highly prospective mega shear. This JV agreement continues into 2014.

Geologists in Argentina

EXPLORATION
DRILL TARGETS – MEDIUM SCALE PROJECTS

Drill rig in Argentina

FARALLON

At the Farallon Medium Scale project in Peru, the first stage of exploration drilling was completed in Q1 2013 with three drill holes and a total of 1,257 metres of drilling completed. Results have identified multiple intercepts of quartz veins and veinlets with sphalerite, galena and chalcopyrite up to one metre in width, associated with tensional structures. No further work has been scheduled for 2014, or until market conditions improve.

CUELLO CUELLO

At the Cuello Cuello Medium Scale project in Peru, during H1 2013, a total of 310 metres were drilled. This was the second drilling programme carried out at the property and near surface mineralised structures were again intersected, and two structural trends were identified. Metallurgical tests on ore show that some areas of the deposit are amenable to cyanide leaching with good recoveries. The Company is currently evaluating the economics of the project before defining the next phase of the exploration programme although no further work has been scheduled for 2014.

FRESIA

At the Fresia Medium Scale project, a town hall meeting was held in the project area, whereby the Company's plans for the upcoming drill programme in the area were presented to the local communities and authorities. The successful completion of this process allows the Company to proceed with filing an application for an exploration drill permit for the project. A 1,500 metre programme is scheduled to begin in Q2 2014.

SAN MARTIN

At the San Martin Medium Scale project in Peru, a total of 3,003 metres of exploration drilling were carried out to explore the continuity of quartz veins outside the Rhyodacite dome. Drilling holes intercepted structures with good mineralisation including sphalerite, galena, ruby silver and high-grade gold and silver mineralisation. No further work has been scheduled for 2014, or until market conditions improve.

IBEL

At the Ibel Medium Scale project in Peru, surface mapping and sampling have identified at least five distinct exploration targets, including a large gold-bearing hydrothermal breccia with consistent anomalous gold values over an area measuring 1.5km x 300 metres. No further work has been scheduled for 2014, or until market conditions improve.

FINANCIAL REVIEW

KEY FINANCIAL HIGHLIGHTS

KEY PERFORMANCE INDICATORS
(before exceptional items, unless otherwise indicated)

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.

$000 unless otherwise indicated	Year ended 31 Dec 2013	Year ended 31 Dec 2012	% change
Net Revenue[1]	**622,158**	817,952	(24)
Attributable silver production (koz)	**13,588**	13,550	–
Attributable gold production (koz)	**116**	112	(4)
Cash costs ($/oz Ag co-product)[2]	**12.31**	13.41	(8)
Cash costs ($/oz Au co-product)	**748**	735	2
Total all-in sustaining costs ($/oz)	**19.9**	23.8	(16)
Main operation all-in sustaining costs ($/oz)	**18.6**	21.7	(14)
Adjusted EBITDA[3]	**195,463**	384,791	(49)
(Loss)/profit from continuing operations	**(42,103)**	128,581	(133)
(Loss)/profit from continuing operations (post exceptional)	**(128,677)**	126,866	(201)
Earnings per share (pre-exceptional)	**(0.15)**	0.19	(179)
Earnings per share (post-exceptional)	**(0.36)**	0.19	(289)
Cash flow from operating activities[4]	**64,674**	254,879	(75)
Resource life-of-mine (years)	**10.0**	9.8	2

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 exceptional items, net finance costs and income tax plus depreciation and exploration expenses other than personnel and other exploration related fixed expenses.

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

REVENUE

Gross revenue

Gross revenue from continuing operations decreased 24% to $658.2 million in 2013 (2012: $869.1 million) driven by the significant fall in precious metal prices.

Silver

Gross revenue from silver decreased 28% in 2013 to $432.5 million (2012: $599.4 million) as a result of lower prices offsetting the increase in the total amount of silver ounces sold which rose by 3% to 19,555 koz (2012:18,928 koz).

Gold

Gross revenue from gold decreased 16% in 2013 to $225.6 million (2011: $269.2 million) also as a result of lower prices although offset to some extent by a 5% increase in gold sales – the total amount of gold ounces sold in 2013 at 168.6 koz (2012: 160.0 koz).

Gross average realised sales prices

The following table provides figures for average realised prices and ounces sold for 2013 and 2012:

Average realised prices	Year ended 31 Dec 2013	Year ended 31 Dec 2012
Silver ounces sold (koz)	**19,555**	18,928
Avg. realised silver price ($/oz)	**22.12**	31.6
Gold ounces sold (koz)	**168.56**	159.8
Avg. realised gold price ($/oz)	**1,338**	1,684

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 2013, the Group recorded commercial discounts of $36.1 million (2012: $51.2 million). This decrease is explained by lower prices and a lower volume of concentrate sold in 2013, mainly as a result of the Arcata dore project. The ratio of commercial discounts to gross revenue in 2013 remained at 6% (2012: 6%).

Net revenue

Net revenue decreased by 24% to $622.2 million (2012: $818.0 million), comprising silver revenue of $405.5 million and gold revenue of $216.6 million. In 2013, silver accounted for 65% and gold 35% of the Company's consolidated net revenue compared to 68% and 32% respectively in 2012.

Revenue by mine

$000 unless otherwise indicated	Year ended 31 Dec 2013	Year ended 31 Dec 2012	% change
Silver revenue			
Arcata	**115,522**	165,464	(30)
Ares	**17,712**	14,653	21
Pallancata	**163,394**	232,503	(30)
San Jose	**135,291**	184,635	(27)
Moris	**650**	1,315	(51)
Commercial discounts	**(27,050)**	(40,784)	(34)
Net silver revenue	**405,519**	557,786	(27)
Gold revenue			
Arcata	**22,271**	26,850	(17)
Ares	**32,650**	42,927	(24)
Pallancata	**35,189**	42,620	(17)
San Jose	**123,905**	142,151	(13)
Moris	**11,597**	14,616	(21)
Commercial discounts	**(9,036)**	(9,528)	(5)
Net gold revenue	**216,576**	259,636	(17)
Other revenue[1]	**63**	530	(88)
Net revenue	**622,158**	817,952	(24)

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

COSTS

Total pre-exceptional cost of sales increased 11% to $466.8 million in 2013 (2012: $420.3 million). The direct production cost increased by 3% in 2013, to $311.7 million (2012: $301.5 million), mainly as a result of an increase in tonnage treated mainly in Arcata and San José as a result of plant expansions. Depreciation in 2013 was $144.1 million (2012: $121.2 million), with the increase mainly due to full depreciation of the Ares operation, depreciation of new tailings dams at Arcata as well as a higher future capex depreciation resulting from the increasing cost to convert resources into reserves in all operating units. Other items, which principally includes workers' profit sharing, was $7.0 million in 2013 (2012: $15.4 million) and change in inventories which was $3.9 million in 2013 (2012: $(17.7) million).

$000	Year ended 31 Dec 2013	Year ended 31 Dec 2012	% change
Direct production cost excluding depreciation	**311,699**	301,476	3
Depreciation in production cost	**144,137**	121,156	19
Other items	**7,004**	15,401	(55)
Change in inventories	**3,926**	(17,708)	(122)
Pre-exceptional cost of sales	**466,766**	420,325	11

Unit cost per tonne

The Company reported unit cost per tonne at its main operations of $103.2 in 2013, flat compared to 2012 (2012: $103.2). For further explanation on the increase in unit cost per tonne, please refer to page 18 of the Operating review.

Unit cost per tonne by operation (including royalties)[1]:

Operating unit ($/tonne)	Year ended 31 Dec 2013	Year ended 31 Dec 2012	% change
Main operations	**103.2**	103.2	–
Peru	**74.2**	75.1	(1)
Arcata	**81.3**	86.3	(6)
Pallancata	**68.3**	67.2	2
Argentina	**210.0**	202.2	4
San Jose	**210.0**	202.2	4
Others	**128.3**	138.4	(7)
Ares	**128.3**	138.4	(7)
Total	**106.1**	107.8	(2)

1 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

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

Cash cost reconciliation

$000 unless otherwise indicated	Year ended 31 Dec 2013	Year ended 31 Dec 2012	% change
Group cash cost	**387,686**	392,825	(1)
(+) Cost of sales	**466,766**	420,325	11
(-) Depreciation in cost of sales	**(144,923)**	(117,627)	23
(+) Selling expenses	**28,785**	39,460	(27)
(+) Commercial deductions	**37,058**	51,197	(28)
Gold	**9,065**	9,552	(5)
Silver	**27,993**	41,645	(33)
Revenue	**622,158**	817,952	(24)
Gold	**216,576**	259,636	(17)
Silver	**405,519**	557,786	(27)
Others	**63**	530	(88)
Ounces sold	**19,724**	19,088	3
Gold	**168.6**	159.8	6
Silver	**19,555**	18,928	3
Group cash cost ($/oz)			
Co-product Au	**801**	781	3
Co-product Ag	**12.9**	14.2	(9)
By-product Au	**(272)**	(1,293)	(79)
By-product Ag	**8.3**	6.5	28

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.

ALL-IN SUSTAINING COST RECONCILIATION

All-in sustaining cash costs per silver equivalent ounce[1]

Year ended 31 Dec 2013

$000 unless otherwise indicated	Arcata	Pallancata	San José	Main Operations	Other Operations	Corporate & Others	Total
(+) Production cost excluding depreciation	72,706	75,321	112,764	260,791	50,908	–	311,699
(+) Other items in cost of sales	(638)	571	7,074	7,007	(3)	–	7,004
(+) Operating & exploration capex for units	43,255	44,356	56,502	144,113	4,715	2,510	151,338
(+) Brownfield exploration expenses	2,052	2,149	1,795	5,996	581	3,201	9,778
(+) Administrative expenses (w/o depreciation)	6,469	11,472	8,589	26,530	2,983	22,274	51,787
(+) Royalties	–	1,822	–	1,822	522	–	2,344
Sub-total	**123,844**	**135,691**	**186,724**	**446,259**	**59,706**	**27,985**	**533,950**
Ounces produced (Ag Eq oz)	5,994	9,298	12,286	27,578	2,689	–	30,267
Sub-total ($/oz)	**20.7**	**14.6**	**15.2**	**16.2**	**22.2**		**17.6**
(+) Commercial deductions	920	16,788	19,335	37,043	15	–	37,058
(+) Selling expenses	325	2,369	25,899	28,593	192	–	28,785
Sub-total	**1,245**	**19,157**	**45,234**	**65,636**	**207**	**–**	**65,843**
Ounces sold (Ag Eq oz)	5,881	9,167	11,963	27,011	2,658	–	29,669
Sub-total ($/oz)	**0.2**	**2.1**	**3.8**	**2.4**	**0.1**		**2.2**
Total cash cost ($/oz Ag Eq)	**12.2**	**10.3**	**13.5**	**12.1**	**19.0**	**–**	**12.7**
All-in sustaining costs ($/oz Ag Eq)	**20.9**	**16.7**	**19.0**	**18.6**	**22.3**	**–**	**19.9**

1 All-in sustaining cash cost per silver equivalent ounce: calculated before exceptional items and includes cost of sales less depreciation and change in inventories, administrative expenses, brownfield exploration, operating capex and royalties divided by silver equivalent ounces produced using a ratio of 60:1 (Au/Ag). Also includes commercial discounts and selling expenses divided by silver equivalent ounces sold using a ratio of 60:1 (Au/Ag).

Year ended 31 Dec 2012

$000 unless otherwise indicated	Arcata	Pallancata	San José	Main Operations	Other Operations	Corporate & Others	Total
(+) Production cost excluding depreciation	65,522	72,101	106,621	244,244	55,002	2,230	301,476
(+) Other items in cost of sales	6,691	4,686	–	11,377	4,024	–	15,401
(+) Operating & exploration capex for units	52,791	56,871	71,188	180,850	8,322	604	189,776
(+) Brownfield exploration expenses	4,467	4,062	5,788	14,317	1,820	6,976	23,113
(+) Administrative expenses (w/o depreciation)	7,109	13,723	9,957	30,790	3,800	36,120	70,710
(+) Royalties	–	3,267	–	3,267	567	–	3,834
Sub-total	**136,580**	**154,710**	**193,554**	**484,845**	**73,535**	**45,930**	**604,310**
Ounces produced (Ag Eq oz)	6,562	9,014	11,099	26,676	2,628	–	29,304
Sub-total ($/oz)	**20.8**	**17.2**	**17.4**	**18.2**	**28.0**		**20.6**
(+) Commercial deductions	16,512	17,398	17,287	51,197	–	–	51,197
(+) Selling expenses	2,381	3,523	33,457	39,361	99	–	39,460
Sub-total	**18,893**	**20,921**	**50,744**	**90,558**	**99**	**–**	**90,657**
Ounces sold (Ag Eq oz)	6,192	8,784	10,955	25,931	2,585	–	28,516
Sub-total ($/oz)	**3.1**	**2.4**	**4.6**	**3.5**	**–**	**–**	**3.2**
Total cash cost ($/oz Ag Eq)	**14.1**	**10.9**	**14.2**	**13.1**	**22.5**	**–**	**14.0**
All-in sustaining costs ($/oz Ag Eq)	**23.9**	**19.5**	**22.1**	**21.7**	**28.0**	**–**	**23.8**

ADMINISTRATIVE EXPENSES

Administrative expenses before exceptional items decreased by 25% to $54.4 million (2012: $73.0 million) primarily due to the impact of the cashflow optimisation programme. Post-exceptional administrative expenses in 2013 totalled $56.8 million and include an expense of $2.4 million due to termination benefits paid to employees following the restructuring as part of the above mentioned cashflow optimisation programme.

EXPLORATION EXPENSES

In 2013, pre-exceptional exploration expenses decreased by 34% to $42.9 million (2012: $64.6 million). Post-exceptional exploration expenses in 2013 totalled $46.3 million and include an expense of $3.5 million due to termination benefits paid to employees following the restructuring as part of the Company's cashflow optimisation programme.

In addition, the Group capitalises part of its brownfield exploration, which mostly relates to costs incurred converting potential resource to the Inferred or Measured and Indicated category. In 2013, the Company capitalised $1.7 million relating to brownfield exploration compared to $15.9 million in 2012, bringing the total investment in exploration for 2013 to $44.6 million (2012: $80.5 million). In addition, $7.4 million was invested in the Company's Advanced and Growth Projects.

SELLING EXPENSES

Selling expenses were lower than 2012 at $28.8 million (2012: $39.5 million) as a result of lower prices. Selling expenses mainly consist of export duties at San Jose (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 $4.0 million (2012: $8.7 million), mainly reflecting a $1.7 million export tax credit in Argentina. Other expenses before exceptional items reached $15.6 million (2012: $9.5 million) mainly due to an increase in mine closure.

PROFIT FROM CONTINUING OPERATIONS BEFORE EXCEPTIONAL ITEMS, NET FINANCE COSTS, FOREIGN EXCHANGE LOSS AND INCOME TAX

Profit from continuing operations before exceptional items, net finance costs and income tax decreased to $17.7 million (2012: $219.8 million) as a result of the factors detailed above.

ADJUSTED EBITDA

Adjusted EBITDA decreased by 49% over the period to $195.5 million (2012: $384.8 million) driven primarily by significantly lower silver prices.

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

$000 unless otherwise indicated	**Year ended 31 Dec 2013**	Year ended 31 Dec 2012	% change
Profit from continuing operations before exceptional items, net finance cost, foreign exchange loss and income tax	**17,730**	219,768	(92)
Operating margin	**3%**	27%	
Depreciation and amortisation in cost of sales	**144,923**	117,627	23
Depreciation and amortisation in administrative expenses	**2,638**	2,285	15
Exploration expenses	**42,871**	64,612	(34)
Personnel and other exploration related fixed expenses	**(12,699)**	(19,501)	(35)
Adjusted EBITDA	**195,463**	384,791	(49)
Adjusted EBITDA margin	**31%**	47%	

IMPACT OF INVESTMENT IN ASSOCIATE

The Company's pre-exceptional share of the profit/(loss) after tax of associates totalled $5.9 million in 2013 (2012: $6.5 million). In both 2013 and 2012, the Company's share of post tax profits/(losses) in associates reflects profits related to its holdings in Gold Resource Corporation ('GRC').

Since March 2013, the Company no longer recognises this profit due to the loss of significant influence with regards to its investment in GRC, and its resulting reclassification from an associate to an available-for-sale asset.

FINANCE INCOME

Finance income before exceptional items of $10.7 million was higher than that of 2012 (2012: $2.0 million) mainly due to interest received on deposits and liquidity funds ($6.8 million) and dividends received from Gold Resource Corporation (considered as available-for-sale financial asset since 27 March 2013 ($3.6 million)).

FINANCE COSTS

Finance costs before exceptional items decreased by 9% to $11.7 million in 2013 (2012: $12.9 million).

At 31 December 2013, the Group had no outstanding positions on currency or commodity hedges.

FOREIGN EXCHANGE LOSSES

The Group recognised a foreign exchange loss of $19.8 million (2012: $1.2 million loss). This loss is principally the result of the impact of a devaluation of the Peruvian Sol versus the US Dollar on cash deposits held in Peru. This impact will be more than offset by the positive effects of the local currency weakening on the Company's unit costs and capital expenditure programme.

INCOME TAX

The Company's pre-exceptional income tax was $45.0 million (2012: $85.5 million). The reduction is mainly explained by lower metal prices reflected in a reduced pre-exceptional profit before income tax ($2.9 million in 2013 vs. $214.1 million in 2012). This effect was partially offset by the devaluation of the Peru and Argentina local currencies which generated a negative impact of $(30.4) million in income tax.

EXCEPTIONAL ITEMS

Exceptional items in 2013 totalled $(86.6) million after tax (2012: $(1.7) million). The tables below detail the exceptional items excluding the exceptional tax effect that amounted to $35.9 million.

Exceptional items in 2013 totalled ($122.5) million before tax (2012: $1.9 million). This mainly comprises the following items:

Positive exceptional items:

Main items	$000	Description of main items
Other income	2,442	Gain on sale of exploration concessions in Peru
Gain on transfer from investment accounted for under the equity method to available-for-sale financial assets	107,942	Gain on the reclassification of GRC shares from an investment accounted for under equity method to an available-for-sale financial asset of $107.9 million, as a result of ceasing to have the ability to exercise significant influence over GRC.
	2,417	Adjustment of fair value of International Mineral Corporation (IMZ) shares as a result of the IMZ acquisition

Negative exceptional items:

Main items	$000	Description of main items
Termination benefits	(8,273)	Termination benefits paid to employees between April and September 2013, following the restructuring plan approved by management during the first half of 2013 (Cost of sales: $2.5 million, administrative expense: $2.4 million and exploration expenses: $3.5 million).
Other expenses	(90,671)	Impairment of the San Jose mine unit of $40.9 million, the Azuca project of $30.3 million, the Crespo project $29.1 million, the Ares unit $3.8million and $1.0 million of write-off of PP&E; and reversal of impairment of the San Felipe property of $14.4 million.
Finance cost	(136,353)	The impairment of investments in GRC of $105.3 million, IMZ of $12.9 million and other Available-for-Sale assets of $11.4 million. Also includes $4.7 million of transaction costs related to the Bridge Loan Facility and the undrawn Suyamarca Medium Term loan. Also includes $7.8 million of loss on disposal of GRC shares.

CASH FLOW & BALANCE SHEET REVIEW

Cash flow

$000 unless otherwise indicated	Year ended 31 Dec 2013	Year ended 31 Dec 2012	Change
Net cash generated from operating activities	**64,674**	254,879	(190,205)
Net cash used in investing activities	**(218,113)**	(427,869)	209,756
Cash flows generated/(used) in financing activities	**99,830**	(94,842)	194,672
Net (decrease)/increase in cash and cash equivalents during the period	**(53,609)**	(267,832)	214,223

Operating cash flow decreased from $254.9 million in 2012 to $64.7 million in 2013, mainly due to significantly lower silver prices. Net cash used in investing activities decreased to $(218.1) million in 2013 from $(427.9) million in 2012 mainly due to (i) lower capital expenditures in line with the implementation of the cashflow optimisation programme during 2013 ($(246.6) million vs. $(297.5) million in 2012), (ii) Andina Minerals Inc acquisition ($90.1 million) in 2012, (iii) proceeds from deferred income related to the sale of San Felipe ($16.0 million) in 2013 and (iv) proceeds from the sale of Gold Resource Corporation shares ($33.5 million) in 2013. Finally, cash used in financing activities increased to $99.8 million from $(94.8) million in 2012, primarily as a result of the bridge loan facility disbursed in 2013 ($270.0 million), proceeds from equity placing ($71.9 million) and lower dividends paid in 2013 ($18.5 million vs. $62.5 million paid in 2012). These effects were partially offset by the acquisition of the IMZ minority interest in 2013 ($271 million). As a result, total cash generated increased from $(267.8) million in 2012 to $(53.6) million in 2013 ($214.2 million difference).

Working capital

$000 unless otherwise indicated	Year ended 31 Dec 2013	Year ended 31 Dec 2012
Trade and other receivables	**179,868**	174,786
Inventories	**69,556**	76,413
Net other financial assets/(liabilities)	**(2,294)**	(6,741)
Net Income tax receivable/(payable)	**20,842**	(4,459)
Trade and other payables and provisions	**(208,618)**	(252,823)
Working capital	**59,354**	(12,824)

The Company's working capital position increased to $59.4 million in 2013 from $(12.8) million in 2012. This was primarily explained by higher income tax receivables ($25.3 million) due to lower tax provision in line with lower prices, and by lower provisions ($(44.2) million) resulting from lower personnel bonus provisions and workers profit sharing provisions in 2013.

Net cash

$000 unless otherwise indicated	Year ended 31 Dec 2013	Year ended 31 Dec 2012
Cash and cash equivalents	**286,435**	358,944
Long-term borrowings	**–**	(106,850)
Short-term borrowings	**(435,925)**	(6,973)
Net cash/(debt)	**(149,490)**	245,121

The Group reported net cash of $(149.5) million as at 31 December 2013 (2012: $245.1 million). This was primarily driven by the acquisition of International Minerals Corporation in 2013 and lower cash generated as a result of the drop in metal prices.

The Company's short-term borrowings are its convertible bond that has a current conversion price of £3.80 due in October 2014, the bridge loan facility ($270.0 million) refinanced in January 2014 with a $350 million 7-year Senior Unsecured bond, and short-term debt raised in Peru and Argentina.

CAPITAL EXPENDITURE

$000 unless otherwise indicated	Year ended 31 Dec 2013	Year ended 31 Dec 2012
Arcata	**43,255**	52,791
Ares	**3,783**	7,476
Selene	**1,364**	1,152
Pallancata	**42,992**	55,719
San Jose	**56,502**	71,188
Moris	**932**	846
Operations	**148,828**	189,172
Inmaculada	**98,614**	96,060
Crespo	**21,469**	17,984
Volcan	**4,312**	86,631
Azuca	**4,741**	12,476
Other	**3,614**	18,062
Total	**281,578**	420,385

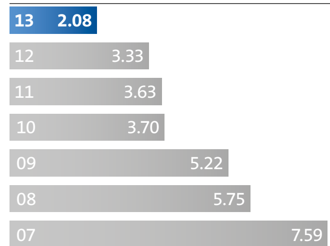
2013 capital expenditure of $281.6 million (2012: $420.4 million) includes operating capex of $147.3 million, capitalised exploration costs of $1.7 million in respect of the Group's operating mines, $98.6 million capitalised in Inmaculada, $21.5 capitalised in Crespo, $9.0 million in Azuca and Volcan, and administrative capital expenditure of $3.6 million.

Capital expenditure at Arcata was lower in 2013 without the effect of two important projects completed in 2012: the plant capacity increase and the Doré project. In addition, the implementation of the cashflow optimisation programme also reduced capex. In Pallancata and San Jose, lower capital expenditure is mainly due to reduced mine development as well as the above-mentioned cashflow optimisation programme.

SUSTAINABILITY REPORT

DESPITE CHALLENGING CONDITIONS, THE GROUP HAS UNDERTAKEN SOME GOOD WORK DURING THE YEAR IN RECOGNITION OF OUR RESPONSIBILITIES TO OUR PEOPLE AND THE SOCIAL LICENCE TO OPERATE GRANTED TO US BY THE COMMUNITIES.

REDUCTION IN ACCIDENT FREQUENCY INDEX SINCE 2007



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Following feedback received as part of the 2013 Board Evaluation process on the role of the CSR Committee, I was delighted to accept the invitation to act as Committee Chair from 1 January 2014. In this capacity, I am pleased to be able to introduce the 2013 Sustainability report and would like to record the appreciation of the Board to Eduardo Hochschild for his support in this crucial area.

INTRODUCTION

As stated earlier in the Annual Report, 2013 was a difficult year for the Group due to the unprecedented volatility in precious metal prices. This led to management taking a number of initiatives under the auspices of the Cash Optimisation Plan.

Due to necessity, management's actions were wide-ranging and impacted all parts of the Group's costs, which meant that budgets in the areas that we traditionally focus on in CSR had to be more targeted. Inevitably, this has resulted in difficult decisions being taken, leading to reductions in personnel and our budget for sustainability-related activities. We have sought to communicate with all those affected transparently and honestly and have provided, and will continue to provide, the appropriate level of support as we manage our way through this difficult but, hopefully, temporary period.

I would like to reiterate that, whilst embarking on this cost review programme, we have not moved our focus away from ensuring the health and safety of our people and managing the impact of our activities on the environment and our responsibilities with respect to the local communities.

Despite these challenging conditions, the Group has undertaken some good work during the year in recognition of our responsibilities to our people and the social licence to operate granted to us by the communities.

Firstly, I am pleased to report that there were no cases of occupational illness registered during the year resulting from Hochschild Mining activities. We also made significant progress during 2013 on safety, having achieved a reduction of 38% in the Group's accident frequency rate and a 43% reduction in the accident severity rate. However, we have failed in our long-term and ongoing objective of zero fatalities, given the two incidences of loss of life at our operations during 2013.

Our Operations and safety teams have been reviewing the causes of fatalities at our sites over the past few years and, consequently, a new behaviour-based safety programme has been designed for imminent implementation across the Group.

Wildlife surrounding Ares

We do not consider our responsibilities to our local communities as simply limited to providing employment opportunities but we seek to enhance crucial aspects of their standard of living by focusing on our three core areas: education, health and socio-economic development. Details of the specific initiatives undertaken during the year can be found on pages 46 to 47.

REPORTING

I am also pleased to report that the Group produced its first standalone Sustainability report which is available on our website. This report has been prepared with reference to the guidelines of the Global Reporting Initiative with reporting declared at Level C.

In compliance with the new reporting requirements as a UK listed company, the numerical information on the split between the number of male and female employees and the carbon emissions produced by the Group have been included in the relevant sections of this report.

I hope you find this report informative. If you should have any questions or comments, please do not hesitate to contact me.

ROBERTO DAÑINO
Chairman, CSR Committee

Countryside close to Arcata

GOVERNANCE OF CSR

THE BOARD HAS ULTIMATE RESPONSIBILITY FOR ESTABLISHING GROUP POLICIES RELATING TO SUSTAINABILITY AND THE CSR COMMITTEE HAS BEEN ESTABLISHED WITH THE RESPONSIBILITY OF FOCUSING ON COMPLIANCE AND ENSURING THAT APPROPRIATE SYSTEMS AND PRACTICES ARE IN PLACE.

Arcata leisure club

WHAT IS HOCHSCHILD MINING'S APPROACH TO SUSTAINABILITY?

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 of the localities 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 practices
- 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 SUSTAINABILITY

The Board has ultimate responsibility for establishing Group policies relating to sustainability 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 sustainability 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 sustainability-related risks.

Following his appointment as Chairman of the CSR Committee from 1 January 2014, Roberto Dañino has Board level responsibility for sustainability issues.

Following a management re-organisation during 2013 as part of the Cash Optimisation Plan, the Vice President of Legal assumed responsibility for Group Corporate Affairs, which includes the functional areas that, collectively, are responsible for sustainability issues.

A working group of relevant personnel meets on a periodic 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.

Workers at Pallancata

TERMS OF REFERENCE OF THE CSR COMMITTEE

Under its terms of reference, the CSR Committee is responsible for:

- 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 shall also assess 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 on the Group's performance in regard to health, safety, environmental or community relations matters and 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 2013

During the year, the CSR Committee:

- approved the 2012 Sustainability report for inclusion in the 2012 Annual 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 sustainability related risks
- monitored the status of the Group wide initiatives launched to raise the profile of safe working practices through international communication campaigns and the annual Luis Hochschild Safety Innovation Competition (see case study on page 41)
- considered updates from the work done across the Group to manage community and labour relations.

In addition, during the year the full Board received presentations on the two fatalities that occurred during the year and the impact of the Cash Optimisation Plan on the Group's risk profile including sustainability risks and the mitigating actions taken by management as a result.

SAFETY

MINING HAS AN INHERENTLY HIGH RISK PROFILE AND SAFETY IS OUR HIGHEST PRIORITY.

2013 HIGHLIGHTS

- 43% reduction in accident severity rate
- 38% reduction in LTIFR
- Luis Hochschild Safety Innovation Competition held (see opposite)

THE HOCHSCHILD APPROACH TO SAFETY

Mining has an inherently high risk profile and safety is our highest priority. Ensuring the safety of the Group's employees is considered crucial in measuring the successful implementation of corporate strategy to which the Board and management are committed.

The Group regrets that there were two fatalities during the year. In the first incident, a worker was undertaking drilling work inside a stope when loose rock fell from above. The second fatal accident occurred at the San Jose mine when a scoop operator was trapped by the machine when he attempted to drive it from outside the driver's cab.

Circumstances leading to these tragic events have been investigated by management, reported to the Board and the resulting recommendations implemented (see details of the behaviour-based safety programme below).

After each incident, the Group suspends operations at the mine to conduct an internal review of the relevant operation and safety procedures and carry out safety briefings.

OUR ACHIEVEMENTS IN 2013

- Continued implementation of the DNV Safety Management System at all operating units and Advanced Projects to support the Group's proactive approach to safety.
- Compliance with international standard, OHSAS 18001:2007, was certified in respect of the Peruvian and Argentinian operations. The Luis Hochschild Safety Innovation Competition which, in 2013, received over 180 proposals with suggestions on how safety could be enhanced.
- In order to implement a Behaviour Based Safety (BBS) tool, a working group comprised of members from the Human Resources, Psychology and Safety teams has been established with the first stage of training for safety supervisors already carried out.

Group session on Golden Rules of Safety

HOW WE PERFORMED AGAINST OUR 2013 OBJECTIVES

Target	Status	Commentary
5% reduction in LTIFR	✓	A 38% reduction was achieved.
20% reduction in accident severity rate	✓	A 43% reduction was achieved.
Achieve the following levels of implementation of the DNV International Sustainability Rating System (ISRS) 6th Ed:		
Ares – Level 6	✓	Ares – Level 6
Arcata & Pallancata/Selene – Upper Level 7	**Partial**	Arcata & Pallancata/Selene – Level 7
San Jose – Upper Level 6	✓	San Jose – Level 7
Inmaculada Project – Upper level 3 (internal certification)	**Partial**	Inmaculada – Level 3 (internal certification)

SAFETY INDICATORS

	2013	2012	2011	2010
Fatal accidents	**2**	4	3	2
Accidents leading to an absence of one day or more	**49**	81	81	66
LTIFR[1]	**2.08**	3.33	3.63	3.70
Accident Severity Index[2]	**598**	1058	910	777
Accidentability rate[3]	**1.24**	3.52	3.30	2.88

1 Calculated as total number of accidents per million labour hours.

2 Calculated as total number of days lost per million labour hours.

3 Calculated as LTIFR x accident severity divided by 1,000.

2014 TARGETS

- 2.5% reduction LTIFR
- 25% reduction in accident severity index
- All supervisors to be trained in '5 Steps Observation Methodology' under the Behaviour Based Safety programme
- To have undertaken a full impact assessment of moving from DNV ISRS 6th edition to DNV ISRS 8th edition as the principal form of appraising the Group's Safety Management Information System

CASE STUDY: **LUIS HOCHSCHILD SAFETY INNOVATION COMPETITION**

The Annual Luis Hochschild Safety Innovation Competition was held during 2013 for which 184 suggestions were received from across the Group. The first prize of US$25,000 was won by workers at Selene who designed a metal structure that could be used to protect workers during the inspection process of the processing plant.

Winners of the competition with Senior Management

HEALTH & HYGIENE

UNDERLINING THE IMPORTANCE WE PLACE ON OUR PEOPLE AND THEIR WELLBEING, THE GROUP'S HEALTH AND HYGIENE DEPARTMENT IS TASKED WITH PROVIDING AN INTEGRATED APPROACH TO EMPLOYEE WELFARE.

2013 HIGHLIGHTS

- Zero incidence of occupational illness
- Inmaculada Advanced Project benefits from the Group's Health and Hygiene's SAP module

THE HOCHSCHILD APPROACH TO HEALTH AND HYGIENE

Underlining the importance we place on our people and their wellbeing, the Group's Health and Hygiene department is tasked with providing an integrated approach to employee welfare. Whilst the Health team has been established to ensure that employees have access to the relevant services and infrastructure to ensure that treatment can be provided, the Hygiene team looks to reinforce the importance of the quality of life at work and seeks to work in the prevention of occupational illness.

Given the nature of the work, and the two-week shift patterns which result in frequent periods of absence from families, the Group recognises the importance of ensuring the mental wellbeing of its employees. For this reason, the Group's Health & Hygiene teams are also trained in occupational psychology.

Our Health & Hygiene teams undertake their work in line with the following guiding principles:

- Prevention comes first.
- Maximising quality of life.
- Adopting measures for the long-term benefit of our people.
- Taking a proactive stance so that hazards are identified and controlled at source.

These principles adopted by the Health & Hygiene team inform the approach it takes in the provision of medical services, occupational health, industrial hygiene and occupational psychology.

OUR ACHIEVEMENTS IN 2013

- Review of new health and safety legislation to ensure the Group's ongoing compliance.
- Conducting corporate prevention campaigns on health issues (common and occupational diseases).
- A review was conducted of the organisational structure of the industrial hygiene function.

Travelling Doctor Vehicles (see page 46 for further details)

HOW WE PERFORMED AGAINST OUR 2013 OBJECTIVES

Target	Status	Commentary
To redefine health services provided at San Jose	✓	A new organisational structure for the medical function was established with a doctor specialising in occupational health as the team leader. This new team structure is better aligned with our corporate standards.
To be prepared to ensure continued compliance with relevant requirements in light of the new health and hygiene regulations expected to come into force in Peru in 2013	✓	Our health team has actively participated in ascertaining the requirements of the new regulations. The team has participated in discussions at a national level to agree best practice on complying with the new regulations in Occupational Health and Safety in Peru.
To implement the Health and Hygiene's SAP module at the Inmaculada project	✓	This was implemented in August 2013. Now Inmaculada shares the same status with regards to health software as our other operations.

HEALTH INDICATORS

Indicator	2013	2012	2011	2010
Average number of medical attendances at Peruvian operations and at San Jose per month	**3,614**	3,376	3,065	2,961
Average number of work-related incidences requiring medical attention at Peruvian operations and at San Jose per month	**14**	18	32	26
Average number of occupational health examinations at the Group's wholly-owned Peruvian operations and Moris per month	**475**	441	396	237

2014 TARGETS

- To improve data storage facilities at our mine sites
- To constantly review and update, as necessary, the structure of the Health & Hygiene department to best meet the needs of the organisation
- To establish a health referral network in major cities near our mines

OUR PEOPLE

THE QUALITY OF OUR PEOPLE IS KEY TO THE SUCCESS OF THE BUSINESS IN ACHIEVING ITS STRATEGIC OBJECTIVES AND OUR ONGOING OBJECTIVE IS THEREFORE TO ATTRACT AND RETAIN THE BEST PEOPLE.

2013 HIGHLIGHTS

- Percentage of workforce trained – 79%
- Average number of hours of training per year per employee – 31 hours

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 our ongoing objective is therefore to attract and retain the best people. The Group's HR team adopts various techniques to ensure that our people contribute to the Company's success, which include the provision of competitive remuneration, a positive working environment (through the Organisational Climate Survey) and ongoing professional development.

Group values, labour relations and human rights

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 60% of our total workforce is represented by a trade union or similar body.

As a signatory of the Global Compact of the United Nations, Hochschild Mining respects the human rights of all of the Company's stakeholders including those of our employees, our contractors and suppliers, as well as our local communities. The importance placed by the Company on human rights is reflected in the Group's training programme which seeks to ensure that all employees are aware of their rights and the Company's commitments.

ACTIVITIES IN 2013

The Group's team of HR professionals actively participated in the Company's restructuring process, the Cash Optimisation Programme, during 2013 to further their shared objective of ensuring the Group is appropriately resourced for the future challenges. The following highlights some of the work carried out during the year.

Developing our people

Driven in part by the cash optimisation process, budgets have been globally adjusted for all HR programmes, having to prioritise training and development in key areas and positions.

In order to achieve greater efficiency, we have further implemented an online platform which not only delivers training through virtual means, but also forms part of the Group's official records in monitoring employees' participation, particularly with respect to compulsory safety training.

Managing our talent

We carried out our People Review process focused on the mapping of talent in the organisation, which identifies key employees and the succession plans for our critical positions.

Creating a better place to work

The Group continues to make use of an Organisational Climate Survey ('OCS'), which has embedded itself as a key tool to measure levels of satisfaction amongst employees and identify opportunities for further development. The survey held in 2010 resulted in over 360 recommendations with the aim of improving the overall working environment.

The Company commissioned the 2012 OCS in collaboration with the Hay Group and it showed an overall increase in employee satisfaction of 8%.

HOW WE PERFORMED AGAINST OUR 2013 OBJECTIVES

Objectives	Status
Implement improved talent identification process and continue with the implementation of development plans	✓
Continue with the entire leadership programme for all levels of management	✓
Implement the leadership programme for operational management	*
Establish alliances with leading universities as part of the Group's recruitment strategy	*

* Following the implementation of the Cash Optimisation Plan, these initiatives did not proceed.

PEOPLE INDICATORS

	2013	2012	2011	2010
General				
Average number of Group employees and contractors	**6,853**	7,557	6,395	5,776
Gender diversity statistics				
*Number of employees**				
Male	**4,080**	–	–	–
Female	**276**	–	–	–
*Number of senior managers***				
Male	**23**	–	–	–
Female	**2**	–	–	–
Number of Board Members				
Male	**8**	–	–	–
Female	**0**	–	–	–
Training				
Average number of hours of training undertaken per employee during the year	**30.77**	52.03	37.86	16.86
Percentage of workforce trained during the year	**79%**	90%	90%	87%
Labour relations				
Number of production days lost as a result of industrial unrest	**15.5**	7	28	1

* as at 31 December 2013.
** defined as those who qualify under the relevant statutory definition of 'senior manager' as at 31 December 2013.

During 2013, various action plans were carried out to ensure continuous improvement of our working environment. For example, events were held in Peru and Argentina entitled 'Open Dialogue' in which the Executive Chairman, CEO and Vice Presidents in the case of Peru, and the General Manager and HR in Argentina all participated.

Embedding a safety first culture

Working in conjunction with the Safety and Psychology teams, the HR team has been supporting the implementation of a Behaviour Based Safety Programme to tackle the root cause of recent fatalities at the Group's mine sites.

Resourcing for the future

We concluded the 'junior engineers' programmes which aimed to identify outstanding students from different universities and train them in different areas of our Company's operations. Twenty-one of these participants will assume positions of responsibility within the Company from January 2014, after 18 months in the programme.

WORKING WITH OUR COMMUNITIES

HOCHSCHILD MINING SEEKS TO DEVELOP AND MAINTAIN AN OPEN AND HONEST RELATIONSHIP OF TRUST WITH LOCAL COMMUNITIES.

2013 HIGHLIGHTS

- Continued focus on Education, Health and Socio-economic development
- Digital Chalhuanca project won several awards

THE HOCHSCHILD APPROACH TO WORKING WITH OUR COMMUNITIES

Hochschild Mining seeks to develop and maintain an open and honest relationship of trust with local communities by:

- ensuring that we comply with all relevant commitments including agreements with the communities
- prioritising training and recruitment of community workers
- facilitating efficient programmes promoting community development
- promoting the participation of other key stakeholders in the development and sustainability of rural communities.

Our commitment to respecting human rights forms the foundation of our approach to community engagement and development. As a signatory of the United Nations Global Compact, Hochschild Mining has a duty to behave in a way that respects the human rights of host communities and points of best practice are integrated into the Group's Code of Conduct to ensure that we adhere to this commitment across all our activities.

COMMUNITY RELATIONS STRATEGY

Continuing with our medium to long-term vision of our relationship with the local communities, this year we continued to focus our efforts on the core areas of education, economic development and health, as well as enhancing life skills and employment opportunities.

We have also placed a greater focus on encouraging sustainability in our communities rather than being driven by a shorter-term approach to satisfying objectives.

In light of the budgetary challenges faced in the Cash Optimisation Plan, we developed our social initiatives to ensure continuity and maximise their impact.

OUR ACHIEVEMENTS IN 2013

We undertook a number of practical initiatives during the year aimed at making a measurable improvement to the quality of life of the communities living close to our operations as summarised below.

Education

Maestro Líder – This umbrella programme launched in 2012 was designed to develop primary and secondary education programmes by using the teacher as a factor of change. These teachers received training and certification in basic skills programmes, entrepreneurship, leadership and digital inclusion.

Elementary Education – Aimed at 17 schools and 665 students from first to sixth grade, these sessions sought to improve basic literacy and numeracy skills. In 2013, we paid particular attention to direct teaching, with the use of technology as appropriate.

Secondary Education – Motivated by a need to give young people the tools they need to face their future, the Project Life programme was implemented in partnership with the Vision Partnership Institute. This series of sessions to over 300 teenagers focused on positive thinking and securing ways to achieve their ambitions.

Digital Inclusion – We continued to promote the use of technology as a means of enhancing education to both teachers and students alike. In 2013, 117 teachers were trained in the use of ICT and, to date, over 2,000 students have benefited from this programme.

Health

Medico de Cabecera (the Travelling Doctor programme) – In 2013, we joined efforts with the Ministry of Health to establish cooperation agreements with the aim of extending the reach of the Travelling Doctor programme to more communities. In addition, we increased the scope of the medical services provided.

HOW WE PERFORMED AGAINST OUR 2013 OBJECTIVES

Target	Status	Commentary
To continue making improvements to the literacy skills of primary and secondary schoolchildren	✓	The Group redesigned its strategy and, as a result, achieved improved academic results.
To increase the level of engagement between the Group's mining operations and local businesses	✓	We have developed business plans and provided technical training as well as infrastructure to promote local development. *For further details, see the 'Socio-economic development' section below*

COMMUNITY RELATIONS INDICATORS

	2013	2012	2011	2010	2009
Community investment[1]	**$3.2m**	$6.5m	$7.7m	$6.7m	$6.0m
Production days lost as a result of community conflict	**0**	0	1	0	1.5

1 These figures represent only the portion of administrative expenditure (excluding corporate support) on social and community welfare activities surrounding the Company's operating units. Total social expenditure by the Group in 2013 amounted to $10.14 million.

2014 TARGETS

- Continue the development of our socio-economic programmes
- Maximising employment opportunities to members of the community
- Enhance sustainability in the communities living close to our Inmaculada project

Socio-economic development

Digital Chalhuanca – This year, we have been able to enhance and further strengthen the Group's flagship project where free internet access has been installed in the city of Chalhuanca to promote education and economic development in the surrounding area.

This project has already won several awards for the great results achieved. In particular, the project has been hailed as a successful example of partnership between private companies, the state and community (see case study opposite);

Development of local trading skills
In order to promote a self-sustaining economy in our areas of influence, we have facilitated technical training and compiled business plans for those wishing to embark on a career or to commence their own businesses. This also requires the formation of partnerships with local governments who jointly fund these community development projects.

CASE STUDY: **DIGITAL CHALHUANCA**

The Digital Chalhuanca project, which aims to provide free internet access, has completed its second year of implementation and has focused on training in information technology and communication (ICT) to all interested parties, as well as the use of technology as a teaching tool for teachers and students alike from nearby schools.

Significantly, the project works by bringing digital resources to rural and semi rural populations, primarily for education and training with the active participation of local and regional government. The project has received several awards in recognition of the project's significant impact and benefits.

This year, the Digital Centre was boosted by the provision of 25 computers as a result of high demand. The next stage, in the coming years, will be to achieve the sustainability of the project through its beneficiaries.

Local child using the project's IT facilities

Recognised for innovative use of technology

MANAGING OUR ENVIRONMENTAL IMPACT

WE ARE COMMITTED TO ENSURING THE SUSTAINABILITY OF THE ENVIRONMENT IN WHICH WE DEVELOP OUR OPERATIONS AND NEW PROJECTS.

2013 HIGHLIGHTS

- ISO 14001 Certification at Peruvian and Argentinian operations maintained
- Group Compliance Performance Indicator of 84% (vs target of 80%)

THE HOCHSCHILD APPROACH TO ENVIRONMENTAL MANAGEMENT

We are committed to ensuring the sustainability of the environment in which we develop our operations and new projects. Our environmental management system has been established on a corporate level in order to apply the best international practices available, and is backed by the continued ISO 14001 certification of our operations. 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.

Hochschild Mining recognises that Environmental and Social Responsibility extends beyond the life of our operations, mine closure plans are in place to restore disturbed areas where mining activity has ceased, and to contribute to the socio-economic sustainability of communities that have been affected by the operations.

OUR ACHIEVEMENTS IN 2013

- Following the approval of the Inmaculada Project's Environmental Impact Assessment, we obtained the building permit with construction now in progress.
- Approval of Crespo and Matarani Environmental Impact Studies.
- Maintained ISO 14001 certification for the Group's operations in Ares, Arcata, Selene, Pallancata and San Jose.
- Group Compliance Performance Indicator (CPI) reached 84.5% (vs a target of 80%).

HOCHSCHILD ENVIRONMENTAL TEAM

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

- 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 functions within our mining operations and projects and alongside the Community Relations, Legal, Permitting and Finance teams, thereby assuring continuity of operations.

HOW WE PERFORMED AGAINST OUR 2013 OBJECTIVES

Target	Status	Commentary
Approval of Crespo EIS	✓	Obtained in July 2013.
Implementation of improved environmental Compliance Performance Indicators ('CPI')	✓	Established new environmental CPI structure with improved evaluation criteria.
Maintain ISO 14001 certification for Ares, Arcata, Selene, Pallancata and San Jose	✓	This was achieved during the year.

ENVIRONMENTAL INDICATORS[1]

	2013	2012[2]	2011	2010	2009
Average monthly fresh water consumption per metric tonne of treated ore (cubic metres)	**0.15**	0.18	0.24	0.21	0.63
Electricity consumption per metric tonne of treated ore (Kw-h)	**82.75**	88.69	53.29	57.75	53.32
Diesel consumption per metric tonne of treated ore (gallons)	**1.18**	1.53	1.29	0.97	1.23
Number of material environmental incidents across entire operations[4]	**0**	0	0	0	0
Estimated volume of water withdrawn per day (cubic metres)	**15,538**	15,925	32,424	30,628	29,668
Estimated proportion of recycled water used	**55%**	60%	69%	32%	27%
Estimated volume of water discharged per day (cubic metres)	**32,878**	30,773	37,979	37,538	35,606

Greenhouse gas emissions data[3] (tonnes of CO_2e)	2013	2012	2011	2010	2009
Emissions from combustion of fuel and operation of facilities (tCO_2e)	**56,234**	–	–	–	–
Emissions from purchased electricity (tCO_2e)	**72,946**	–	–	–	–
Emissions intensity, per thousand ounces of total silver equivalent produced (CO_2e/k oz)[4]	**4.89**	–	–	–	–

1 Includes data for operations in Ares, Arcata, Selene, Pallancata and San Jose.

2 From 2012, figures are based on guidelines and information gathered for the Company's 2012 GRI Sustainability Report published during the year. Data for previous years was calculated using different criteria and is therefore not directly comparable with subsequent years.

3 Includes data for operations in Ares, Arcata, Selene, Pallancata, San Jose, Inmaculada, Matarani, Moris and office locations.

4 Total production includes 100% of all production, including attributable to joint venture partners at San Jose and Pallancata.

2014 TARGETS

- Update mine closure schedules for Ares, Arcata, Selene, Pallancata and Sipan. Additionally, present site closure plan for Matarani
- Obtain ISO 14001 recertification for Arcata, Selene, Pallancata, Ares and San Jose
- Initiate the mine closure process for the Ares and Moris mining operations

RISK MANAGEMENT

THE GROUP'S RISK MANAGEMENT FRAMEWORK IS PREMISED ON THE CONTINUED MONITORING OF THE PREVAILING ENVIRONMENT AND THE RISKS POSED BY IT, AND THE EVALUATION OF POTENTIAL ACTIONS TO MITIGATE THOSE RISKS.

RISK PROFILE

This year, the perceived change in the profile of each of the Group's principal risks relative to 2012 has been described to assist the reader in assessing how the risk has evolved during the course of the year under review.

INTRODUCTION

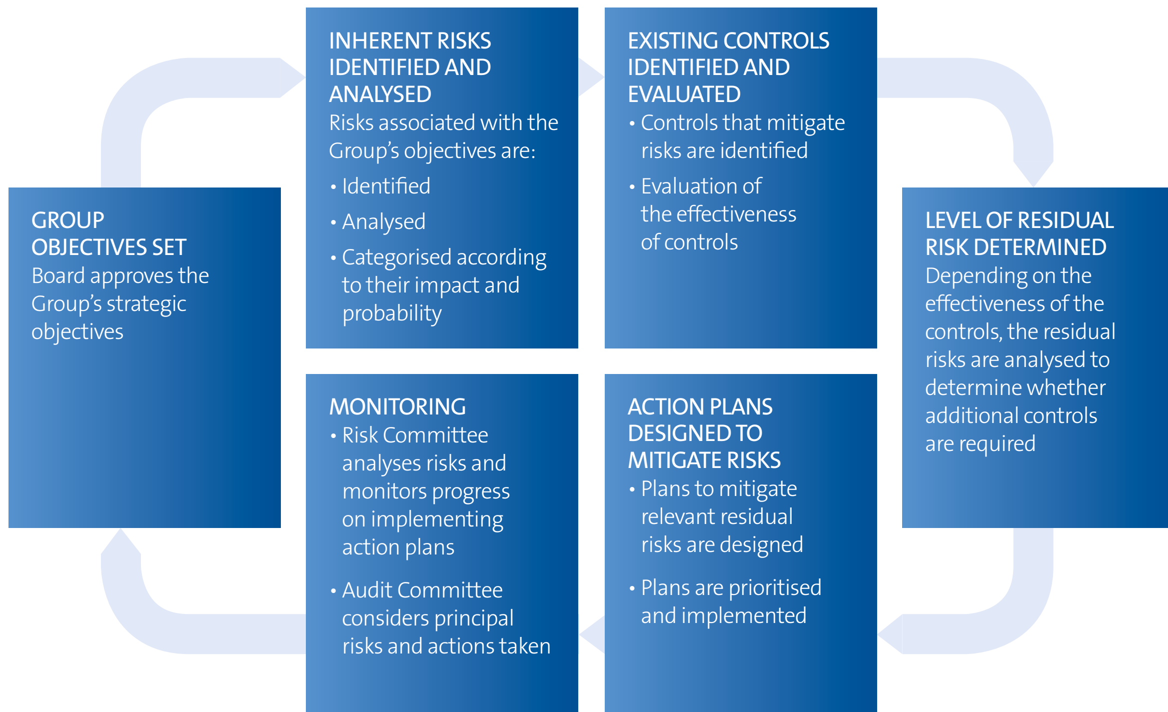
As with all businesses, management of the Group's operations and execution of its growth strategies are subject to a number of risks, the occurrence of which could adversely affect the performance of the Group. The Group's risk management framework is premised on the continued monitoring of the prevailing environment and the risks posed by it, and the evaluation of potential actions to mitigate those risks.

The 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 as well as potential actions to mitigate those risks are reported to the Group's Audit Committee, which has oversight of risk management on behalf of the Board.

The key business risks affecting the Group set out in this report differ from those disclosed in the 2012 Risk Management report in that counterparty credit risk with respect to defaulting customers and liquidity risk have been removed as they are no longer considered to be principal risks for the Group.

This year, the perceived change in the profile of each of the Group's principal risks relative to 2012 has been described to assist the reader in assessing how the risk has evolved during the course of the year under review.

RISK MANAGEMENT METHODOLOGY



FINANCIAL RISKS

Risk	Impact	Mitigation	2013 Commentary
COMMODITY PRICE *Change in risk profile vs 2012: HIGHER*	Adverse movements in precious metals' prices could have a material impact on the Group's results of operations.	• Constant focus on maintaining low cost base and low leverage policy • Initiatives identified for implementation in the event of a low price environment (included within the Cash Optimisation Plan – see 2013 Commentary) • Conservative, but flexible hedging policy that allows the Company to approve hedges to mitigate the effect of price movements on specific projects and transition periods *See Market Overview on pages 12 and 13 for further details*	This risk became much more pronounced during 2013 given the unprecedented steep falls in precious metal prices. In response, the Company implemented the Cash Optimisation Plan, a pre-designed series of initiatives to counter the impact on profitability by conserving capital and optimising cash flow. The Cash Optimisation Plan sought to: • reduce operating and administrative costs • minimise sustaining capital expenditure • refocus the Group's exploration strategy.
COUNTERPARTY CREDIT RISK *Change in risk profile vs 2012: UNCHANGED*	The Group may lose financial resources through the failure of financial institutions.	• Surplus cash invested with a diverse list of select highly rated financial institutions within investment limits set by the Board	Management has continued to operate its policy with oversight by the Board without any change during the year.

OPERATIONAL RISKS

Risk	Impact	Mitigation	2013 Commentary
OPERATIONAL PERFORMANCE *Change in risk profile vs 2012: HIGHER*	Failure to meet production targets and manage the cost base could adversely impact the Group's profitability.	• Close monitoring by management of operational performance, costs and capital expenditure • Negotiation of long-term supply contracts where appropriate • Exploration to increase high quality resources	As stated in the Operating and Financial reviews, unit costs trended downwards during 2013, primarily as a result of the financial benefits of the cost savings initiatives implemented under the Cash Optimisation Plan and the devaluation of local currencies.

OPERATIONAL RISKS CONTINUED

Risk	Impact	Mitigation	2013 Commentary
DELIVERY OF PROJECTS *Change in risk profile vs 2012: HIGHER*	Unanticipated delays in delivering projects could have negative consequences including delaying cash inflows and increasing capital costs, which could ultimately reduce profitability.	• Teams comprising specialist personnel and world class consultants and contractors are involved in all aspects of project planning and execution including the commissioning of an independent feasibility study and the securing of permits and financing • Project teams meet on a weekly basis to monitor ongoing progress against project schedules with a Procurement Committee ensuring timely sourcing of materials and services to meet project schedules	Notable developments at Inmaculada include: • completion of detailed civil engineering and underground engineering • construction of the camp and exploration tunnels • the approval of the construction permit • procurement of the main plant equipment • the continued construction of the necessary infrastructure for a dedicated electricity supply The perceived increase in the profile of this risk is to reflect the fact that the Group acquired a 100% interest in the Inmaculada Advanced Project during the year and hence the higher impact on the Group of any delay in its commissioning. The risks associated with the delivery of projects also include those risks relating to Community Relations and the Political, Legal and Regulatory environment. *See how we mitigate these risks in the separate sections of this report*
BUSINESS INTERRUPTION *Change in risk profile vs 2012: UNCHANGED*	Assets used in operations may break down and insurance policies may not cover against all forms of risks.	• Adequate insurance coverage • Management reporting systems to support appropriate levels of inventory • Annual inspections by insurance brokers and insurers with recommendations addressed in order to mitigate operational risks • Availability of contingency power supplies at all operating units	Insurance advisors conducted site visits and completed a full review of operational risks to ensure that adequate property damage and business interruption risk management processes and insurance policies are in place at our operations. Management reporting systems ensured that an appropriate level of inventory of critical parts is maintained. Adequate preventative maintenance programmes, supported by the SAP Maintenance Module, are in place at the operating units.
EXPLORATION AND RESERVE AND RESOURCE REPLACEMENT *Change in risk profile vs 2012: HIGHER*	The Group's operating margins and future profitability depend upon its ability to find mineral resources and to replenish reserves.	• Implementing and maintaining an annual exploration drilling plan • An ongoing strategy to retain and incentivise world class geologists • Ongoing evaluation of acquisition and joint venture opportunities to acquire additional ounces *See Mitigating steps for Personnel risks for further information*	The implementation of the Cash Optimisation Plan resulted in a reduction in the 2013 exploration budget from $77 million to $50 million. The Group's 2014 exploration budget has been set at $30 million and is focused on brownfield exploration at current operations and Inmaculada. The 2013 drilling plan was revised on a quarterly basis with exploration targets continually evaluated and new targets incorporated.

OPERATIONAL RISKS CONTINUED

Risk	Impact	Mitigation	2013 Commentary
EXPLORATION AND RESERVE AND RESOURCE REPLACEMENT (continued) *Change in risk profile vs 2012: UNCHANGED*	Reserves stated in this Annual Report are estimates.	• Develop internal expertise and processes in managing mineral reserves and resources • Engagement of independent experts to undertake annual audit of mineral reserve and resource estimates	The Group engaged P&E Consultants to undertake the annual audit of mineral reserve and resource estimates. *See page 181 for further details*
PERSONNEL: RECRUITMENT AND RETENTION *Change in risk profile vs 2012: HIGHER*	Inability to retain or attract personnel either through a shortage of skilled personnel or the commencement of mining operations in the vicinity of the Group's core operations or projects.	• The Group's approach to recruitment and retention provides for the payment of competitive compensation packages, well-defined career plans and training and development opportunities	Due to the extent of the lower price environment, the implementation of the Cash Optimisation Plan necessitated a significant headcount reduction across the Group. To mitigate the impact of this, the Group has identified a number of initiatives to improve the retention of key employees during this period. Such initiatives include the Deferred Bonus Plan, which is being proposed to shareholders for approval at the forthcoming AGM (see Directors' Remuneration Report for further information). In addition to the Long Term Incentive Plans, the Group has adopted an Exploration Incentive Plan which provides additional rewards for geologists based on the significant discovery of mineral content at a given project that proceeds to commercial production.
PERSONNEL: LABOUR RELATIONS *Change in risk profile vs 2012: UNCHANGED*	Failure to maintain good labour relations with workers and/or unions may result in work slowdown, stoppage or strike.	• A tailored labour relations strategy focusing on profit sharing, working conditions, management style, development opportunities, motivation and communication	The reduced level of profitability resulting from the precious metal price falls in 2013 means that the levels of statutory profit share payable to Peruvian mineworkers will be significantly lower than in 2012. Management has therefore ensured that monthly meetings with workers and unions continued during 2013 to ensure the Company had a complete understanding of their requirements and concerns and to keep all parties updated on the Group's financial performance. *See pages 44 and 45 of the Sustainability report for specific examples of how the Group has invested in its people and plans to develop its recruitment strategy*

MACRO-ECONOMIC RISKS

Risk	Impact	Mitigation	2013 Commentary
POLITICAL, LEGAL AND REGULATORY *Change in risk profile vs 2012: HIGHER*	Changes in the legal, tax and regulatory landscape could result in significant additional expense, restrictions on or suspensions of operations and may lead to delays in the development of current operations and projects. Implementation of exchange controls could impede the Group's ability to convert or remit hard currency out of its operating countries.	• Local specialised personnel continually monitor and react, as necessary, to policy changes • Active dialogue with governmental authorities • Participation in local industry organisations	The year saw a sustained programme of legislative measures enacted by the Peruvian Government impacting the mining sector including with respect to health & safety, the environment and labour relations. In addition, there remains some uncertainty as to the operation of new laws enacted after the Peruvian Government's election in 2011, including laws that require the prior consultation of indigenous communities in the mine planning process and the designation of new protected nature reserves. In Argentina: • the province of Santa Cruz created a new tax on mining companies, levying a charge equal to 1% of the market value of its mineral reserves. As reported earlier in the year, the Company is challenging the constitutionality of this tax • at a national Federal Government level, foreign exchange controls remained in place during the year affecting the Company's ability to access and remit hard currency abroad

SUSTAINABILITY RISKS

Risk	Impact	Mitigation	2013 Commentary
HEALTH AND SAFETY *Change in risk profile vs 2012: UNCHANGED*	Group employees working in the mines may be exposed to health and safety risks. Failure to manage these risks may result in occupational illness, accidents, a work slowdown, stoppage or strike and/or may damage the reputation of the Group and hence its ability to operate.	• Health & Safety operational policies and procedures reflect the Group's zero tolerance approach to accidents and occupational illnesses • Use of world class DNV safety management systems • Dedicated personnel not only assure the safety of employees at the operations but, through the Health & Hygiene team, there is continued focus on the prevention of accidents and occupational illness • Rolling programme of training, communication campaigns and other initiatives promoting safe working practices • Use of reporting and management information systems to monitor the incidence of accidents and enable preventative measures to be implemented	During the year, the Group achieved a reduction of about 38% in the accident frequency rate and a 43% reduction in the accident severity rate. Furthermore, there were no incidences of occupational illness. In addition, the Group retained the same sustainability rating levels of the DNV safety management information system across the operations and San Jose achieved a Level 7 rating. The internal competition for the Luis Hochschild Safety Innovation Award was held in 2013. A working group comprising representatives from the HR, Occupational Psychology and Safety teams has been formed to develop a behaviour-based safety tool for implementation across the Group.

SUSTAINABILITY RISKS CONTINUED

Risk	Impact	Mitigation	2013 Commentary
ENVIRONMENTAL *Change in risk profile vs 2012: HIGHER*	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 or be subject to fines and/or penalties.	• The Group has a dedicated and specialised team of professionals with an allocated budget for environmental management • Robust procedures and policies have been adopted to monitor and limit the Group's environmental impact • Investment in leading environmental management information systems • The Group conducts annual reviews of its mine closure plans for its operating units	During the year, the Peruvian Government established a new regulator for environmental affairs which, amongst other things, established a new scale of fines for non-compliance with environmental requirements. During the year, the Company: • succeeded in recertifying the operations in Peru and Argentina as compliant with ISO 14001 • obtained the approval of the Environmental Impact Study for the Crespo Growth Project
COMMUNITY RELATIONS *Change in risk profile vs 2012: HIGHER*	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. 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.	• Constructive engagement and management of relationships with local communities • Community Relations strategy focuses on promoting education, health and nutrition, and sustainable development • Allocation of budget and personnel for the provision of community support activities • Policy to actively recruit workers from local communities	Despite the reduction of budgets for the Group's community welfare activities as part of the Cash Optimisation Plan, the Group continued to pursue a number of initiatives benefiting the communities including: • 'Maestro Líder', a training programme for community teachers • Digital Inclusion, a programme promoting the use of technology as an educational tool to teachers and students • Medico de Cabecera, a scheme providing healthcare to the rural communities, progressed through partnerships established with the Ministry of Health with a view to extending the programme's reach *Further details on the Group's activities to mitigate sustainability risks can be found in the Sustainability report on pages 36 to 49*

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

The Strategic Report, as set out on pages 2 to 55 has been reviewed and approved by the Board of Directors and signed on its behalf by

IGNACIO BUSTAMANTE
Chief Executive Officer
11 March 2014

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

THE BOARD'S ROLE IS TO PROVIDE LEADERSHIP TO THE SENIOR MANAGEMENT TEAM THROUGH THEIR COLLECTIVE EXPERIENCE AND TO MONITOR PROGRESS AGAINST THE GROUP'S STRATEGIC OBJECTIVES WITHIN A PRUDENT FRAMEWORK OF CONTROLS AND A MANAGED LEVEL OF RISK.

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

Eduardo Hochschild
Executive Chairman

Eduardo Hochschild joined the Hochschild Group 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.

Committee membership
Nominations Committee (Chairman)

Ignacio Bustamante
Chief Executive Officer

Ignacio Bustamante joined the Board as CEO in April 2010. He previously served as Chief Operating Officer (from January 2008) and prior to that as General Manager of the Group's Peruvian operations. Ignacio served as Chief Financial Officer of Cementos Pacasmayo S.A.A., an affiliate of the Company, between 1998 and 2003, and as a Board member from 2003 to 2007. Ignacio is a graduate of Business and Accounting, having studied at the Universidad del Pacífico in Peru and he holds an MBA from Stanford University.

Committee membership
CSR Committee

NON-EXECUTIVE DIRECTORS

Roberto Dañino
Deputy Chairman

Roberto Dañino joined the Board in 2006 as an Executive Director and became a Non-Executive Director on 1 January 2011. In 2001 Roberto served in the Peruvian Government as Prime Minister and thereafter as the country's Ambassador to the United States. Between 2003 and 2006, Roberto 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 the US and founding General Counsel of the Inter-American Investment Corporation. Roberto is Chairman of Fosfatos del Pacifico S.A., part of the Cementos Pacasmayo Group of companies, amongst various other boards. He is a graduate of Harvard Law School and Universidad Católica.

Committee membership
CSR Committee (Chairman)

Enrico Bombieri
Senior Independent Director

Enrico Bombieri joined the Board on 1 November 2012. He previously served as Head of Investment Banking for Europe, Middle East and Africa ('EMEA') at JP Morgan. After joining JP Morgan in 1989, Enrico held a variety of positions in the London and Milan offices. In addition to acting as Head of Investment Banking for EMEA, Enrico also served as a member of JP Morgan's Executive Committee, the Investment Bank's Operating Committee and the European Management Committee. Prior to joining JP Morgan, Mr Bombieri worked for Guinness Mahon in London and Lehman Brothers in New York and London.

Committee membership
Audit Committee
Nominations Committee

Dr Graham Birch
Non-Executive Director

Dr Graham Birch joined the Board in July 2011. Prior to his retirement in 2009, Graham 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.

Committee membership
Audit Committee
CSR Committee

SENIOR MANAGEMENT

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, Ramon 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 of Universidad de Lima and holds an MBA from Columbia Business School.

Isac Burstein
Vice President, Exploration and 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. Isac assumed responsibility for the Group's exploration activities in February 2014. Isac 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.

Eduardo Landin
Chief Operating Officer

Eduardo Landin was appointed COO of Hochschild Mining on 25 March 2013, having previously served as General Manager of the Company's operations in Argentina. In 2011, he became General Manager of Projects with direct responsibility over the development of Inmaculada and Crespo. Before joining the Company, Eduardo held the position of Corporate Development Manager at Cementos Pacasmayo and, prior to that, he served in the Government of Peru's Ministry of Energy and Mines. Eduardo holds a B.Eng in Mechanical Engineering from Imperial College London and an Executive MBA from the Universidad de Piura, Peru

Sir Malcolm Field
Non-Executive Director

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

Committee membership
Audit Committee
Remuneration Committee
Nominations Committee

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 AG Zurich and President of the Bunge and Born Charitable Foundation.

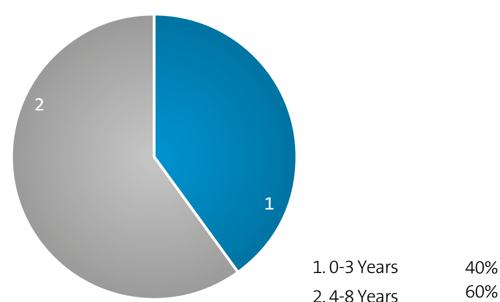
Committee membership
Nominations Committee
Remuneration Committee (Chairman)

Nigel Moore
Non-Executive Director

Nigel Moore joined the Board in 2006. He is a Chartered Accountant and currently serves as Chairman of JKX Oil & Gas plc. He also serves currently as a Non-Executive Director of The Vitec Group plc and Ascent Resources plc, where he is also Chairman of the Audit Committee. Nigel was a Partner at Ernst & Young from 1973 to 2003, during which time he was responsible in particular for the provision of audit services for several of the firm's significant clients. He also served as the firm's Regional Managing Partner for Eastern Europe and Russia from 1989 to 1996.

Committee membership
Audit Committee (Chairman)
Remuneration Committee

TENURE OF INDEPENDENT NON-EXECUTIVE DIRECTORS



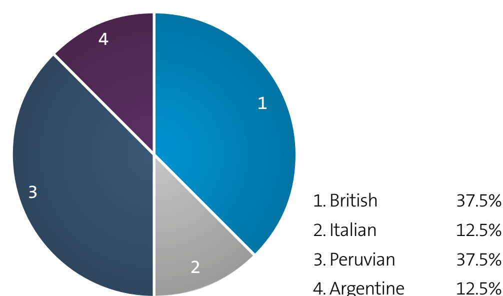
José Augusto Palma
Vice President, Legal & Corporate Affairs

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

Eduardo Villar
Vice President, Human Resources

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

CULTURAL DIVERSITY OF THE BOARD



DIRECTORS' REPORT

The Directors present their report for the year ended 31 December 2013.

DIVIDEND

The Directors did not declare any dividend in respect of the year ended 31 December 2013 and a final dividend is not being recommended (2012 total dividend: $0.06 per share).

The trustee of the Hochschild Mining Employee Share Trust ('the Employee Trust') has waived the right to dividend payments on shares held by the Employee Trust.

DIRECTORS

The names, functions and biographical details of the Directors serving at the date of this report are given on pages 56 and 57.

With the exception of Rupert Pennant-Rea and Fred Vinton who stepped down from the Board on 31 July 2013, all Directors were in office for the duration of the year under review.

Each of the Directors will be retiring at the forthcoming Annual General Meeting and seeking re-election by shareholders in line with the recommendation of the UK Corporate Governance Code.

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

The Company's Articles of Association 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 his duties as Director 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 judgment is given against him.

The Company has purchased and maintains liability insurance for its Directors and officers as permitted by law.

POLITICAL AND CHARITABLE DONATIONS

The Company does not make political donations. During the year, the Group expended $3.22 million[1] on social and community welfare activities surrounding its mining units (2012: $6.5 million).

CORPORATE GOVERNANCE STATEMENT

The requirements for a Corporate Governance Statement are fulfilled by the Corporate Governance report on pages 60 to 71.

GREENHOUSE GAS EMISSIONS

Disclosures relating to the Group's greenhouse gas emissions can be found in the Sustainability report on page 49.

ESSENTIAL CONTRACTUAL AND OTHER ARRANGEMENTS

The Directors consider that the following are the contractual and other arrangements with customers and 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
- the collective agreements with trade unions in respect of the workers at the Group's mines in Peru

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 of the Relationship Agreement with regard to the conduct of the major shareholder are set out in the Corporate Governance report on page 61 and, with regard to the right to appoint Directors to the Board, are set out on page 63.

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.

1 Figure represents only the portion of administrative expenditure (excluding corporate support) on social and community welfare activities surrounding the company's operating units. Total social expenditure in 2013 amounted to $10.14 million.

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.

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.

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 (with respect to interest rate risks); and its exposures to credit and liquidity risks.

The Company benefits from considerable financial resources, bolstered by the proceeds of the equity placing undertaken in October 2013 and the issue of $350 million Senior Notes subsequent to the year end, and its long-term relationships with a number of customers and suppliers across different geographic areas. These factors 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 cash flow forecasts presented by management which, amongst other things, reflect the Group's key financial commitments including the capital expenditure requirements of the Inmaculada project and the maturity of the Company's Convertible Bonds. 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 eighth AGM of the Company will be held at 9.30 am on 22 May 2014 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 of 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 WITH RESPECT TO THE ANNUAL REPORT AND FINANCIAL STATEMENTS

As required by the UK Corporate Governance Code, the Directors confirm that they consider that the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

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 of the Company and the undertakings included in the consolidation taken as a whole
- the Management report (which comprises the Strategic report, this Directors' report and the other parts of this Annual Report incorporated therein by reference) 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.

On behalf of the Board

RAJ BHASIN
Company Secretary
11 March 2014

CORPORATE GOVERNANCE REPORT

IN THIS REPORT

The Board, its workings and how it performed in 2013
see page 61

Audit committee
see page 64

Nominations committee
see page 68

Corporate social responsibility committee
see page 69

Remuneration committee
see page 70

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

DEAR SHAREHOLDER

Effective corporate governance remains vital to the Group's ability to operate successfully. Hochschild Mining has a well established framework of policies and processes to support its governance objectives including our Code of Conduct, which sets out our corporate values and is key to the way we work, both in respect of our relationships between colleagues and with our customers and suppliers. The importance of this is demonstrated by our strategy described earlier in this Annual Report which is underpinned by our commitments as a Responsible Operator.

The Board is responsible for overseeing the Group's long-term success and, as Chairman, it is my role to lead the Board in this crucial endeavour.

For this reason, I value the annual Board evaluation process that we have developed in-house and which is led by our Senior Independent Director. As every year, it has resulted in a number of insightful recommendations on how the Board and the Committees can improve their performance. Details of the process and the key actions to be implemented can be found on pages 63 and 64 of this report.

This year's report incorporates additional information, particularly with respect to audit matters, as a result of the revision of the UK Corporate Governance Code which now applies to the Company. I refer to my colleague Nigel Moore's section of the report who, as Chair of the Company's Audit Committee, is responsible for overseeing the Group's relationship with the Auditors.

I trust you find this report informative. If you should have any comments, I would welcome your feedback.

EDUARDO HOCHSCHILD
Executive Chairman
11 March 2014

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') (2012 edition), a copy of which is available on the website of the Financial Reporting Council ('FRC') 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 71 to 75.

The Board confirms that, in respect of the year ended 31 December 2013, the Group has complied with the provisions contained in the Code except that:

(i) contrary to the Main Principle of Section D, a significant part of the Executive Chairman's remuneration is not performance-related. As previously reported, 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 continues to be of this opinion.

(ii) for the reasons set out in the section of this report entitled 'External Board Evaluation', the Board has not undertaken an externally facilitated Board evaluation in the past three years as recommended by Code Provision B.6.2.

The Board is responsible for approving the Company's strategy and monitoring its implementation, for overseeing the management of operations 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.

THE BOARD

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 six 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 division of responsibilities between the Chairman and the CEO has been set out in writing 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 matter is the subject of discussion as part of the annual Board evaluation process which in 2013 reaffirmed this view.

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 ensures 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

During the year under review, Sir Malcolm Field acted as the Senior Independent Director and, as such, acted as a sounding board for the Chairman as necessary.

Sir Malcolm was available to meet with major shareholders during the year if their concerns were not resolved by the executive management team. Following Sir Malcolm's decision to reduce his commitments, Enrico Bombieri was appointed to the role of Senior Independent Director from 1 January 2014.

Non-Executive Directors

All 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 of 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 all of the Non-Executive Directors are independent of the Company with the exception of Roberto Dañino in light of his previous role as an Executive Director and his ongoing role as Special Adviser to the Chairman and senior management team.

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:

- Enrico Bombieri's employment, until February 2010, with JP Morgan, an affiliate of the Company's corporate broker JP Morgan Cazenove
- Dr Graham Birch's previous positions 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
- Dr Graham Birch and Sir Malcolm Field both serve on the Board of Petropavlovsk Plc

Board Meetings held in 2013
There were ten Board meetings held in 2013. Five of these meetings were scheduled Board meetings and the remainder comprised of ad hoc meetings convened in connection with the acquisition of International Minerals Corporation and the related financing.

Attendance at these meetings is summarised in the following table:

	Maximum possible attendance	Actual attendance
Eduardo Hochschild	10	9
Roberto Dañino	10	9
Dr Graham Birch	10	7
Enrico Bombieri	10	9
Jorge Born Jr.	10	6
Ignacio Bustamante	10	10
Sir Malcolm Field	10	9
Nigel Moore	10	10
Rupert Pennant-Rea*	3	3
Fred Vinton*	3	3

* Rupert Pennant-Rea and Fred Vinton stepped down from the Board on 31 July 2013.

Directors receive a full pack of papers for consideration at least five working days in advance of each scheduled Board meeting and, in the event a Director is unable to attend, comments are fed back to the Chairman who ensures that all views are represented when considered at the meeting.

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

In addition to the regular updates from across the business, the principal matters considered by the Board during 2013 were:

Financial
- the recommendations from the Audit Committee to adopt the 2012 Annual Report and Accounts and the 2013 Half-Yearly Report
- the implementation of the Cash Optimisation Plan in response to the fall in precious metal prices and updated financial forecasts
- financial benchmarking versus the Company's peers
- the financing in connection with the acquisition of International Minerals Corporation comprising a share placing, a bridge loan and an issue of $350 million Senior Notes
- the 2014 Budget

Strategy
- the Group's strategic plan

Acquisitions
- the final stages of the acquisition of Andina Minerals
- the acquisition of International Minerals Corporation and related matters including the shareholder circular convening the requisite Extraordinary General Meeting

Business performance
- updates on the development of the Inmaculada and Crespo Advanced Projects and the subsequent proposal to delay the latter
- the principal sources of growth for the Company

Risk
- reviews of the strategic risks faced by the Group including the country risk arising from the Group's presence in Argentina and the risks resulting from the Cash Optimisation Plan
- presentations from specialist commentators on the economics and outlook for silver and gold

Governance
- various changes to the governance structure including Board and Committee composition and the role of Senior Independent Director
- regular updates from the Company Secretary on relevant developments in corporate governance including the regulatory framework governing listed companies
- an update on the implementation of the 2012 Board evaluation recommendations, the outcome of the 2013 Board evaluation process and the form of the 2014 Board evaluation process
- the annual reviews of Directors' conflicts of interest and the independence of Non-Executive Directors

Operating responsibly
- detailed reports on the two fatalities that occurred during the year including the recommended actions to be taken

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

Appointments and re-election of Directors
Board nominations are recommended to the Board by the Nominations Committee.

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 in 2011. Biographies of the Directors can be found on pages 56 and 57.

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.

To date, the Major Shareholder has not exercised this right.

BOARD DEVELOPMENT
It is the responsibility of the Chairman to ensure that the Directors update their knowledge and 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.

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 area of corporate governance. In addition, the Directors have ongoing access to the Company's officers and advisers.

In addition, during the year, the Board received presentations from specialist commentators on the economics of gold and silver and the outlook for precious metals.

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 continuous improvement which is achieved in particular by the internally led Board evaluation process.

Implementation of 2012 Board evaluation
A number of actions were taken during the year as a consequence of the findings from the 2012 Board evaluation process.

These actions included:

- the delivery of presentations by specialists on the pricing trends and economics of precious metals
- the scheduling of presentations on specific group functions and an annual in-depth review on investor relations
- more frequent comparative analysis of the Group's performance relative to its peers both in relation to operational performance and strategic development
- enhancements to the reporting of the value created by the Group's exploration strategy
- the participation of a small group of Non-Executive Directors in the planning of the annual strategic review

2013 BOARD EVALUATION

In keeping with past practice, the 2013 Board evaluation process was undertaken through one-to-one interviews conducted by the Senior Independent Director assisted by the Company Secretary. Enrico Bombieri participated in the process as part of his induction to the role of Senior Independent Director, which he assumed with effect from 1 January 2014.

The interviews were structured to seek Directors' views on a number of subject areas.

The Board
- The composition of the Board, focusing in particular on the skills required to fulfil its responsibilities
- Board process and dynamics
- Risk management process and governance

The Committees
- Composition and general workings
- Identifying scope for innovation to enhance their roles
- Looking at specific aspects of each Committee's functions in seeking areas of improvement

Specific matters arising during the year
- The implementation of the Cash Optimisation Plan
- The process of the acquisition of International Minerals Corporation

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

2013 Board evaluation

Evaluation of the Board and Committees

The findings relating to the evaluation of the Board and the Committees were considered collectively by the Chairman, Sir Malcolm Field and Enrico Bombieri (as the outgoing and incoming Senior Independent Director respectively), and the resulting recommendations were discussed and, where appropriate, approved by the Board.

Evaluation of the Chairman

The outcome of the Chairman's performance evaluation was collated by Sir Malcolm Field and Enrico Bombieri and considered by the Non-Executive Directors collectively before being relayed to the Chairman.

Outcome

The principal recommendations arising from the 2013 Board evaluation process are:

- enhancements to the functions of the CSR Committee through:
  - enabling it to take a more proactive role in overseeing the Group's strategy in this area
  - changes to its composition (see the CSR Committee report for further information)
- for the Nominations Committee to commence the process of drawing up a candidate profile, taking into account the benefits of gender diversity, and agreeing a timetable for the appointment of Non-Executive Directors to ensure an orderly succession in the medium term
- detailed reporting on the impact of the Cash Optimisation Plan
- changes to the regular reporting of business development projects to assist the Board in identifying those with the most potential
- the scheduling of presentations on:
  - commodity markets and market risk
  - the Group's exploration culture and strategy

External Board evaluation

The Directors consider that the annual internally led evaluation process has resulted in many enhancements to the way the Board and its Committees discharge their responsibilities. As reported last year, the Board acknowledges the benefits of a periodic external evaluation as recommended by the Code and, to this end, a number of Directors including the Chairman met with firms early in 2013 to discuss their approach to the matter. However, given the extent of the steps taken by management during the year to mitigate the impact of falling precious metal prices including a significant number of redundancies, the Board felt that the cost of an externally led evaluation did not justify the expected level of additional benefits. As a result, the Board has deferred a third party led evaluation for the time being until the appropriate time.

THE BOARD'S COMMITTEES

The Board has delegated authority to the Audit Committee, Corporate Social Responsibility Committee, Nominations Committee and Remuneration Committee. Reports from each of these committees on their activities during the year appear on the following pages.

AUDIT COMMITTEE

Dear Shareholder

I am pleased to introduce the report of the Audit Committee for 2013.

This year, the Audit Committee's report has been produced in compliance with the recommendations of the 2012 edition of the UK Corporate Governance Code, which places greater focus on the Audit Committee's relationship with the external Auditors and their review of financial statements. I hope you will find this additional information helpful.

The Code also requires the Company to state for the first time whether it anticipates tendering its external audit. Ernst & Young were appointed as Auditors in 2006 in preparation for the Company's Initial Public Offering. Consequently, the transitional arrangements suggested by the Financial Reporting Council would apply such that Hochschild would not be required to tender its external audit until after completion of the 2020 year-end audit.

The Company recognises that these arrangements are not binding and will consider putting the audit contract out to tender earlier than indicated under these arrangements if Ernst & Young's performance does not meet expectations or it is otherwise felt appropriate to do so.

The EU regulations on mandatory tendering are expected to be approved later in 2014 but it is not anticipated that they will result in a mandatory tender for the Group's audit contract until 2026 at the earliest, subject always to the Auditors performing to the satisfaction of the Audit Committee and Company management. If the final EU requirements are in place by the time of my next report to you, I will set out the impact they have on the Company.

As reported elsewhere, if the depressed pricing environment for precious metals continues, 2014 will be a challenging year. The Committee will also maintain its focus on the Group's risk management process, ensuring that it continues to identify and mitigate any weaknesses in the internal control environment that may arise, particularly following implementation of the Group's Cash Optimisation Plan. I look forward to reporting to you on the outcome in 2015.

NIGEL MOORE
Committee Chairman

Members	Maximum possible attendance	Actual attendance
Nigel Moore (Committee Chairman)	5	5
Dr Graham Birch (Non-Executive Director)	5	5
Enrico Bombieri (Non-Executive Director)	5	5
Sir Malcolm Field (Non-Executive Director)	5	5
Fred Vinton[1] (Non-Executive Director)	2	2

1 Fred Vinton served as a member of the Committee until 31 July 2013.

There were five meetings of the Audit Committee during the year, four of which were scheduled and the fifth was convened to consider matters relating to the financial statements for the nine-month period ended 30 September 2013 prepared specifically in connection with the issue of Senior Notes.

Key roles and responsibilities

- To monitor the integrity of the Company's financial statements
- To monitor the effectiveness of the Company's internal controls and risk management systems
- To 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
- Oversight of the Internal Audit function and review of its annual work plan
- To oversee the relationship with the Company's external Auditors
- To review the effectiveness of the external audit process
- To report to shareholders annually on the Committee's activities including details of the significant audit issues encountered during the year and how they have been addressed

Membership

The Audit Committee is chaired by Nigel Moore, who has extensive and substantial financial experience gained in his previous role as a partner with Ernst & Young where he was responsible for services to a number of significant companies, including audit responsibilities. In addition, Nigel has been acting as Audit Committee Chairman for a number of other listed companies for the last ten years.

Fred Vinton stepped down from the Board and thereby ceased to act as a member of the Committee on 31 July 2013.

All Committee members are considered to be independent Directors. Their biographical details can be found on pages 56 and 57.

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

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

- **Financial reporting** – The 2012 Annual Report and Accounts and the 2013 Half-Yearly Report were reviewed by the Committee before recommending their adoption by the Board. In addition, the Committee considered the Group's financial statements for the nine-month period ended 30 September 2013 compiled in connection with the offer of Senior Notes. In its review of these financial reports, the Audit Committee reviewed accounting policies, estimates and judgements applied in preparing the relevant statements and the transparency and clarity of disclosures contained within them.
- **Review/audit plans** – In line with its usual practice, the Committee considered reports from the external Auditors on the scope and structure of the review of the half-yearly results and audit of the annual results.
- **Risk management** – Consideration and challenge 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 50 to 55 for a description of the principal risks and uncertainties faced by the Group during the year.
- **Internal audit** – The Audit Committee continued to oversee and challenge 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, taking into account the reports received through the various online and offline channels established by the Group.
- **Fraud & Bribery Act** – The Audit Committee continued to review and challenge the actions taken by management to promote ethical and transparent working practices.
- **External audit** – The Audit Committee considered the reappointment of the Company's external Auditors before making a recommendation to the Board that a resolution seeking their reappointment 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 letters, and reviewed and agreed audit fees.

The Audit Committee evaluates the Auditors' performance each year with reference to written feedback prepared by the CFO, the Group Financial Controller and relevant finance managers from the operations. The issues raised are considered in detail at the Audit Committee meeting held mid-year and result in an action plan, the execution of which is assessed in the following year's auditor evaluation. Towards the end of 2013, the Committee commissioned a review of the method by which the feedback is obtained and will be reflected in the evaluation of the Auditors' performance in the 2013 full-year results audit.

- **Committee objectives** – The Committee has continued its initiative of setting specific objectives for management with a view to ensuring the diligent fulfilment of its responsibilities.
- The objectives for 2013 resulted in:

– a review of the Group's internal audit function by KPMG, Peru. The review resulted in findings relating primarily to the (i) documentation of internal audits, (ii) planning of resourcing requirements for specific projects and (iii) establishment of a formally approved internal audit charter. As a result of this review, a series of steps have been taken to enhance the workings of the internal audit function

– a review of the Group's tax efficiency by PwC, which encompassed consideration of the Group's tax policies and corporate structure to identify opportunities where efficiencies could be achieved

– consideration of an updated Assurance Map, which was designed to identify the source and quality of the assurances provided to the Committee in the discharge of its responsibilities

– maintaining the ongoing monitoring and challenging of anti-bribery and anti-fraud procedures

– reviewing the specific areas raised by the recent revisions to the UK Corporate Governance Code and ensuring that appropriate changes are incorporated into the 2013 Annual Report and Accounts and related processes

During the year, the Committee members held meetings with the external Auditors without executive management to discuss matters relating to the 2012 annual audit and the 2013 half-yearly report.

SIGNIFICANT AUDIT ISSUES

In compliance with the recommendations of the 2012 edition of the UK Corporate Governance Code, the following is a summary of the significant issues considered by the Committee in relation to the 2013 financial statements and how these issues have been addressed.

Impairments

Having previously considered impairments to the value of the San Jose, Azuca and Ares assets at the half-year stage and the recording of an impairment loss at 30 September 2013 in relation to the Crespo Growth Project following the decision to delay that project, the Committee considered management's assessment on the presence of factors that may require an impairment to be made to the valuation of the Group's assets at the year end. Such factors include the outlook for silver and gold prices, market interest rates and other relevant economic considerations.

The Committee considered management's assessment that there were no further indicators of impairment as at 31 December 2013 and concurred with that conclusion.

Available-for-Sale Assets ('AFS assets')

The Committee considered management's calculations of the fair value of the Group's AFS assets and the treatment of any gains or losses on the fair value to ensure that they have been recorded in the statement of changes in equity or the income statement as appropriate.

More specifically, the Committee reviewed the circumstances resulting in the reclassification, during the year, of the Group's investment in Gold Resource Corporation from an associate to an AFS asset from the point at which the Group lost significant influence. As a result, a gain of $108 million was recognised representing the difference between the equity accounted carrying value and its fair value. The decline in this fair value between the reclassification date and the half year resulted in an impairment charge of $62 million and a further impairment of $43 million at the full year.

The Audit Committee concurred with this treatment.

Accounting for the IMZ acquisition

General

In connection with the acquisition of IMZ, which was completed before the end of the year, the Committee considered the accounting for the transaction including the acquisition accounting for a non-controlling interest (NCI) in Pallancata and Inmaculada (which is treated as an equity transaction and therefore has no impact on the income statement). In addition, the Committee has considered the accounting of transaction costs which are treated in the same manner as the acquisition consideration and were therefore recorded in reserves

Accounting for the bridge loan

The Audit Committee considered the accounting treatment for the $270 million bridge loan entered into prior to the year end in part to finance the acquisition of IMZ. The accounting is reflective of management's view that:

(i) as at year end, the bridge loan was considered to be a short-term financing arrangement to be replaced by a bond

(ii) the associated transaction costs should be expensed over the loan period and shown as an exceptional item.

As previously reported, a $350 million senior unsecured bond was subsequently issued by the Company and completed on 23 January 2014.

Under IFRS, the effective interest charge must be recognised over the expected life of the bridge loan facility. Given that it was management's intention to replace the bridge loan with a bond early in 2014 and the infrequent nature and size of the transaction costs, the Audit Committee has considered the appropriateness of:

(i) the use of the actual repayment date for establishing the effective interest charge

(ii) the recognition of the associated costs on a straight-line basis, with a portion charged in 2013 and the balance in 2014

(iii) the categorisation of transaction costs as an exceptional item and the intention to apply the same treatment for the 2014 portion of these costs.

After consideration, the Audit Committee concurred with management's proposed treatment.

Adequacy of tax provisions

The Committee considered management's assessment with regards to potential tax contingencies arising from tax authority reviews in Peru, Argentina and Mexico. The Committee considered the presence of any facts that would indicate a different categorisation and concluded that a provision would not be required, given that the risk of exposure is considered 'possible' rather than 'probable'. The Committee concurred with this view.

Revenue recognition

Revenue recognition is widely regarded as an area of fraud risk, the extent of which depends on a number of factors including the number of sales contracts concluded and the complex terms under which title, risk and rewards pass to the customer. The Committee has accordingly considered whether the approach taken by management correctly recognises revenue generated during the year to ensure it has been accounted for in line with the Group's revenue recognition policy. The Committee's enquiries concluded that revenues have been correctly recorded.

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 Auditors may provide (in the absence of any threat to their 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 Auditors). 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.
- an annual assessment, by the Committee, of the Auditors' objectivity and independence in light of all relationships between the Company and the audit firm.

2013 Audit and non-audit fees

Details of fees paid to the external Auditors are provided in note 31 to the Consolidated Financial Statements.

With the agreement of the Chairman of the Audit Committee, the external Auditors were considered best placed to undertake (i) the review of the Group's financial results for the nine-month period ending 30 September 2013 in connection with the issue of the Group's Senior Notes and (ii) the Working Capital review in connection with the acquisition of International Minerals Corporation, in the necessary timescale. Accordingly, these assignments were not put out to competitive tender.

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.

Internal 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.

Audit Committee's assessment

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.

Board's assessment

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.

NOMINATIONS COMMITTEE

Dear Shareholder

During 2013, the Nominations Committee focused its efforts on ensuring that the Board is equipped with the right set of skills to oversee the implementation of the Group's strategy and on planning for the succession of Board and key senior positions.

EDUARDO HOCHSCHILD
Committee Chairman

Members*	Maximum possible attendance	Actual attendance
Eduardo Hochschild (Committee Chairman)	3	3
Jorge Born (Non-Executive Director)	3	3
Sir Malcolm Field (Non-Executive Director)	3	3

* for the year ending 31 December 2013.

Key roles and responsibilities

- Identify and nominate candidates for Board approval.
- Make recommendations to the Board on composition and balance.
- Oversee the succession planning of Board and senior management positions.
- Review the Directors' external interests with regards to actual, perceived or potential conflicts of interest.

Membership

There were no changes to the membership of the Committee during 2013.

Enrico Bombieri was appointed a member of the Committee with effect from 1 January 2014.

The Company Secretary acts as Secretary to the Committee.

Activity during the year

The principal matters considered during the year were:

- Board evaluation process

– the format of the 2013 Board evaluation process. As explained earlier in this report, it was decided that, given the extent of the cost reduction initiatives being taken across the Group following the significant falls in precious metals prices, an externally led evaluation was not considered appropriate. The Committee therefore recommended that an externally led evaluation be deferred until an improvement in trading conditions

– the findings of the 2013 Board evaluation process (see earlier section of the Corporate Governance report on Board development)

- Composition of the Board and Committees

– changes to the composition of the Board following the implementation of the Cash Optimisation Plan

– recommending changes to the composition of the CSR Committee (see page 38 for further information)

- Succession planning

– succession to the roles of Senior Independent Director and Chairman of the Remuneration Committee as a result of Sir Malcolm Field's decision to reduce his professional commitments

– non-executive succession planning following a review of the Board's skills matrix

Appointments to the Board

Policy

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, taking into account the challenges and opportunities facing the Company.

The benefits of Board diversity, including gender diversity, are acknowledged by the Directors who are pleased that the current Board composition is reflective of a cultural diversity that is relevant to the Group's business.

Decisions on appointments to the Board will continue to be taken on merit and, for this reason, the Board does not consider the setting of specific measurable targets to be appropriate.

CORPORATE SOCIAL RESPONSIBILITY COMMITTEE

Dear Shareholder

The Group has continued to demonstrate its commitment as a responsible operator throughout 2013 despite the difficult trading environment. Significant progress has been made in the areas of Health & Safety where the Group recorded a 38% reduction in the accident frequency rate for the year, exceeding the Group's most stretching target. We have also continued with a range of initiatives with our local communities, focusing on the core areas of education, health and economic development. Further details of the work we have done during the year can be found in the Sustainability report on pages 36 to 49.

ROBERTO DAÑINO
Committee Chairman

Members*	Maximum possible attendance	Actual attendance
Eduardo Hochschild (Committee Chairman)	4	4
Sir Malcolm Field (Non-Executive Director)	4	4
Roberto Dañino (Non-Executive Director)	4	4

* for the year ending 31 December 2013.

Key roles and responsibilities

- Evaluate the effectiveness of the Group's policies for identifying and managing health, safety and environmental risks within the Group's operations.
- Assess 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.
- Receive reports from management concerning all fatalities and serious accidents within the Group and actions taken by management following each incident.
- Evaluate and oversee, on behalf of the Board, the quality and integrity of any reporting to external stakeholders concerning health, safety, environmental and community relations issues.

Membership

With effect from 1 January 2014, the membership of the Committee was changed by the appointment of Roberto Dañino as Chairman of the Committee, and the appointment of Dr Graham Birch and Ignacio Bustamante as members of the Committee. Eduardo Hochschild and Sir Malcolm Field stepped down as members of the Committee from that date.

During the year under review, the CEO and Vice President of Operations attended each CSR Committee meeting by invitation.

The Company Secretary acts as Secretary to the Committee.

Activity during the year

Details relating to the CSR Committee and the Group's activities in this area are set out in the Sustainability report on pages 36 to 49.

REMUNERATION COMMITTEE

Dear Shareholder

We seek to implement a simple and transparent remuneration policy that is aligned with the successful achievement of the Group's strategic objectives. This alignment does not only seek to reward profitable production but reflects our commitments as a responsible operator. This year, we are seeking shareholder approval that will enable the Company to pay all or part of the CEO's annual bonus in newly issued shares after a holding period of up to two years. Further details can be found in the Directors' remuneration report on page 76.

JORGE BORN JR.
Committee Chairman

Members*	Maximum possible attendance	Actual attendance
Sir Malcolm Field (Committee Chairman)	3	3
Jorge Born Jr. (Non-Executive Director)	3	2
Nigel Moore (Non-Executive Director)	3	3
Rupert Pennant-Rea[1] (Non-Executive Director)	1	1

* for the year ending 31 December 2013.

1 Rupert Pennant-Rea served as a member of the Committee until 31 July 2013.

Key roles and responsibilities

- Determine and agree with the Board the broad policy for the remuneration of the Executive Directors, other members of senior management and the Company Secretary, as well as their specific remuneration packages.
- Regularly review the ongoing appropriateness and relevance of the remuneration policy.
- Approve the design of, and determine targets for, any performance related pay schemes operated by the Company and approve the total annual payments made under such schemes.
- Ensure that contractual terms on termination, and any payments made, are fair to the individual and the Company, that failure is not rewarded, and that the duty to mitigate loss is fully recognised.
- Review and note annually the remuneration trends across the Company or Group.

Membership

Rupert Pennant-Rea served as a member of the Remuneration Committee until 31 July 2013. With effect from 1 January 2014, Jorge Born assumed the Chairmanship of the Remuneration Committee.

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.

Activity during the year

Details of the Remuneration Committee's activities during the year are provided in the Directors' remuneration report on pages 76 to 97.

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 2013

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	BMO Global Metals & Mining Conference
March	2012 Annual Results presentation
	UK, European and North American Roadshow
May	BoA Merrill Lynch Global Metals, Mining and Steel Conference
	Annual General Meeting
August	2013 Half-Yearly Results presentation
September	UK, European and North American Roadshow
December	Extraordinary General Meeting in connection with the acquisition of International Minerals Corporation

An extensive Investor Relations schedule resulted in management holding over 70 investor meetings during the year.

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 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.

2013 AGM

Notice of the 2013 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 the inside back cover and on the Company's website at www.hochschildmining.com

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 2013 was 338,085,226 ordinary shares of 25 pence each ('shares'). During 2013, a total of 29,016,126 shares were issued as detailed in the following table:

Reason for Share issue	Number of Shares issued
Conversion of convertible bonds	16,126
Equity placing	29,000,000

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 2013, the Company had been notified of the following interests in the Company's ordinary share capital in accordance with Chapter 5 of the Financial Conduct Authority's Disclosure Rules and Transparency Rules:

	Number of ordinary shares	Percentage of voting rights (indirect)	Percentage of voting rights (direct)
Eduardo Hochschild	199,320,272	–	54.30%
Vanguard Group Inc.	39,666,795	–	10.81%
Prudential plc Group of Companies*	22,277,961	0.18%	6.07%
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.

** Notwithstanding the above (which is based on information received by the Company in June 2009), the Company is aware that Altima no longer has an interest in the Company's shares which is notifiable under the Disclosure Rules and Transparency Rules.

The Company has not been notified of any changes in the above interests as at 11 March 2014.

Current share repurchase authority

The Company obtained shareholder approval at the AGM held in May 2013 for the repurchase of up to 33,810,135 ordinary shares which represented 10% of the Company's issued share capital at that time ('the 2013 Authority'). Whilst no purchases were made by the Company pursuant to the 2013 Authority, it is intended that shareholder consent will be sought on similar terms at this year's AGM when the 2013 Authority expires.

Additional share capital information

This section provides additional information as at 31 December 2013.

(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
- 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
- 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 FCA 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.

(a) Convertible bonds due 2014

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.

(b) Senior Notes due 2021

Under the terms and conditions of the $350 million 7.75% Senior Notes due 2021 issued subsequent to the year-end, upon the occurrence of a change of control followed by a ratings downgrade which results in a change of control repurchase event (as defined in the indenture), the Company may be required by each holder of the notes to offer to purchase the notes at a price equal to 101% of the principal amount of the notes, plus accrued and unpaid interest and additional amounts, if any, to the purchase date.

In summary, a Change of Control means the occurrence of one or more of the following events: (1) the disposition (other than by way of merger or consolidation) of all or substantially all of the assets of the Company and its subsidiaries taken as a whole to any person other than (i) to the Company or one of its subsidiaries or (ii) to a Permitted Holder (being Eduardo Hochschild or a permitted transferee); (2) the consummation of any transaction (including any merger or consolidation) the result of which is that (i) any person other than a Permitted Holder becomes the 'beneficial owner' of more than 50% of the Company's outstanding Voting Stock (as defined) or (ii) the Permitted Holders cease to be the beneficial owners, directly or indirectly, of at least a majority of the outstanding Voting Stock of the Company; (3) the Company consolidates with, or merges with or into, any person, or any person consolidates with, or merges with or into, the Company, in any such event pursuant to a transaction in which any of the outstanding Voting Stock of the Company or such other person is converted into or exchanged for cash, securities or other property, other than any such transaction where the shares of the Voting Stock of the Company outstanding immediately prior to such transaction constitute, or are converted into or exchanged for, a majority of the Voting Stock of the surviving person immediately after giving effect to such transaction; (4) the first day on which the majority of the members of the Board of Directors of the Company cease to be Continuing Directors (as defined); (5) the Company shall for any reason cease to be the beneficial owner (as defined) of 100% of the Voting Stock of Compania Minera Ares S.A.C.; or (6) the adoption of a plan relating to the liquidation or dissolution of Compania Minera Ares S.A.C.

(c) Long Term Incentive Plans

Awards made under the Group's Long Term Incentive Plan and Enhanced 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-á-vis the counterparty.

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 grounds 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
- 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 their 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

DEAR SHAREHOLDERS

Sir Malcolm Field, as the Remuneration Committee Chairman during 2013, and I, as the current Committee Chairman, are pleased to present the Directors' remuneration report for 2013.

As mentioned earlier in the Annual Report, 2013 was an extremely challenging year for the Company, dominated by steep falls in precious metal prices and increased volatility. This prompted a comprehensive review across the Group to identify cost saving measures which incorporated a review of the structure and remuneration of our Board. In addition to resulting in a reduction in the number of Non-Executive Directors on the Board, the Chairman's salary and the fees of the Non-Executive Directors were reduced by 30% and senior management pay, including that of the CEO, was reduced by 10%.

Despite the challenging market conditions, we have continued with our approach of implementing a simple and transparent remuneration policy that is aligned with the successful achievement of the Group's strategic objectives. It is important to note that this alignment does not only seek to reward profitable production but reflects our commitments as a responsible operator and, for this reason, the Committee maintains the discretion to reduce bonuses and claw back vesting under the long-term incentive schemes, should there be failures in this crucial area.

At the forthcoming AGM, we propose to put to shareholders for their approval a deferred bonus plan which will enable the Company to pay all or a part of the annual bonus to the CEO in shares issued by the Company which, subject to continued employment, will vest over two years. The Committee considers this proposal to be in line with market practice and will further align the interests of senior management with those of our shareholders.

We note that a large part of the wider debate on executive remuneration in recent years focused on the extent of the discretion exercised by Remuneration Committees. We confirm that, with respect to 2013, the Committee has applied its judgement to reduce downward the level of bonus payable to the CEO resulting from his performance against his 2013 objectives in light of the Company's trading performance. As set out later in this report, the Committee considers that a bonus entitlement does nevertheless arise in recognition of, amongst other things, management's considerable efforts in combating the impact of lower commodity prices and the successful completion of the acquisition of International Minerals Corporation.

In relation to bonuses generally, the Committee re-initiated a review of the CEO's remuneration and, as explained in this report, felt that, with effect from the 2014 bonus, an increase in his maximum bonus opportunity from 125% to 150% of base salary was considered justified. Please see page 94 for further details.

The Company is a willing proponent of stakeholder engagement, including with regards to executive remuneration and, therefore, please feel free to contact either of us if you wish to discuss further any aspect of this report.

JORGE BORN JR
Chairman,
Remuneration
Committee
11 March 2014

SIR MALCOLM FIELD
Member, Remuneration
Committee (Chairman until
31 December 2013)
11 March 2014

DIRECTORS' REMUNERATION POLICY (UNAUDITED)

Compliance statement

This report has been prepared according to the requirements of the Companies Act 2006 (the Act), Regulation 11 and Schedule 8 of the Large and Medium–Sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 and other relevant requirements of the FCA Listing Rules. In addition, the Board has applied the principles of good corporate governance set out in the UK Corporate Governance Code, and has considered the guidelines issued by its leading shareholders and bodies such as the Association of British Insurers and the National Association of Pension Funds.

The principal objectives of the Remuneration Committee's agreed remuneration policy are to:

- Attract, retain, and motivate the Group's executives and senior management.
- Provide management incentives that align with and support the Group's business strategy.
- 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 an annual performance-related bonus, which rewards the achievement of a balanced mix of financial, operational and other relevant performance measures, and the use of a Long Term Incentive Plan (LTIP) which is linked to relative Total Shareholder Return (TSR). There is an additional incentive designed specifically for the Chief Executive Officer in the form of the Enhanced LTIP, which was 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. Remuneration decisions are also driven by external considerations, in particular relating to the global demand for talent in the mining sector.

This section of the report sets out the remuneration policy for Directors, which shareholders are asked to approve at the 2014 AGM. The Committee intends that this policy will formally come into effect from approval at the 2014 AGM.

Remuneration paid to Executive Directors and Non-Executive Directors in 2013 and remuneration arrangements proposed for 2014 are set out later in this report. There are no material changes to the remuneration policy which applied in 2013.

EXECUTIVE DIRECTOR REMUNERATION POLICY TABLE

Objective	Details	Opportunity	Performance metrics
Base salary To support recruitment and retention	Salary is reviewed annually, usually in March, or following a significant change in responsibilities. Salary levels are targeted to be competitive and relevant to the global mining sector, with reference to the relative cost of living. The Committee also takes into consideration general pay levels for the wider employee population.	Any salary increases re applied in line with the outcome of the annual review. To avoid setting expectations of Directors and other employees, no maximum salary is set under the remuneration policy. In respect of existing Executive Directors, it is anticipated that any salary increases will be in line with the wider employee population over the term of this policy. In exceptional circumstances (including, but not limited to, a material increase in job size or complexity), the Committee has discretion to make appropriate adjustments to salary levels to ensure they remain competitive.	None
Benefits To provide benefits in line with market practice in relevant geographies	Executive Directors receive compensation for time services and profit share, both of which are provided for by Peruvian law, as well as allowances for medical insurance, the use of a car and driver, and personal security.	For the profit share, an amount equal to 8% of the Company's taxable income for the year is distributable to all employees. This amount is mandated by Peruvian law, and any increases are not within the control of the Company. The amount receivable by each Executive Director is determined with reference to annual base salary (plus the annual bonus, if any) and the number of days worked during the calendar year. The value of the other benefits vary by role and individual circumstances; eligibility and cost are reviewed periodically. The Committee retains the discretion to approve a higher cost of benefits in exceptional circumstances (for example relocation) or in circumstances where factors outside the Company's control have changed materially (for example increases in insurance premiums).	None

Objective	Details	Opportunity	Performance metrics
Annual bonus To achieve alignment with the Group's strategy and commitment to operating responsibly *Maximising core assets* To optimise life-of-mine and production *Exploration and project development* To develop a pipeline of high quality projects *Mergers & acquisitions* To seek early stage value accretive opportunities with strong geological potential with a clear path to control *Committed to operating responsibly* To be responsible corporate citizens	Performance measures, targets and weightings are set at the start of the year. At the end of the year, the Committee determines the extent to which targets have been achieved, taking into account the individual performance of each Executive Director. Bonus payments are normally delivered in cash. The Committee has discretion to defer all or a portion of the bonus, payable in cash or Hochschild shares, under the Deferred Bonus Plan for up to three years. The Executive Chairman does not currently participate in the annual bonus plan.	For Executive Directors, the maximum annual bonus opportunity in 2013 is 125% of salary and, for subsequent years, 150% of salary. For 2014 onwards, the bonus earned is 67% of maximum for threshold level performance and 83% for target performance.	Performance is determined by the Committee on an annual basis by reference to Group financial measures, e.g. Adjusted EBITDA , as well as the achievement of personal or strategic objectives, for example production and social responsibility. The financial and strategic/personal objectives are typically weighted between 70% and 80% and 20% and 30% of maximum, respectively. The Committee retains discretion to vary the weightings +/- 20% for individual measures within the financial element, to ensure alignment with the business priorities for the year. Performance targets are generally calibrated with reference to the Company's budget for the year. Each objective in the scorecard has a 'threshold', 'target' and 'maximum' performance target, achievement of which translates into a score for each objective. The Committee uses its judgement to determine the overall scorecard outcome based on the achievement of the targets and the Committee's broad assessment of Company performance. A review of the quality of earnings is conducted by the Committee to determine whether any adjustments should be made to the reported profit for the purpose of bonus outcomes. This ensures that bonus outcomes 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. The Committee has the discretion to reduce bonus payments on the occurrence of an adverse event related to health and safety, the environment and community relations. Details of the measures, weightings and targets applicable for the financial year under review are provided in the Annual Report on Remuneration, unless they are considered to be commercially sensitive.

EXECUTIVE DIRECTOR REMUNERATION POLICY TABLE CONTINUED

Objective	Details	Opportunity	Performance metrics
Long Term Incentive Plan (LTIP) To directly incentivise sustained shareholder value creation through operational performance and to support the recruitment of senior positions and longer-term retention	Executive Directors may be granted awards annually as determined by the Committee. The vesting of these awards is subject to the attainment of specific performance conditions. Awards are in the form of cash. Awards made under the LTIP have a performance and vesting period of at least three years. If no entitlement has been earned at the end of the relevant performance period, awards lapse. The CEO is required to invest at least 20% of vested LTIP awards into Hochschild shares until such time as he has accumulated a shareholding with a value of 200% of salary. The Executive Chairman does not currently participate in the LTIP.	The maximum cash payments to participating Executive Directors in any three-year period may not be more than six times salary (or eight times salary in exceptional circumstances). The equivalents of these upper limits also apply to annual awards, that is an annual grant limit of no more than 200% of salary in normal circumstances.	Vesting of LTIP awards is subject to continued employment and the Company's performance over a three-year performance period. Vesting is based on the Company's TSR performance relative to specific sector-based comparator groups. Vesting of 70% of awards is based on the Company's TSR rank relative to a tailored comparator group. Vesting for threshold performance is 25% of maximum, with 75% for upper tercile performance and 100% for upper quintile performance. Vesting of 30% of awards is based on the Company's TSR outperformance of the FTSE350 Mining Index. Vesting for threshold performance is 25% of maximum, with 100% for stretch performance. The Committee reviews, and may adjust, the comparator groups against which performance is measured, and their weightings, from time to time to ensure they remain appropriate. More generally, the performance measures applied to LTIP awards are reviewed periodically to ensure they remain aligned with shareholder interests. The Committee can reduce or prevent vesting if the 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. Details of the comparator groups and targets used for specific LTIP grants are included in the Annual Report on Remuneration.

Objective	Details	Opportunity	Performance metrics
Enhanced Long-Term Incentive Plan To support retention for the CEO over a longer-term horizon and to achieve stronger alignment with shareholder interests through the use of conditional shares	An award in the form of conditional shares was made to the CEO in 2011 to reinforce his alignment with shareholder interests and to ensure his total remuneration package remained competitive. Awards vest based on the Company's TSR performance compared with a tailored comparator group over four, five and six years. The CEO is required to retain 50% of the after-tax vested Enhanced LTIP shares until such time as he has accumulated a shareholding with a value of 200% of salary. The Executive Chairman does not participate in the Enhanced LTIP.	The Enhanced LTIP award in 2011 was over shares with a face value on the date of grant equivalent to 600% of the CEO's salary. The CEO received an award of 362,196 conditional shares in 2011. In line with the approval granted by shareholders at the 2011 AGM, the Committee will make a second Enhanced LTIP award to the CEO in 2014 of up to 600% of his salary[1]. Dividend equivalents are payable over the vesting period in respect of the shares that vest.	Awards vest based on the Company's TSR performance compared with a tailored comparator group over four, five and six years.The vesting on the Enhanced LTIP award is based 100% on the Company's TSR rank compared with a sector peer group. 25% of the award vests on four-year TSR performance, 25% on five-year TSR performance, and 50% on six-year TSR performance. The vesting for threshold (median) performance is 25% of maximum, with 75 for upper quartile performance and 100% for upper decile performance. The Committee can reduce or prevent vesting if the 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. Details of the tailored comparator group are included in the Annual Report on Remuneration.

1 The award under the Enhanced LTIP award to the CEO will have a face value of 600% of the salary before it was reduced with effect from 1 July 2013 (see page 91).

In addition to the above elements of remuneration, the Committee may consider it appropriate to grant an award under a different structure in order to facilitate the recruitment or retention of an individual, exercising the discretion available under Listing Rule 9.4.2 R (which provides for awards outside the normal long-term incentive structure provided the 'arrangement is established specifically to facilitate, in unusual circumstances, the recruitment or retention of the relevant individual').

The Committee also retains discretion to make non-significant changes to the policy without going back to shareholders.

NOTES TO THE POLICY TABLE

Payments from existing awards

Executive Directors are eligible to receive payment from any award made prior to the approval and implementation of the remuneration policy detailed in this report, that is before 22 May 2014.The only award which falls into this category is the 2011 LTIP award, for which vesting is based on the Company's TSR rank vs. a single sector-based peer group, and the vesting schedule differs slightly in that threshold performance results in vesting of 25% of maximum, with 75% for upper quartile performance and 100% for upper decile performance; all other aspects of this award are consistent with those in the table above.

Performance measurement selection and approach to target setting

The measures used under the annual bonus are selected annually to reflect the Group's main strategic objectives for the year and reflect both financial and non-financial priorities.

Performance targets are set to be stretching and achievable, taking into account the Company's strategic priorities and the economic environment in which the Company operates. Targets are set taking into account a range of reference points including the Group's strategic and operating plan.

The Committee considers relative TSR to be the most appropriate measure of long-term performance for the Company and together with the annual bonus measures, provide a balance between absolute and relative performance, between short-term and long-term performance measures, and between external and internal measures of performance. TSR aligns with the Company's focus on shareholder value creation and rewards management for outperformance of sector peers, and is transparent, visible and motivational to executives. The currency basis for the TSR calculation will be determined by the Remuneration Committee prior to grant at its discretion, however, the current intention is for TSR for both the LTIP and the Enhanced LTIP to be based on the average of TSR calculated in common currency and TSR calculated in the currency of listing. The Committee has discretion to vary the performance condition for certain events to ensure it continues to be fair, reasonable and no more or less difficult to satisfy - for example, in the event of M&A activity amongst the comparator group during a performance period, the Committee may make adjustments to the comparator group (for example, replacing that company with the acquiring company, including a substitute for that company, or tracking the future performance of that company by reference to the median of the remaining comparators).

Remuneration policy for other employees

The Committee takes into consideration the remuneration arrangements for the wider employee population in making its decisions on remuneration for senior executives. The Company's approach to annual salary reviews is consistent across the Group, with consideration given to the scope of the role, level of experience, responsibility, individual performance and pay levels in comparable companies.

In general, the remuneration policy and principles which apply to other senior executives are consistent with those set out in this report for Executive Directors. Generally, remuneration is linked to Company and individual performance in a way that is ultimately aimed at reinforcing the delivery of shareholder value.

Senior employees above a specific grade are eligible to participate in an annual bonus scheme with a similar design to that for eligible Executive Directors. Opportunities and specific performance conditions vary by organisational level with business area-specific metrics incorporated where appropriate.

All Peruvian employees participate in the statutory profit share scheme whereby an amount equal to 8% of the Company's taxable income for the year is distributable to all employees. The amount receivable by each employee is determined with reference to seniority and length of service.

Other executives participate in the LTIP on the same basis as the CEO. Other executives in receipt of LTIP awards granted from 2011 are required to invest between 0% and 15% of the cash amount received on vesting in the Company's shares until a holding equivalent to between 50% and 100% of salary (depending on seniority) has been acquired.

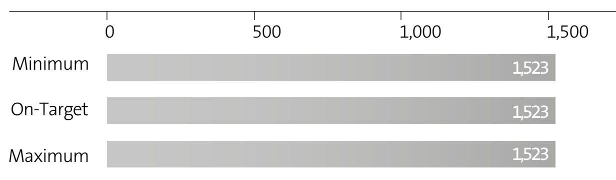
PAY SCENARIO CHARTS

The charts below provide an estimate of the potential future reward opportunities for the Executive Directors, and the potential split between the different elements of remuneration under three different performance scenarios: 'Minimum', 'On-target' and 'Maximum'.

Potential reward opportunities are based on Hochschild's remuneration policy, applied to base salaries as at 1 January 2014.

EXECUTIVE CHAIRMAN

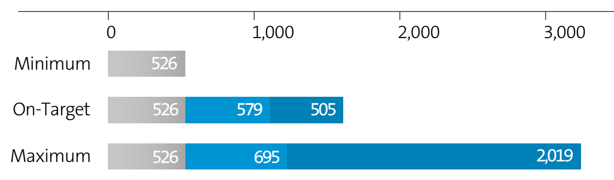
(USD $000[1])



Note: numbers are rounded to nearest $1000

CEO

(USD $000[1])



Note: numbers are rounded to nearest $1000

Salary, pension and benefits | Single-year variable | Multi-year variable[2]

1 Converted from PEN to US dollars using the 12-month average exchange rate over 2013 of US$1 = PEN 2.702.

2 For the CEO, the 2011 and 2014 Enhanced LTIP awards have been annualised over the vesting period and are calculated to have an equivalent face value of 235% of salary in 2014.

The charts above exclude the effect of any Company share price appreciation. For this reason, were the CEO's LTIP and Enhanced LTIP shares to vest in full, his actual total remuneration may exceed the US dollar value shown in the chart above.

The 'Minimum' scenario shows base salary, pension and benefits (that is, fixed remuneration). These are the only elements of the Executive Directors' remuneration packages which are not at risk.

The 'On-Target' scenario reflects fixed remuneration as above, plus a target payout of 80% of the annual bonus and threshold vesting of 25% of the maximum award under the LTIP and Enhanced LTIP.

The 'Maximum' scenario reflects fixed remuneration, plus full payout of all incentives.

APPROACH TO RECRUITMENT REMUNERATION

External appointments

In the cases of hiring or appointing a new Executive Director, the Committee may make use of any of the existing components of remuneration, as follows:

Component	Approach	Maximum annual grant value
Base salary	The base salary will be determined by reference to external data which takes into account the new appointee's duties and responsibilities, as well as internal relativities and their current remuneration. Where new appointees have initial base salaries set below market rates, any shortfall may be managed with phased increases over a period of three years, subject to the executive's development in the role.	
Benefits	New appointees will be eligible to receive compensation for time services and profit share, both of which are provided for by Peruvian law, and allowances which may include (but are not limited to) medical insurance, the use of a car and driver, and personal security.	
Annual bonus	The scheme described in the policy table will apply to new appointees with the relevant maximum being prorated to reflect the proportion of the year employed. Targets for the personal element will be tailored to the role of the appointee.	150% of salary
LTIP	New appointees will be granted awards under the LTIP on the same terms as existing Executive Directors, as described in the policy table.	200% of salary in normal circumstances or 267% of salary in exceptional circumstances

In determining the appropriate remuneration for a new Executive Director, the Committee will take into consideration all relevant factors (including the nature of remuneration and where the candidate was recruited from) to ensure that arrangements are in the best interests of Hochschild and its shareholders.

The Committee may also make an award in respect of a new appointment to 'buy out' incentive arrangements forfeited on leaving a previous employer. In doing so, the Committee will consider relevant factors including any performance conditions attached to these awards and the likelihood of those conditions being met. The Committee will use the components of the remuneration policy when suitable but may also avail itself of Listing Rule 9.4.2 R if appropriate in relation to such buy-out awards.

INTERNAL PROMOTION

In cases of appointing a new Executive Director by way of internal promotion, the Committee will determine remuneration in line with the policy for external appointees as detailed above. Where an individual has contractual commitments made prior to his promotion to the Board, the Company will continue to honour these arrangements. Incentive opportunities for below Board employees are typically no higher than for Executive Directors, but measures may vary to provide better line of sight. For more details on the remuneration policy for other employees, see page 82.

NED RECRUITMENT

In recruiting a new Non-Executive Director, the Committee will use the policy as set out in the table on page 86. A base fee in line with the stated policy would be payable for Board membership, with additional fees payable for those acting as Chairman of the Audit and Remuneration Committees and Senior Independent Director as appropriate.

SERVICE CONTRACTS AND EXIT PAYMENT POLICY

Executive Director	Date of service contract
Eduardo Hochschild	16 October 2006
Ignacio Bustamante	1 April 2007

Executive Director service contracts, including arrangements for early termination, are carefully considered by the Committee. The contractual arrangements for the Chairman who was appointed prior to the IPO in 2006 differ from those for the CEO who was subsequently appointed.

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 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. In addition to these provisions and to reflect Peruvian market practice, the Committee has discretion to award Ignacio Bustamante up to an additional 12 months' base salary on termination (other than for the prescribed reasons outlined above). The prevailing circumstances will be taken into consideration at the time of termination.

When considering exit payments, the Committee reviews all potential incentive outcomes to ensure they are fair to both shareholders and participants. The table below summarises how the awards under the annual bonus, LTIP and Enhanced LTIP are typically treated in specific circumstances, with the final treatment remaining subject to the Committee's discretion:

Annual cash bonus

Reason for leaving	Timing of vesting	Treatment of awards
Retirement, ill health, disability, death or any other reasons the Committee may determine in its absolute discretion *or* Change of control	Normal payment date, although the Committee has discretion to accelerate	Cash bonuses will only be paid to the extent that Group and personal objectives set at the beginning of the year have been achieved. Any resulting bonus will be pro-rated for time served during the year
Any other reason	No bonus is paid	Not applicable

LTIP and Enhanced LTIP

Reason for leaving	Timing of vesting	Treatment of awards
Retirement, ill-health, disability, redundancy, injury or any other reasons the Committee may determine in its absolute discretion	Normal vesting date, although the Committee has discretion to accelerate	Any outstanding LTIP awards will be pro-rated for time and performance
Death	On date of event	Any outstanding LTIP awards will be pro-rated for time and performance
Change of control	On date of event	Any outstanding LTIP awards will be pro-rated for time and performance In the event of a change of control, Hochschild awards may alternatively be exchanged for new equivalent awards in the acquirer where appropriate
Any other reason	Awards lapse	Not applicable

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.

Details of the terms of appointment of the Company's Non-Executive Directors serving during the year are shown in the table below. The appointment and reappointment and the remuneration of Non-Executive Directors are matters reserved for the full Board.

Non-Executive Director	Letter of Appointment dated	Anticipated expiry of present term of appointment (subject to annual re-election)
Jorge Born Jr.	16 October 2006	16 October 2015
Sir Malcolm Field	16 October 2006	16 October 2015
Nigel Moore	16 October 2006	16 October 2015
Fred Vinton[1]	9 July 2009	n/a
Roberto Dañino[2]	11 January 2011	11 January 2017
Dr Graham Birch	20 June 2011	20 June 2014
Rupert Pennant-Rea[1]	30 August 2011	n/a
Enrico Bombieri	20 October 2012	20 October 2015

1 Fred Vinton and Rupert Pennant-Rea stepped down from the Board on 31 July 2013.

2 A fee is 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 Compañia 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.

The Non-Executive Directors are not eligible to participate in the Company's performance-related incentive plans and do not receive any pension contributions.

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.

Details of the policy on fees paid to our Non-Executive Directors are set out in the table below:

Function	Operations	Opportunity	Performance measures
To attract and retain Non-Executive Directors of the highest calibre with broad commercial and other experience relevant to the Company	Fee levels are reviewed from time to time, with any adjustments effective from 1 March each year. The fee paid to the Chairman is determined by the Committee, and fees to Non-Executive Directors are determined by the Board. Additional fees are payable for acting as Chairman of the Audit and Remuneration Committees and as Senior Independent Director. Fee levels are reviewed by reference to FTSE-listed companies of similar size and complexity. Time commitment, level of involvement required and responsibility are taken into account when reviewing fee levels. Fees for the year ending 31 December 2013 are set out in the Annual Report on Remuneration on page 90. Jorge Born and Enrico Bombieri have waived the supplement payable to them following their appointments to the position of Chairman of the Remuneration Committee and Senior Independent Director respectively from 1 January 2014.	Non-Executive Director fee increases are applied in line with the outcome of the fee review. Other than reinstating NED fees to their levels prior to 1 August 2013 at the discretion of the Board, it is expected that NEDs' fees will only be increased during the term of this policy in line with general market levels of NED fee inflation. In the event that there is a material misalignment with the market or a change in the complexity, responsibility or time commitment required to fulfil a Non-Executive Director role, the Board has discretion to make an appropriate adjustment to the fee level. The maximum aggregate annual fee for all Directors provided in the Company's Articles of Association is £3 million p.a.	None

EXTERNAL APPOINTMENTS POLICY

The Board recognises that Executive Directors may be invited to serve as directors of other companies, which can bring benefits to the Group. Executive Directors are entitled to accept appointments outside the Company providing that the Chairman's permission is sought and granted. The policy is that fees may be retained by the Director, reflecting the personal risk assumed in such appointments. Details of external appointments and the associated fees received are included in the Annual Report on Remuneration.

CONSIDERATION OF CONDITIONS ELSEWHERE IN THE COMPANY

The Committee does not currently consult with employees specifically on the effectiveness and appropriateness of the executive remuneration policy and framework. However, the Company seeks to promote and maintain good relationships with employee representative bodies as part of its employee engagement strategy and consults on matters affecting employees and business performance as required in each case by law and regulation in the jurisdictions in which the Company operates. Although the Committee does not consult directly with employees on executive remuneration policy, the Committee takes into consideration the remuneration arrangements for the wider employee population in making its decisions on remuneration for senior executives.

CONSIDERATION OF SHAREHOLDER VIEWS

When determining remuneration, the Committee takes into account views of shareholders and best practice guidelines issued by institutional shareholder bodies. The Committee is always open to feedback from shareholders on remuneration policy and arrangements, and commits to undergoing shareholder consultation in advance of any significant changes to remuneration policy. The Committee will continue to monitor trends and developments in corporate governance and market practice to ensure the structure of the executive remuneration remains appropriate.

Further details on the votes received on the 2012 Directors' remuneration report and the Committee's response are provided in the Annual Report on Remuneration.

ANNUAL REPORT ON REMUNERATION

The following section provides details of how Hochschild's remuneration policy was implemented during the financial year ending 31 December 2013.

Remuneration Committee membership

The Remuneration Committee is chaired by Jorge Born and its other members are Sir Malcolm Field and Nigel Moore. Rupert Pennant-Rea served on the Committee until he stepped down from the Board on 31 July 2013 and Sir Malcolm Field relinquished the Chairmanship of the Committee on 31 December 2013.

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 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.

The Remuneration Committee met three times during the year (details of members' attendance at meetings are provided in the Corporate Governance section on page 70) and undertook the items of business noted below.

March 2013

- Considered the 2012 performance evaluations of the CEO and approved the associated bonus payments. In addition, the Committee noted the performance of, and bonus payments to, the Group's Vice Presidents.
- Approved the 2012 Directors' remuneration report.
- Considered and approved the 2013 objectives for the CEO and CFO (who is not an Executive Director).
- Approved the vesting outcome of 2010 LTIP awards.
- Approved the grant of 2013 LTIP awards.
- Approved the implementation of an Exploration Incentive Plan (EIP) for below-Board participants.
- Considered whether the remuneration policy satisfied the required talent recruitment and retention needs of the Company.

August 2013

- Considered the impact of the Group's Cash Optimisation Plan on remuneration arrangements including the reduction in the salaries of the CEO and Executive Chairman by 10% and 30% respectively, with effect from 1 July 2013.
- Considered feedback from UK institutional investor bodies on executive remuneration.

December 2013

- Considered provisional assessments with respect to the performance of the CEO and CFO against their 2013 objectives.
- Considered the position with regards to the remuneration of the CEO and CFO in light of the Cash Optimisation Plan.
- Considered a provisional assessment of the vesting outcome of the 2011 LTIP award and of the status of the vesting of the 2012 and 2013 LTIP awards.
- Considered the latest proposals with respect to the grant of 2014 LTIP awards and Enhanced LTIP award to the CEO.
- Considered the 2014 objectives for the CEO and CFO.
- Considered an update on the Exploration Incentive Plan.
- Considered a draft of the 2013 Directors' remuneration report.

Advisers

Kepler Associates Partnership LLP (Kepler) provided independent advice to the Committee relating to executive remuneration and benefits during the year.Kepler is a member of the Remuneration Consultants Group and is a signatory to the Code of Conduct for consultants to Remuneration Committees of UK-listed companies, details of which can be found at: www.remunerationconsultantsgroup.com. Kepler adheres to this Code of Conduct.

In 2013, Kepler provided independent advice on remuneration for executives, TSR performance updates, and support in drafting the Directors' remuneration report. Kepler reports directly to the Chairman of the Committee and provides no other services to the Company. It's total fees for the provision of remuneration services to the Committee in 2013 were £19,216 on the basis of time and materials, excluding expenses and VAT.

The Committee undertakes due diligence periodically to ensure that Kepler remains independent of the Company and that the advice provided is impartial and objective. The Committee is satisfied that the advice provided by Kepler is independent.

Summary of shareholder voting at the 2013 AGM

The following table shows the results of the advisory shareholder vote on the 2012 Remuneration report at the 2013 AGM:

	Total number of votes	% of votes cast
For (including discretionary)	287,213,380	98.3%
Against	5,038,252	1.7%
Total votes cast (excluding withheld votes)	292,251,632	100%
Votes withheld	20,769,554	6.6%
Total votes cast (including withheld votes)	**313,021,186**	

Note: Votes withheld are not included in the final proxy figures as they are not recognised as votes in law.

Whilst the Company is not aware of the specific reasons for the level of abstentions, the Company can only surmise that they could be in connection with one or more of the following issues noted by certain investor voting agencies in advance of the 2013 AGM:

- the level of remuneration payable to the Executive Chairman
- the level of the award granted to the CEO under the Enhanced LTIP
- the use of cash rather than shares to satisfy regular LTIP awards
- the disclosures in the 2012 Directors' remuneration report in relation to bonus payments

The Committee will continue to engage with shareholders to facilitate a better understanding of the Company, the environment in which it operates and how this translates into the Group's executive remuneration policy.

SINGLE TOTAL FIGURE OF REMUNERATION FOR EXECUTIVE DIRECTORS (AUDITED)

The table below sets out a single figure for the total remuneration received by each Executive Director for the year ended 31 December 2013 and the prior year:

	Eduardo Hochschild		Ignacio Bustamante	
	2013	2012	2013	2012
	US$000	US$000	US$000	US$000
Base salary[1]	931	1,100	515	532
Taxable benefits[2]	553	477	24	25
Pension[3]	194	200	0	0
Single-year variable[4]	n/a	n/a	460	560
Multiple-year variable[5]	n/a	n/a	0	725
Profit share[6]	0	8	0	10
Total	**1,678**	**1,785**	**999**	**1,852**

1 Base salary includes compensation for time services.

2 Taxable benefits include: use of a car and driver (Eduardo Hochschild – 2013 $30,557; 2012 $20,385. Ignacio Bustamante – 2013 $22,353; 2012 $20,629), personal security (Eduardo Hochschild – 2013 $518,072; 2012 $448,372), and medical insurance.

3 During the year Eduardo Hochschild received a cash supplement in lieu of pension.

4 Payment for performance during the year under the annual bonus plan. See following sections for further details.

5 Includes any LTIP awards based on the value at vesting of cash award vesting on performance over the three-year period ending in the relevant financial year. No LTIP shares were due to vest for any Executive Director for 2013. 98% of 2010 LTIP awards vested based on the Company's Total Shareholder Return for the performance period between 1 January 2010 and 31 December 2012 on 25 May 2013. The vesting schedule was the same as for the 2011 LTIP (detailed on page 93), with common currency TSR performance measured against the 2011 LTIP comparator group excluding African Barrick Gold, Centamin Egypt plc, Fresnillo plc and Randgold Resources Ltd.

6 All-employee profit share mandated by Peruvian law.

SINGLE TOTAL FIGURE OF REMUNERATION FOR NON-EXECUTIVE DIRECTORS (AUDITED)

The table below sets out a single figure for the total remuneration received by each Non-Executive Director for the year ended 31 December 2013 and the prior year:

	Base fee US$000		Additional fees US$000		Benefits-in-kind US$000		Total US$000	
Non-Executive Director	2013	2012	2013	2012	2013	2012	2013	2012
Jorge Born Jr.	137	158	–	–	–	–	137	158
Sir Malcolm Field	137	158	27[1]	32[1]	–	–	164	190
Nigel Moore	137	158	27[2]	32[2]	–	–	164	190
Fred Vinton[3]	91	158	–	–	–	–	91	158
Roberto Dañino	137	158	240[4]	238[4]	42[5]	54[5]	419	450
Dr Graham Birch	137	158	–	–	–	–	137	158
Rupert Pennant-Rea[3]	91	158	–	–	–	–	91	158
Enrico Bombieri	137	158	–	–	–	–	137	158

1 Sir Malcolm Field's additional fee relates to his role as Chairman of the Remuneration Committee.

2 Nigel Moore's additional fee relates to his role as Chairman of the Audit Committee.

3 In addition to the amounts disclosed above, Fred Vinton and Rupert Pennant-Rea each received $39,000, being the equivalent of three months' fee under the terms of their Letters of Appointment, having stepped down from the Board on 31 July 2013.

4 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 Compañia 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.

5 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, which include transportation and out-of-pocket expenses.

SALARY AND FEE ADJUSTMENTS FOR THE YEAR ENDED 31 DECEMBER 2013 (UNAUDITED)

The recent volatility in precious metals prices prompted a comprehensive review across the Group to identify cost saving measures. This incorporated a review of the structure and remuneration of our Board during the year. As a result, with effect from 1 July 2013, reductions of 30% to the Chairman's salary and a reduction of 10% to the CEO's salary were made. This resulted in the following salaries:

Executive Director	Base salary[1] from 1 March 2013 US$000	Base salary[1] from 1 July 2013 US$000	Percentage decrease
Eduardo Hochschild	1,100	770	-30%
Ignacio Bustamante[2]	558	502	-10%

1 Includes compensation for time services ('CTS').

2 Ignacio Bustamante's salary is denominated in PEN. From 1 March 2013, his salary (inclusive of CTS) was PEN1,471,333 and, from 1 July 2013, his salary (inclusive of CTS) was PEN1,324,201.

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. All Non-Executive Directors receive a base fee, and additional fees are paid for the role of Chairman of the Remuneration Committee and Chairman of the Audit Committee.

In addition to the changes to the Executive Director salaries, it was decided to reduce the Non-Executive Director fees (both base and additional fees) by 30% from 1 August 2013. This resulted in the following director fees which are set in pounds:

Non-Executive Director fee	Fee from 1 January 2013 £000	Fee from 1 August 2013 £000	Percentage decrease
Base fee	100	70	-30%
Additional fees[1]	20	14	-30%

1 On assuming their positions of Chairman of the Remuneration Committee and Senior Independent Director respectively with effect from 1 January 2014, Jorge Born and Enrico Bombieri waived their right to the additional fee.

INCENTIVE OUTCOMES FOR THE YEAR ENDED 31 DECEMBER 2013 (AUDITED)

Performance-related annual bonus in respect of 2013 performance

Objectives for the 2013 bonus were set by the Committee at the beginning of the year and a provisional assessment of performance during the year was undertaken at the December Committee meeting, which was confirmed in March 2014.

Further details of the bonuses paid for 2013, including the specific performance metrics, weightings and performance against each of the metrics, are provided in the table below:

Objective	KPI	Target weighting	Targets			Performance assessment
			Threshold	Target	Maximum	
Production and financial results	Production	20%		20m Oz Ag Eq		Maximum: 20.5m Oz Ag Eq
	EBITDA	17%	US$142m	US$146m	US$154m	Maximum: US$200m
Business growth	Brownfields exploration	12%		*Not Disclosed*		Maximum
	Business development	10%		*Not Disclosed*		Maximum
Project development	Project milestones	15%		*Not Disclosed*		Target
Safety	Frequency rate	20%	2012 rate +2.5%	2012 rate	2012 rate -5%	Maximum: 2012 rate -31%
	Severity rate	7%	2012 rate -20%	2012 rate -45%	2012 rate -80%	Between threshold and target: 2012 rate -40%

Some of the performance targets have not been disclosed in this year's report as they are considered commercially sensitive by the Board, given the close link between performance targets and business strategy. The Committee will keep this under review, and targets will be disclosed at a point in the future when they are no longer considered sensitive.

The determination of the bonus payout is at the discretion of the Committee, taking into account performance during the year against the above scorecard. Each objective in the scorecard has a 'threshold', 'target' and 'maximum' performance target, achievement of which translates into a score for each objective.

Objectives which are considered critical to the Group are given higher weightings, such that outperformance in these areas contributes more significantly to the overall bonus outcome.

The weighted average of the scores is calculated, and is translated into a bonus outcome of between 0% and 125% of salary for the CEO, which is used in the Committee's judgement in determining the actual bonus awarded.

The Committee assessed performance against the scorecard and the CEO's performance in 2013. In light of market conditions, the Committee determined that there should be a downward revision of the formulaic outcome, which resulted in an entitlement to 102% of salary.

As stated in the policy table, for 2013 a portion of the total annual bonus outcome will be deferred into Hochschild shares for up to two years. The Committee determined that, for the CEO, 78% of the bonus for 2013 will be deferred into shares, 50% of which will vest in March 2015 and the remaining 50% in March 2016.

Details of Ignacio Bustamante's performance against his 2012 objectives can be found on page 88 of the 2012 Annual Report and Accounts.

2011 LTIP VESTING

On 28 April 2011, Ignacio Bustamante was granted an award under the LTIP with a face value of $900,000. Vesting was dependent on three-year relative TSR performance against a tailored peer group. There was no retesting of performance.

Subsequent to the year end, the Committee considered the extent to which the performance condition attached to the 2011 LTIP award has been satisfied. The Committee's advisers, Kepler Associates, confirmed that the Company's Total Shareholder Return in the performance period between 1 January 2011 and 31 December 2013 ranked 17th amongst the companies in the relevant comparator group (equivalent to 27th percentile), which results in nil vesting. Further details, including vesting schedules and performance against targets, are provided in the table below.

Performance measure	Performance targets	Actual performance	Vesting outcome (% of maximum)
Relative TSR performance vs. tailored peer group[1]	Upper decile (90th percentile): Full vesting Upper quartile (75th percentile): 75% vesting Median (50th percentile): 25% vesting *Straight-line vesting between these points*	27th percentile	NIL
Total LTIP vesting			**NIL**

1 African Barrick Gold plc, Agnico-Eagle Mines Ltd, Alamos Gold, AngloGold Ashanti Ltd, Barrick Gold Corp, Centamin Egypt Limited, Cia des Minas Buenaventura SA, Couer d'Alène Mines Corp, Eldorado Gold Corp, Fresnillo plc, 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, Randgold Resources Ltd and Silver Standard Resources Inc.

SCHEME INTERESTS AWARDED IN 2013 (AUDITED)

On 13 March 2013, Ignacio Bustamante was granted an award under the LTIP with a face value of $1 million, in the form of cash. Vesting is dependent on three-year relative TSR from 1 January 2013 to 31 December 2015, with 70% of the award based on TSR performance against a tailored peer group and 30% of the award based on TSR performance against the constituents of the FTSE350 Mining Index. Awards vest on the third anniversary of the date of grant, subject to continued employment, and are subject to potential clawback if, before vesting, the Committee determines either that (i) the overall underlying businessperformance 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. Awards are settled in cash. Further details, including vesting schedules, are provided in the table below.

Executive Director	Grant date	Performance period	Face value of award at grant US$000	Award value for minimum performance US$000
Eduardo Hochschild		*Does not participate in the LTIP*		
Ignacio Bustamante	13.03.13	01.01.13 – 31.12.15	1,000	250

Performance measure	Weighting	Performance targets
Relative TSR[1] performance vs. tailored peer group[2]	70%	Upper quintile: Full vesting Upper tercile: 75% vesting Median: 25% vesting *Straight-line vesting between these points*
Relative TSR[1] performance vs. constituents of the FTSE350 Mining Index	30%	Median TSR+10% p.a : Full vesting Median TSR: 25% vesting *Straight-line vesting between these points*

1 TSR is calculated on the average of local and common currencies.

2 African Barrick Gold plc, Agnico-Eagle Mines Ltd, Alamos Gold, AngloGold Ashanti Ltd, Barrick Gold Corp, Centamin Egypt Limited, Cia des Minas Buenaventura SA, Couer d'Alène Mines Corp, Eldorado Gold Corp, Fresnillo plc, Gold Fields Ltd, Goldcorp Inc, Hecla Mining, Highland Gold Mining Ltd, Iamgold Corp, Kinross Gold Corp, Newmont Mining Corp, PAN American Silver Corp, Petropavlovsk Plc, Polymetal, Randgold Resources Ltd and Silver Standard Resources Inc.

EXIT PAYMENTS MADE IN THE YEAR (AUDITED)

Rupert Pennant-Rea and Fred Vinton each received £25,000 (US$39,000) representing payments in lieu of notice under the terms of their Letters of Appointment.

PAYMENTS TO PAST DIRECTORS (AUDITED)

No payments were made to past Directors in the year.

IMPLEMENTATION OF REMUNERATION POLICY FOR 2014

2014 remuneration arrangements will be implemented in line with the approved remuneration policy. The following changes to specific remuneration arrangements within the remuneration policy will be implemented:

ANNUAL CASH BONUS

Recognising its duty to ensure that senior executives are adequately incentivised, the Remuneration Committee re-initiated a review of the CEO's bonus opportunity. Taking into consideration the overall low positioning of the CEO's remuneration package relative to the Company's peers, which has been exacerbated by the reduction in his base salary during 2013, the Committee has decided to increase Ignacio Bustamante's maximum bonus opportunity from 125% to 150% of base salary from 2014 onwards.

Bonuses will be based on broadly the same measures as those used in 2013 a number of which, have not been detailed in this report due to their commercial sensitivity. Full disclosure will be made in the Company's 2014 Directors' Remuneration Report.

LTIP

The Committee will make awards in 2014 within the maximum limits described in the Policy Report. The performance condition will be the same as for 2013 awards.

ENHANCED LTIP

The Committee intends to make an award in 2014 to the CEO as described in the Policy Report. The performance condition will be the same as for 2011 awards with TSR measured relative to the same tailored peer group as for the 2013 LTIP.

PERCENTAGE CHANGE IN CEO REMUNERATION

The table below shows the percentage change in CEO remuneration from the prior year compared with the percentage change in remuneration for all other employees.

	CEO			Other employees[1]
	2012	2013	% change	% change
Base salary[2]	532	515	-3.2%	6.4%
Taxable benefits	25	24	-4.4%	n/a
Single-year variable	560	460	-17.9%	-14.1%

1 "Other employees" comprise full-time salaried employees in Peru.

2 Includes compensation for time services.

RELATIVE IMPORTANCE OF SPEND ON PAY

The table below shows the percentage change in total employee pay expenditure and shareholder distributions (that is dividends and share buybacks) from the financial year ended 31 December 2012 to the financial year ended 31 December 2013.

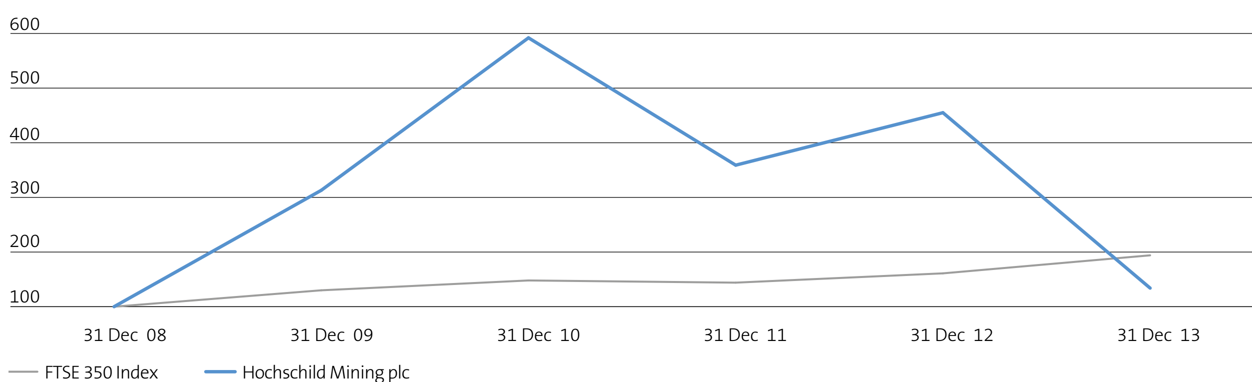
DISTRIBUTION TO SHAREHOLDERS US$000			EMPLOYEE REMUNERATION US$000		
2013	2012	% change	2013	2012	% change
NIL	$20,278	–	$175,933	$198,324	-11.3%

The Directors are not recommending the payment of a final dividend for the year ended 31 December 2013 (2012: $0.03 per share).

PAY FOR PERFORMANCE

The following graph shows the TSR (Total Shareholder Return) for the Company compared to the FTSE350 Index, assuming £100 was invested on 31 December 2008. The Board considers that the FTSE350 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. The table below details the CEO's single figure remuneration and actual variable pay outcomes over the same period.

£100 INVESTED IN HOCHSCHILD AND FTSE350 INDEX ON 31 DECEMBER 2008



Ignacio Bustamante[1]	2009	2010	2011	2012	2013
CEO single figure of remuneration ($000)	–	1,525	1,120	1,852	999
Annual bonus outcome (% of maximum)	–	100%	100%	90%	81%
LTI vesting outcome (% of maximum)	–	47%	0%	98%	0%

Miguel Aramburú[2]	2009	2010	2011	2012	2013
CEO single figure of remuneration ($000)	1,228	1,019	–	–	–
Annual bonus outcome (% of maximum)	100%	46%	–	–	–
LTI vesting outcome (% of maximum)	0%	0%	–	–	–

1 Ignacio Bustamante was appointed on 1 April 2010.

2 Miguel Aramburú resigned on 31 March 2010.

DIRECTORS' INTERESTS (AUDITED)

The interests of the Directors and their families in the ordinary shares of the Company as at 31 December 2013 are detailed in the table below.

The CEO is required to invest 20% of vested LTIP awards and retain 50% of the after-tax vested Enhanced LTIP shares until such time as he has accumulated a shareholding with a value of 200% of salary.

	Shares held						
	Owned outright or vested at 31 Dec 2012	Owned outright or vested at 31 Dec 2013[1]	Vested but subject to holding period	Unvested and subject to performance conditions	Shareholding requirement (% of salary)	Current shareholding (% of salary/fee)	Requirement met?
Eduardo Hochschild	182,415,206	199,320,272	0	0	–	–	–
Ignacio Bustamante	26,944	62,219	0	362,196	200%	33%[2]	No
Jorge Born Jr.	0	0	–	–	–	–	–
Sir Malcolm Field	14,285	14,285	–	–	–	–	–
Nigel Moore	14,285	26,434	–	–	–	–	–
Fred Vinton[3]	25,000	25,000	–	–	–	–	–
Roberto Dañino	200,000	200,000	–	–	–	–	–
Dr Graham Birch	10,000	10,000	–	–	–	–	–
Rupert Pennant-Rea[3]	7,000	7,000	–	–	–	–	–
Enrico Bombieri	0	0	–	–	–	–	–

1 Or date of resignation, if earlier.

2 Using Company's share price as at 31 December 2013 of 141.25p.

3 Fred Vinton and Rupert Pennant-Rea stepped down from the Board on 31 July 2013.

There have been no changes to Directors' shareholdings since 31 December 2013.

Details of Directors' interests in shares and options under Hochschild's long-term incentives are set out in the section overleaf.

DIRECTORS' INTERESTS IN SHARE OPTIONS, SHARES AND CASH AWARDS IN HOCHSCHILD LONG-TERM INCENTIVE PLANS AND ALL EMPLOYEE PLANS

	Date of grant	Share price at grant	Exercise price at grant	Number of shares awarded	Face value at grant	Performance period	Vesting Date
Ignacio Bustamante							
Enhanced LTIP[1]	28.04.11	428p	Nil	90,549	£387,550	01.01.11 – 31.12.14	28.04.15
Enhanced LTIP[1]	28.04.11	428p	Nil	90,549	£387,550	01.01.11 – 31.12.15	28.04.16
Enhanced LTIP[1]	28.04.11	428p	Nil	181,098	£775,099	01.01.11 – 31.12.16	28.04.17
2011 LTIP[2]	28.04.11	n/a	n/a	n/a	$0.9m	01.01.11 – 31.12.13	28.04.14
2012 LTIP[3]	31.03.12	n/a	n/a	n/a	$0.9m	01.01.12 – 31.12.14	31.03.15
2013 LTIP	13.03.13	n/a	n/a	n/a	$1m	01.01.13 – 31.12.15	13.03.16

1 Performance conditions are as stated in the Policy Report, with TSR measured relative to the same tailored peer group as for the 2013 LTIP (excluding Hecla Mining).

2 As stated earlier in the report, the performance condition attached to the 2011 LTIP award was not satisfied and, accordingly, will not vest.

3 Performance conditions are the same as for the 2013 LTIP, with the same comparator group excluding Hecla Mining.

OTHER INTERESTS

None of the Directors had an interest in the shares of any subsidiary undertaking of the Company or in any significant contracts of the Group.

EXTERNAL APPOINTMENTS IN 2013 (UNAUDITED)

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 Peru	PEN 269,433 (US$99,716)
	Inversiones Pacasmayo SA and affiliated companies	PEN 8,252,467 (US$3,054,207)[1]
	Pacifico Peruano Suiza Cia. de Seguros	PEN 116,235 (US$43,018)

1 The amount disclosed comprises (i) Board fees, (ii) salary received by Eduardo Hochschild in his capacity as Executive Chairman of Cementos Pacasmayo S.A.A. and (iii) fees received by him in his capacity as a consultant to Inversiones Pacasmayo SA, companies of which he is the controlling shareholder.

Signed on behalf of the Board

SIR MALCOLM FIELD
Director and Member of the Remuneration Committee
11 March 2014

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report and the Group and Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Parent Company financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with International Financial Reporting Standards ('IFRS') as adopted by the EU. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Parent Company and of their profit or loss for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable IFRS have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

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

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

We have audited the financial statements of Hochschild Mining plc for the year ended 31 December 2013 which comprise, the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and Parent Company Statements of Financial Position, the Consolidated and Parent Company Statements of Cash Flows, the Consolidated and Parent Company Statements of Changes in Equity, and the related Notes to the Consolidated Financial Statements 1 to 37 and Notes to the Parent Company Financial Statements 1 to 14. 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 Statement of Directors' Responsibilities set out on page 98, 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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. 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 2013 and of the Group's loss for the year then ended;
- the consolidated financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the consolidated financial statements, Article 4 of the IAS Regulation.

OUR ASSESSMENT OF RISK OF MATERIAL MISSTATEMENT

We identified the following risks that we believe to have had the greatest impact on our audit strategy and scope:

- Assessment of the carrying value of the Group's mining assets;
- Loss of significant influence on the Group's stake in Gold Resource Corp;
- Tax contingencies; and
- Revenue recognition.

OUR APPLICATION OF MATERIALITY

When establishing our overall audit strategy, we set materiality for the Group at US$3.1 million, representing approximately 0.5% of revenue. We determined this to be the magnitude of uncorrected misstatements that would be material for the financial statements as a whole. This provides a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement is that overall performance materiality for the Group should be 50% of materiality, namely US$1.6 million. Our objective in adopting this approach is to ensure that total detected and undetected audit differences do not exceed our materiality of US$3.1 million for the financial statements as a whole.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of US$0.2 million, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

AN OVERVIEW OF THE SCOPE OF OUR AUDIT

In assessing the risk of material misstatement to the consolidated financial statements, our Group audit scope focused on two primary operating locations. Seven subsidiaries were subject to audit for the year ended 31 December 2013. Together with the Group functions, which were also subject to audit, these locations represent the principal business units of the Group and account for 98% of the Group's revenue. Audits of these locations are performed at a materiality level calculated by reference to a proportion of Group materiality appropriate to the relative scale of the business concerned.

The Group audit team continued to follow a programme of planned visits that has been designed to ensure that the Senior Statutory Auditor visits each of the primary operating locations where the Group audit scope was focused at least once every two years and the most significant at least once a year. For all full scope entities in addition to the location visit the Group audit team reviewed key working papers and participated in the component team's planning including the component team's discussion of fraud and error.

Our response to the risks of material misstatement identified above included the following procedures:

Assessment of the carrying value of the Group's mining assets

- We challenged management's assessment of whether impairment indicators exist for its mining CGUs and where they did, we challenged the assumptions used by management in the impairment model, including specifically the cash flow projections, discount rates, and production figures used.
- Loss of significant influence on the Group's stake in Gold Resource Corp
- We analysed management's assessment of the date on which significant influence in Gold Resource Corp was lost.
- We recalculated the gain recognised on the date that significant influence was lost, as the difference between the carrying value of the equity-method investment and the fair value of the company's shareholding with reference to Gold Resource Corp's publicly available share price.

Tax contingencies

- We analysed management's assessment with regards to potential tax contingencies arising from tax authority reviews in Peru, Argentina, and Mexico. We separately assessed the likelihood of an unfavourable outcome for the Group with regards to these contingencies and have concluded that the absence of a recognised provision is appropriate as the risk of exposure is considered 'possible' rather than 'probable.'

Revenue recognition

- We carried out testing relating to controls over revenue recognition, including the timing of revenue recognition.
- We have performed substantive procedures assessing the appropriateness of revenue recognition for a sample of transactions selected from throughout the year.
- We performed analytical procedures related to the quantities, clients, prices and type of minerals sold in comparison with prior periods.

OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following:

Under the ISAs (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- is otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the audit committee which we consider should have been disclosed.

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

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

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 59, in relation to going concern; and
- 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.

STEVEN DOBSON
(Senior statutory auditor)
for and on behalf of Ernst & Young LLP,
Statutory Auditor, London
11 March 2014

Notes:

1 The maintenance and integrity of the Hochschild Mining plc web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

2 Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2013

		Year ended 31 December 2013			Year ended 31 December 2012		
	Notes	Before exceptional items US$000	Exceptional items US$000	Total US$000	Before exceptional items US$000	Exceptional items US$000	Total US$000
Continuing operations							
Revenue	3,5	622,158	–	622,158	817,952	–	817,952
Cost of sales	6	(466,766)	(2,466)	(469,232)	(420,325)	–	(420,325)
Gross profit		155,392	(2,466)	152,926	397,627	–	397,627
Administrative expenses	7	(54,425)	(2,351)	(56,776)	(72,995)	–	(72,995)
Exploration expenses	8	(42,871)	(3,456)	(46,327)	(64,612)	–	(64,612)
Selling expenses	9	(28,785)	–	(28,785)	(39,460)	–	(39,460)
Other income	11	3,974	2,442	6,416	8,733	1,099	9,832
Other expenses		(15,555)	–	(15,555)	(9,525)	–	(9,525)
Impairment and write-off of assets net	11	–	(90,671)	(90,671)	–	(245)	(245)
Profit/(loss) from continuing operations before net finance income/(cost), foreign exchange loss and income tax		17,730	(96,502)	(78,772)	219,768	854	220,622
Share of post-tax profit/(losses) of associates and joint ventures accounted for under equity method	11,18	5,921	–	5,921	6,456	(1,376)	5,080
Finance income	11,12	10,675	2,417	13,092	1,988	–	1,988
Gain on transfer from investment accounted for under the equity method to available-for-sale financial assets		–	107,942	107,942	–	–	–
Finance costs	11,12	(11,697)	(136,353)	(148,050)	(12,870)	(1,334)	(14,204)
Foreign exchange loss		(19,753)	–	(19,753)	(1,212)	–	(1,212)
(Loss)/profit from continuing operations before income tax		2,876	(122,496)	(119,620)	214,130	(1,856)	212,274
Income tax (expense)/benefit	13	(44,979)	35,922	(9,057)	(85,549)	141	(85,408)
(Loss)/profit for the year from continuing operations		(42,103)	(86,574)	(128,677)	128,581	(1,715)	126,866
Attributable to:							
Equity shareholders of the Company		(50,345)	(72,738)	(123,083)	64,830	(1,759)	63,071
Non-controlling interests		8,242	(13,836)	(5,594)	63,751	44	63,795
		(42,103)	(86,574)	(128,677)	128,581	(1,715)	126,866
Basic and diluted (loss)/earnings per ordinary share from continuing operations for the year (expressed in US dollars per share)	14	(0.15)	(0.21)	(0.36)	0.19	–	0.19

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2013

	Notes	Year ended 31 December 2013 US$000	2012 US$000
(Loss)/profit for the year		(128,677)	126,866
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translating foreign operations		(842)	268
Change in fair value of available-for-sale financial assets	19	(125,932)	(9,269)
Recycling of the loss on available-for-sale financial assets		130,286	266
Deferred income tax relating to components of other comprehensive income	13	–	615
Other comprehensive gain/(loss) for the period, net of tax		3,512	(8,120)
Total comprehensive (expense)/income for the year		(125,165)	118,746
Total comprehensive (expense)/income attributable to:			
Equity shareholders of the Company		(119,571)	54,951
Non-controlling interests		(5,594)	63,795
		(125,165)	118,746

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2013

	Notes	As at 31 December 2013 US$000	As at 31 December 2012 US$000
ASSETS			
Non-current assets			
Property, plant and equipment	15	873,477	636,555
Evaluation and exploration assets	16	204,643	396,557
Intangible assets	17	43,683	43,903
Investments accounted for under equity method	18	–	78,188
Available-for-sale financial assets	19	51,658	30,609
Trade and other receivables	20	12,128	8,613
Deferred income tax assets	28	2,416	856
		1,188,005	1,195,281
Current assets			
Inventories	21	69,556	76,413
Trade and other receivables	20	167,740	166,173
Income tax receivable		22,156	23,023
Other financial assets	22	–	150
Cash and cash equivalents	23	286,435	358,944
		545,887	624,703
Total assets		1,733,892	1,819,984
EQUITY AND LIABILITIES			
Capital and reserves attributable to shareholders of the Parent			
Equity share capital	27	170,389	158,637
Share premium	27	396,021	395,928
Treasury shares	27	(898)	(898)
Other reserves		(211,143)	(214,946)
Retained earnings		511,492	720,011
		865,861	1,058,732
Non-controlling interests		104,375	264,518
Total equity		970,236	1,323,250
Non-current liabilities			
Trade and other payables	24	174	–
Borrowings	25	–	106,850
Provisions	26	79,649	76,550
Deferred income	24(3)	22,000	–
Deferred income tax liabilities	28	93,505	95,715
		195,328	279,115
Current liabilities			
Trade and other payables	24	119,222	149,585
Other financial liabilities	22	2,294	6,891
Borrowings	25	435,925	6,973
Provisions	26	9,573	26,688
Income tax payable		1,314	27,482
		568,328	217,619
Total liabilities		763,656	496,734
Total equity and liabilities		1,733,892	1,819,984

These financial statements were approved by the Board of Directors on 11 March 2014 and signed on its behalf by:

IGNACIO BUSTAMANTE
Chief Executive Officer
11 March 2014

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2013

	Notes	Year ended 31 December 2013 US$000	2012 US$000
Cash flows from operating activities			
Cash generated from operations	32	116,084	344,119
Interest received		6,236	2,614
Interest paid		(10,292)	(9,987)
Payment of mine closure costs	26	(4,781)	(3,667)
Tax paid		(42,573)	(78,200)
Net cash generated from operating activities		64,674	254,879
Cash flows from investing activities			
Purchase of property, plant and equipment		(248,335)	(297,537)
Purchase of evaluation and exploration assets		(10,781)	(46,903)
Purchase of intangibles		(1,625)	–
Acquisition of subsidiary	4(b)	(14,615)	(96,332)
Dividends received		2,423	–
Dividends received from associates		3,385	8,454
Proceeds from deferred income	24(3)	17,593	4,000
Proceeds from sale of available-for-sale financial assets		33,498	–
Proceeds from sale of property, plant and equipment		344	449
Net cash used in investing activities		(218,113)	(427,869)
Cash flows from financing activities			
Proceeds from borrowings		440,010	53,500
Repayment of borrowings		(116,701)	(93,221)
Transaction costs of borrowings		(9,145)	–
Acquisition of non-controlling interest		(272,127)	–
Proceeds from issue of ordinary shares		71,916	–
Dividends paid	29	(18,503)	(62,467)
Capital contribution from non-controlling interests		4,380	7,346
Cash flows generated/(used) in financing activities		99,830	(94,842)
Net decrease in cash and cash equivalents during the year		(53,609)	(267,832)
Exchange difference		(18,900)	(705)
Cash and cash equivalents at beginning of year		358,944	627,481
Cash and cash equivalents at end of year	23	286,435	358,944

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2013

					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	Bond equity component (note 25(b)) 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 2012		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
Other comprehensive (loss)/income		–	–	–	(8,388)	–	268	–	–	(8,120)	–	(8,120)	–	(8,120)
Profit for the year		–	–	–	–	–	–	–	–	–	63,071	63,071	63,795	126,866
Total comprehensive income for 2012		–	–	–	(8,388)	–	268	–	–	(8,120)	63,071	54,951	63,795	118,746
Capital contribution from non-controlling interest		–	–	–	–	–	–	–	–	–	–	–	39,568	39,568
CEO LTIP		–	–	–	–	–	–	–	291	291	–	291	–	291
Expiration of dividends		–	–	–	–	–	–	–	–	–	–	–	733	733
Dividends	29	–	–	–	–	–	–	–	–	–	(20,278)	(20,278)	–	(20,278)
Dividends paid to non-controlling interests	29	–	–	–	–	–	–	–	–	–	–	–	(34,877)	(34,877)
Balance at 31 December 2012		158,637	395,928	(898)	(3,330)	8,432	(10,447)	(210,046)	445	(214,946)	720,011	1,058,732	264,518	1,323,250
Other comprehensive (loss)/income		–	–	–	4,354	–	(842)	–	–	3,512	–	3,512	–	3,512
Loss for the year		–	–	–	–	–	–	–	–	–	(123,083)	(123,083)	(5,594)	(128,677)
Total comprehensive income/(loss) for 2013		–	–	–	4,354	–	(842)	–	–	3,512	(123,083)	(119,571)	(5,594)	(125,165)
Capital contribution from non-controlling interest		–	–	–	–	–	–	–	–	–	–	–	4,380	4,380
Purchase of shares from non-controlling interest	4(b)	–	–	–	–	–	–	–	–	–	(135,368)	(135,368)	(148,185)	(283,553)
Issuance of shares	27	11,752	93	–	–	–	–	60,071	–	60,071	–	71,916	–	71,916
Transfer to retained earnings		–	–	–	–	–	–	(60,071)	–	(60,071)	60,071	–	–	–
CEO LTIP		–	–	–	–	–	–	–	291	291	–	291	–	291
Expiration of dividends		–	–	–	–	–	–	–	–	–	–	–	(38)	(38)
Dividends	29	–	–	–	–	–	–	–	–	–	(10,139)	(10,139)	–	(10,139)
Dividends paid to non-controlling interests	29	–	–	–	–	–	–	–	–	–	–	–	(10,706)	(10,706)
Balance at 31 December 2013		170,389	396,021	(898)	1,024	8,432	(11,289)	(210,046)	736	(211,143)	511,492	865,861	104,375	970,236

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 (a) Pelham Investment Corporation, a Cayman Islands company; and (b) Inversiones Pacasmayo S.A., a Peruvian registered Sociedad Anónima.

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 11 March 2014.

The Group´s subsidiaries are as follows:

Company	Principal activity	Country of incorporation	Equity interest at 31 December 2013 %	2012 %
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
1737140 Alberta Ltd. (formerly 1710503 Alberta Ltd.)[1]	Holding company	Canada	–	100
Andina Minerals Inc.[1]	Holding company	Canada	–	86.7
Quintovac Mining Company Ltd.[1]	Holding company	Canada	–	86.7
Andina Holdings Inc.[1]	Holding company	Canada	–	86.7
HOC Holdings Canada Inc.[2]	Holding company	Canada	100	–
International Minerals Corporation[2]	Holding company	Canada	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
Andina Minerals Chile Ltd.	Exploration office	Chile	100	86.7
Sociedad Contractual Minera Victoria	Exploration office	Chile	100	60
Southwest Minerals (Yunnan) Inc.	Exploration office	China	100	100
Hochschild Mining Holdings Limited	Holding company	England & Wales	100	100
Hochschild Mining Ares (UK) Limited	Administrative office	England & Wales	100	100
Skyfall Jersey Limited[3]	Administrative office	Jersey	100	–
Southwest Mining Inc.	Exploration office	Mauritius	100	100
Southwest Minerals Inc.	Exploration office	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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

1 CORPORATE INFORMATION (continued)

Company	Principal activity	Country of incorporation	Equity interest at 31 December 2013 %	2012 %
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	99.1
Empresa de Transmisión Callalli S.A.C.	Power transmission	Peru	100	100
Asociación Sumac Tarpuy[4]	Not-for-profit	Peru	–	–
Number Company S.A.C. (formerly 0848818 BC Ltd) [5]	Holding company	Peru	100	100
Southwestern Gold (Bermuda) S.A.C. (formerly Southwestern Gold (Bermuda) Limited) [6]	Holding company	Peru	100	100
Minera Suyamarca S.A.C.[2]	Production of gold & silver	Peru	100	60
Minera Oro Vega S.A.C. [2]	Exploration office	Peru	100	–
Minera Qorihuayta S.A.C. [2]	Exploration office	Peru	100	–
Empresa de Transmisión Aymaraes S.A.C. [7]	Power transmission	Peru	50	50
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
Hochschild Mining (US) Inc. (formerly MH Nevada, Inc.)	Holding company	USA	–	100

1 On 15 April 2013, 1710503 Alberta Ltd absorbed Andina Minerals Inc, Andina Holdings Inc and Quintovac Mining Company Ltd; and changed its name to 1737140 Alberta Ltd. On 25 October 2013 the company 1737140 Alberta Ltd. was dissolved.

2 On 20 December 2013, the Group purchased the 40% non-controlling interest of Minera Suyamarca S.A.C. through its subsidiary HOC Holdings Canada Inc. Following the acquisition, International Minerals Corporation, Minera Oro Vega S.A.C. and Minera Qorihuayta S.A.C. became subsidiaries of the Group.

3 Skyfall Jersey Limited was incorporated on 23 September 2013.

4 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 community and social welfare activities located close to its mine units. Accordingly, the Group consolidates this entity.

5 0848818 BC Ltd was redomiciled in Peru and changed its name on 24 May 2013.

6 Southwestern Gold (Bermuda) Limited was redomiciled in Peru and changed its name on 27 May 2013.

7 Although the Group's interest in this company does not exceed 50%, it remains considered as a subsidiary in accordance with IAS 27 as its financial and operating policies are governed by the Group.

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 basis of preparation and accounting policies used in preparing the consolidated financial statements for the years ended 31 December 2013 and 2012 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 amendments 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 2014 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', not yet endorsed by the EU

The standard has been issued as the IASB completes each phase of its project to replace IAS 39. The first elements of IFRS 9 were issued in November 2009 and October 2010 to replace the parts of IAS 39 that relate to the classification and measurement of financial instruments. In November 2013 an amendment was issued to address hedge accounting and to remove the previously determined effective date of 1 January 2015. Instead, the IASB proposes to set the effective date of IFRS 9 when it completes the impairment phase of the project. The Group will assess IFRS 9's full impact and will determine the date to adopt IFRS 9 once it is endorsed for use in the EU.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

- IFRS 7 'Disclosures – Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7', applicable for annual periods beginning on or after 1 July 2013

These amendments require an entity to disclose information about rights to set-off and related arrangements. The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity´s financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 'Financial Instruments Presentation.' The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. These amendments have no impact on the Group's financial position or performance.

- IFRS 10 'Consolidated Financial Statements', applicable for annual periods beginning on or after 1 January 2014

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 2014

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 2014

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 financial statement disclosure only and has no impact on the Group's financial position or performance.

- IAS 28 'Investments in Associates and Joint Ventures (as revised in 2011)', applicable for annual periods beginning on or after 1 January 2014

IAS 28 'Investments in Associates', has been renamed IAS 28 'Investments in Associates and Joint Ventures', and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment has no impact on the Group´s financial position or performance.

- IAS 32 'Offsetting Financial Assets and Financial Liabilities – Amendment to IAS 32', applicable for annual periods beginning on or after 1 January 2014

These amendments clarify the meaning of 'currently has a legally enforceable right to set-off'. The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems which apply gross settlement mechanisms that are not simultaneous. No material impact is expected.

- IAS 36 'Impairment of Assets' – recoverable amount disclosures

The amendment to the standard was issued in May 2013 and becomes effective for financial years beginning on or after 1 January 2014. The amendment removes the requirement to disclose recoverable amounts when there has been no impairment or reversal of impairment. Further to that, the disclosure requirements have been aligned with those under US GAAP for impaired assets.

The Group does not intend to take advantage of the possibility of an early adoption and will review its arrangements in place in order to evaluate the potential impact.

- IFRIC Interpretation 21 Levies (IFRIC 21), not yet endorsed by the EU

IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. The new interpretation applies to annual periods beginning on or after 1 January 2014. The interpretation has not yet been endorsed by the EU and the effective date is not yet known. The Group does not expect that IFRIC 21 will have material financial impact in future financial statements.

- IAS 39 Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39, not yet endorsed by the EU

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. The Group has not novated its derivatives during the current period. However, these amendments would be considered for future novations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

Significant estimates:

- 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 and evaluation and exploration assets.

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.

Judgements:

- 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.

- Income tax – notes 2(t), 13, 28 and 34.

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 earning 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).

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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. This includes the assessment of whether there is sufficient evidence of the probability of the existence of economically recoverable minerals to justify the commencement of capitalisation of costs; the timing of the end of the exploration phase and the start of the development phase and the commencement of the production phase. For this purpose, the future economic benefit of the project can reasonably be regarded as assured when 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 are based on supporting geological information.

- Acquiring a subsidiary or a group of assets – note 4(a).

In identifying a business combination (note 2(d)) or acquisition of assets the Group considers the underlying inputs, processes and outputs acquired as a part of the transaction. For an acquired set of activities and assets to be considered a business there must be at least some inputs and processes that have the capability to achieve the purposes of the Group. Where significant inputs and processes have not been acquired, a transaction is considered to be the purchase of assets. For the assets and assumed liabilities acquired the Group allocates the total consideration paid (including directly attributable transaction costs) based on the relative fair values of the underlying items.

In accounting for the Group´s commitment to acquire any remaining non-controlling interest, the Group applies IAS 32 'Financial instruments: Presentation'. The business combination or asset purchase is accounted for on the basis that the underlying shares have been acquired. Consequently, no non-controlling interest is recognised in the consolidated financial statements.

- Significant influence – note 18.

An entity loses significant influence over an investee when it loses the power to participate in the financial and operating policy decisions of that investee. The loss of significant influence can occur with or without a change in absolute or relative ownership levels. It could also occur as a result of a contractual agreement.

The presumption of significant influence may be overcome if the investor has failed to obtain representation on the investee's board of directors, the investee is opposing the investor's attempts to exercise significant influence, the investor is unable to obtain timely financial information or cannot obtain more information or a group of shareholders that holds the majority ownership of the investee operates without regard to the views of the investor.

(c) Changes in accounting policy and disclosures

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those applied in the preparation of the consolidated financial statement for the year ended 31 December 2012, except for the adoption of the following standards and interpretations:

- 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 amendment affects disclosure but has no impact on the Group's financial position and performance. Refer to note 2(ab) for the additional disclosures on fair value measurement.

- 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 applies 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 inventoryand 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 is 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 recognises 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 material impact on the Group's financial position and performance.

- "Improvements to IFRSs (issued in May 2012)", applicable for annual periods beginning on or after 1 January 2013

The IASB issued improvements to IFRSs, including IAS 1 Presentation of Financial Statements, IAS 16 Property Plant and Equipment, IAS 32 Financial Instruments, Presentation, and IAS 34 Interim Financial Reporting.

The Group made an assessment of the changes and determined there is no significant impact in its financial position and performance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Basis of consolidation

The consolidated financial statements set out the Group's financial position, performance and cash flows as at 31 December 2013 and 31 December 2012 and for the years then ended, respectively.

Subsidiaries are those entities 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, affecting retained earnings. 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.

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 the 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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Currency translation

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

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

Subsidiary financial statements expressed in their corresponding functional currencies are translated into US dollars by applying the exchange rate at period-end for assets and liabilities and the transaction date 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.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

(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 2012 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 was 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 was 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 was included in the carrying amount of the investment and was not amortised or separately tested for impairment. The income statement reflected the share of the results of operations of the associate and gains and losses arising on dilution of the Group's interest resulting from share issued by the associate. Where there have been other changes recognised directly in the statement of comprehensive income or statement of changes in equity of the associate, the Group recognised its share of any changes and disclosed this, when applicable, in the statement of comprehensive income or statement of changes in equity respectively. Unrealised gains and losses resulting from transactions between the Group and the associate were eliminated to the extent of the interest in the associate.

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

An entity loses significant influence over an investee when it loses the power to participate in the financial and operating policy decisions of that investee. The loss of significant influence can occur with or without a change in absolute or relative ownership levels. It could also occur as a result of a contractual agreement.

The presumption of significant influence may be overcome if the investor has failed to obtain representation on the investee's board of directors, the investee is opposing the investor's attempts to exercise significant influence, the investor is unable to obtain timely financial information or cannot obtain more information or a group of shareholders that holds the majority ownership of the investee operates without regard to the views of the investor.

Upon loss of significant influence, the Group determines the fair value of the investment, recognising the effect in the consolidated income statement as an exceptional item. The balance of the investment is then reclassified as an available-for-sale financial asset.

(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 of transmission line

Transmission line costs represent 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.

Water permits

Water permits represent the cost of water use that allow the holder to withdraw a specified amount of water from the ground for reasonable, beneficial uses. This is an asset with an indefinite useful life.

Legal rights

Legal rights correspond to expenditures required to give the Group the right to use a property for the surface exploration work, development and production. 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(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. In the case the excess above par value is available for distribution, it is classified as merger reserve and then transferred to retained earnings.

(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.

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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(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).

(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 and dore bars are sold directly to customers. In addition, 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

(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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 more than 12 months. In addition, the Group analyses any case taking into account the portfolio of projects of the investee, the key technical personnel and the viability of the investee 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial instruments

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

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

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

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

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

(w) Dividend distribution

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

(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 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;
- loan issue costs written-off on facility refinancing;
- any gain or loss resulting from any restructuring within the Group; and
- the related tax impact of the above items.

(z) Comparatives

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

(aa) Hedging

The Group 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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

(ab) Fair value measurement

The Group measures financial instruments, such as, derivatives, and non-financial assets at fair value at each balance sheet date. Also, fair values of financial instruments are measured at amortised cost.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Group.

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

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

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

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

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

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

The Group determines the policies and procedures for both recurring fair value measurement and unquoted AFS financial assets, and for non-recurring measurement.

External valuers are involved for valuation of significant assets and significant liabilities. Involvement of external valuers is decided upon annually by the Group after discussion with and approval by the Company's audit committee. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. Valuers are normally rotated every three years. The Group decides, after discussions with the external valuers, which valuation techniques and inputs to use for each case.

At each reporting date, the Group analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Group's accounting policies. For this analysis, the Group verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

The Group, in conjunction with its external valuers, where applicable, also compares each the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

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, concentrate and dore
- 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 – 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), Empresa de Transmisión Aymaraes S.A.C. (a power generation company), and the Selene mine, that closed in 2009 and which, as a consequence, is not considered to be a reportable segment.

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 items that could be allocated directly to the segment.

(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 2013									
Revenue from external customers	50,362	136,968	181,795	240,723	12,247	–	63	–	622,158
Inter segment revenue	–	–	–	–	–	–	8,796	(8,796)	–
Total revenue	50,362	136,968	181,795	240,723	12,247	–	8,859	(8,796)	622,158
Segment profit/(loss)	(3,515)	31,710	49,357	44,142	1,430	(50,894)	4,037	1,547	77,814
Others[2]									(197,434)
Profit from continuing operations before income tax									(119,620)
Other segment information									
Depreciation[3]	(8,723)	(31,044)	(50,222)	(52,790)	(1,757)	(1,927)	(3,151)	–	(149,614)
Amortisation	–	–	–	(1,300)	–	(441)	–	–	(1,741)
Assets									
Capital expenditure	3,783	43,255	44,356	56,502	932	119,671	13,079	–	281,578
Current assets	13,211	14,009	34,735	73,844	1,269	1,874	316	–	139,258
Other non-current assets	1,328	142,618	149,057	217,344	12	582,113	29,331	–	1,121,803
Total segment assets	14,539	156,627	183,792	291,188	1,281	583,987	29,647	–	1,261,061
Not reportable assets[4]	–	–	–	–	–	–	472,831	–	472,831
Total assets	14,539	156,627	183,792	291,188	1,281	583,987	502,478	–	1,733,892

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$56,776,000, other income of US$6,416,000, other expenses of US$15,555,000, impairment and write-off of assets of US$90,671,000, share of gains of associates and joint ventures of US$5,921,000, gain on transfer from onvestments accounted under the equity method to available-for-sale financial assets of US$107,942,000, finance income of US$13,092,000, finance expense of US$148,050,000, and foreign exchange loss of US$19,753,000.

3 Includes US$28,000, US$613,000 and US$1,158,000 of depreciation capitalised in San Jose mine unit, the Crespo project and the Inmaculada project respectively.

4 Not reportable assets are comprised of available-for-sale financial assets of US$51,658,000, other receivables of US$110,166,000, income tax receivable of US$22,156,000, deferred income tax assets of US$2,416,000 and cash and cash equivalents of US$286,435,000.

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[1] US$000	Other[2] US$000	Adjustment and eliminations US$000	Total US$000
Year ended 31 December 2012									
Revenue from external customers	57,580	175,802	257,725	310,384	15,931	–	530	–	817,952
Inter segment revenue	–	–	–	–	–	–	6,501	(6,501)	–
Total revenue	57,580	175,802	257,725	310,384	15,931	–	7,031	(6,501)	817,952
Segment profit/(loss)	8,635	82,020	132,305	127,015	7,697	(72,024)	3,565	4,342	293,555
Others[3]									(81,281)
Profit from continuing operations before income tax									212,274
Other segment information									
Depreciation[4]	(4,073)	(23,124)	(40,327)	(53,801)	(7)	(860)	(2,969)	–	(125,161)
Amortisation	–	–	–	(1,452)	–	–	(77)	–	(1,529)
Assets									
Capital expenditure	7,476	52,791	56,871	71,188	846	213,380	17,833	–	420,385
Current assets	12,569	14,374	54,078	72,605	7,459	3,239	524	–	164,848
Other non-current assets[5]	11,035	127,091	156,199	251,813	839	500,599	29,439	–	1,077,015
Total segment assets	23,604	141,465	210,277	324,418	8,298	503,838	29,963	–	1,241,863
Not reportable assets[6]	–	–	–	–	–	–	578,121	–	578,121
Total assets	23,604	141,465	210,277	324,418	8,298	503,838	608,084	–	1,819,984

1 Includes the asset acquisition of Andina Minerals Group (refer to note 4(a)).

2 '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.

3 Comprised of administrative expenses of US$72,995,000, other income of US$9,832,000, other expenses of US$9,525,000, impairment of assets of US$245,000, share of gains of associates and joint ventures of US$5,080,000, finance income of US$1,988,000, finance expense of US$14,204,000, and foreign exchange loss of US$1,212,000.

4 Includes US$18,000 of depreciation capitalised in Minera Santa Cruz S.A.

5 Includes goodwill in respect of San Jose amounting to US$2,091,000.

6 Not reportable assets are comprised of investments accounted under the equity method of US$78,188,000, available-for-sale financial assets of US$30,609,000, other receivables of US$86,351,000, income tax receivable of US$23,023,000, deferred income tax assets of US$856,000, other financial assets of US$150,000 and cash and cash equivalents of US$358,944,000.

3 SEGMENT REPORTING (continued)

(b) Geographical information

The revenue for the period based on the country in which the customer is located is as follows:

	Year ended 31 December 2013 US$000	2012 US$000
External customer		
USA	148,201	118,409
Peru	91,781	63,769
Canada	53,664	104,509
Germany	4,901	75,202
Switzerland	149,452	154,200
United Kingdom	38,697	40,664
Mexico	–	480
Korea	135,100	260,719
Japan	362	–
Total	**622,158**	817,952
Inter-segment		
Peru	3,122	1,324
Mexico	5,674	5,177
Total	**630,954**	824,453

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 2013			Year ended 31 December 2012		
	US$000	% Revenue	Segment	US$000	% Revenue	Segment
LS Nikko	135,100	22%	Pallancata and San Jose	234,066	29%	Pallancata and San Jose
Argor Heraus	105,730	17%	Ares, Arcata and San Jose	121,122	15%	San Jose
Johnson Matthey Inc.	70,547	11%	Ares, Arcata and Moris	25,194	3%	Ares, Arcata, Moris and San Jose
Teck Metals Ltd. (formerly Teck Cominco Metals Ltd)	53,664	9%	Pallancata and San Jose	104,509	13%	Pallancata and San Jose

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

3 SEGMENT REPORTING (continued)

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	
	2013 US$000	2012 US$000
Peru	746,211	684,471
Argentina	217,415	251,935
Mexico	40,591	27,075
Chile	117,466	113,387
United Kingdom	120	78,335
Total non-current segment assets	1,121,803	1,155,203
Available-for-sale financial assets	51,658	30,609
Trade and other receivables	12,128	8,613
Deferred income tax assets	2,416	856
Total non-current assets	1,188,005	1,195,281

4 ACQUISITIONS AND DISPOSALS

(a) Acquisition of Non-controlling interest

Minera Suyamarca S.A.C.

On October 2013, Hochschild Mining entered into a binding agreement to acquire the 40% interest held by International Minerals Corporation ("IMZ") in Minera Suyamarca S.A.C., which holds the Pallancata mine and Inmaculada Advanced Project in Peru (the "Peruvian Assets"). The transaction was executed by way of a court-approved Plan of Arrangement under the Business Corporations Act (Yukon) (the "Canadian Act"). Prior to the Acquisition, Hochschild held a 60% interest in the Peruvian Assets.

IMZ was a Canadian public company headquartered in Scottsdale, Arizona, with interests in gold and silver properties, both producing and under development, in Peru and the USA. The company was listed on the Toronto and Swiss stock exchanges under the symbol "IMZ" and quoted on the Frankfurt stock exchange under the symbol "MIW". 117,636,376 common shares were issued and outstanding, of which 3,755,746 shares (3.2%) were owned by Hochschild.

As a condition to the completion of the acquisition, IMZ transferred all of its assets (other than the Peruvian Assets) and all of its liabilities (other than the liabilities related to the Peruvian Assets), to Chaparral Gold. The IMZ internal re-organisation was effected pursuant to the terms of a master re-organisation agreement among IMZ, Chaparral Gold and the directly-held, non-Peruvian subsidiaries of IMZ.

In connection with the acquisition, each IMZ shareholder (other than Hochschild or its affiliates) received a cash payment of $2.38 per IMZ share (for aggregate cash consideration of $271 million) and each IMZ shareholder (including Hochschild and its affiliates) received one common share of Chaparral Gold Corp ("Chaparral Gold") per IMZ share.

Hochschild (through a newly established Canadian acquisition subsidiary, HOC Holdings Canada Inc.) acquired 100% of the shares of IMZ (which, at the point of acquisition, held only the Peruvian Assets and liabilities related to the Peruvian Assets) that it did not already own by way of the plan of arrangement under the Canadian Act. IMZ was delisted on 20 December 2013.

IMZ is 100% owner of Minera Oro Vega S.A.C. ("MOV"). MOV is 40% owner of Minera Suyamarca S.A.C and 100% owner of Minera Qorihuayta S.A.C., all registered in Peru.

In compliance with the Group´s accounting policy, the difference between the consideration paid and the carrying value of the non-controlling interest at the acquisition date has been recognised in retained earnings as follows:

	US$000
Cash and cash equivalents (US$2.38 per share)	(271,036)
Cash and cash equivalents (transaction costs paid)	(1,091)
Transaction costs pending of payment	(4,264)
Available-for-sale financial assets (note 19)	(8,939)
Net assets received from Minera Oro Vega S.A.C	1,777
Total consideration	(283,553)
Non-controlling interest	148,185
Retained earnings	(135,368)

4 ACQUISITIONS AND DISPOSALS (continued)

(b) Acquisition of assets

Andina Minerals Inc

On 8 November 2012, the Group made a CAD$0.80 per share all-cash offer for all of the issued and outstanding common shares of Andina Minerals Inc ('Andina'), a TSX-V listed gold exploration company with projects in Chile, for a total consideration of C$103,416,870. The Board of Directors of Andina unanimously recommended that its shareholders vote in favour of the transaction.

Andina's major asset, the 100% owned Volcan project, includes the Dorado area.

Andina was based in Alberta, Canada and was the 100% owner of Quitovac Mining Company Limited and Andina Holdings Inc, both based in Canada. Andina Holdings Inc owned 99.99% of Andina Minerals Chile Limitada, based in Santiago, Chile. The Chilean company owned two properties: Encrucijada and Volcan and 50% of Sociedad Contractual Minera Pampa Buenos Aires.

At 31 December 2012, the Group had paid US$90,156,869, for 112,124,252 common shares of Andina, representing an 81.4% interest on a fully diluted basis (86.7% on a basic basis). As a result of the acquisition, the Group incurred directly attributable transaction costs of US$11,441,742. The Group recognised a liability of US$13,787,427 in respect of the Group´s commitment to acquire 17,146,835 remaining shares as at 31 December 2012.

The fair value total cost of assets acquired and liabilities assumed comprise the following:

	US$000
Cash and cash equivalents	3,190
Trade and other receivables	543
Evaluation and exploration assets	86,301
Property, plant and equipment	330
Water permits	26,583
Total assets	**116,947**
Accounts payable and other liabilities	1,559
Total liabilities	**1,559**
Net assets acquired	**115,388**
Cash consideration	90,157
Liability to acquire non-controlling interests	13,788
Transaction costs	11,443
Total	**115,388**
Cash paid to acquire controlling interest	90,157
Transaction costs paid	9,365
Less cash acquired	(3,190)
Net cash flow on acquisition	**96,332**

Based on the Group´s ownership interest as at 31 December 2012, the Group was deemed to have control over Andina and therefore consolidated it as a subsidiary undertaking from that date. The transaction was recognised as an asset acquisition, and the fair value of the net assets acquired was US$115,388,000.

The outstanding balance at 31 December 2012 of US$13,787,427 was paid between January 2013 (US$4,268,605) and February 2013 (US$9,518,822). The Group completed the acquisition on 20 February 2013. The total consideration was settled in cash.

During 2013, the Group´s 50% interest in Sociedad Contractual Minera Pampa Buenos Aires was transferred to Iron Creek Chile (BVI) Ltd. and all the Canadian companies were dissolved.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

5 REVENUE

	Year ended 31 December	
	2013 US$000	2012 US$000
Gold (from dore bars)	112,855	124,581
Silver (from dore bars)	179,773	153,509
Gold (from concentrate)	103,721	135,055
Silver (from concentrate)	225,746	404,277
Services	63	530
Total	622,158	817,952

Included within revenue is a loss of US$29,866,952 relating to provisional pricing adjustments representing the change in the fair value of embedded derivatives (2012: loss of US$4,015,265) arising on sales of concentrates and dore (refer to note 2(r) and footnote 1 of note 22).

6 COST OF SALES

Included in cost of sales are:

	Year ended 31 December	
	2013 US$000	2012 US$000
Depreciation and amortisation	146,918	124,387
Personnel expenses (note 10)	124,834	121,775
Mining royalty (note 35)	8,293	9,672
Change in products in process and finished goods	3,926	(17,708)

7 ADMINISTRATIVE EXPENSES

	Year ended 31 December	
	2013 US$000	2012 US$000
Personnel expenses (note 10 and 11(1))	28,445	40,006
Professional fees	5,553	6,180
Social and community welfare expenses[1]	3,216	6,459
Lease rentals	1,925	1,510
Travel expenses	1,342	2,443
Communications	834	990
Indirect taxes	3,044	3,723
Depreciation and amortisation	2,638	2,285
Technology and systems	1,092	828
Security	1,083	991
Supplies	243	238
Other	7,361	7,342
Total	56,776	72,995

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

8 EXPLORATION EXPENSES

	Year ended 31 December	
	2013 US$000	2012 US$000
Mine site exploration[1]		
Arcata	2,052	4,467
Ares	452	1,507
Sipan	600	1,415
Pallancata	2,149	4,062
San Jose	1,795	5,788
Moris	129	313
	7,177	17,552
Prospects[2]		
Peru	1,459	4,795
Argentina	294	1,028
Mexico	3,504	6,605
Chile	12,696	9,580
	17,953	22,008
Generative[3]		
Peru	3,502	4,798
Argentina	53	141
Mexico	1,157	497
Chile	330	115
	5,042	5,551
Personnel (note 10 and 11(1))	12,302	13,865
Others	3,853	5,636
Total	**46,327**	64,612

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.

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: mapping, 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 practicable to separate the liabilities related to the exploration activities of these companies from their operating liabilities.

	As at 31 December	
	2013 US$000	2012 US$000
Liabilities related to exploration activities	1,636	2,082

Cash flows on exploration activities are as follows:

	As at 31 December	
	2013 US$000	2012 US$000
Payments	23,441	27,285

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

9 SELLING EXPENSES

	Year ended 31 December	
	2013 US$000	2012 US$000
Transportation of dore, concentrate and maritime freight	4,256	5,745
Sales commissions	1,050	2,264
Personnel expenses (note 10)	210	374
Warehouse services	3,256	3,918
Taxes	16,596	23,323
Other	3,417	3,836
Total	28,785	39,460

10 PERSONNEL EXPENSES[1]

	Year ended 31 December	
	2013 US$000	2012 US$000
Salaries and wages	128,225	129,208
Workers' profit sharing	(737)	18,487
Other legal contributions	24,641	21,084
Statutory holiday payments	7,860	7,600
Long Term Incentive Plan	(1,127)	7,891
Termination benefits	10,487	975
Other	6,584	13,079
Total	175,933	198,324

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$124,834,000 (2012: US$121,775,000), US$28,445,000 (2012: US$40,006,000), US$12,302,000 (2012: US$13,865,000), US$210,000 (2012: US$374,000) and US$10,142,000 (2012: US$22,304,000) respectively.

Average number of employees for 2013 and 2012 were as follows:

	As at 31 December	
	2013	2012
Peru	3,226	3,011
Argentina	1,227	1,226
Mexico	122	135
Chile	38	40
United Kingdom	12	12
Total	4,625	4,424

11 PRE-TAX EXCEPTIONAL ITEMS

	Year ended 31 December 2013 US$000	Year ended 31 December 2012 US$000
Cost of sales		
Termination benefits[1]	(2,466)	–
Total	**(2,466)**	–
Administrative expenses		
Termination benefits[1]	(2,351)	–
Total	**(2,351)**	–
Exploration expenses		
Termination benefits[1]	(3,456)	–
Total	**(3,456)**	–
Other income		
Termination benefits[2]	–	1,099
Gain on sale of property, plant and equipment	2,442	–
Total	**2,442**	1,099
Impairment and write-off of assets (net)		
Impairment and write-off of assets[3]	(105,071)	(484)
Reversal of write-off and impairment of assets[4]	14,400	239
Total	**(90,671)**	(245)
Share of post-tax losses of associates and joint ventures accounted under equity method[5]	**–**	(1,376)
Total	**–**	(1,376)
Finance income		
Gain from changes in the fair value of financial instruments[6]	2,417	–
Total	**2,417**	–
Gain on transfer from investment accounted under the equity method to available-for-sale financial assets[7]	**107,942**	–
Total	**107,942**	–
Finance costs		
Amortisation of transaction costs on secure bank loans[8]	(1,072)	–
Transaction costs on bank loans[9]	(2,577)	–
Loss from changes in the fair value of financial instruments[10]	(124,899)	(1,334)
Loss on sale of available-for-sale financial assets[11]	(7,805)	–
Total	**(136,353)**	(1,334)

1 Termination benefits paid to workers between April and September 2013 following the restructuring plan approved by management during the first half of 2013, amounting to US$8,273,000.

2 Reversal of the provision of termination benefits for the workers of the Moris mine of US$1,099,000. At 30 September 2012 the restructuring plan agreed at 31 December 2011 was not in effect, and Moris was still in operation.

3 As at 31 December 2013 corresponds to the impairment of the San José mine unit of US$40,869,000, the Azuca project of US$30,290,000, the Crespo project of US$29,150,000 and the Ares unit of US$3,771,000, and to the write-off of assets of US$991,000. As at 31 December 2012 mainly corresponds to the write-off of assets in Compañía Minera Ares of US$471,000.

4 As at 31 December 2013 corresponds to the reversal of the impairment of San Felipe property of US$14,400,000. As at 31 December 2012 corresponds to the reversal of the write-off recorded in 2010 related to the 100% dore project at the San Jose mine.

5 Corresponds to the loss from dilution related to Gold Resource Corp. investment (note 18).

6 Corresponds to the recycling of the unrealised gain generated by the shares of International Minerals Corporation, due to the acquisition (refer to note 4(a)) .

7 Gain on the reclassification of Gold Resource Corp ('GRC') shares from an investment accounted for under the equity method to an available-for-sale financial asset of US$107,942,000 as a result of the Company ceasing to have the ability to exercise significant influence (refer to note 18).

8 Corresponds to the attributable issue cost of the syndicated loan granted to Compañía Minera Ares S.A.C. (note 25), disclosed as an exceptional item as a significant one-off expense.

9 Corresponds to the write-off of transaction costs related to bank loans facilities never drawn by Minera Suyamarca S.A.C. , disclosed as an exceptional item as it is a significant one-off expense.

10 As at 31 December 2013 corresponds to the impairment of investments in Gold Resource Corp. of US$105,298,000, International Minerals of US$12,920,000, Pembrook Mining Corp. of US$5,745,000, Mariana Resources Ltd. of US$281,000, Northern Superior Resources Inc. of US$422,000, Iron Creek Capital Corp. of US$207,000, Empire Petroleum Corp. of US$22,000 and Brionor Resources of US$4,000. As at 31 December 2012 mainly corresponds to the impairment of Iron Creek Capital Corp, Brionor Resources and Empire Petroleum Corp of US$1,043,671, US$105,000 and US$8,000 respectively.

11 Corresponds to the loss on sale of part of the Group's holding in Gold Resource Corp. ("GRC") of US$7,805,000. The Group sold 3,375,000 and 1,800,000 GRC shares on 11 July 2013 and 12 December 2013, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

12 FINANCE INCOME AND FINANCE COSTS BEFORE EXCEPTIONAL ITEMS

	Year ended 31 December 2013 Before exceptional items US$000	Year ended 31 December 2012 Before exceptional items US$000
Finance income		
Interest on deposits and liquidity funds	6,751	1,429
Interest on loans to non-controlling interests (note 20)	–	123
Interest income	6,751	1,552
Dividends	3,551	–
Other	373	436
Total	10,675	1,988
Finance costs		
Interest on secured bank loans (note 25)	(4,633)	(1,924)
Interest on convertible bond (note 25)	(4,594)	(8,956)
Interest expense	(9,227)	(10,880)
Unwind of discount rate	(1,267)	(731)
Loss from changes in the fair value of financial instruments	(220)	–
Other	(983)	(1,259)
Total	(11,697)	(12,870)

13 INCOME TAX EXPENSE

	Year ended 31 December 2013			Year ended 31 December 2012		
	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	10,971	(752)	10,219	48,285	–	48,285
Current mining royalty charge (note 35)	2,344	–	2,344	3,834	–	3,834
Current special mining tax charge (note 35)	905	–	905	4,256	–	4,256
Withholding taxes	(641)	–	(641)	1,571	–	1,571
	13,579	(752)	12,827	57,946	–	57,946
Deferred taxation						
Origination and reversal of temporary differences from continuing operations (note 28)	31,400	(35,170)	(3,770)	28,627	(141)	28,486
Recognition of deferred tax not previously recognised following a change in estimate/outlook (note 28)	–	–	–	(1,024)	–	(1,024)
	31,400	(35,170)	(3,770)	27,603	(141)	27,462
Total taxation charge in the income statement	44,979	(35,922)	9,057	85,549	(141)	85,408

The weighted average statutory income tax rate was 28.5% for 2013 and 32.4% for 2012. 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.

13 INCOME TAX EXPENSE (continued)

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

	As at 31 December	
	2013 US$000	2012 US$000
Deferred taxation:		
Deferred income tax relating to fair value gains on available-for-sale financial assets	–	(615)
Total tax charge in the statement of other comprehensive income	–	(615)

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	
	2013 US$000	2012 US$000
Loss/(profit) from continuing operations before income tax	(119,620)	212,274
At average statutory income tax rate of 28.5% (2012: 32.4%)	(34,140)	68,814
Expenses not deductible for tax purposes	2,685	4,163
Non-taxable income[1]	(1,366)	(275)
Utilisation of losses in respect of deferred tax not previously recognised	(2,214)	(1,024)
Non-taxable share of gains of associates	(1,377)	(1,181)
Net deferred tax assets generated in the year not recognised	15,262	6,795
Deferred tax recognised on special investment regime	(4,246)	(2,481)
Derecognition of deferred income tax assets	–	615
Withholding tax	(641)	1,571
Special mining tax and mining royalty[2]	3,249	8,090
Foreign exchange rate effect[3]	30,366	(1,303)
Other	1,479	1,624
At average effective income tax rate of -11.8% (2012: 40.2%)	9,057	85,408
Taxation charge attributable to continuing operations	9,057	85,408
Total taxation charge in the income statement	9,057	85,408

1 Mainly corresponds to dividends received from Gold Resource Corp. and International Minerals Corporation (2012: Mainly corresponds to the reversal of accrued non deductible personnel expenses recorded in 2011).

2 Corresponds to the impact of the new mining royalty and special mining tax in Peru (note 35).

3 Mainly corresponds to the foreign exchange effect from converting tax bases and monetary items from local currency to the functional currency.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

14 BASIC AND DILUTED (LOSS)/EARNINGS PER SHARE

(Loss)/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 2013 and 2012, EPS has been calculated as follows:

	As at 31 December	
	2013	2012
Basic (loss)/earnings per share from continuing operations		
Before exceptional items (US$)	(0.15)	0.19
Exceptional items (US$)	(0.21)	–
Total for the year and from continuing operations (US$)	(0.36)	0.19
Diluted (loss)/earnings per share from continuing operations		
Before exceptional items (US$)	(0.15)	0.19
Exceptional items (US$)	(0.21)	–
Total for the year and from continuing operations (US$)	(0.36)	0.19

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

	As at 31 December	
	2013	2012
(Loss)/profit for the year from continuing operations (US$000)	(128,677)	126,866
Less non-controlling interests (US$000)	5,594	(63,795)
(Loss)/profit attributable to equity holders of the parent – continuing operations (US$000)	(123,083)	63,071
Exceptional items after tax – attributable to equity holders of the parent (US$000)	72,738	1,759
(Loss)/profit from continuing operations before exceptional items attributable to equity holders of the parent (US$000)	(50,345)	64,830
Interest on convertible bond (US$000)[1]	–	–
Diluted (loss)/profit from continuing operations before exceptional items attributable to equity holders of the parent (US$000)	(50,345)	64,830

The following reflects the share data used in the basic and diluted (loss)/earnings per share computations:

	As at 31 December	
	2013	2012
Basic weighted average number of ordinary shares in issue (thousands)	345,225	338,022
Dilutive potential ordinary shares related to convertible bond (thousands)[1]	–	–
Diluted weighted average number of ordinary shares in issue and dilutive potential ordinary shares (thousands)	345,225	338,022

1 The potential ordinary shares related to the convertible bond have not been included in the calculation of diluted EPS for 2013 and 2012 as they have an antidilutive effect.

15 PROPERTY, PLANT AND EQUIPMENT

	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 2013							
Cost							
At 1 January 2013	540,324	179,940	313,457	5,360	67,356	119,381	1,225,818
Additions	141,504	2,823	49,700	323	–	73,421	267,771
Change in discount rate	–	–	–	–	(1,481)	–	(1,481)
Disposals	–	–	(724)	(43)	–	–	(767)
Write-offs	(321)	(57)	(7,089)	(150)	–	–	(7,617)
Change in mine closure estimate	–	–	–	–	8,487	–	8,487
Transfers and other movements	(50)	37,377	15,611	1,021	–	(56,419)	(2,460)
Transfers from evaluation and exploration assets	188,323	–	–	–	–	–	188,323
Foreign exchange	–	–	124	–	–	–	124
At 31 December 2013	**869,780**	**220,083**	**371,079**	**6,511**	**74,362**	**136,383**	**1,678,198**
Accumulated depreciation and impairment							
At 1 January 2013	306,443	87,679	146,823	2,574	44,808	936	589,263
Depreciation for the year	96,862	20,377	29,316	989	2,070	–	149,614
Write-offs	(41)	(9)	(5,567)	(110)	–	–	(5,727)
Disposals	–	–	(351)	(14)	–	–	(365)
Impairment[2]	42,080	5,883	8,520	204	1,547	3,899	62,133
Transfers from evaluation and exploration assets	7,418	–	–	–	–	–	7,418
Transfers and other movements	15	6,993	(3,350)	2	–	(1,337)	2,323
Foreign exchange	–	–	62	–	–	–	62
At 31 December 2013	**452,777**	**120,923**	**175,453**	**3,645**	**48,425**	**3,498**	**804,721**
Net book amount at 31 December 2013	**417,003**	**99,160**	**195,626**	**2,866**	**25,937**	**132,885**	**873,477**

1 The carrying value of plant and equipment held under finance leases at 31 December 2013 was US$539,627 (2012: US$991,230). Additions during the year included US$Nil (2012: US$Nil) of plant and equipment under finance leases. Leased assets are pledged as security for the related finance lease.

2 There were borrowing costs capitalised in property, plant and equipment amounting to US$5,736,000 (2012:US$Nil). The capitalisation rate used was 9.45%.

3 The Group recorded an impairment of US$450,000 with respect to the Azuca project, US$22,535,000 with respect to the Crespo project, US$35,377,000 with respect to the San Jose mine unit and US$3,771,000 with respect to the Ares mine unit. These impairment charges arose primarily as a result of decreases in the prices of silver and gold and were determined using the fair value less costs to dispose (FVLCD) methodology. FVLCD was determined using a discounted cash flow model to estimate the amount that would be paid by a willing third party in an arm's length transaction. Any variation in the key assumptions would either result in further impairment or a reduction of the impairment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

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 2012							
Cost							
At 1 January 2012	382,556	143,764	264,948	4,614	63,185	70,836	929,903
Additions	148,148	4,337	34,469	98		103,319	290,371
Change in discount rate	–	–	–	–	688	–	688
Disposals	–	(62)	(5,135)	(314)	–	–	(5,511)
Write-offs	–	–	(1,289)	(31)	–	–	(1,320)
Change in mine closure estimate	–	–	–	–	3,483	–	3,483
Transfers and other movements	455	31,901	20,429	991	–	(54,774)	(998)
Transfers from evaluation and exploration assets	9,165	–	–	–	–	–	9,165
Foreign exchange	–	–	35	2	–	–	37
At 31 December 2012	**540,324**	**179,940**	**313,457**	**5,360**	**67,356**	**119,381**	**1,225,818**
Accumulated depreciation and impairment							
At 1 January 2012	233,103	70,750	118,832	2,091	42,637	936	468,349
Depreciation for the year	73,340	16,975	31,974	701	2,171	–	125,161
Write-offs	–	–	(811)	(18)	–	–	(829)
Disposals	–	(46)	(3,190)	(200)	–	–	(3,436)
Foreign exchange	–	–	18	–	–	–	18
At 31 December 2012	**306,443**	**87,679**	**146,823**	**2,574**	**44,808**	**936**	**589,263**
Net book amount at 31 December 2012	**233,881**	**92,261**	**166,634**	**2,786**	**22,548**	**118,445**	**636,555**

16 EVALUATION AND EXPLORATION ASSETS

	Azuca US$000	Crespo US$000	Inmaculada US$000	San Felipe US$000	Dorado US$000	Others US$000	Total US$000
Cost							
Balance at 1 January 2012	58,353	65,418	108,677	55,950	–	28,156	316,554
Additions	12,326	1,777	8,085	–	86,301	21,525	130,014
Foreign exchange	–	276	–	–	–	–	276
Transfers from/to property, plant and equipment	125	144	–	–	–	(8,509)	(8,240)
Balance at 31 December 2012	70,804	67,615	116,762	55,950	86,301	41,172	438,604
Additions	4,736	179	965	–	4,300	2,006	12,186
Foreign exchange	–	(512)	–	–	–	–	(512)
Write-off	–	–	–	–	(26)	(4)	(30)
Transfers from/(to) property plant and equipment	–	(38,106)	(117,727)	–	–	(32,490)	(188,323)
Balance at 31 December 2013	**75,540**	**29,176**	**–**	**55,950**	**90,575**	**10,684**	**261,925**
Accumulated impairment							
Balance at 1 January 2012	22	9,904	–	30,950	–	1,171	42,047
Balance at 31 December 2012	22	9,904	–	30,950	–	1,171	42,047
Impairment[2]	29,840	5,507	–	(14,400)	–	1,706	22,653
Transfers from property, plant and equipment	–	(6,281)	–		–	(1,137)	(7,418)
Balance at 31 December 2013	**29,862**	**9,130**	**–**	**16,550**	**–**	**1,740**	**57,282**
Net book value as at 31 December 2012	70,782	57,711	116,762	25,000	86,301	40,001	396,557
Net book value as at 31 December 2013	**45,678**	**20,046**	**–**	**39,400**	**90,575**	**8,944**	**204,643**

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

2 The Group recorded an impairment with respect to the Azuca project of US$29,840,000 , the Crespo project of US$5,507,000 and the San Jose mine unit of US$1,706,000, and partially reversed the impairment of the San Felipe project of US$14,400,000. These impairment charges arose primarily as a result of decreases in the prices of silver and gold and were determined using the fair value less costs to dispose (FVLCD) methodology. FVLCD was determined using a discounted cash flow model to estimate the amount that would be paid by a willing third party in an arm's length transaction. Any variation in the key assumptions would either result in further impairment or a reduction of the impairment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

17 INTANGIBLE ASSETS

	Goodwill US$000	Transmission line[1] US$000	Water permits[2] US$000	Software licences US$000	Legal rights[3] US$000	Total US$000
Cost						
Balance at 1 January 2012	2,091	22,157	–	1,260	–	25,508
Additions	–	–	26,583	5	–	26,588
Transfer	–	–	–	72	–	72
Balance at 31 December 2012	2,091	22,157	26,583	1,337	–	52,168
Additions	–	–	–	–	1,621	1,621
Transfer	–	–	–	11	4,783	4,794
Balance at 31 December 2013	**2,091**	**22,157**	**26,583**	**1,348**	**6,404**	**58,583**
Accumulated amortisation						
Balance at 1 January 2012	–	5,686	–	1,050	–	6,736
Amortisation for the year[4]	–	1,452	–	77	–	1,529
Balance at 31 December 2012	–	7,138	–	1,127	–	8,265
Amortisation for the year[4]	–	1,213	–	87	441	1,741
Impairment of the period[5]	2,091	1,671	–	24	1,108	4,894
Balance at 31 December 2013	**2,091**	**10,022**	**–**	**1,238**	**1,549**	**14,900**
Net book value as at 31 December 2012	2,091	15,019	26,583	210	–	43,903
Net book value as at 31 December 2013	**–**	**12,135**	**26,583**	**110**	**4,855**	**43,683**

1 The transmission line is amortised using the units of production method. At 31 December 2013 the remaining amortisation period is 10 years.
2 Corresponds to the acquisition of water permits of Andina Minerals Group ("Andina") (refer to note 4(b)). They have an indefinite life according the Chilean law.
3 Legal rights correspond to expenditures required to give the Group the right to use a property for the surface exploration work, development and production. At 31 December 2013 the remaining amortisation period is 12 years.
4 The amortisation for the period is included in cost of sales and administrative expenses in the income statement.
5 The Group recorded an impairment in relation to all of the goodwill of US$2,091,000 and other intangibles of US$1,695,000 related to the San Jose mine unit, and US$1,108,000 related to the Crespo project. These impairment charges arose primarily as a result of decreases in the prices of silver and gold and were determined using the fair value less costs to dispose (FVLCD) methodology. FVLCD was determined using a discounted cash flow model to estimate the amount that would be paid by a willing third party in an arm's length transaction. Any variation in the key assumptions would either result in further impairment or a reduction of the impairment (not in the case of the goodwill).

The carrying amount of goodwill and water permits is reviewed annually to determine whether it is in excess of its recoverable amount.

In the case of the goodwill, the fair value less cost of disposal is determined at the cash-generating unit level, in this case being San Jose, by discounting the expected cash flows estimated by management over the life of the mine.

(a) Goodwill:

The calculation of fair value less cost of disposal is most sensitive to the following assumptions:

- Commodity prices – Commodity prices of gold and silver are based on prices considered in the Group's 2013 forecast (2012: 2013 budget) and external market consensus forecasts. The prices considered in the 2013 (2012) impairment tests were:

Year	2013	2014	2015	2016	2017	2018	2019	2020-2024
2013 – Gold – US$/oz	**1,343.9**	**1,405.9**	**1,379.3**	**1,319.3**	**1,272.1**	**1,272.1**	**1,272.1**	**1,272.1**
2013 – Silver – US$/oz	**21.2**	**25.0**	**23.5**	**20.7**	**22.3**	**22.3**	**22.3**	**22.3**
2012 – Gold – US$/oz	1,823.0	1,723.0	1,550.0	1,411.0	1,411.0	1,411.0	1,411.0	1,411.0
2012 – Silver – US$/oz	35.0	31.0	29.0	26.0	26.0	26.0	26.0	26.0

- 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 (2012: 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;

17 INTANGIBLE ASSETS (continued)

- 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 2013 impairment test was 23.77% (2012: 25.59%).
- As at 31 December 2012, management believed that the following changes to the main assumptions would have caused the carrying value of the cash generating unit (including the goodwill) to equal its recoverable amount. Therefore, any higher deviation would have caused the carrying value of goodwill to exceed its recoverable amount resulting in the recognition of an impairment provision. As goodwill has been fully impaired during the year ended 31 December 2013, no such analysis has been prepared as at 31 December 2013.

Assumption	2012 Variation
Gold price	(19.3)%
Silver price	(15.5)%
Reserves and resources	(109.6)%
Costs	17.7%
Discount rates	99.4%

Cash flows used for impairment tests were based on the annual 2013 forecast. The starting point in all cases was January 2013. Individual cash flows are based on the annual 2013 forecast and an estimated set of reserves and resources as of December 2012 provided by the Exploration 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 2013 forecast. Future capital expenditure is based on the 2013 forecast, excluding one-off expenses and considering the Operations team's view of developments and infrastructure, according to the estimated set of reserves and resources.

The period approved by management to project the cash flows was 10 years (2012:12 years).

Headroom for the 2012 impairment test was US$92,349,000.

(b) Water permits:

In the case of the water permits the Group applied a value in situ methodology, which applies a realisable 'enterprise value' to unprocessed mineral resources. The methodology is used to determine the fair value less costs of disposal of the Andina cash-generating unit, which includes the water permits held by the Group. The enterprise value used in the calculation performed at 31 December 2013 was US$13.60 per gold equivalent ounce of resources . The enterprise value figures are based on observable external market information.

Headroom for the 2013 impairment test was US$14,172,000.

A change in key assumptions on which the recoverable amount of the Andina cash-generating unit was determined could cause the unit´s carrying value to exceed its recoverable amount.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

18 INVESTMENTS ACCOUNTED UNDER EQUITY METHOD

Gold Resource Corp.

The Group has an interest in Gold Resource Corp.("GRC"), which is involved in the exploration for and production of gold and silver in Mexico. The company is incorporated 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.

On 27 March 2013 equity accounting for the investment was discontinued as a result of developments during the period which resulted in the Group concluding that it no longer had the ability to influence significantly that company´s strategic, operational and financial direction. The investment in GRC was reclassified as an available-for-sale financial asset. As of 27 March 2013 the Group had a 27.77% interest in GRC.

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

	Year ended 31 December	
	2013 US$000	2012 US$000
Share of the associate's statement of financial position:		
Current assets	–	17,872
Non-current assets	–	51,002
Current liabilities	–	(3,742)
Non-current liabilities	–	(11,300)
Net assets	–	53,832
Goodwill on acquisition	–	24,356
Share of the associate's revenue, profit and loss:		
Revenue	11,750	33,737
Profit[1]	5,921	5,080
Carrying amount of the investment	–	78,188

1 Share of the associate's profit in 2013 includes (1) a pre-exceptional gain from the Group's share of GRC´s results for the period in which it exercised significant influence of US$5,921,000 (2012: US$6,456,000) and (2) an exceptional loss from dilution of US$Nil (2012: US$1,376,000).

19 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Year ended 31 December	
	2013 US$000	2012 US$000
Beginning balance	30,609	40,769
Additions[1]	1,119	–
Impairment	–	(891)
Fair value change recorded in equity	(125,932)	(9,269)
Reclassification from investments accounted under the equity method[2]	189,418	–
Disposals[3]	(33,498)	–
Other[4]	(10,058)	–
Ending balance	51,658	30,609

1 Represents 3,755,746 shares of Chaparral Gold Corp. received due to the Group´s 3.2% interest in International Minerals Corporation(refer to note 4(a))

2 Reclassification of the Group's Gold Resource Corp. shares from an associate accounted for under the equity method to an available-for-sale financial asset on 27 March 2013. Equity accounting of the investment was discontinued as a result of developments during the period which resulted in the Company concluding that it no longer had the ability to influence significantly that company's strategic, operational and financial direction. Consequently, the asset is recognised as an available-for-sale asset at fair value.

3 Sale of 3,375,000 and 1,800,000 share of Gold Resource Corp on 11 July 2013 and 12 December 2013 respectively.

4 In connection with the acquisition of the non-controlling interest of Minera Suyamarca S.A.C. the Group disposed of its 3,755,746 shares of International Minerals Corporation (IMZ) and received 3,755,746 class A shares of IMZ, which was recognised as an investment in a subsidiary and consequently eliminated on consolidation (refer to note 4(a))

19 AVAILABLE-FOR-SALE FINANCIAL ASSETS (continued)

Available-for-sale financial assets include the following:

	Year ended 31 December	
	2013 US$000	2012 US$000
Equity securities – quoted Canadian companies	**2,030**	17,800
Equity securities – quoted US companies[1]	**42,883**	23
Equity securities – quoted British companies	**745**	777
Equity securities – unquoted[2]	**6,000**	12,009
Total	**51,658**	30,609

1 Primarely includes Gold Resource Corp shares of US$42,817,000 (2012: US$Nil).

2 Includes Pembrook Mining Corp and ECI Exploration and Mining Inc. shares.

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 less any recognised impairment losses 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:

	2013 US$000	2012 US$000
Canadian dollars	**8,030**	29,809
US dollars	**42,883**	23
Pounds sterling	**745**	777
Total	**51,658**	30,609

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

20 TRADE AND OTHER RECEIVABLES

	As at 31 December			
	2013		2012	
	Non-current US$000	Current US$000	Non-current US$000	Current US$000
Trade receivables (note 36(c))	–	69,702	–	88,435
Advances to suppliers	–	22,667	–	17,916
Credit due from exports of Minera Santa Cruz	5,776	–	5,609	2,578
Due from non-controlling interests[1]	–	–	–	2,224
Receivables from related parties (note 30)	–	111	–	1,017
Loans to employees	2,030	909	2,276	1,608
Interest receivable	–	600	–	85
Receivable from Kaupthing, Singer and Friedlander Bank	–	294	–	361
Other	2,638	19,115	102	6,575
Provision for impairment[2]	–	(5,084)	–	(3,819)
Financial assets classified as receivables	10,444	108,314	7,987	116,980
Prepaid expenses	755	11,602	626	10,237
Value Added Tax (VAT)[3]	929	47,824	–	38,956
Total	12,128	167,740	8,613	166,173

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

1 Corresponds to an amount receivable from Iron Creek Capital Corp.

2 Includes the provision for impairment of trade receivable from a customer in Peru of US$1,108,000 (2012: US$1,108,000), the impairment of deposits in Kaupthing, Singer and Friedlander of US$294,000 (2012: US$361,000) and other receivables of US$3,682,000 (2012: US$2,350,000) that mainly relates to an exploration project that would be recovered through an ownership interest if it succeeds.

3 This includes an amount of US$17,807,000 (2012: US$18,736,000) VAT paid related to 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$10,639,000 (2012: US$6,388,000), Compañía Minera Ares S.A.C. of US$11,005,000 (2012: US$8,574,000) and Minas Santa María de Moris of US$3,108,000 (2012: US$2,445,000). The VAT is valued at its recoverable amount.

Movements in the provision for impairment of receivables:

	Individually impaired US$000
At 1 January 2012	2,406
Provided for during the year	1,567
Released during the year	(154)
At 31 December 2012	3,819
Provided for during the year	1,485
Released during the year	(220)
At 31 December 2013	5,084

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

			Past due but not impaired				
Year	Total US$000	Neither past due nor impaired US$000	Less than 30 days US$000	30 to 60 days US$000	61 to 90 days US$000	91 to 120 days US$000	Over 120 days US$000
2013	118,758	118,758	–	–	–	–	–
2012	124,967	124,967	–	–	–	–	–

21 INVENTORIES

	As at 31 December	
	2013 US$000	2012 US$000
Finished goods	7,871	4,874
Products in process	21,246	28,162
Raw materials	2	1
Supplies and spare parts	47,118	49,021
	76,237	82,058
Provision for obsolescence of supplies	(6,681)	(5,645)
Total	69,556	76,413

Finished goods include ounces of gold and silver, dore 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 a variable content of base and precious metals and is sold to smelters.

The amount of dore on hand at 31 December 2013 included in products in process is US$697,000 (2012: US$9,370,000).

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

The amount of expense recognised in profit and loss related to the consumption of inventory of supplies, spare parts and raw materials is US$94,235,000 (2012: US$85,651,000).

Movements in the provision for obsolescence comprise an increase in the provision of US$1,832,000 (2012: US$3,608,000) and the reversal of US$Nil relating to the sale of supplies and spare parts, that had been provided for (2012: US$504,000).

The amount of income relating to the reversal of the inventory provision is US$90,000 (2012: US$Nil).

22 OTHER FINANCIAL ASSETS AND LIABILITIES

	As at 31 December	
	2013 US$000	2012 US$000
Other financial assets		
Warrants in Iron Creek Capital Corp.	–	1
Bonds	–	149
Total financial assets at fair value through profit or loss	–	150
Other financial liabilities		
Embedded derivatives[1]	2,294	6,891
Total financial liabilities at fair value through profit or loss	2,294	6,891

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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

23 CASH AND CASH EQUIVALENTS

	As at 31 December	
	2013 US$000	2012 US$000
Cash at bank	454	322
Liquidity funds[1]	8,751	72,803
Current demand deposit accounts[2]	62,259	61,654
Time deposits[3]	214,971	224,165
Cash and cash equivalents considered for the statement of cash flows[4]	286,435	358,944

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 of 8 days as at 31 December 2013 (2012: average of 5 days). In addition, liquidity funds include US Treasury bonds amounting to US$Nil (2012: US$49,967,000) (note 36(g)).

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

3 These deposits have an average maturity of 27 days (2012: Average of 36 days) (refer to note 36(g)).

4 Funds deposited in Argentinean institutions are effectively restricted for transfer to other countries and are invested locally. Included within cash and cash equivalents at 31 December 2013 is US$29,112,000 (2012: US$25,452,000), which is not readily available for use in subsidiaries outside of Argentina.

24 TRADE AND OTHER PAYABLES

	As at 31 December			
	2013		2012	
	Non-current US$000	Current US$000	Non-current US$000	Current US$000
Trade payables[1]	–	73,339	–	76,012
Salaries and wages payable[2]	–	18,620	–	31,935
Dividends payable	–	4,584	–	2,242
Taxes and contributions	–	8,264	–	9,077
Accrued expenses	–	–	–	383
Guarantee deposits	–	7,266	–	6,325
Mining royalty (note 35)	–	840	–	1,630
Deferred income[3]	–	–	–	4,000
Amount payable to non-controlling interest[4]	–	–	–	13,787
Accounts payable to related parties (note 30)	–	16	–	–
Other	174	6,293	–	4,194
Total	174	119,222	–	149,585

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:

	2013 US$000	2012 US$000
Remuneration payable	17,885	26,404
Board members' remuneration	152	581
Executive Long Term Incentive Plan	583	4,950
Total	18,620	31,935

3 Deferred income represents non-refundable advance receipts in respect of an option granted to a third party to acquire the Group´s San Felipe project in Mexico. In August 2013 the Group signed an amendment to extend, to 31 October 2015, the option for the third party to purchase the San Felipe project. Due to the significance of the amount advanced, the Group deemed it appropriate to disclose the amount separately on the face of the consolidated statement of financial position for 2013. A further payment of US$22,000,000 is expected to be made by the third party under the terms of the option agreement in order to acquire a full interest in the project.

4 Amount payable to complete the purchase of Andina Minerals Inc non-controlling shareholders' interest (note 4(b)).

25 BORROWINGS

	As at 31 December					
			2013			2012
	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)	–	–	24,122	–	–	–
• Pre-shipment loans in Minera Suyamarca S.A.C.(note 21)	–	–	30,053	–	–	–
• Leasing agreement with Banco de Crédito del Peru	–	–	–	3.5%	–	336
• Leasing agreement with Banco Interamericano de Finanzas	–	–	–	6%	–	24
• Syndicated loan	25.26%	–	265,877	–	–	–
Convertible bond payable (b)	8.26%	–	115,873	8.26%	106,850	6,613
Total		–	435,925		106,850	6,973

(a) Secured bank loans:

Leasing agreements:

The following table demonstrates the present value and maturity of future minimum lease payments as at 31 December 2013 and 2012:

	As at 31 December	
	2013 US$000	2012 US$000
Not later than one year	–	360
Between 1 and 2 years	–	–
Between 2 and 5 years	–	–
Total	–	360

The following table reconciles the total minimum lease payments and their present values as at 31 December 2013 and 2012:

	As at 31 December	
	2013 US$000	2012 US$000
Present value of leases	–	360
Future interest	–	4
Total minimum lease payments	–	364

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

Syndicated loan:

Loan facility with a syndicate of lenders with Bank of America acting as the Administrative Agent. Total secured term loan facility of US$340,000,000 that accrued an effective interest rate of 25.26% and is guaranteed by a group of subsidiaries headed by Hochschild Mining plc. The balance at 31 December 2013 is comprised of the carrying value of US$265,560,000 determined in accordance with the effective interest method plus accrued interest payable of US$317,000. The loan was repaid on 23 January 2014.

Upon initial recognition, the syndicated loan was recorded at a value of US$263,432,000, representing a principal of US$270,000,000 less transaction costs of US$6,568,000.

(b) 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 Group expect to settle the convertible bond in cash. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

25 BORROWINGS (continued)

The following information has to be considered for conversion of the bonds into ordinary shares:

- Conversion Price: GBP 3.80;
- Fixed Exchange Rate: US$1.59/GBP 1.00.

The balance at 31 December 2013 is comprised of the carrying value of US$113,118,000 determined in accordance with the effective interest method plus accrued interest payable of US$2,755,000.

Upon initial recognition, the convertible bonds were recorded at a value of US$ 103,827,000, representing a principal of US$115,000,000 less transaction costs of US$2,741,000 and the bond equity component of $8,432,000.

The maturity of non-current borrowings is as follows:

	As at 31 December	
	2013 US$000	2012 US$000
Between 1 and 2 years	–	106,850
Between 2 and 5 years	–	–
Over 5 years	–	–
Total	–	106,850

The carrying amount of current borrowings differs their fair value only with respect to differences arising under the effective interest rate calculations described above. 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	
	2013 US$000	2012 US$000	**2013 US$000**	2012 US$000
Secured bank loans	–	–	–	–
Convertible bond payable	–	106,850	–	112,867
Total	–	106,850	–	112,867

26 PROVISIONS

	Provision for mine closure[1] US$000	Workers' profit sharing[2] US$000	Long Term Incentive Plan[3] US$000	Contingent consideration[4] US$000	Other US$000	Total US$000
At 1 January 2012	73,625	29,831	3,655	32,378	3,373	142,862
Additions	–	18,487	7,322	–	1,041	26,850
Accretion	123	–	–	–	–	123
Change in discount rate	769	–	–	–	–	769
Change in estimates[5]	3,362	–	–	–	–	3,362
Payments	(3,667)	(30,893)	–	(32,222)	–	(66,782)
Amounts transferred to payables	–	–	(4,950)	–	–	(4,950)
Foreign exchange	2	1,124	–	(156)	34	1,004
At 31 December 2012	74,214	18,549	6,027	–	4,448	103,238
Less current portion	(4,105)	(18,549)	(1,211)	–	(2,823)	(26,688)
Non-current portion	70,109	–	4,816	–	1,625	76,550
At 1 January 2013	74,214	18,549	6,027	–	4,448	103,238
Additions	–	–	–	–	1,171	1,171
Accretion	224	–	–	–	–	224
Change in discount rate	(1,481)	–	–	–	–	(1,481)
Change in estimates	14,005[5]	(427)	(2,960)	–	–	10,618
Payments	(4,781)	(17,645)	(651)	–	(83)	(23,160)
Amounts transferred to payables	–	–	(537)	–	–	(537)
Foreign exchange	(32)	(103)	–	–	(716)	(851)
At 31 December 2013	82,149	374	1,879	–	4,820	89,222
Less current portion	(6,311)	(374)	–	–	(2,888)	(9,573)
Non-current portion	75,838	–	1,879	–	1,932	79,649

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 adjusted for the impact of quantitative easing as at 31 December 2013 and 2012 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. The discount rates used range from 0.29% to 0.56%.

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 2013 is: (i) Legal US$374,000 (2012: US$5,788,000), (ii) Voluntary US$Nil (2012: US$12,761,000).

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) 2013 awards, granted in March 2013, payable in March 2016 (ii) 2012 awards, granted in March 2012, payable in March 2015. 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 2013 there is a provision of US$-2,960,000 (2012: US$7,322,000) that is disclosed under administrative expenses US$-1,698,000 (2012: US$5,420,000), exploration expenses US$-244,000 (2012: US$843,000) and capitalised as evaluation and exploration expenses US$-1,018,000 (2012: US$1,059,000). The amount of US$537,000 corresponds to the Exploration Incentive Plan award and was transferred to salary and wages payable as the performance period ended on 31 December 2012 (note 24(2)).

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. The amount of US$32,222,000 was settled as a capital contribution from non-controlling interest (refer to consolidated statement of changes in equity).

5 Based on the 2013 and 2012 internal review of mine rehabilitation budgets, an increase of US$14,005,000 (2012: US$3,362,000) was recognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

27 EQUITY

(a) Share capital and share premium

Issued share capital

The issued share capital of the Company as at 31 December 2013 is as follows:

Class of shares	Issued Number	Issued Amount
Ordinary shares	367,101,352	£91,775,338

The issued share capital of the Company as at 31 December 2012 is as follows:

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

At 31 December 2013 and 2012, all issued shares with a par value of 25 pence each were fully paid (2013: weighted average of US$0.464 per share, 2012: 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.

On 2 January 2013 the Group issued 16,126 ordinary shares following the conversion of 1 Convertible bond with a nominal value of US$100,000.

On 2 October 2013 a share placement was completed and 29,000,000 shares with an aggregate nominal value of US$11,745,000 were issued for a cash consideration of US$71,816,010 net of transaction costs of US$1,002,990. The share placement was effected through a cash box structure which resulted in the excess of the net proceeds received over the nominal value of the share capital issued being transferred to retained earnings.

The changes in share capital are as follows:

	Number of shares	Share Capital US$000	Share premium US$000
Shares issued as at 1 January 2012	338,085,226	158,637	395,928
Shares issued as at 31 December 2012	338,085,226	158,637	395,928
Conversion of 1 convertible bond on 2 January 2013 (note 25)	16,126	7	93
Shares issued and paid pursuant to the placing of shares on 2 October 2013	29,000,000	11,745	–
Shares issued as at 31 December 2013	367,101,352	170,389	396,021

(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 $898,000). No shares were purchased by the Group during 2012 and 2013.

(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.

27 EQUITY (continued)

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(b)). 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.

28 DEFERRED INCOME TAX

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

	As at 31 December	
	2013 US$000	2012 US$000
Beginning of the year	**(94,859)**	(68,152)
Income statement charge	**3,770**	(27,462)
Deferred income tax arising on net unrealised gains on available-for-sale financial assets recognised in equity	**–**	615
Foreign exchange effect	**–**	140
End of the year	**(91,089)**	(94,859)

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 2012	31,987	73,350	–	1,185	106,522
Income statement charge/(credit)	(105)	35,210	2,724	(751)	37,078
Net deferred income tax from unrealised gain on available-for-sale financial assets	–	–	(615)	–	(615)
Foreign exchange	–	(140)	–	–	(140)
At 31 December 2012	31,882	108,420	2,109	434	142,845
Income statement (credit)/charge	2,582	(17,237)		2,584	(12,071)
At 31 December 2013	**34,464**	**91,183**	**2,109**	**3,018**	**130,774**

	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 2012	17,333	10,101	643	–	2,109	8,184	38,370
Income statement credit/(charge)	6,082	1,079	92	–	1,039	1,324	9,616
Net deferred income tax from unrealised loss on available-for-sale financial assets							
At 31 December 2012	23,415	11,180	735	–	3,148	9,508	47,986
Income statement credit/(charge)	(4,989)	1,652	(95)	–	(754)	(4,115)	(8,301)
At 31 December 2013	**18,426**	**12,832**	**640**	**–**	**2,394**	**5,393**	**39,685**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

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	
	2013 US$000	2012 US$000
Deferred income tax assets	2,416	856
Deferred income tax liabilities	(93,505)	(95,715)

Tax losses expire in the following years:

	As at 31 December	
	2013 US$000	2012 US$000
Recognised[1]		
Expire in one year		
Expire in two years		
Expire in three years		
Expire in four years		
Expire after four years	2,134	2,449
	2,134	2,449
Unrecognised		
Expire in one year		1,033
Expire in two years		1,993
Expire in three years	1,414	3,706
Expire in four years	3,511	4,260
Expire after four years	184,613	106,075
	189,538	117,067
Total tax losses (recognised and unrecognised)	191,672	119,516

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	
	2013 US$000	2012 US$000
Provision for mine closure[1]	39,086	36,090
Impairments of assets[2]	(4,320)	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 reversal of impairment of San Felipe project (2012:impairment of the San Felipe project recognised in 2010).

Unrecognised deferred tax liability on retained earnings

At 31 December 2013, there was no recognised deferred tax liability (2012: nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries, or its associate or joint venture as the intention is that these amounts are permanently reinvested.

29 DIVIDENDS PAID AND PROPOSED

	2013 US$000	2012 US$000
Declared and paid during the year		
Equity dividends on ordinary shares:		
Final dividend for 2012: US$0.03 (2011: US$0.03)	10,139	10,139
Interim dividend for 2013: US$Nil (2012: US$0.03)	–	10,139
Dividends declared to non-controlling interests: US$0.03 and US$0.05 (2012: US$0.18 and 0.08)	6,197	32,690
Dividends declared and paid	16,336	52,968
Dividends declared to non-controlling interests: US$0.03 (2012: US$0.08)	4,509	2,187
Dividends declared and not paid	4,509	2,187
Total dividends declared	20,845	55,155
Final dividend for 2013: US$Nil (2012: US$0.03)	–	10,139

Dividends per share

A final dividend in respect of the year ended 31 December 2012 of US$0.03 per share, amounting to a total dividend of US$10,139,237 was approved by shareholders at the Annual General Meeting held on 30 May 2013. The Directors of the Company are not recommending a dividend in respect of the year ended 31 December 2013.

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 2013 and 2012. The related parties are companies owned or controlled by the main shareholder of the parent company, joint ventures or associates.

	Accounts receivable as at 31 December		Accounts payable as at 31 December	
	2013 US$000	2012 US$000	2013 US$000	2012 US$000
Current related party balances				
Cementos Pacasmayo S.A.A.	111	139	16	–
Gold Resource Corp (note 18)	–	878	–	–
Total	111	1,017	16	–

As at 31 December 2013 and 2012, 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	
	2013 US$000	2012 US$000
Income		
Dividend recognised for Gold Resource Corp. investment (note 18)	2,633	10,093
Expenses		
Expense recognised for the rental paid to Cementos Pacasmayo S.A.A.	(164)	(164)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

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 2013 US$000	2012 US$000
Short-term employee benefits	5,781	6,742
Termination benefits	77	–
Long Term Incentive Plan	(434)	2,789
Workers' profit sharing	–	44
Others	1	556
Total compensation paid to key management personnel	5,425	10,131

This amount includes the remuneration paid to the Directors of the parent company of the Group of US$4,410,956 (2012 US$5,467,700), out of which US$193,831 (2012: US$199,606) relates to pension payments.

(c) Participation in placing by Inversiones Pacasmayo S.A. ("IP SA")

IP SA, a company controlled by Eduardo Hochschild, participated in a placing of the Company's Ordinary Shares ("Shares") in October 2013 by subscribing for 16,905,066 Shares at a price of 155p per Share.

31 AUDITOR'S REMUNERATION

The auditor's remuneration for services provided to the Group during the years ended 31 December 2013 and 2012 is as follows:

	Amounts paid to Ernst & Young in the year ended 31 December		Amounts paid to others in the year ended 31 December	
	2013 US$000	2012 US$000	2013 US$000	2012 US$000
Audit fees pursuant to legislation[1]	1,046	1,372	7	20
Audit-related assurance services	76	160	–	–
Taxation compliance services	25	44	–	–
Taxation advisory services	67	118	–	–
Services relating to corporate finance transactions	436	–	–	–
Total	1,650	1,694	7	20

1 The total audit fee in respect of local statutory audits of subsidiaries is US$607,000 (2012: US$909,000).

In 2013 and 2012, all fees are included in administrative expenses, with the exception of 2013 fees related to the issuance of the bond by Compañía Minera Ares S.A.C. (US$167,500) and the acquisition of a non-controlling interest of Minera Suyamarca S.A.C. (US$268,000).

32 NOTES TO THE STATEMENT OF CASH FLOWS

	As at 31 December	
	2013 US$000	2012 US$000
Reconciliation of (loss)/profit for the year to net cash generated from operating activities		
(Loss)/profit for the year	(128,677)	126,866
Adjustments to reconcile Group (loss)/profit to net cash inflows from operating activities		
Depreciation (note 3(a))	149,586	125,143
Amortisation of intangibles	1,741	1,529
Write-off of assets (net)	991	491
Impairment of assets (net)	89,680	–
Impairment of available-for-sale financial assets	124,899	1,334
Loss on sale of available-for-sale financial assets	7,805	–
Gain from changes in the fair value of financial instruments	(2,417)	–
Gain on transfer from investment accounted for under the equity method to available-for-sale financial assets	(107,942)	–
Gain on sale of property, plant and equipment	(2,442)	1,631
Provision for obsolescence of supplies	1,832	3,608
Share of post-tax gains of associates and joint ventures accounted under equity method	(5,921)	(5,080)
Provision for mine closure	5,516	(4,171)
Finance income	(10,675)	(1,988)
Finance costs	11,697	12,870
Income tax expense	9,057	85,408
Other	22,883	155
Increase/(decrease) of cash flows from operations due to changes in assets and liabilities		
Trade and other receivables	477	3,869
Other financial assets and liabilities	(4,447)	(6,239)
Inventories	5,025	(26,989)
Trade and other payables	(31,246)	29,540
Provisions	(21,338)	(3,858)
Cash generated from operations	116,084	344,119

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

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	
	2013 US$000	2012 US$000
Commitment for the subsequent 12 months	1,484	3,363
More than one year	16,250	32,188

Some of the significant transactions are explained below:

(i) 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 2013 the Group had invested US$1,131,000 in the project.

(ii) Ing. Miguel Jaime Orozco Fararoni (Elefante)

On 13 June 2012, the Group entered into an exploration and purchase option agreement with Miguel Jaime Orozco Fararoni to explore and develop minerals in 'MJSA 1' properties located in Veracruz, Mexico. Upon signing the purchase option agreement the Group paid US$10,000 to Miguel Jaime Orozco Fararoni.

In order to exercise the option, the Group is required to make a total payment of US$900,000 and incur exploration expenditure of US$560,000 within five years by 13 June 2017. 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 2013 the Group had invested US$125,000.

(iii) William Vicente Mendoza Cerna & Cesar Augusto Zafra (Julieta Oeste)

On 28 May 2012, the Group entered into an exploration and purchase option agreement with Willian Vicente Mendoza Cerna to earn the right to purchase 100% of the properties in the 'Apostol Santiago CCZ 3' area, located in La Libertad.

In order to exercise the option, the Group is required to make a total payment of US$770,000 and incur exploration expenditure of US$1,000,000 within three years by 15 June 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 2013 the Group had invested US$1,170,000.

(iv) Compañía Minera Aurifera M & RM S.A (Ore Body 3)

On 28 January 2013, the Group entered into a purchase option agreement with Compañía Minera Aurifera M & RM S.A. to explore and develop minerals and to earn the right to purchase 100% of the properties in 'Ore Body 3' located in Ayacucho, Peru. Upon signing the purchase option agreement the Group paid US$150,000 to Compañía Minera Aurifera M & RM S.A.

In order to exercise the option, the Group is required to make a total payment of US$2,500,000 within five years by 28 June 2018. The Group is entitled to withdraw from the agreement at any time. At 31 December 2013 the Group had invested US$173,000.

(v) Minera Tamborapa S.A.C. (Jellosora)

On 22 August 2013, the Group entered into an exploration and purchase option agreement with Minera Tamborapa S.A.C. to explore and develop minerals in 'Jellosora 2007' properties located in Ayacucho, Peru. Upon signing the purchase option agreement the Group paid US$20,000 to Minera Tamborapa S.A.C.

In order to exercise the option, the Group is required to make a total payment of US$1,020,000 and incur exploration expenditure of US$2,000,000 within five years by 22 August 2018. 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 2013 the Group had invested US$47,000.

33 COMMITMENTS (continued)

(vi) Solitario Mexico S.A. (Pachuca Norte)

On 25 June 2013, the Group entered into an exploration and purchase option agreement with Solitario Mexico S.A. to explore and develop minerals in 'Pachuca Norte Properties' properties located in Idalgo State, Mexico.

In order to exercise the option, the Group is required to incur exploration expenditure of US$10,000,000 within five years by 25 June 2018. The Group is entitled to withdraw from the agreement at any time after incurring the first year commitments (US$1,500,000). A provision was recorded in June. At 31 December 2013 the Group had invested US$1,015,000.

(b) Operating lease commitments

The Group has a number of operating lease agreements, as a lessee.

The lease expenditure charged to the income statement during the years 2013 and 2012 are included in production costs (2013: US$10,287,000, 2012: US$9,688,000), administrative expenses (2013: US$1,925,000, 2012: US$1,510,000), exploration expenses (2013: US$2,216,000, 2012:US$Nil) and selling expenses (2013: US$13,507, 2012: US$115,000).

As at 31 December 2013 and 2012, the future aggregate minimum lease payments under the operating lease agreements are as follows:

	For the year ended 31 December	
	2013 US$000	2012 US$000
Not later than one year	**5,149**	7,630
Later than one year and not later than five years	**258**	2,224

(c) Capital commitments

	For the year ended 31 December	
	2013 US$000	2012 US$000
Peru	**151,362**	64,603
Argentina	**6,767**	11,907
	158,129	76,510

34 CONTINGENCIES

As at 31 December 2013, 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 2013, the Group had exposures totalling US$38,630,000 (2012: US$42,245,000) 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 in which the Group has operations. In certain specific transactions, however, the relevant authorities could have a different interpretation of those laws and regulations that could lead to contingencies or additional liabilities for the Group. Having consulted legal counsel, management believes that it has reasonable grounds to support its position.

The assessment of contingencies inherently involves exercise of significant judgement and estimates of the outcome of future events. Uncertainties in estimating the liability includes changes in the legal interpretation that the authorities could make in respect of the Group's transactions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

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 sold, 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 additional tax is calculated by applying a progressive scale of rates ranging from 2% to 8.4%, of the quarterly operating profit.

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.

d) In the case of the Arcata mine unit, the company quit the tax stability agreement, but has mantained the agreement for the mining royalties, such that the Arcata unit, is liable for the new SMT but the mining royalties remain payable at the same rate as they were, before the modification in 2011.

As at 31 December 2013, 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$389,000 (2012: US$835,000), US$629,000 (2012: US$1,089,000), and US$148,000 (2012: US$1,051,000) 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$1,784,000 (2012: US$3,224,000) representing the former mining royalty, classified as cost of sales, US$2,344,000 (2012: US$3,834,000) of new mining royalty and US$905,000 (2012: US$4,256,000) of SMT, both classified as income tax.

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 was originally 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. In October 2012 a new provincial law was passed, which increased the mining royalty applicable to dore and concentrate to 3% of the pit-head value. Since November 2012 Minera Santa Cruz S.A. has been paying and expensing the increased 3% royalty although it has filed an administrative claim against the new law. As at 31 December 2013, the amount payable as mining royalties amounted to US$451,000 (2012: US$795,000). The amount recorded in the income statement was US$6,509,000 (2012: as cost of sales of US$6,448,000).

On 13 June 2013, the congress of the Province of Santa Cruz passed Law No. 3318, which created a tax on mining reserves. Accordingly, the owners of mining concessions located in the Province of Santa Cruz must pay a tax on mining reserves at a rate of 1%, calculated at the end of each year and determined according to the international price of metals at that date. This law was later regulated by the Provincial Government Decree No. 1252/2013 and by the Provincial Tax Authority Disposition No. 084/2013. According to these regulations, the tax applies only on "measured reserves" and certain deductions (related to the production cost) apply. Minera Santa Cruz S.A. (an affiliate of Hochschild Mining plc) is affected by this tax, and therefore, has been paying it. On 20 December 2013, Minera Santa Cruz S.A. filed before the Argentine Supreme Court a legal claim against the tax on mining reserves. Such legal claim challenges the legality of the tax on mining reserves arguing its unconstitutionality on the grounds that it violates the Federal Mining Policy created by national law No. 24.196. As at 31 December 2013, the amount payable as tax on mining reserves was US$1,381,000 recorded as 'Trade and other payables'. The amount recorded in the income statement was US$2,453,000 as other expenses.

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; therefore, 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 was 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
2013	**Gold +/-10%**	**+/-831**
	Silver +/-10%	**+/-2,155**
2012	Gold +/-10%	+/-48
	Silver+/-10%	+/-354

(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 pounds sterling, Peruvian nuevos soles, Canadian dollars, 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
2013			
Pounds sterling	**+/-10%**	**-/+10**	**+/-75**
Argentinian pesos	**+/-10%**	**+/-2,708**	**–**
Mexican pesos	**+/-10%**	**+/-1,922**	**–**
Peruvian nuevos soles	**+/-10%**	**-/+483**	**–**
Canadian dollars	**+/-10%**	**+/-1,223**	**+/-765**
Chilean pesos	**+/-10%**	**-/+265**	**–**
2012			
Pounds sterling	+/-10%	+/-36	+/-78
Argentinian pesos	+/-10%	-/+2,622	–
Mexican pesos	+/-10%	+/-358	–
Peruvian nuevos soles	+/-10%	+/-4,107	–
Canadian dollars	+/-10%	+/-1,006	+/-2,942
Chilean pesos	+/-10%	+/-677	–

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 2013 and 31 December 2012:

Summary commercial partners – Trade receivables	As at 31 December 2013 US$000	Credit rating or % collected as at 11 March 2014	As at 31 December 2012 US$000	Credit rating or % collected as at 11 March 2013
LS Nikko	29,087	A1	32,001	A1
Glencore Peru S.A.C.	9,045	84%	–	–
Consorcio Minero S.A.	7,434	61%	14,261	85%
Aurubis AG (formerly Nordeutsche Affinerie AG)	5,185	26%	7,077	71%
Republic Metals Corporation	4,826	100%	–	–
Teck Metals Ltd (formerly Teck Cominco Metals Ltd.)	4,577	BBB	16,186	BBB
Argor Heraus S.A.	4,011	100%	12,975	100%
Glencore International AG	3,945	63%	–	–
Doe Run Peru S.R.L.	1,108	0%	1,108	0%
Sumitomo Corporation	59	1%	–	–
Standard Bank	–	–	4,591	100%
MRI Trading AG	–	–	78	100%
Others	425	–	158	–
	69,702		88,435	

Summary commercial partners – Embedded derivatives	As at 31 December 2013 US$000	Credit rating or % collected as at 11 March 2014	As at 31 December 2012 US$000	Credit rating or % collected as at 11 March 2013
Teck Metals Ltd (formerly Teck Cominco Metals Ltd.)	(696)	BBB	(1,844)	BBB
Consorcio Minero S.A.	(645)	61%	(1,279)	85%
LS Nikko	(393)	A1	(2,963)	A1
Aurubis AG (formerly Nordeutsche Affinerie AG)	(282)	26%	(99)	71%
Republic Metals Corporation	(227)	100%	–	–
Glecore Peru S.A.C.	(36)	84%	–	–
Sumitomo Corporation	(27)	1%	–	–
Glencore International AG	(17)	63%	–	–
Argor Heraus S.A.	29	100%	(706)	100%
	(2,294)		(6,891)	

36 FINANCIAL RISK MANAGEMENT (continued)

Financial counterparties	As at 31 December 2013 US$000	Credit rating[1]	As at 31 December 2012 US$000	Credit rating[1]
JP Morgan	175,673	A	43,716	A
Citibank	43,426	A-	49,502	A-
Banco de Crédito del Peru	18,822	BBB+	64,690	BBB
Banco Bilbao Vizcaya Argentaria	18,771	BBB-	89,094	BBB
ICBC	9,356	A	–	–
Morgan Stanley	7,848	A-	–	–
Banorte	1,312	BBB	1,940	BBB
HSBC	–	–	40,552	A+
US Treasury bonds	–	–	49,967	–
Royal Bank of Canada	–	–	3,046	LTLC
Others (including cash in hand)	11,227	NA	16,437	NA
Total	286,435		358,944	

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.

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).

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.

(d) Equity risk on financial instruments

The Group acquires financial instruments in connection with strategic alliances with third parties. The Group constantly monitors the fair value of these instruments in order to decide whether or not it is convenient to dispose of these investments. The disposal decision is also based on management's intention to continue with the strategic alliance, the tax implications and changes in the share price of the investee.

The following table demonstrates the sensitivity to reasonable movements in the share price of available-for-sale financial assets and derivative financial instruments (excluding embedded derivatives from provisionally priced sales), with all other variables held constant:

Year	Increase/ decrease in prices	Effect on profit before tax US$000	Effect on equity US$000
2013	+25%	–	+428
	-25%	-242	-186
2012	+25%	–	+7,652
	-25%	-9,285	-3,757

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

36 FINANCIAL RISK MANAGEMENT (continued)

(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 2013 and 2012, the Group held the following financial instruments measured at fair value:

Assets measured at fair value	31 December 2013 US$000	Level 1 US$000	Level 2 US$000	Level 3 US$000
Equity shares (note 19)	51,658	45,658	–	6,000
Warrants	–	–	–	–
Bonds	–	–	–	–
Liabilities measured at fair value				
Embedded derivatives (note 22(1))	(2,294)	–	–	(2,294)

Assets measured at fair value	31 December 2012 US$000	Level 1 US$000	Level 2 US$000	Level 3 US$000
Equity shares (note 19)	30,609	18,600	–	12,009
Warrants	1	–	1	–
Bonds	149	–	149	–
Liabilities measured at fair value				
Embedded derivatives (note 22(1))	(6,891)	–	–	(6,891)

During the period ending 31 December 2013 and 2012, there were no transfers between these levels.

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

	Embedded derivatives liabilities US$000	Equity shares US$000[1]
Balance at 1 January 2012	(12,831)	11,841
Gain from the period recognised in revenue (note 22(1))	5,940	–
Fair value change through equity	–	168
Balance at 31 December 2012	(6,891)	12,009
Gain from the period recognised in revenue (note 22(1))	4,597	–
Impairment through profit and loss (finance costs)	–	(5,745)
Fair value change through equity	–	(264)
Balance at 31 December 2013	**(2,294)**	**6,000**

1 Pembrook Mining Corp ('Pembrook'): Macroeconomic uncertainty has been putting downward pressure on commodity prices over the past few months. Furthermore, the Group is concerned that Pembrook will run out of funds by the end of the year under their existing agreements and believes that under the present market conditions they may be unable to obtain funding. Therefore, a 50% decrease in the acquisition price of the investment has been applied to fair value the shares as of 31 December 2013. The decrease was calculated based on available observable market data of similar peers.

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 2013 the Group maintained uncommitted short-term bank lines for approximately US$180,000,000.

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 2013					
Trade and other payables	103,692	174	–	–	**103,866**
Embedded derivative liability	2,294	–	–	–	**2,294**
Borrowings	448,355	–	–	–	**448,355**
Provisions	–	4,937	–	–	**4,937**
Total	**554,341**	**5,111**	**–**	**–**	**559,452**
At 31 December 2012					
Trade and other payables	130,183	–	–	–	130,183
Embedded derivative liability	6,891	–	–	–	6,891
Borrowings	6,978	112,129	–	–	119,107
Provisions	1,211	3,353	1,552	–	6,116
Total	145,263	115,482	1,552	–	262,297

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

36 FINANCIAL RISK MANAGEMENT (continued)

(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. As of December 2013, interests from a US$270,000,000 bridge loan facility drawn in December 2013 to complete International Minerals Corporation acquisition are calculated at a variable rate (Libor + spread). All other currently existing financial obligations are at fixed rates.

	As at 31 December 2013				
	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)	454	–	–	–	454
Time deposits (note 23)	214,971	–	–	–	214,971
Liquidity funds (note 23)	–	–	–	–	–
Secured bank loans (note 25)	(54,175)	–	–	–	(54,175)
Convertible bond payable (note 25)	(115,873)	–	–	–	(115,873)
Floating rate					
Liquidity funds (note 23)	8,751	–	–	–	8,751
Secured bank loans (note 25)	(265,877)	–	–	–	(265,877)

	As at 31 December 2012				
	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)	322	–	–	–	322
Time deposits (note 23)	224,165	–	–	–	224,165
Liquidity funds (note 23)	49,967	–	–	–	49,967
Secured bank loans (note 25)	(360)	–	–	–	(360)
Convertible bond payable (note 25)	(6,613)	(106,850)	–	–	(113,463)
Floating rate					
Liquidity funds (note 23)	22,836	–	–	–	22,836

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.

36 FINANCIAL RISK MANAGEMENT (continued)

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 2013 and 2012 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
2013	**+/-50bps**	**+/-1,394**
2012	+/-50bps	+/-114

(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 the company targets to maintain low indebtedness ratios, in 2013 management decided to increase its long term debt to finance the acquisition of Hochschild´s joint venture partner in Pallancata and Inmaculada, International Minerals. In addition, management reserves the right to use of short-term pre-shipment financing (financing of commercial accounts receivables and finished goods inventory).

Management also retains the right to fund operations (fully owned and joint ventures) with a mix of equity and joint venture partners' debt.

37 SUBSEQUENT EVENTS

- On 1 January 2014, following the acquisition of International Minerals Corporation (note 4(a)), the Group proceeded to merge Compañía Minera Ares S.A.C. with Minera Suyamarca S.A.C.
- On 23 January 2014, the Group completed an offering of US$350,000,000 of Senior Notes with a coupon rate of 7.750% due for repayment in 2021 via its wholly owned subsidiary, Compañía Minera Ares S.A.C. The Notes were offered only to qualified institutional buyers under Rule 144A under the Securities Act and to non-U.S. persons outside the United States in reliance on Regulation S of the Securities Act. The Notes are guaranteed by Hochschild Mining plc and certain of its subsidiaries. The net proceeds from the sale of the Notes were used to repay the outstanding borrowings under the Syndicated Loan (see note 25) in full, plus accrued and unpaid interest, and to pay related fees and expenses.
- On 28 February 2014 the Group sold its interest in Minas Santa María de Moris, S.A. de C.V. ("Moris") to Exploraciones y Desarrollos Regiomontanos, S.A. de C.V. ("EDR") and Arturo Préstamo Elizondo ("APE"). The terms of the transaction stipulate that:
  - the Group is entitled to a 1% net smelter return over the Moris concessions; and
  - EDR and APE will assume all costs associated with the mine and plant rehabilitation obligations.

  The transaction does not include the cash balances of Moris, which will be transferred to the Group.

  The transaction resulted in a loss of US$2,963,000.
- On March 2014 the Group signed agreements with Citibank N.A., Goldman Sachs International and JP Morgan to hedge the sale of 1,000,000 ounces of silver at US$22 per ounce, 1,000,000 ounces of silver at US$22 per ounce and 3,300 ounces of gold at US$1,338.45 per ounce, during the period from March to December 2014.

PARENT COMPANY STATEMENT OF FINANCIAL POSITION

As at 31 December 2013

	Notes	As at 31 December 2013 US$000	2012 US$000
ASSETS			
Non-current assets			
Property, plant and equipment	4	120	147
Investments in subsidiaries	5	1,343,000	2,319,649
		1,343,120	2,319,796
Current assets			
Other receivables	6	1,058	13,995
Cash and cash equivalents	7	71,797	3,466
		72,855	17,461
Total assets		1,415,975	2,337,257
EQUITY AND LIABILITIES			
Equity share capital	8	170,389	158,637
Share premium	8	416,247	416,154
Treasury shares	8	(898)	(898)
Other reserves		347,915	1,324,273
Retained earnings		135,167	100,819
Total equity		1,068,820	1,998,985
Non-current liabilities			
Borrowings	10	–	106,850
Provisions	11	128	219
		128	107,069
Current liabilities			
Trade and other payables	9	231,154	224,590
Borrowings	10	115,873	6,613
		347,027	231,203
Total liabilities		347,155	338,272
Total equity and liabilities		1,415,975	2,337,257

The financial statements on pages 164 to 179 were approved by the Board of Directors on 11 March 2014 and signed on its behalf by:

IGNACIO BUSTAMANTE
Chief Executive Officer
11 March 2014

PARENT COMPANY STATEMENT OF CASH FLOWS

For the year ended 31 December 2013

	Notes	Year ended 31 December 2013 US$000	2012 US$000
Reconciliation of loss for the year to net cash used in operating activities			
Loss for the year		(992,233)	(17,348)
Adjustments to reconcile Company loss to net cash outflows from operating activities			
Depreciation	4	27	29
Impairment on investment in subsidiary	5	976,649	–
Finance income		(250)	(116)
Finance costs		9,439	8,980
Foreign exchange loss/(gain)		437	349
Increase/(decrease) of cash flows from operations due to changes in assets and liabilities			
Other receivables		37	193
Trade and other payables		8,738	(3,461)
Provision for Long Term Incentive Plan		200	387
Cash generated from/(used in) operating activities		3,044	(10,987)
Interest received		357	9
Interest paid		(6,607)	(6,612)
Net cash used in operating activities		(3,206)	(17,590)
Cash flows from investing activities			
Acquisition of subsidiary		(7)	–
Loans to subsidiaries		(238)	(10,178)
Net cash used in investing activities		(245)	(10,178)
Cash flows from financing activities			
Proceed of borrowing		10,542	50,190
Proceeds from issue of ordinary shares		71,816	–
Dividends paid	13	(10,139)	(20,278)
Cash flows generated from financing activities		72,219	29,912
Net increase in cash and cash equivalents during the year		68,768	2,144
Foreign exchange (loss)/gain		(437)	(349)
Cash and cash equivalents at beginning of year		3,466	1,671
Cash and cash equivalents at end of year	7	71,797	3,466

PARENT COMPANY STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2013

	Notes	Equity share capital US$000	Share premium US$000	Treasury Shares US$000	Other reserves: Bond equity component US$000	Other reserves: Share-based payment reserve US$000	Other reserves: Merger reserve US$000	Other reserves: Total other reserves US$000	Retained earnings US$000	Total equity US$000
Balance at 1 January 2012		158,637	416,154	(898)	8,432	154	1,315,396	1,323,982	138,445	2,036,320
Other comprehensive income		–	–	–	–	–	–	–	–	–
Loss for the year		–	–	–	–	–	–	–	(17,348)	(17,348)
Total comprehensive loss for 2012		–	–	–	–	–	–	–	(17,348)	(17,348)
CEO LTIP		–	–	–	–	291	–	291	–	291
Dividends	13	–	–	–	–	–	–	–	(20,278)	(20,278)
Balance at 31 December 2012		158,637	416,154	(898)	8,432	445	1,315,396	1,324,273	100,819	1,998,985
Other comprehensive income		–	–	–	–	–	–	–	–	–
Loss for the year		–	–	–	–	–	–	–	(992,233)	(992,233)
Total comprehensive loss for 2013		–	–	–	–	–	–	–	(992,233)	(992,233)
Issuance of shares		11,752	93	–	–	–	60,071	60,071	–	71,916
Transfer to retained earnings		–	–	–	–	–	(1,036,720)	(1,036,720)	1,036,720	–
CEO LTIP		–	–	–	–	291	–	291	–	291
Dividends	13	–	–	–	–	–	–	–	(10,139)	(10,139)
Balance at 31 December 2013		170,389	416,247	(898)	8,432	736	338,747	347,915	135,167	1,068,820

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

For the year ended 31 December 2013

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 (a) Pelham Investment Corporation, a Cayman Islands company; and (b) Inversiones Pacasmayo S.A., a Peruvian registered Sociedad Anónima.

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 itself a going concern 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 2013 and 31 December 2012. 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:

- 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 amendment affects disclosure but has no impact on the Company's financial position and performance.

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 2014 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.

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2013

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

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 periods, 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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 in 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. In the case the excess above par value is available for distribution, it is classified as merger reserve and then transferred to retained earnings

(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 approved an equity-settled scheme for its CEO.

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2013

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'.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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$992,233,000 (2012: loss of US$17,348,000).

4 PROPERTY, PLANT AND EQUIPMENT

	Office building US$000	Equipment US$000	Total US$000
Year ended 31 December 2012			
Cost			
At 1 January 2012 and 31 December 2012	277	267	544
Accumulated depreciation			
At 1 January 2012	102	266	368
Depreciation	28	1	29
At 31 December 2012	130	267	397
Net book value at 31 December 2012	147	–	147
Year ended 31 December 2013			
Cost			
At 1 January 2013 and 31 December 2013	277	267	544
Accumulated depreciation			
At 1 January 2013	130	267	397
Depreciation	27	–	27
At 31 December 2013	157	267	424
Net book value at 31 December 2013	120	–	120

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2013

5 INVESTMENTS IN SUBSIDIARIES

	Total US$000
Year ended 31 December 2012	
Cost	
At 1 January 2012	2,319,649
At 31 December 2012	2,319,649
Accumulated impairment	
At 1 January 2012	–
At 31 December 2012	–
Net book value at 31 December 2012	2,319,649
Year ended 31 December 2013	
Cost	
At 1 January 2013	2,319,649
Additions	10,274
Disposals	(10,274)
At 31 December 2013	2,319,649
Accumulated impairment	
At 1 January 2013	–
Impairment loss	(976,649)
At 31 December 2013	(976,649)
Net book value at 31 December 2013	**1,343,000**

The Company tested its investment in subsidiary for impairment in light of decreases in the prices of gold and silver, as well as decreases in the Company's publically listed share price, which were determined to be an indicator of impairment. As a result of this test, the Company recognised an impairment of the investment in Hochschild Mining Holdings Ltd. Of US$976,649,000. This impairment reflects the reduction in value of these investments since recognition. The recoverable value of the investment in Hochschild Mining Holdings Ltd. was determined using a fair value less cost to sell approach. The fair value less cost to sell was determined with reference to the market capitalisation of the Group at 31 December 2013, as adjusted for the net debt held directly by the Company. Any variation in the key assumptions would either result in further impairment or a reduction of the impairment.

The breakdown of the investments in subsidiaries is as follows:

	As at 31 December 2013			As at 31 December 2012		
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%	1,343,000	England & Wales	100%	2,319,649
Total			**1,343,000**			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.

On 29 March 2013, the Company subscribed for 10,442,624 shares of C$1 each in 1710503 Alberta Ltd through capital contributions paid by compensating the account receivable from that entity amounting to C$10,442,624.

On 10 April 2013, the Company sold 10,442,624 shares of 1710503 Alberta Ltd to Hochschild Mining Holdings Limited for a total consideration of US$10,274,080.

6 OTHER RECEIVABLES

	Year ended 31 December	
	2013 US$000	2012 US$000
Amounts receivable from subsidiaries (note 12)	892	13,792
Prepayments	66	70
Receivable from Kaupthing, Singer and Friedlander	289	330
Other debtors	100	133
	1,347	14,325
Provision for impairment[1]	(289)	(330)
Total	1,058	13,995

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$289,000 accrued in 2008 and partially recovered in 2012 (2012: US$330,000).

Movements in the provision for impairment of receivables:

	Total US$000
At 1 January 2012	421
Amounts recovered	(91)
At 31 December 2012	330
Amounts recovered	(41)
At 31 December 2013	289

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
2013	1,058	1,058					
2012	13,995	13,995	–	–	–	–	–

7 CASH AND CASH EQUIVALENTS

	Year ended 31 December	
	2013 US$000	2012 US$000
Bank current account[1]	402	588
Time deposits[2]	71,395	2,878
Cash and cash equivalents considered for the cash flow statement	71,797	3,466

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

2 These deposits have an average maturity of 2 days (2012: 1 day).

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2013

8 EQUITY

(a) Share capital and share premium

Issued share capital

The issued share capital of the Company as at 31 December 2013 is as follows:

	Issued	
Class of shares	Number	Amount
Ordinary shares	367,101,352	£91,775,338

The issued share capital of the Company as at 31 December 2012 is as follows:

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

At 31 December 2013 and 2012, all issued shares with a par value of 25 pence each were fully paid (2013: weighted average of US$0.464 per share, 2012: 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.

On 2 January 2013 the Company issued 16,126 ordinary shares following the conversion of 1 Convertible bond with a nominal value of US$100,000.

On 2 October 2013 a share placement was completed and 29,000,000 shares with an aggregate nominal value of US$11,745,000 were issued for a cash consideration of US$71,816,010 net of transaction costs of US$1,002,990. The share placement was effected through a cash box structure which resulted in the excess of the net proceeds received over the nominal value of the share capital issued being transferred to retained earnings.

The changes in share capital are as follows:

	Number of shares	Share Capital US$000	Share premium US$000
Shares issued as at 1 January 2012	338,085,226	158,637	416,154
Shares issued as at 31 December 2012	338,085,226	158,637	416,154
Conversion of 1 convertible bond on 2 January 2013 (note 25)	16,126	7	93
Shares issued and paid pursuant to the placing of shares dated 2 October 2013	29,000,000	11,745	–
Shares issued as at 31 December 2013	367,101,352	170,389	416,247

(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 $898,000). No shares were purchased by the Company in 2012 and 2013.

(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. The merger reserve was realised in 2013 as a result of the impairment of the investment in subsidiary recorded in the period (note 5).

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			
		2013		2012
	Non-current US$000	Current US$000	Non-current US$000	Current US$000
Trade payables	–	991	–	1,710
Payables to subsidiaries (note 12)	–	229,994	–	222,216
Remuneration payable	–	–	–	430
Taxes and contributions	–	169	–	234
Total	–	231,154	–	224,590

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			
		2013		2012
	Non-current US$000	Current US$000	Non-current US$000	Current US$000
Convertible bond payable	–	115,873	106,850	6,613
Total	–	115,873	106,850	6,613

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: GBP 3.80
- Fixed Exchange Rate: US$1.59/GBP 1.00

The balance at 31 December 2013 is comprised of the carrying value of US$113,118,000 determined in accordance with the effective interest method plus accrued interest payable of US$2,755,000.

Upon initial recognition, the convertible bonds were recorded at a value of US$ 103,827,000, representing a principal of US$115,000,000 less transaction costs of US$2,741,000 and the bond equity component of $8,432,000.

The maturity of non-current borrowings is as follows:

	As at 31 December	
	2013 US$000	2012 US$000
Between 1 and 2 years	–	106,850
Between 2 and 5 years	–	–
	–	106,850

The carrying amount of current borrowings differs from their fair value only with respect to differences arising under the effective interest rate calculations described above. 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	
	2013 US$000	2012 US$000	2013 US$000	2012 US$000
Bank loans				
Convertible bond payable	–	106,850	–	112,867
Total	–	106,850	–	112,867

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2013

11 PROVISIONS

	As at 31 December	
	2013 US$000	2012 US$000
Beginning balance	219	123
Increase in provision	(91)	96
At 31 December	128	219
Less current portion	–	–
Non-current portion	128	219

1 Corresponds to the provision related to awards granted under the Long Term Incentive Plan to designated personnel of the Company. Includes the following benefits:
(i) Long Term Incentive Plan awards, granted in March 2013, payable in March 2016, and (ii) Long Term Incentive Plan awards, granted in March 2012, payable in March 2015. 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 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 2013 and 31 December 2012.

	As at 31 December 2013		As at 31 December 2012	
	Accounts receivable US$000	Accounts payable US$000	Accounts receivable US$000	Accounts payable US$000
Subsidiaries				
Compañía Minera Ares S.A.C.[1]	124	775	122	1,218
HOC Holdings Canada Inc.[2]	223	–	–	–
Southwestern Gold (Bermuda) S.A.C. (formerly Southwestern Gold (Bermuda) Limited) [3]	–	–	–	600
Minera del Suroeste S.A.C. [3]		600	–	–
1710503 Alberta Ltd[4]	–	–	4,632	–
Andina Minerals Inc [5]	–	–	5,635	–
Hochschild Mining Holdings Ltd.[6]	488	228,594	3,361	220,373
Other subsidiaries	57	25	42	25
Total	892	229,994	13,792	222,216

1 Mainly relates to the services performed by Compañía Minera Ares S.A.C. to Hochschild Mining plc during 2013 of US$775,000 (2012: US$1,258,000).
2 Relates to the payments made by Hochschild Mining plc on behalf of HOC Holdings Canada Inc., for the acquisition of International Minerals Corporation shares (4(a))
3 During 2013 Southwestern Gold (Bermuda) S.A.C. transferred its receivable to Minera del Suroeste S.A.C.
4 During 2013 the Company received shares of 1710503 Alberta Ltd in payment of the receivable (note 5).
5 During 2013 the Company transferred its receivable from Andina Minerals Inc to 1710503 Alberta Ltd and 1710503 Alberta Ltd paid the obligation through the issuance of shares (note 5).
6 Relates to loans receivable by and payable to Hochschild Mining Holdings Ltd. The loan payable is repayable on demand and is free of interest.

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$1,641,176 (2012: US$1,811,894), out of which US$33,989 (2012: US$39,935) relates to cash supplements in lieu of pension contributions.

	As at 31 December	
Compensation of key management personnel (including directors)	2013 US$000	2012 US$000
Short-term employee benefits	1,273	1,521
Termination benefits	77	–
Long Term Incentive Plan	291	291
Total compensation	1,641	1,812

13 DIVIDENDS PAID AND PROPOSED

Declared and paid during the year	2013 US$000	2012 US$000
Equity dividends on ordinary shares:		
Final dividend for 2012: US$0.03 (2011: US$0.03)	10,139	10,139
Interim dividend for 2013: US$Nil (2012: US$0.03)	–	10,139
Dividends paid		20,278
Proposed for approval by shareholders at the AGM		
Final dividend for 2013: US$Nil (2012: US$0.03)	–	10,139

Dividends per share

A final dividend in respect of the year ended 31 December 2012 of US$0.03 per share, amounting to a total dividend of US$10,139,237 was approved by shareholders at the Annual General Meeting held on 30 May 2013. The Directors of the Company are not recommending the payment of a dividend in respect of the year ended 31 December 2013.

14 FINANCIAL RISK MANAGEMENT

The Company is exposed to a variety of risks and uncertainties which may have an impact on the achievement of financial and economic objectives. These risks include strategic, operational and financial risk and are further categorised into risk areas to facilitate risk assessment.

(a) Foreign currency risk

Due to the operations of the Company, it has cash and cash equivalents and trade payables denominated in pounds sterling and Canadian dollars. 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
2013			
Pound sterling	+/-10%	-/+32	–
Canadian dollar	+/-10%	–	–
2012			
Pound sterling	+/-10%	-/+566	–
Canadian dollar	+/-10%	+/-951	–

(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.

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2013

14 FINANCIAL RISK MANAGEMENT (continued)

(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 2013 of US$71,797,000 (2012: US$3,466,000) and US$113,472,000 (2012: US$90,849,000) 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 2013					
Trade and other payables	230,985	–	–	–	230,985
Borrowings	123,202	–	–	–	123,202
Provisions	–	332	–	–	332
At 31 December 2012					
Trade and other payables	224,356	–	–	–	224,356
Borrowings	6,613	112,129	–	–	118,742
Provisions	–	145	79	–	224

(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.

	As at 31 December 2013				
	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)	402	–	–	–	402
Time deposits (note 7)	71,395	–	–	–	71,395
Convertible bond payable (note 10)	(115,873)	–	–	–	(115,873)

	As at 31 December 2012				
	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)	588	–	–	–	588
Time deposits (note 7)	2,878	–	–	–	2,878
Convertible bond payable (note 10)	(6,613)	(106,850)	–	–	(113,463)

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.

14 FINANCIAL RISK MANAGEMENT (continued)

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 2013 and 2012 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
2013	**+/-50bps**	**–**
2012	+/-50bps	–

(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.

PROFIT BY OPERATION[1]

(Segment report reconciliation) as at 31 December 2013

Company (US$000)	Ares	Arcata	Pallancata	San Jose	Moris	Consolidation adjustment and others	Total/HOC
Revenue	50,362	136,968	181,795	240,723	12,247	63	622,158
Cost of sales (Pre consolidation)	(53,684)	(104,933)	(130,034)	(170,682)	(10,817)	918	(469,232)
Consolidation adjustment	647	1,253	(2,821)	3	–	918	–
Cost of sales (Post consolidation)	(54,331)	(106,186)	(127,213)	(170,685)	(10,817)	–	(469,232)
Production cost excluding depreciation	(42,521)	(73,128)	(75,934)	(114,053)	(8,529)	–	(314,165)
Depreciation in production cost	(9,029)	(32,038)	(50,142)	(51,173)	(1,755)	–	(144,137)
Other items	3	638	(571)	(7,074)	–	–	(7,004)
Change in inventories	(2,784)	(1,658)	(566)	1,615	(533)	–	(3,926)
Gross profit	(3,322)	32,035	51,761	70,041	1,430	981	152,926
Administrative expenses	–	–	–	–	–	(56,776)	(56,776)
Exploration expenses	–	–	–	–	–	(46,327)	(46,327)
Selling expenses	(193)	(325)	(2,404)	(25,899)	–	36	(28,785)
Other income/expenses	–	–	–	–	–	(9,139)	(9,139)
Operating profit before impairment	(3,515)	31,710	49,357	44,142	1,430	(111,225)	11,899
Impairment of assets	–	–	–	–	–	(90,671)	(90,671)
Investments under equity method	–	–	–	–	–	5,921	5,921
Finance income	–	–	–	–	–	121,034	121,034
Finance costs	–	–	–	–	–	(148,050)	(148,050)
FX loss	–	–	–	–	–	(19,753)	(19,753)
Profit/(loss) from continuing operations before income tax	(3,515)	31,710	49,357	44,142	1,430	(242,744)	(119,620)
Income tax	–	–	–	–	–	(9,057)	(9,057)
Profit/(loss) for the year from continuing operations	(3,515)	31,710	49,357	44,142	1,430	(251,801)	(128,677)

1 On a post exceptional basis.

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 182 to 186 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 2013, 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$1,200 per ounce and Ag price: US$20 per ounce.

RESERVES AND RESOURCES CONTINUED

ATTRIBUTABLE METAL RESERVES AS AT 31 DECEMBER 2013

Reserve category	Proved and probable (t)	Ag (g/t)	Au (g/t)	Ag (moz)	Au (koz)	Ag Eq (moz)
MAIN OPERATIONS[1]						
Arcata						
Proved	803,568	324	0.9	8.4	23.7	9.8
Probable	1,205,831	304	0.8	11.8	32.7	13.7
Total	2,009,399	312	0.9	20.1	56.4	23.5
Pallancata						
Proved	1,742,995	251	1.2	14.1	64.9	18.0
Probable	1,121,338	241	1.1	8.7	39.6	11.1
Total	2,864,332	247	1.1	22.8	104.5	29.0
San Jose						
Proved	484,606	597	7.8	9.3	121.8	16.6
Probable	440,167	426	6.2	6.0	87.1	11.2
Total	924,773	515	7.0	15.3	208.9	27.9
Main operations total						
Proved	3,031,169	326	2.2	31.7	210.5	44.4
Probable	2,767,336	298	1.8	26.5	159.4	36.1
Total	5,798,505	312	2.0	58.2	369.9	80.4
OTHER OPERATIONS						
Ares						
Proved	76,997	148	2.1	0.4	5.2	0.7
Probable	19,085	184	1.6	0.1	1.0	0.2
Total	96,082	155	2.0	0.5	6.2	0.9
ADVANCED PROJECTS						
Inmaculada[2]						
Proved	3,840,000	106	3.4	13.1	424.7	38.6
Probable	3,960,000	134	3.3	17.0	424.5	42.5
Total	7,800,000	120	3.4	30.1	849.2	81.1
Group total						
Proved	6,948,166	202	2.9	45.2	640.4	83.6
Probable	6,746,421	201	2.7	43.6	584.8	78.7
TOTAL	13,694,587	202	2.8	88.9	1,225.2	162.4

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.

2 Inmaculada reserves as published in the Feasibility Study released on 11 January 2012. Prices used for reserves calculation: Au: $1,100/oz and Ag: $18/oz.

ATTRIBUTABLE METAL RESOURCES AS AT 31 DECEMBER 2013

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	1,451,282	456	1.35	–	–	–	537	21.3	63.0	25.1	–	–	–
Indicated	2,233,235	368	1.31	–	–	–	446	26.4	93.7	32.0	–	–	–
Total	3,684,517	403	1.32	–	–	–	482	47.7	156.7	57.1	–	–	–
Inferred	3,489,726	309	1.14	–	–	–	377	34.7	127.9	42.4	–	–	–
Pallancata													
Measured	3,384,579	340	1.57	–	–	–	434	37.0	170.6	47.3	–	–	–
Indicated	1,307,053	293	1.34	–	–	–	374	12.3	56.2	15.7	–	–	–
Total	4,691,631	327	1.50	–	–	–	417	49.3	226.8	63.0	–	–	–
Inferred	3,943,208	284	1.41	–	–	–	369	36.0	179.0	46.7	–	–	–
San Jose													
Measured	777,207	640	8.85	–	–	–	1,171	16.0	221.1	29.3	–	–	–
Indicated	1,465,734	448	6.71	–	–	–	850	21.1	316.0	40.1	–	–	–
Total	2,242,941	515	7.45	–	–	–	962	37.1	537.2	69.3	–	–	–
Inferred	944,372	455	7.23	–	–	–	889	13.8	219.6	27.0	–	–	–
Main operations total													
Measured	5,616,068	412	2.52	–	–	–	563	74.3	454.8	101.6	–	–	–
Indicated	5,006,022	372	2.90	–	–	–	546	59.9	466.0	87.8	–	–	–
Total	10,619,090	393	2.70	–	–	–	555	134.1	920.7	189.4	–	–	–
Inferred	8,377,307	314	1.95	–	–	–	431	84.5	526.5	116.1	–	–	–
OTHER OPERATIONS													
Ares													
Measured	523,206	184	5.82	–	–	–	533	3.1	97.9	9.0	–	–	–
Indicated	152,060	199	3.02	–	–	–	380	1.0	14.8	1.9	–	–	–
Total	675,266	187	5.19	–	–	–	499	4.1	112.6	10.8	–	–	–
Inferred	414,112	171	3.74	–	–	–	395	2.3	49.7	5.3	–	–	–
Other operations total													
Measured	523,206	184	5.82	–	–	–	533	3.1	97.9	9.0	–	–	–
Indicated	152,060	199	3.02	–	–	–	380	1.0	14.8	1.9	–	–	–
Total	675,266	187	5.19	–	–	–	499	4.1	112.6	10.8	–	–	–
Inferred	414,112	171	3.74	–	–	–	395	2.3	49.7	5.3	–	–	–
ADVANCED/ GROWTH PROJECTS													
Inmaculada[1]													
Measured	3,283,431	128	4.10	–	–	–	374	13.5	432.8	39.4	–	–	–
Indicated	3,782,818	159	4.05	–	–	–	402	19.3	492.3	48.9	–	–	–
Total	7,066,249	144	4.07	–	–	–	389	32.8	925.1	88.3	–	–	–
Inferred	4,937,776	152	3.91	–	–	–	387	24.2	620.0	61.4	–	–	–

1 Inmaculada resources as published in the Feasibility Study released on 11 January 2012. Prices used for resources calculation: Au: $1,100/oz and Ag: $18/oz.

RESERVES AND RESOURCES CONTINUED

ATTRIBUTABLE METAL RESOURCES AS AT 31 DECEMBER 2013 (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/GROWTH PROJECTS CONTINUED													
Crespo[2]													
Measured	5,211,058	47	0.47	–	–	–	75	7.9	78.6	12.6	–	–	–
Indicated	17,298,228	38	0.40	–	–	–	62	21.0	222.5	34.3	–	–	–
Total	22,509,286	40	0.42	–	–	–	65	28.8	301.0	46.9	–	–	–
Inferred	775,429	46	0.57	–	–	–	80	1.1	14.2	2.0	–	–	–
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	–	–	–
Volcan[3]													
Measured	105,918,000	–	0.738	–	–	–	44	–	2,511.0	150.7	–	–	–
Indicated	283,763,000	–	0.698	–	–	–	42	–	6,367.0	382.0	–	–	–
Total	389,681,000	–	0.709	–	–	–	43	–	8,878.0	532.7	–	–	–
Inferred	41,553,000	–	0.502	–	–	–	30	–	671.0	40.3	–	–	–
Advanced/Growth Projects total													
Measured	114,603,091	6	0.82	–	–	–	56	22.9	3,027.1	204.5	–	–	–
Indicated	311,702,641	8	0.72	–	–	–	52	81.5	7,250.6	516.5	–	–	–
Total	426,305,732	8	0.75	–	–	–	53	104.3	10,277.6	721.0	–	–	–
Inferred	54,212,547	36	0.86	–	–	–	88	63.2	1,504.7	153.5	–	–	–
Other projects													
Jasperoide[4]													
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	122,133,081	26	0.91	0.08	0.04	0.00	84	103.3	3,580.6	329.2	99.3	43.1	5.5
Indicated	318,214,983	14	0.76	0.03	0.01	0.00	61	145.9	7,733.8	619.0	83.2	37.0	4.2
Total	440,348,064	18	0.80	0.04	0.02	0.00	67	249.2	11,314.3	948.2	182.4	80.1	9.7
Inferred	76,448,966	62	0.90	0.10	0.04	0.21	140	153.4	2,209.6	343.9	77.8	28.5	163.6

2 Prices used for resources calculation: Au: $1,300/oz and Ag: $23/oz.

3 Resources reported in the NI 43-101 Technical Report published by Andina Minerals, January 2011. Price used for resources calculation: Au: $950/oz.

4 The silver equivalent grade (147 g/t Ag Eq) has being calculated applying the following ratios, Cu/Ag=96.38 and Au/Ag=60.

CHANGE IN TOTAL RESERVES AND RESOURCES

Ag equivalent content (million ounces)	Category	December 2012	Production[1]	Movements[2]	December 2013	Net difference	% change
Arcata	Resource	106.4	–	(6.9)	99.4	(6.9)	(6.5)
	Reserve	25.6	7.6	5.5	23.5	(2.1)	(8.2)
Pallancata	Resource	110.7	–	(1.0)	109.7	(1.0)	(0.9)
	Reserve	37.0	11.6	3.7	29.0	(7.9)	(21.4)
San Jose	Resource	189.7	–	(0.8)	188.9	(0.8)	(0.4)
	Reserve	48.8	14.0	19.8	54.6	5.8	11.9
Main operations total	Resource	406.8	–	(8.7)	398.0	(8.7)	(2.1)
	Reserve	111.4	33.2	28.9	107.2	(4.2)	(3.8)
Ares	Resource	15.8	–	0.3	16.1	0.3	1.7
	Reserve	2.6	2.4	0.6	0.9	(1.8)	(67.9)
Other operations total	Resource	15.8	–	0.3	16.1	0.3	1.7
	Reserve	2.6	2.4	0.6	0.9	(1.8)	(67.9)
Inmaculada	Resource	149.7	–	–	149.7	–	–
	Reserve	48.8	–	32.3	81.1	32.3	66.1
Crespo	Resource	48.9	–	–	48.9	–	–
	Reserve	–	–	–	–	–	–
Azuca	Resource	103.0	–	–	103.0	–	–
	Reserve	–	–	–	–	–	–
Volcan	Resource	572.9	–	–	572.9	–	–
	Reserve	–	–	–	–	–	–
Advanced/Growth Projects total	Resource	874.5	–	–	874.5	–	–
	Reserve	48.8	–	32.3	81.1	32.3	66.1
Jasperoide	Resource	57.6	–	–	57.6	–	–
	Reserve	–	–	–	–	–	–
San Felipe	Resource	38.5	–	–	38.5	–	–
	Reserve	–	–	–	–	–	–
Other projects total	Resource	96.0	–	–	96.0	–	–
	Reserve	–	–	–	–	–	–
TOTAL	Resource	1,393.1	–	(8.5)	1,384.6	(8.5)	(0.6)
	Reserve	162.9	35.5	61.8	189.1	26.3	16.1

1 Depletion: reduction in reserves based on ore delivered to the mine plant.
2 Variation in reserves and resources due mainly to mine site exploration but also to price changes.

RESERVES AND RESOURCES CONTINUED

CHANGE IN ATTRIBUTABLE RESERVES AND RESOURCES

Ag equivalent content (million ounces)	Category	Percentage attributable December 2013	December 2012 Att.[1]	December 2013 Att.[1]	Net difference	% change
Arcata	Resource	100%	106.4	99.4	(6.9)	(6.5)
	Reserve		25.6	23.5	(2.1)	(8.2)
Pallancata	Resource	100%	66.4	109.7	43.3	65.2
	Reserve		37.0	29.0	(7.9)	(21.4)
San Jose	Resource	51%	96.8	96.3	(0.4)	(0.4)
	Reserve		24.9	27.9	3.0	11.9
Main operations total	Resource		269.5	305.5	35.9	13.3
	Reserve		87.5	80.4	(7.1)	(8.1)
Ares	Resource	100%	15.8	16.1	0.3	1.7
	Reserve		2.6	0.9	(1.8)	(67.9)
Other operations total	Resource		15.8	16.1	0.3	1.7
	Reserve		2.6	0.9	(1.8)	(67.9)
Inmaculada	Resource	100%	89.8	149.7	59.9	66.7
	Reserve		48.8	81.1	32.3	66.1
Crespo	Resource	100%	48.9	48.9	–	–
	Reserve		–	–	–	–
Azuca	Resource	100%	103.0	103.0	–	–
	Reserve		–	–	–	–
Volcan	Resource	100%	572.9	572.9	–	–
	Reserve		–	–	–	–
Advanced/Growth Projects total	Resource		814.6	874.5	59.9	7.3
	Reserve		48.8	81.1	32.3	66.1
Jasperoide	Resource	100%	57.6	57.6	–	–
	Reserve		–	–	–	–
San Felipe	Resource	100%	38.5	38.5	–	–
	Reserve		–	–	–	–
Other projects total	Resource		96.0	96.0	–	–
	Reserve		–	–	–	–
TOTAL	Resource		1,196.0	1,292.1	96.1	8.0
	Reserve		138.9	162.4	23.4	(9.8)

1 Attributable reserves and resources based on the Group's percentage ownership of its joint venture projects.

PRODUCTION

2013 TOTAL GROUP PRODUCTION[1]

	Year ended 31 December 2013	Year ended 31 December 2012	% change
Silver production (koz)	19,754	19,443	2
Gold production (koz)	175.22	164.34	7
Total silver equivalent (koz)	30,267	29,304	3
Total gold equivalent (koz)	504.45	488.40	3
Silver sold (koz)	19,555	18,928	3
Gold sold (koz)	168.56	159.8	5

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 2013	Year ended 31 December 2012	% change
Silver production (koz)	13,588	13,550	–
Gold production (koz)	115.7	111.82	3
Attributable silver equivalent (koz)	20,528	20,260	1
Attributable gold equivalent (koz)	342.13	337.7	1

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

	Year ended 31 December 2013	Year ended 31 December 2012	% change
Ore production (tonnes)	900,861	773,498	16
Average head grade silver (g/t)	217	271	(20)
Average head grade gold (g/t)	0.74	0.83	(11)
Silver produced (koz)	4,984	5,526	(10)
Gold produced (koz)	16.83	17.27	(3)
Silver equivalent produced (koz)	5,994	6,562	(9)
Silver sold (koz)	4,924	5,236	(6)
Gold sold (koz)	15.95	15.9	–

Ares

	Year ended 31 December 2013	Year ended 31 December 2012	% change
Ore production (tonnes)	329,095	336,426	(2)
Average head grade silver (g/t)	82	54	52
Average head grade gold (g/t)	2.39	2.65	(10)
Silver produced (koz)	757	481	57
Gold produced (koz)	23.40	26.28	(11)
Silver equivalent produced (koz)	2,162	2,058	5
Silver sold (koz)	761	473	61
Gold sold (koz)	23.25	25.8	(10)

PRODUCTION CONTINUED

Pallancata[1]

	Year ended 31 December 2013	Year ended 31 December 2012	% change
Ore production (tonnes)	1,088,712	1,094,250	(1)
Average head grade silver (g/t)	264	256	3
Average head grade gold (g/t)	1.13	1.09	4
Silver produced (koz)	7,628	7,441	3
Gold produced (koz)	27.83	26.23	6
Silver equivalent produced (koz)	9,298	9,014	3
Silver sold (koz)	7,567	7,280	4
Gold sold (koz)	26.67	25.1	6

1 Until 20 Dec 2013 the Company had a 60% interest in Pallancata. Following completion of the International Minerals acquisition the Company now owns 100% of Pallancata.

San Jose[2]

	Year ended 31 December 2013	Year ended 31 December 2012	% change
Ore production (tonnes)	536,937	509,851	5
Average head grade silver (g/t)	425	417	2
Average head grade gold (g/t)	6.42	5.79	11
Silver produced (koz)	6,357	5,953	7
Gold produced (koz)	98.83	85.77	15
Silver equivalent produced (koz)	12,286	11,099	11
Silver sold (koz)	6,278	5,897	6
Gold sold (koz)	94.76	84.3	12

2 The Company has a 51% interest in San Jose.

Moris

	Year ended 31 December 2013	Year ended 31 December 2012	% change
Ore production (tonnes)	–	–	–
Average head grade silver (g/t)	–	–	–
Average head grade gold (g/t)	–	–	–
Silver produced (koz)	27	42	(37)
Gold produced (koz)	8.33	8.79	(5)
Silver equivalent produced (koz)	527	570	(8)
Silver sold (koz)	26	42	(38)
Gold sold (koz)	7.93	8.7	(9)

GLOSSARY

AG
Silver

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

ALL-IN SUSTAINING COSTS (AISC)
All-in sustaining cash cost per silver equivalent ounce is a non-IFRS measure. It is calculated before exceptional items and includes cost of sales less depreciation and change in inventories, administrative expenses, brownfield exploration, operating capex and royalties divided by silver equivalent ounces produced using a ratio of 60:1 (Au/Ag). Also includes commercial discounts and selling expenses divided by silver equivalent ounces sold using a ratio of 60:1 (Au/Ag).

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.

AU
Gold

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 9.30am on 22 May 2014 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).

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+44 (0)1484 600 911

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 2930 or via the website by visiting the 'Contact Us' section.

FINANCIAL CALENDAR

Annual General Meeting	22 May 2014
Half-yearly results announced	August 2014

LONDON OFFICE AND REGISTERED OFFICE ADDRESS

46 Albemarle Street
London
W1S 4JL
United Kingdom

COMPANY SECRETARY

R D Bhasin

ADVICE TO SHAREHOLDERS CONCERNING SHARE FRAUD

Fraudsters use persuasive and high-pressure tactics to lure investors into scams.

They may offer to sell shares that turn out to be worthless or non-existent, or to buy shares at an inflated price in return for an upfront payment.

While high profits are promised, if you buy or sell shares in this way you will probably lose your money

How to avoid share fraud

- Keep in mind that firms authorised by the FCA are unlikely to contact you out of the blue with an offer to buy or sell shares.
- Do not get into a conversation, note the name of the person and firm contacting you and then end the call.
- Check the Financial Services Register from www.fca.org.uk to see if the person and firm contacting you is authorised by the FCA.
- Beware of fraudsters claiming to be from an authorised firm, copying its website or giving you false contact details.
- Use the firm's contact details listed on the Register if you want to call it back.
- Call the FCA on 0800 111 6768 if the firm does not have contact details on the Register or you are told they are out of date.
- Search the list of unauthorised firms to avoid at www.fca.org.uk/scams.
- Consider that if you buy or sell shares from an unauthorised firm you will not have access to the Financial Ombudsman Service or Financial Services Compensation Scheme.
- Think about getting independent financial and professional advice before you hand over any money.
- Remember: if it sounds too good to be true, it probably is!

Report a scam

If you are approached by fraudsters please tell the FCA using the share fraud reporting form at www.fca.org.uk/scams, where you can find out more about investment scams.

You can also call the FCA Consumer Helpline on 0800 111 6768.If you have already paid money to share fraudsters you should contact Action Fraud on 0300 123 2040.

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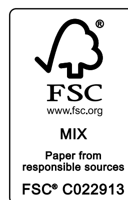

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FORWARD-LOOKING STATEMENTS

The constituent parts of this Annual Report, including those that make up the Directors' Report, contain certain forward-looking statement, 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. 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, 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 announcement. Nothing in this Annual Report should be construed as a profit forecast.

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