

ANNUAL REPORT & ACCOUNTS 2014

# Delivering profitable growth



**HOCHSCHILD MINING PLC**

# Delivering profitable growth

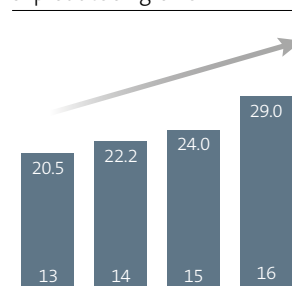
We are a leading underground precious metals company, focusing on the exploration, mining, processing and sale of silver and gold in the Americas.

With over 50 years of experience in the mining of precious metal epithermal vein deposits, we are one of the top five primary silver producers in the world. We are headquartered in Lima, Peru and currently have three underground mines in operation, with three located in southern Peru and one in southern Argentina. Three of these mines are among the 15 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 second quarter of 2015 and produce approximately 12 million ounces of silver equivalent per year. We also have extensive greenfield exploration optionality across premium geological locations throughout South America and Mexico.

## PRODUCTION GROWTH

We are delivering three years of production growth



Over 40% PRODUCTION GROWTH

## CONTENTS

### STRATEGIC REPORT

- 01 Key performance indicators
- 02 Where we operate
- 03 How we do it
- 04 How we are going to get there
- 05 Our market overview
- 06 Chairman's statement
- 07 Chief Executive's review
- 09 Operating review
- 13 Exploration review
- 14 Financial review
- 20 Sustainability report
- 30 Risk management

### GOVERNANCE

- 36 Board of Directors and Senior Management
- 38 Directors' report
- 40 Corporate governance report
- 51 Supplementary information
- 55 Directors' remuneration report
- 80 Statement of Directors' responsibilities
- 81 Independent auditor's report

### FINANCIAL STATEMENTS

- 86 Consolidated income statement
- 87 Consolidated statement of comprehensive income
- 88 Consolidated statement of financial position
- 89 Consolidated statement of cash flows
- 90 Consolidated statement of changes in equity
- 91 Notes to the consolidated financial statements
- 150 Parent company statement of financial position
- 151 Parent company statement of cash flows
- 152 Parent company statement of changes in equity
- 153 Notes to the parent company financial statements

### FURTHER INFORMATION

- 165 Profit by operation
- 166 Reserves and resources
- 172 Production
- 174 Glossary
- 175 Shareholder information



## OUR KEY PERFORMANCE INDICATORS

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

|    |     |
|----|-----|
| 14 | 493 |
| 13 | 622 |
| 12 | 818 |
| 11 | 988 |
| 10 | 752 |

### ADJUSTED EBITDA \$m

|    |     |
|----|-----|
| 14 | 136 |
| 13 | 201 |
| 12 | 385 |
| 11 | 563 |
| 10 | 398 |

### EARNINGS PER SHARE \$

|           |
|-----------|
| (0.15) 14 |
| (0.15) 13 |
| 12 0.19   |
| 11 0.49   |
| 10 0.28   |

### PROPOSED TOTAL DIVIDEND \$

|    |      |
|----|------|
| 14 | Nil  |
| 13 | Nil  |
| 12 | 0.06 |
| 11 | 0.06 |
| 10 | 0.05 |

### TOTAL SILVER CASH COSTS \$/oz Ag co-product

|    |      |
|----|------|
| 14 | 12.1 |
| 13 | 12.9 |
| 12 | 14.2 |
| 11 | 13.0 |
| 10 | 9.3  |

### TOTAL GOLD CASH COSTS \$/oz Au co-product

|    |     |
|----|-----|
| 14 | 864 |
| 13 | 801 |
| 12 | 781 |
| 11 | 613 |
| 10 | 535 |

### LTIFR

|    |      |
|----|------|
| 14 | 3.07 |
| 13 | 2.08 |
| 12 | 3.33 |
| 11 | 3.63 |
| 10 | 3.70 |

Calculated as total number of accidents per million labour hours.

### ACCIDENT SEVERITY INDEX

|    |       |
|----|-------|
| 14 | 149   |
| 13 | 598   |
| 12 | 1,058 |
| 11 | 910   |
| 10 | 777   |

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

### COMMUNITY INVESTMENT \$m

|    |     |
|----|-----|
| 14 | 1.9 |
| 13 | 3.2 |
| 12 | 6.5 |
| 11 | 7.7 |
| 10 | 6.7 |

Total social expenditure for 2014 amounted to \$6.7 million. For further details please see the Sustainability report.



### DISCOVER MORE ONLINE ABOUT HOW WE ARE DELIVERING PROFITABLE GROWTH

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

[www.hochschildmining.com](http://www.hochschildmining.com)

## WHERE WE OPERATE

We have over half a century's operating and exploration experience in the Americas.



### Key

- Current operations
- Advanced and growth projects

### CURRENT OPERATIONS<sup>1</sup>

|   |  |  |                       |
|---|--|--|-----------------------|
| 1 | <b>Arcata</b><br>Peru                    | Silver equivalent production<br>Capacity | 6.8 moz<br>1,500 tpd  |
| 2 | <b>Pallancata</b><br>Peru                | Silver equivalent production<br>Capacity | 8.0 moz<br>1,800 tpd  |
| 3 | <b>San José<sup>2</sup></b><br>Argentina | Silver equivalent production<br>Capacity | 12.1 moz<br>1,650 tpd |

### ADVANCED AND GROWTH PROJECTS

|   |                           |   |         |
|---|---------------------------|---|---------|
| 4 | <b>Inmaculada</b><br>Peru | Estimated silver equivalent production p.a. | 12 moz  |
| 5 | <b>Crespo</b><br>Peru     | Estimated silver equivalent production p.a. | 2.7 moz |
| 6 | <b>Volcan</b><br>Chile    | Estimated silver equivalent production p.a. | n/a     |
| 7 | <b>Azuca</b><br>Peru      | Estimated silver equivalent production p.a. | 3.5 moz |

### GREENFIELD PROJECTS

|           |                               |
|-----------|-------------------------------|
| Peru      | Corina                        |
| Argentina | El Mosquito, Ponoma, La Flora |
| Mexico    | Riverside JV                  |

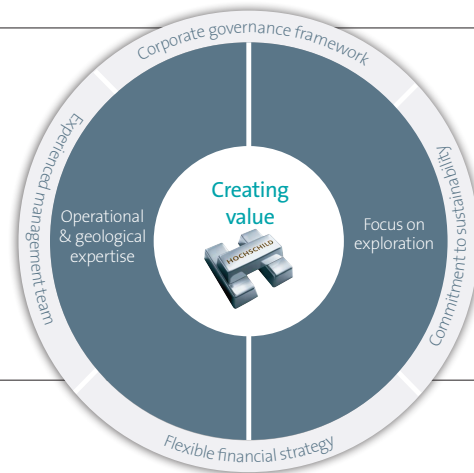
1 Silver equivalent production equals total gold production multiplied by 60 (historical gold/silver ratio) added to the total silver production. Capacity is measured as tonnes per day ('tpd').

2 The Company has a 51% interest in San José.



## HOW WE DO IT

We believe that our sustainable business model and core strengths offer a unique and compelling investment proposition.



## 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 over 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 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.

### 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.

### FLEXIBLE FINANCIAL STRATEGY

Our financing initiatives are part of a funding strategy that underpins our business strategy. We have the flexible financial relationships and support to invest in near-term low cost growth, manage the current operations in volatile commodity markets and provide access to further liquidity should the need arise.

We have also recently utilised a focused hedging strategy to maintain cashflow stability whilst we are allocating project capital expenditure.

### 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 over 50 years. Our management team has also managed joint venture operations and successfully integrated several acquisitions and business expansions.

### 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 over 50 years.



## HOW WE ARE GOING TO GET THERE

Our long-term 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:

#### CORE ASSETS

|   |   |   |  |
|---|---|---|--|
| <ul style="list-style-type: none"> <li>▶ Improve productivity</li> <li>▶ Optimise life-of-mine</li> </ul> | <p>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 achieved all of our annual production targets and have also expanded our</p> | <p>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 but also flexible operations. We strongly believe that constantly</p> | <p>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 but withstand short term market volatility.</p> |
|---|---|---|--|

#### EXPLORATION

|  |  |  |   |
|--|--|--|---|
| <ul style="list-style-type: none"> <li>▶ Land package</li> <li>▶ People</li> <li>▶ Incentives</li> <li>▶ Budget</li> </ul> | <p>We believe that significant long-term value can be created for our company by discovering economic mineral resources. We have an experienced geological team and have developed processes utilising computer-designed models to generate geological theories, which together with extensive on-site prospecting, have allowed us to</p> | <p>build a land package of promising sites across 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, subject to market conditions and to drill and develop our exploration projects.</p> | <p>We believe that this disciplined but flexible strategy will allow us to access attractive mineral resources for the long-term sustainability of our mining business.</p> |
|--|--|--|---|

#### EARLY-STAGE ACQUISITIONS

|  |   |   |   |
|--|---|---|---|
| <ul style="list-style-type: none"> <li>▶ Early stage</li> <li>▶ Geological potential</li> <li>▶ Highly accretive</li> <li>▶ Control</li> </ul> | <p>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</p> | <p>policies and subject to market conditions. We have a proven track record of identifying opportunities, such as our acquisition of the original controlling stake in the Inmaculada Advanced Project as well as the acquisition of Andina</p> | <p>Minerals, which added the Volcan Growth Project to our pipeline. We believe the 2013 acquisition of the remaining 40% of Inmaculada fits our strategy of adding highly prospective early-stage projects.</p> |
|--|---|---|---|

## OUR MARKET OVERVIEW

Silver prices were pushed lower primarily by short term investors who moved their funds out of not only silver but much of the commodities complex.

### GOLD SUMMARY

Gold prices faced a variety of headwinds during 2014, with stock markets rising, the U.S. dollar strengthening, and oil prices weakening. In spite of all of these typically price-negative factors, the price of gold held up fairly well during 2014 compared to the sharp declines in 2013. Prices averaged \$1,266 during 2014, the fourth highest annual average on record. During 2014 gold traded between \$1,132 and \$1,393, with most of the price activity occurring between \$1,200 and \$1,340.

Investors remained buyers of gold during 2014, purchasing 29.9 million ounces of the metal on a net basis during the year. Shorter term investors' selling continued throughout 2014 but the volumes of such sales declined sharply compared to the amount sold in the second quarter of 2013. Meanwhile, all the gold that the short-term investors have sold has been absorbed by longer term investors who remain focused on the wide variety of longer term economic, financial market, and political issues. These investors also purchased an additional 29.9 million ounces on top of that.

Central banks generally remained positive on gold during 2014 and at the end of November 2014 reported net purchases by central banks had reached 2.78 million ounces for the year. Approximately 63% of gross purchases were made by Russia and 73% of gross sales were made by the Bank of International

Settlement ('BIS'). The Russian central bank gold purchases are part of a broader political policy whilst sales by the BIS are primarily the unwinding of dollar-gold swaps with major European commercial banks which is expected to be completed in 2015.

Total gold supply, which is comprised of mine production and secondary supply from old scrap, rose during 2014 to 126.6 million ounces with the increase entirely driven by an increase in mine production. The increase was the result of projects brought onstream between late 2012 and 2014 with some very large projects like Pueblo Viejo, Tropicana East, Detour Lake, Kibali, and Oyu Tolgoi commissioning during 2013 and ramping up in 2014, which more than offset any weakness in mine supply from older projects. The decline in gold prices since 2013 resulted in most mining companies scaling back on operating and capital expenditure.

Relatively softer gold prices helped boost gold fabrication demand to 94.7 million ounces in 2014, up 3.0% from 2013. The relative weakness in gold prices since 2012 has helped to increase demand, while consumers have come to accept gold prices at presently lofty levels as the new normal. Indian demand, which has been hurt in recent years, benefitted from stability in the Indian rupee and weaker global gold prices. These factors reduced the cost of imports to the country.

### SILVER SUMMARY

The weakness in silver prices during the year provided opportunities for longer term investors who were buying in large quantities which played an important role supporting prices over the course of the year. Silver prices averaged \$19.07 during 2014, down from an annual average of \$23.85 in 2013.

Silver prices were pushed lower primarily by short term investors who moved their funds out of not only silver but much of the commodities complex whilst longer term investors were using the price weakness as a buying opportunity. For example, there were record sales of 44 million ounces of silver coins by the U.S. Mint of Silver Eagle coins to its dealers during the year, up 6.1% over 2013 levels.

Silver fabrication demand has been rising at a healthy pace since 2013, largely driven by an increase in silver jewellery demand but also by an increase in demand from electronics and solar panels. Total silver fabrication demand rose to 865.3 million ounces in 2014, up 3.5% from 2013. Demand from the jewellery and silverware sector, which accounts for around a third of total fabrication demand, rose to 277.9 million ounces, up 4.3% from 2013. Demand from this sector was helped by the relatively softer silver prices and by the imposition of import duties on gold by the Indian government (which were lifted in November 2014), which boosted demand for silver in jewellery.

Demand for silver from electronics rose during 2014 to 223.7 million ounces, up 2.5% from 2013 driven in part by the increased use of electronics in the auto market and by the near completion of the transition of consumers from personal computers to tablets, which require smaller quantities of silver per unit. The sheer increase in the number of tablet and tablet-like devices being bought globally more than offset the lost demand due to reduced per unit usage.

Silver demand from the solar panel industry is relatively small compared to the jewellery and electronics sectors, but it is one of the most rapidly growing sectors of demand. Silver demand from the solar panel industry reached 62.7 million ounces in 2014, up 33.1% from 2013 levels. The ongoing renewable energy drive by governments and private sector entities around the globe is expected to boost demand for solar panels for years to come.

An increase in metals prices during the 2000s resulted in a large amount of new mine capacity coming onstream in recent years. The relatively gentler decline in silver prices during 2014, compared to 2013, had less of a negative impact on silver secondary supply, which is estimated to have declined by 6.5% during the year.



For more information visit [www.hochschildmining.com](http://www.hochschildmining.com)

Source: CPM Group LLC

## CHAIRMAN'S STATEMENT

Throughout another year of weak commodity markets, we have executed a consistent strategy and I am delighted that we are now so close to the completion of Inmaculada, our next mine in Peru.

### HIGHLIGHTS FROM 2014

- Inmaculada project close to completion
- Cashflow optimisation programme delivering almost \$300 million of savings
- Core operations optimised

### 2014 OVERVIEW

Throughout another year of weak commodity markets, we have executed a consistent strategy and I am delighted that we are now so close to the completion of Inmaculada, our next mine in Peru. Our management team has skilfully navigated its way through a continuing decline in silver prices whilst keeping the organisation competitive, allocating capital to project construction and maintaining our financial flexibility.

Following our acquisition of the remaining stake in Inmaculada in 2013, I remain confident about not only the plant commissioning and mine ramp-up in just a few weeks from now, but also the considerable potential within the mine's surrounding area. I believe that there is scope over the coming years to transform our Inmaculada land package into a world class mining district and provide Hochschild with low cost growth for many years to come and significantly beyond the originally envisaged mine life. In addition, the Arcata deposit still has strong geological potential and we continue to assess a variety of attractive exploration and partnership opportunities. I believe that the competitive advantages we have from our long regional experience, our strong local business relationships as well as long-standing partnerships with key local suppliers will allow us to develop our assets in a cost effective manner. Across the Americas, Hochschild has accumulated a number of highly prospective early stage projects which will provide a growth platform for years to come.

The speed and success of our cashflow optimisation programme, which has exceeded our initial expectations, has been vital in our drive to ensure our Company operates profitably in underlying commodity markets that unfortunately have not yet recovered after the initial steep

declines in mid 2013. Indeed with the silver price once again reaching its lowest level since 2010, some necessary mine plan adjustments were made to our Peruvian assets which will ensure their viability in 2015 and especially during the key final stages of the Inmaculada project construction. We have also recently put in place further hedging for a portion of our Peruvian production for the year, which will provide us with a degree of cashflow stability in 2015.

Despite another highly creditable performance operationally, Hochschild's 2014 earnings remain in negative territory principally due to higher interest costs resulting from the inaugural senior notes issue in January 2014 which we expect to be offset once the Inmaculada project is complete. The Board therefore proposes not to reinstate the full year dividend whilst the cash position is still restricted by project capital expenditure. We remain committed to the long term principle of delivering shareholder returns and the Board intends to again reassess the position once the Company returns to profitability.

### OPERATING RESPONSIBLY

Our commitment to safety remains steadfast and one that we are not willing to compromise and I am therefore delighted to report that for the first time since our listing in 2006, we have been able to achieve our on-going objective of Zero Fatalities in the year. This is a true testament to all our teams who have collectively worked to improve the safety culture across the Company and of course, to our workers themselves. Being a 'Responsible Operator' sits at the core of our business strategy and as showcased in the 2014 Sustainability Report, through the diverse range of initiatives we have undertaken during the year. In addition to building upon our successes with the Travelling Doctor programme, where we have extended its reach and the range of services offered, and the award-winning Digital Chalhuanca project, we have worked with the communities close to the Inmaculada project to establish business networks dealing in locally grown produce as a means of promoting sustainable economic development. Looking at our

commitment to the environment, I am proud to report that our main operations have been re-certified as compliant with the ISO 14001 international standard, acknowledging the integrity of our environmental management systems.

### BOARD

It is in these challenging times for the industry that the need for strong leadership is of paramount importance and, for this reason, I wish to commend our dedicated management team for their ongoing efforts and my fellow directors for their continued support during the year. Whilst mindful of the benefits of refreshing the composition of the Board, I consider the need for stability in this key transitional period as being as crucial as ever. I am, therefore, also grateful to our directors for agreeing to delay the implementation of our Non-Executive succession plan.

The continued operating challenges prompted the Board to review its contribution to the Cashflow Optimisation Programme resulting in a further reduction in Board remuneration. This reflects an acknowledgment of the sacrifices made by colleagues across the business and the impact on shareholders from the volatile price environment.

After discussions with the Board, I took the decision to assume a Non-Executive role, as announced at the end of last year. Despite this recent change, I remain resolutely committed to the business as we position ourselves to optimise the delivery of value to all of our stakeholders.

### OUTLOOK

It remains challenging to predict the short term direction of precious metal markets although we retain our belief that the strong underlying fundamentals will reassert themselves. However, the Board is reassured that considerable steps have been taken to ensure the Company's resilience in a low price environment but also to capitalise on an upturn when it happens with low cost, value accretive growth.

### EDUARDO HOCHSCHILD

Chairman

17 March 2015



## CHIEF EXECUTIVE'S REVIEW

We are confident that Inmaculada will not only become our flagship low cost producer but, with the strong upside potential at the deposit, will represent an important engine of growth for the long term.

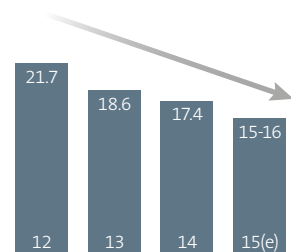
### HIGHLIGHTS FROM 2014

- Inmaculada project close to completion
- Full year production 6% above expectations
- All-in sustaining costs reduced by 6%

### 2015 TARGETS

- Deliver low cost, 100% owned Inmaculada project
- Manage flexible balance sheet strategy
- Deliver all-in sustaining costs per silver equivalent ounce of between \$15 to \$16

### MAIN OPERATIONS ALL-IN SUSTAINING COSTS \$/oz Ag Eq



Hochschild's key strategic aims for 2014 have been to advance our flagship Inmaculada project to its final stages, to continue to drive our successful cashflow optimisation programme and finally, to manage the Company's finances through what was always expected to be a challenging transitional phase. These objectives have been achieved despite further silver price weakness during 2014, a trend that has now extended to the majority of commodity markets.

### GROWTH

The importance of the low cost Inmaculada mine for the future competitiveness of the Company was emphasised throughout the year whilst good progress was made at the project. The plant contractor, Graña y Montero, commenced work on the plant in early April and in spite of a few delays, plant completion has now reached 90%. Excellent progress has also been made in other key deliverables including the completion of the camp, connection to the national grid and all procurement and infrastructure targets achieved. We remain confident that the commissioning date in Q2 will be achieved. The key area of underground mine development has progressed well and consequently a substantial ore stockpile will be available for processing on completion of the plant, ensuring our production guidance from the mine in 2015 of six to seven million silver equivalent ounces remains in place.

### COST SAVINGS

Throughout 2014, Hochschild has continued to make substantial progress in improving the cost position of its current mines as well as of the Company as a whole. Initiatives have encompassed all business areas including administration, exploration and most importantly at the operational level where we have achieved further efficiencies in supply chain management and commercial negotiations as well as significant working capital

improvements. Both the Peruvian operations have been optimised with the focus now on accessible ore. This has reduced sustaining capital expenditure for 2015 and has resulted in a reduction in plant throughput at both sites with the Company focusing on the production of profitable ounces. Whilst the overall efficiency drive has necessitated further headcount reductions, the Company's all-in sustaining cost target for 2015 of between \$15 and \$16 per silver equivalent ounce represents a significant reduction and demonstrates the potential upside of our flexible strategy. Beyond 2015, it is essential to the ongoing competitiveness of the current Peruvian mines that further operational efficiencies are achieved and that the brownfield exploration programme continues to find additional high quality resources.

### FINANCING

With the Company allocating significant growth capital expenditure to Inmaculada in a volatile precious metal environment, focused management of our financial position has been crucial. We began the year with our inaugural senior note offering raising approximately \$350 million to finance the previous year's International Minerals acquisition and continued to demonstrate sufficient financial flexibility to fund the remaining Inmaculada expenditure as well as repaying the \$115 million convertible bond in October. Liquidity has been further enhanced with a \$100 million medium term credit facility secured late in the year. We also took advantage of short periods of price improvement to hedge almost 30% of our 2014 production in order to realise a degree of cashflow certainty during the year. We believe that such a strategy will remain appropriate during commissioning and ramp up of the new mine as we transition to lower cost production.

## CHIEF EXECUTIVE'S REVIEW CONTINUED



*Inmaculada conveyor belt*



*Selene*

### 2014 OVERVIEW

Despite our own ongoing programme of costs savings across the organisation, our current operations responded well, exceeding the forecast production target by almost 6% and delivering 22.2 million attributable silver equivalent ounces. Arcata in Peru and San José in Argentina both enjoyed robust years with their combined contribution lifting by 3% versus 2013 whilst the adjustment in production at Pallancata reflected the continuing move to thinner veins. We were also able to deliver a better than expected final production result from the Ares mine which was suspended in June.

Financial results for 2014 reflected the effect of a near 15% fall in the average price achieved of silver despite some relief provided by the hedges taken out during the year. Pre-exceptional EBITDA was \$135.5 million as a result of the aggressive plan to reduce costs and expenses designed to offset the lower revenues. The increase in the annual finance costs is primarily related to the bond issued in January 2014 to complete the acquisition of Inmaculada and Pallancata minorities and consequently the Company expects that, once the new mine commences production and starts generating cashflow, this charge will be

largely absorbed. Pre-exceptional EPS was (0.15) cents per share. The cash balance at the end of 2014 was \$116 million although an additional \$75 million of short term lines have been drawn down in early 2015.

### OUTLOOK

Production for 2015 is expected to increase to 24 million attributable silver equivalent ounces which takes into account between six and seven million ounces from Inmaculada. Costs are expected to fall substantially although a portion of the capital expenditure savings is non-recurring beyond 2015. The Company has also continued its policy of protecting cashflows during the Inmaculada construction by hedging a further six million silver ounces for 2015 at \$17.75 per ounce on top of the 38,000 gold ounces already hedged at \$1,300 per ounce.

In 2015, the focus of expenditure will remain firmly on completing and ramping up Inmaculada, brownfield exploration at our current operations and a drilling campaign at the Corina project in Peru. Whilst exploration-led growth remains an important part of Hochschild's long term strategy, the cashflow optimisation programme has led to significant reductions in our exploration initiatives especially at

our greenfield projects, which we expect to resume once prices recover.

2014 has proved to be another challenging year for the Company and the management team is, once again, encouraged by the committed attitude shown by all our employees. We look forward to the commissioning of our new mine and expect to see the Company in a stronger position by the end of 2015. We are confident that Inmaculada will not only become our flagship low cost producer but, with the strong upside potential at the deposit, will represent an important engine of growth for the long term.

**IGNACIO BUSTAMANTE**  
Chief Executive Officer

17 March 2015



*Inmaculada plant construction*

## OPERATING REVIEW

In 2014, Hochschild once again successfully exceeded its full-year production target, delivering 22.2 million attributable silver equivalent ounces.

### HIGHLIGHTS FROM 2014

- Full-year production of 22.2 million attributable silver equivalent ounces achieved, exceeding guidance by 6%
- Main operation all-in sustaining costs reduced by 6% in 2014
- Strong progress at Inmaculada Advanced Project with commissioning expected in Q2 2015

### CORE ASSET KPIs

#### ATTRIBUTABLE SILVER PRODUCTION moz

|    |      |
|----|------|
| 14 | 16.2 |
| 13 | 13.6 |
| 12 | 13.6 |
| 11 | 15.0 |
| 10 | 17.8 |

#### ATTRIBUTABLE GOLD PRODUCTION moz

|    |      |
|----|------|
| 14 | 10.1 |
| 13 | 11.6 |
| 12 | 11.2 |
| 11 | 12.7 |
| 10 | 14.4 |

### CORE ASSETS

#### CURRENT OPERATIONS

##### PRODUCTION

In 2014, Hochschild once again successfully exceeded its full year production target, delivering attributable production of 22.2 million silver equivalent ounces, including 16.2 million ounces of silver and 101 thousand ounces of gold. Hochschild's production target for 2015 is 24.0 million attributable silver equivalent ounces. The increase is mainly explained by the inclusion of between six to seven million ounces from the Inmaculada project offsetting the reduced contribution from the current operations in Peru following the revision of mine plans.

In order to reduce operating expenditure and ensure that all the Company's mines can deliver profitable ounces in 2015, the mine plans of the Arcata and Pallancata operations have been optimised to maximise cash generation with the operational focus expected to be on accessible ore areas requiring reduced capital expenditure with cut-off grades reflecting the current weaker metal price environment. Plant throughput is expected to be reduced to 1,500 tonnes per day at

Arcata and 1,800 tonnes per day at Pallancata, with the San José operation in Argentina continuing at its current level.

##### COSTS

The Company's all-in sustaining costs at its main operations were reduced by 6% in 2014 to \$17.4 per ounce driven by operational initiatives resulting from the cashflow optimisation programme, an ongoing decrease in industry cost inflation and grade improvements particularly at Arcata<sup>1</sup>. Unit cost per tonne at the main Peruvian operations was at \$77.3 (2013: \$74.2) with key factors being narrower veins at Pallancata and the absence of material from the low cost Macarena waste dam deposit at Arcata. In Argentina, unit cost per tonne was reduced by 6% to \$197.8 (2013: \$210.0). Please see page 16 of the Financial Review for further details on costs.

The emphasis on profitable ounces at all operations with reduced levels of sustainable capital expenditure for 2015 is expected to have a positive effect on the Company's overall costs with the all-in sustaining cost for the Company now expected to be reduced to between \$15 to \$16 per ounce in 2015.

<sup>1</sup> All-in sustaining cash cost per silver equivalent ounce: calculated before exceptional items 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).



Arcata camp in winter



## OPERATING REVIEW CONTINUED



Arcata plant at night



Underground at Pallancata

## ARCATA

## KEY SITE INFORMATION

Silver production koz

5,827

Gold production koz

16.89

Silver equivalent production koz

6,841

| Arcata summary                                     | Year ended<br>31 Dec 2014 | Year ended<br>31 Dec 2013 | % change |
|--|---------------------------|---------------------------|----------|
| Ore production (tonnes)                            | 701,947                   | 900,861                   | (22)     |
| Average silver grade (g/t)                         | 286                       | 217                       | 32       |
| Average gold grade (g/t)                           | 0.85                      | 0.74                      | 15       |
| Silver produced (koz)                              | 5,827                     | 4,984                     | 17       |
| Gold produced (koz)                                | 16.89                     | 16.83                     | –        |
| Silver equivalent produced (koz)                   | 6,841                     | 5,994                     | 14       |
| Silver sold (koz)                                  | 5,621                     | 4,924                     | 14       |
| Gold sold (koz)                                    | 15.66                     | 15.95                     | (2)      |
| Unit cost (\$/t)                                   | 89.1                      | 81.3                      | 10       |
| Total cash cost (\$/oz Ag co-product) <sup>1</sup> | 12.6                      | 12.7                      | (1)      |
| All-in sustaining cost (\$/oz)                     | 17.7                      | 20.9                      | (15)     |

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

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

## PRODUCTION

Full year silver equivalent production at Arcata was 6.8 million ounces, a very creditable 14% improvement on the 2013 result (6.0 million ounces) and was principally driven by a planned move to higher grade areas of the mine. Tonnage fell following the depletion of the Macarena Waste Dam deposit by the end of the first half of the year.

| Contribution from               | 12 mths<br>2014 | 12 mths<br>2013 |
|---------------------------------|-----------------|-----------------|
| Macarena Waste Dam Deposit      |                 |                 |
| <b>Total</b>                    |                 |                 |
| Tonnage                         | 701,947         | 900,861         |
| Average head grade gold (g/t)   | 0.85            | 0.74            |
| Average head grade silver (g/t) | 286             | 217             |
| <b>Macarena</b>                 |                 |                 |
| Tonnage                         | 38,366          | 290,226         |
| Average head grade gold (g/t)   | 0.25            | 0.29            |
| Average head grade silver (g/t) | 63              | 88              |
| <b>Stopes and Developments</b>  |                 |                 |
| Tonnage                         | 663,581         | 610,635         |
| Average head grade gold (g/t)   | 0.89            | 0.95            |
| Average head grade silver (g/t) | 299             | 278             |

## COSTS

In 2014, the unit cost at Arcata of \$89.1 per tonne was up 10% versus 2013 with the overall effects of the ongoing cost savings initiatives offset by the planned depletion in the processing of the low cost Macarena material. However, all-in sustaining costs fell by 15% to \$17.7 per silver equivalent ounce (2013: \$20.9 per ounce) due to a decline in sustaining capex resulting from cashflow optimisation programme initiatives as well as better grades.

## BROWNFIELD EXPLORATION

In 2014, a total of 20,868 metres of drilling was carried out at Arcata. In the first half of the year, a detailed surface mapping and sampling campaign was completed covering a total of 1,330 ha. In addition, a drilling campaign with the aim of adding new resources was carried out at the property.

In 2015, a 17,440 metre exploration and drilling programme at Arcata will focus on inferred resource exploration at surface over Tunel 3 and Tunel 4 and underground resource exploration at the Lucero and Norte Sur veins.

## PALLANCATA

## KEY SITE INFORMATION

Silver production koz

6,527

Gold production koz

24.34

Silver equivalent production koz

7,988

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.





San José plant



Ares

| Pallancata summary                    | Year ended<br>31 Dec 2014 | Year ended<br>31 Dec 2013 | % change |
|---------------------------------------|---------------------------|---------------------------|----------|
| Ore production (tonnes)               | 1,051,068                 | 1,088,712                 | (3)      |
| Average silver grade (g/t)            | 238                       | 264                       | (10)     |
| Average gold grade (g/t)              | 1.03                      | 1.13                      | (9)      |
| Silver produced (koz)                 | 6,527                     | 7,628                     | (14)     |
| Gold produced (koz)                   | 24.34                     | 27.83                     | (13)     |
| Silver equivalent produced (koz)      | 7,988                     | 9,298                     | (14)     |
| Silver sold (koz)                     | 6,502                     | 7,567                     | (14)     |
| Gold sold (koz)                       | 24.02                     | 26.67                     | (10)     |
| Unit cost (\$/t)                      | 69.3                      | 68.3                      | 1        |
| Total cash cost (\$/oz Ag co-product) | 11.0                      | 10.3                      | 7        |
| All-in sustaining cost (\$/oz)        | 16.7                      | 16.7                      | –        |

## PRODUCTION

At Pallancata, as a result of the Company's adjustment of mine plans to ensure the extraction of profitable ounces, as detailed in the November 2014 Operational Update, tonnage in the fourth quarter was moved downwards with grades increasing. For the full year, Pallancata produced 8.0 million silver equivalent ounces (2013: 9.3 million ounces) with the fall in the second half reflecting the scheduled move to thinner veins in the mix.

## COSTS

Cost per tonne at Pallancata was \$69.3 in 2014 (2013: \$68.3). As at Arcata, costs were positively impacted by the cashflow optimisation programme although the impact was offset by a higher proportion of mineral extracted using conventional methods due to narrower veins. All-in sustaining costs however, were flat versus 2013 at \$16.7 per silver equivalent ounce.

## BROWNFIELD EXPLORATION

During the first half of 2014, the exploration programme focused on mapping and sampling a total of 1,200 ha. New surface structures have also been recognised and drilling was carried out at two vein systems. 10,466 metres of drilling was completed on potential areas with further mapping campaigns also carried out over an area of 686 ha.

In 2015, a 19,100 metre exploration and drilling programme at Pallancata will focus on inferred resource exploration at surface and also geological mapping of the west and south side of the district for new target definition.

## SAN JOSÉ

### KEY SITE INFORMATION

Silver production koz

6,469

Gold production koz

94.16

Silver equivalent production koz

12,119

The San José silver/gold mine is located in Argentina, in the province of Santa Cruz, 1,750 kilometres south-southwest of Buenos Aires. San José 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.

| San José summary                      | Year ended<br>31 Dec 2014 | Year ended<br>31 Dec 2013 | % change |
|---------------------------------------|---------------------------|---------------------------|----------|
| Ore production (tonnes)               | 571,017                   | 536,937                   | 6        |
| Average silver grade (g/t)            | 404                       | 425                       | (5)      |
| Average gold grade (g/t)              | 5.77                      | 6.42                      | (10)     |
| Silver produced (koz)                 | 6,469                     | 6,357                     | 2        |
| Gold produced (koz)                   | 94.16                     | 98.83                     | (5)      |
| Silver equivalent produced (koz)      | 12,119                    | 12,286                    | (1)      |
| Silver sold (koz)                     | 6,316                     | 6,278                     | 1        |
| Gold sold (koz)                       | 91.28                     | 94.76                     | (4)      |
| Unit cost (\$/t)                      | 197.8                     | 210.0                     | (6)      |
| Total cash cost (\$/oz Ag co-product) | 12.1                      | 13.4                      | (10)     |
| All-in sustaining cost (\$/oz)        | 17.8                      | 19.0                      | (6)      |

## PRODUCTION

In 2014, San José again proved to be a very consistent performer with increased tonnage offsetting lower grades and resulting in almost unchanged year-on-year production of 12.1 million silver equivalent ounces (2013: 12.3 million ounces).

## COSTS

At San José, unit cost per tonne decreased by 6% versus 2013 to \$197.8. This was mainly due to the impact of the cash optimisation. All-in sustaining costs were reduced by 6% versus the same period of 2013 with cash optimisation initiatives helping to reduce sustaining and development capital expenditure.

## BROWNFIELD EXPLORATION

In 2014, a 5,263 metre potential drilling campaign was focused on the definition of new veins. The team had already completed detailed surface mapping and sampling over the Los Pinos vein and identified another structure, Los Pinitos. In addition, mapping work identified additional corridors for subsequent drilling campaigns to focus on whilst further structures were identified in the north east and to the west.

In 2015, a drilling program over Los Pinos and Los Pinitos is planned – subject to obtaining environmental permits. A review and interpretation of the ground magnetic and electrical data collected on the property in the last five years is scheduled along with surface geology work to identify new drill targets for 2016.

## OPERATING REVIEW CONTINUED



Inmaculada plant construction

## OTHER OPERATIONS

## ARES: PERU

## KEY SITE INFORMATION

Silver production koz

534

Gold production koz

11.63

Silver equivalent production koz

1,232

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 Ares mine in Peru was suspended in the second quarter of 2014 with total production for the first half and for the year as a whole being a better-than-expected 1.2 million silver equivalent ounces (2013: 2.2 million ounces).

## BROWNFIELD EXPLORATION

Following the 2014 programme of geological mapping, a 2,500 metre drilling campaign is scheduled for 2015, subject to receiving the requisite exploration permits.

## PROJECT REVIEW

Hochschild's portfolio currently includes one Advanced Project, Inmaculada and three Growth Projects, Crespo, Azuca and Volcan. The continuing weakness of the precious metal markets following the initial price declines in 2013 has led to the current focus on Hochschild's flagship Inmaculada project. The acquisition of IMZ, completed in December 2013, gave the Company 100% of this project which is expected to contribute, after a ramp-up period, approximately 12 million silver equivalent ounces per annum on average with the start of plant commissioning due in the second quarter of 2015.

The strategy with regards to Crespo, Azuca and Volcan was revised in late 2013 with work on these deposits remaining on hold throughout 2014. Despite the prioritisation of Inmaculada, all three projects remain 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 assess capital re-allocation to these assets and potentially re-initiate development.

## 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.

The EPC contractor Graña y Montero continued construction of the plant throughout the year. Later in 2014, concrete foundations for the plant's SAG mill were found to not meet contractual technical specifications and were therefore re-built which, along with other delays in the project including slower than expected on-site recruitment, resulted in the commissioning date of the plant being rescheduled for Q2 2015. However, as a result of excellent progress being made by the Hochschild team in the originally envisaged bottleneck area of mine development, it has been possible to ensure that a stockpile of just over 260,000 tonnes will be available for processing on completion of the plant. Consequently, the Company confirms that the overall production forecast of 6-7 million silver equivalent ounces for 2015 remains in place.

Procurement of all main equipment was completed during the first half and by the end of the year, other key deliverables such as connection to the national grid, infrastructural and engineering requirements and relevant permitting were complete. Construction also commenced in the third quarter on the tailings dam, warehouses, laboratories and workshops as well as work on the paste backfill plant. In addition, a total of 15,406 metres of tunnelling and 2,445 metres of raise boring have been carried out to date at the project.

Construction capital expenditure at the project to date is \$348 million with the remaining construction capital expenditure for 2015 expected to be \$72 million bringing the total to \$420 million.

Toward the middle of the year, mapping was carried out at the Puquiopata (to the North East of Inmaculada) and Huarmapata veins as well as re-logging of the Angela vein system in order to optimise the geological model.

| Ares summary                     | Year ended<br>31 Dec 2014 | Year ended<br>31 Dec 2013 | % change |
|----------------------------------|---------------------------|---------------------------|----------|
| Ore production (tonnes)          | 167,331                   | 329,095                   | (49)     |
| Average silver grade (g/t)       | 110                       | 82                        | 34       |
| Average gold grade (g/t)         | 2.34                      | 2.39                      | (2)      |
| Silver produced (koz)            | 534                       | 757                       | (29)     |
| Gold produced (koz)              | 11.63                     | 23.40                     | (50)     |
| Silver equivalent produced (koz) | 1,232                     | 2,162                     | (43)     |
| Silver sold (koz)                | 540                       | 761                       | (29)     |
| Gold sold (koz)                  | 11.45                     | 23.25                     | (51)     |



Prospecting at 5,300 metres above sea level

In addition to exploration at the Inmaculada land package, a project was started to explore the overall properties available between the Pallancata mine and Inmaculada. Following a mapping programme in the Palca area further to the North East of Inmaculada, in August two anomalous zones were identified, Palca 1 and Palca 2. At Palca 1, six promising vein structures have been selected amongst others in a corridor of almost five kilometres with work at Palca 2 starting later on in the year. In addition, geochemical results have shown gold and silver presence at surface. The exploration team's resulting interpretation has allowed them to define the Palca corridor which continues to the North West into an area called Cochaloma, which is part of the Pallancata concession, where there are similar structures to Palca.

## EXPLORATION REVIEW

In 2014, investment in exploration totalled \$20.4 million and was split between exploration work at the Company's existing operations, the Inmaculada Advanced Project and greenfield opportunities in Peru and Mexico. As part of Hochschild's ongoing cashflow optimisation programme, the Company reduced its 2014 exploration budget with the main focus continuing to be on brownfield exploration. Exploration work at the core operations was principally focused on identifying new potential and near-mine high grade areas to further improve the resource quality whilst at the Inmaculada Advanced Project, efforts were focused on identifying new potential high grade areas.

Hochschild's greenfield strategy for 2014 was focused on only the most promising prospects, specifically in Peru and Mexico.

In 2015, exploration activity will be primarily focused on brownfield exploration in order to maintain or improve the resource base. As a direct consequence of the continued low price environment, the level of greenfield exploration and appraisal of acquisition/joint venture opportunities has been significantly reduced.

## MEXICO

### PACHUCA

In the first half of the year, at the Pachuca project in Mexico, the joint venture with Solitario Exploration & Royalty Corp, focused on the northwestern extension of the historical vein mining district. The 2014 plan included testing the actual extensions of prior intercepts tested by the previous operator. A total 2,454 metres were drilled on 13 holes during the 2013 and 2014 campaigns. However, despite some drill holes showing economic gold and silver grades, continuous mineralisation could not be identified and therefore the project was transferred back to Solitario.

### RIVERSIDE JOINT VENTURE

In the first half of the year, the exploration team accepted two targets generated by Riverside, the joint venture partners in the western Sonora in Mexico. The projects were Bohemia and Cajon and whereas Bohemia exhibited mineralised veins, orogenic type mineralisation was observed

at Cajon with highly frequent small mineralised veins off a detachment fault. However sampling at Bohemia did not show continuity in the mineralisation, displaying poor gold values and consequently work at the target was halted. Trenching at Cajon also concluded and a drilling campaign will be performed in 2015.

During the fourth quarter, the Company decided to close its exploration office in Chihuahua and focus on financing and supporting Riverside from the head office. The venture continues to explore new opportunities in this prolific, low-cost mineral district.

## PERU

During the year, the Company's exploration efforts in Peru focused on optimising the existing portfolio and reviewing any industry opportunities. One of these was the Corina project, located 15-20 km from the Selene plant and owned by Lara Exploration Ltd. The agreement drawn up includes an option giving Hochschild full ownership of the project over four years. Company community relations teams are currently negotiating access agreements that would allow the Company to drill in late 2015, subject to government permit approvals.

In addition, promising geochemical results have been obtained from the Ibel prospect in Peru.



Drill rig at Azuca



Exploration at Crespo

## FINANCIAL REVIEW

### 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<br>31 Dec 2014 | Year ended<br>31 Dec 2013 | % change |
|---|---------------------------|---------------------------|----------|
| Net Revenue <sup>1</sup>                                    | 492,951                   | 622,158                   | (21)     |
| Attributable silver production (koz)                        | 16,187                    | 13,588                    | 19       |
| Attributable gold production (koz)                          | 101                       | 116                       | (13)     |
| Cash costs (\$/oz Ag co-product) <sup>2</sup>               | 11.9                      | 12.3                      | (3)      |
| Cash costs (\$/oz Au co-product)                            | 847                       | 748                       | 13       |
| Total all-in sustaining costs (\$/oz)                       | 18.2                      | 19.9                      | (9)      |
| Main operation all-in sustaining costs (\$/oz)              | 17.4                      | 18.6                      | (6)      |
| Adjusted EBITDA <sup>3</sup>                                | 135,586                   | 200,979                   | (35)     |
| (Loss)/profit from continuing operations                    | (56,689)                  | (42,103)                  | (33)     |
| (Loss)/profit from continuing operations (post exceptional) | (70,831)                  | (128,677)                 | 45       |
| Earnings per share (pre-exceptional)                        | (0.15)                    | (0.15)                    | –        |
| Earnings per share (post-exceptional)                       | (0.19)                    | (0.36)                    | 47       |
| Cash flow from operating activities <sup>4</sup>            | 93,779                    | 64,674                    | 45       |

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

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

3 Adjusted EBITDA is calculated as profit from continuing operations before exceptional items, net finance costs, foreign exchange loss and income tax plus depreciation, and exploration expenses other than personnel and other exploration related fixed expenses and other non-cash 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 18% to \$540.9 million in 2014 (2013: \$658.2 million) primarily driven by another substantial fall in precious metal prices.

#### Silver

Gross revenue from silver decreased 17% in 2014 to \$358.2 million (2013: \$432.6 million) as a result of lower prices as well as a 3% decrease in the total amount of silver ounces sold to 18,981 koz (2013: 19,555 koz).

#### Gold

Gross revenue from gold decreased 19% in 2014 to \$182.7 million (2013: \$225.6 million) as a result of a 4% fall in the average price received although mostly due to a 15% decline in gold sales – the total amount of gold ounces sold in 2014 at 142.8 koz (2013: 168.6 koz).

#### Gross average realised sales prices

The following table provides figures for average realised prices and ounces sold for 2014 and 2013:

|                                    | Year ended<br>31 Dec 2014 | Year ended<br>31 Dec 2013 |
|------------------------------------|---------------------------|---------------------------|
| Silver ounces sold (koz)           | 18,981                    | 19,555                    |
| Avg. realised silver price (\$/oz) | 18.87                     | 22.12                     |
| Gold ounces sold (koz)             | 142.77                    | 168.56                    |
| Avg. realised gold price (\$/oz)   | 1,279                     | 1,338                     |

#### 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 2014, the Group recorded commercial discounts of \$48.1 million (2013: \$36.1 million). This increase is explained by the decision to sell the majority of production from Arcata as concentrate due to improved commercial terms. The ratio of commercial discounts to gross revenue in 2014 increased to 9% (2013: 6%).



## Net revenue

Net revenue decreased by 21% to \$493.0 million (2013: \$622.2 million), comprising silver revenue of \$320.8 million and gold revenue of \$172.0 million. In 2014 silver accounted for 65% and gold 35% of the Company's consolidated net revenue with no change from the 2013 split.

## Revenue by mine

| \$000 unless otherwise indicated | Year ended<br>31 Dec 2014 | Year ended<br>31 Dec 2013 | % change     |
|----------------------------------|---------------------------|---------------------------|--------------|
| <b>Silver revenue</b>            |                           |                           |              |
| Arcata                           | 103,963                   | 115,522                   | (10)         |
| Ares                             | 10,896                    | 17,712                    | (38)         |
| Pallancata                       | 129,042                   | 163,394                   | (21)         |
| San José                         | 114,276                   | 135,291                   | (16)         |
| Moris                            | 30                        | 650                       | (95)         |
| Commercial discounts             | (37,369)                  | (27,050)                  | (38)         |
| <b>Net silver revenue</b>        | <b>320,838</b>            | <b>405,519</b>            | <b>(21)</b>  |
| <b>Gold revenue</b>              |                           |                           |              |
| Arcata                           | 20,040                    | 22,271                    | (10)         |
| Ares                             | 14,993                    | 32,650                    | (54)         |
| Pallancata                       | 31,984                    | 35,189                    | (9)          |
| San José                         | 115,211                   | 123,905                   | (7)          |
| Moris                            | 441                       | 11,597                    | (96)         |
| Commercial discounts             | (10,713)                  | (9,036)                   | 19           |
| <b>Net gold revenue</b>          | <b>171,956</b>            | <b>216,576</b>            | <b>(21)</b>  |
| <b>Other revenue<sup>1</sup></b> | <b>157</b>                | <b>63</b>                 | <b>(149)</b> |
| <b>Net revenue</b>               | <b>492,951</b>            | <b>622,158</b>            | <b>(21)</b>  |

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 decreased 15% to \$404.6 million in 2014 (2013: \$466.8 million). The direct production cost decreased by 15% in 2014, to \$265.6 million (2013: \$311.7 million) mainly due to the positive effects on operating costs of the Company's ongoing cash optimisation programme and lower tonnage treated at the Ares mine. Depreciation in 2014 was \$126.0 million (2013: \$144.1 million) with the decrease mainly due to lower tonnage and the lower cost of the conversion of resources into reserves. Other items, which principally includes the costs associated with stoppages in Argentina, was \$4.4 million in 2014 (2013: \$7.0 million) with change in inventories at \$8.6 million in 2014 (2013: \$3.9 million).

| \$000   | Year ended<br>31 Dec 2014 | Year ended<br>31 Dec 2013 | % change |
|---|---------------------------|---------------------------|----------|
| Direct production cost excluding depreciation | 265,637                   | 311,699                   | (15)     |
| Depreciation in production cost               | 125,955                   | 144,137                   | (13)     |
| Other items                                   | 4,406                     | 7,004                     | (37)     |
| Change in inventories                         | 8,641                     | 3,926                     | 120      |
| Pre-exceptional cost of sales                 | 404,639                   | 466,766                   | (13)     |

## Unit cost per tonne

The Company reported unit cost per tonne at its main operations of \$106.6 in 2014, slightly up on 2013 (2013: \$103.2). For further explanation on the increase in unit cost per tonne please refer to page 7 of the Operating review.

## Unit cost per tonne by operation (including royalties)<sup>1</sup>:

| Operating unit (\$/tonne) | Year ended<br>31 Dec 2014 | Year ended<br>31 Dec 2013 | % change |
|---------------------------|---------------------------|---------------------------|----------|
| <b>Main operations</b>    | <b>106.6</b>              | 103.2                     | 3        |
| <b>Peru</b>               | <b>77.3</b>               | 74.2                      | 4        |
| Arcata                    | 89.1                      | 81.3                      | 10       |
| Pallancata                | 69.3                      | 68.3                      | 1        |
| <b>Argentina</b>          |                           |                           |          |
| San José                  | 197.8                     | 210.0                     | (6)      |
| <b>Others</b>             |                           |                           |          |
| Ares                      | 119.3                     | 128.3                     | (7)      |
| <b>Total</b>              | <b>107.4</b>              | 106.1                     | 1        |

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.

## FINANCIAL REVIEW CONTINUED

## Cash cost reconciliation

| \$000 unless otherwise indicated                   | Year ended<br>31 Dec 2014 | Year ended<br>31 Dec 2013 | % change   |
|--|---------------------------|---------------------------|------------|
| <b>Group cash cost</b>                             | <b>353,736</b>            | <b>387,686</b>            | <b>(9)</b> |
| (+) Cost of sales                                  | <b>404,639</b>            | 466,766                   | (13)       |
| (-) Depreciation and amortisation in cost of sales | <b>(128,480)</b>          | (144,923)                 | 11         |
| (+) Selling expenses                               | <b>28,697</b>             | 28,785                    | –          |
| (+) Commercial deductions                          | <b>48,880</b>             | 37,058                    | 32         |
| Gold   | <b>10,752</b>             | 9,065                     | 19         |
| Silver   | <b>38,128</b>             | 27,993                    | 36         |
| <b>Revenue</b>                                     | <b>492,951</b>            | 622,158                   | (21)       |
| Gold   | <b>171,956</b>            | 216,576                   | (21)       |
| Silver   | <b>320,838</b>            | 405,519                   | (21)       |
| Others   | <b>157</b>                | 63                        | 149        |
| <b>Ounces sold</b>                                 |                           |                           |            |
| Gold   | <b>142.8</b>              | 168.6                     | (15)       |
| Silver   | <b>18,981</b>             | 19,555                    | (3)        |
| <b>Group cash cost (\$/oz)</b>                     |                           |                           |            |
| Co-product Au                                      | <b>864</b>                | 801                       | 8          |
| Co-product Ag                                      | <b>12.1</b>               | 12.9                      | (6)        |
| By-product Au                                      | <b>(38)</b>               | (272)                     | 86         |
| By-product Ag                                      | <b>9.0</b>                | 8.3                       | 8          |

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<sup>1</sup>

Year ended 31 Dec 2014

| \$000 unless otherwise indicated   | Arcata         | Pallancata     | San José       | Main<br>Operations | Other<br>Operations | Corporate<br>& Others | Total          |
|--|----------------|----------------|----------------|--------------------|---------------------|-----------------------|----------------|
| (+) Production cost<br>excluding depreciation                                      | 62,644         | 71,742         | 110,089        | 244,475            | 17,853              | –                     | 262,328        |
| (+) Other items in<br>cost of sales  | 1,301          | 834            | 1,724          | 3,859              | 546                 | –                     | 4,406          |
| (+) Operating & exploration<br>capex for units                                     | 28,867         | 34,657         | 51,350         | 114,874            | –                   | 1,613                 | 116,487        |
| (+) Brownfield<br>exploration expenses   | 2,038          | 1,728          | 1,003          | 4,769              | 42                  | 3,232                 | 8,043          |
| (+) Administrative expenses<br>(excl depreciation and before<br>exceptional items) | 5,266          | 7,317          | 8,270          | 20,853             | 362                 | 20,049                | 41,263         |
| (+) Royalties  | –              | 1,370          | –              | 1,370              | 241                 | –                     | 1,611          |
| <b>Sub-total</b>   | <b>100,116</b> | <b>117,648</b> | <b>172,436</b> | <b>390,200</b>     | <b>19,044</b>       | <b>24,894</b>         | <b>434,146</b> |
| Ounces produced (Ag Eq oz)   | 6,841          | 7,988          | 12,119         | 26,947             | 1,232               | –                     | 28,179         |
| <b>Sub-total (\$/oz)</b>   | <b>14.6</b>    | <b>14.7</b>    | <b>14.2</b>    | <b>14.5</b>        | <b>15.5</b>         | <b>–</b>              | <b>15.4</b>    |
| (+) Commercial deductions  | 18,016         | 13,666         | 17,198         | 48,880             | –                   | –                     | 48,880         |
| (+) Selling expenses   | 1,987          | 1,995          | 24,648         | 28,630             | 67                  | –                     | 28,697         |
| <b>Sub-total</b>   | <b>20,003</b>  | <b>15,661</b>  | <b>41,846</b>  | <b>77,510</b>      | <b>67</b>           | <b>–</b>              | <b>77,577</b>  |
| Ounces sold (Ag Eq oz)   | 6,560          | 7,944          | 11,793         | 26,297             | 1,250               | –                     | 27,547         |
| <b>Sub-total (\$/oz)</b>   | <b>3.0</b>     | <b>2.0</b>     | <b>3.5</b>     | <b>2.9</b>         | <b>0.1</b>          | <b>–</b>              | <b>2.8</b>     |
| <b>All-in sustaining costs<br/>(\$/oz Ag Eq)</b>                                   | <b>17.7</b>    | <b>16.7</b>    | <b>17.8</b>    | <b>17.4</b>        | <b>15.5</b>         | <b>–</b>              | <b>18.2</b>    |

<sup>1</sup> All-in sustaining cash cost per silver equivalent ounce: calculated before exceptional items 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 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 (excl depreciation and before exceptional items) | 6,469          | 11,472         | 8,589          | 26,530          | 2,983            | 22,274             | 51,787         |
| (+) Royalties  | –              | 1,822          | –              | 1,822           | 522              | –                  | 2,344          |
| <b>Sub-total</b>   | <b>123,844</b> | <b>135,691</b> | <b>186,724</b> | <b>446,259</b>  | <b>59,706</b>    | <b>27,985</b>      | <b>533,950</b> |
| Ounces produced (Ag Eq oz)   | 5,994          | 9,298          | 12,286         | 27,578          | 2,689            | –                  | 30,267         |
| <b>Sub-total (\$/oz)</b>   | <b>20.7</b>    | <b>14.6</b>    | <b>15.2</b>    | <b>16.2</b>     | <b>22.2</b>      | <b>–</b>           | <b>17.6</b>    |
| (+) Commercial deductions  | 920            | 16,788         | 19,335         | 37,043          | 15               | –                  | 37,058         |
| (+) Selling expenses   | 325            | 2,369          | 25,899         | 28,593          | 192              | –                  | 28,785         |
| <b>Sub-total</b>   | <b>1,245</b>   | <b>19,157</b>  | <b>45,234</b>  | <b>65,636</b>   | <b>207</b>       | <b>–</b>           | <b>65,843</b>  |
| Ounces sold (Ag Eq oz)   | 5,881          | 9,167          | 11,963         | 27,011          | 2,658            | –                  | 29,669         |
| <b>Sub-total (\$/oz)</b>   | <b>0.2</b>     | <b>2.1</b>     | <b>3.8</b>     | <b>2.4</b>      | <b>0.1</b>       | <b>–</b>           | <b>2.2</b>     |
| <b>All-in sustaining costs (\$/oz Ag Eq)</b>                                 | <b>20.9</b>    | <b>16.7</b>    | <b>19.0</b>    | <b>18.6</b>     | <b>22.3</b>      | <b>–</b>           | <b>19.9</b>    |



Tailings dam preparation

### ADMINISTRATIVE EXPENSES

Administrative expenses before exceptional items decreased by 20% to \$43.3 million (2013: \$54.4 million) primarily due to the continuing impact of the cashflow optimisation programme. Post-exceptional administrative expenses in 2014 totalled \$46.1 million (2013: \$56.8 million).

### EXPLORATION EXPENSES

In 2014, pre-exceptional exploration expenses decreased by 60% to \$17.3 million (2013: \$42.9 million). Post-exceptional exploration expenses in 2014 totalled \$18.1 million (2013: \$46.3 million).

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 2014, the Company capitalised \$1.5 million relating to brownfield exploration compared to \$1.7 million in 2013, bringing the total investment in exploration for 2014 to \$18.8 million (2013: \$44.6 million). In addition, \$1.6 million was invested in the Company's Advanced and Growth Projects.

### SELLING EXPENSES

Selling expenses were flat versus 2013 at \$28.7 million (2013: \$28.8 million) due to lower prices impacting the export tax in Argentina, partially offset by higher production of concentrates in Arcata. Selling expenses mainly consist of export duties at San José (export duties in Argentina are levied at 10% of revenue for concentrate and 5% of revenue for dore) and logistic costs for the sale of concentrate.

### OTHER INCOME/EXPENSES

Other income before exceptional items was \$4.1 million (2013: \$4.0 million). Other expenses before exceptional items reached \$17.5 million (2013: \$15.6 million) mainly due to an increase in mine closure provisions of \$9.1 million (2013: \$5.5 million) and the new reserves tax in Argentina of \$3.5 million (2013: \$2.5 million).

## FINANCIAL REVIEW CONTINUED

## ADJUSTED EBITDA

Adjusted EBITDA decreased by 33% over the period to \$135.6 million (2013 restated: \$201.0 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 non-cash items (depreciation and changes in mine closure provisions) and exploration expenses other than personnel and other exploration related fixed expenses.

| \$000 unless otherwise indicated   | Year ended 31 Dec 2014 | Year ended 31 Dec 2013 | % change |
|--|------------------------|------------------------|----------|
| Profit from continuing operations before exceptional items, net finance cost, foreign exchange loss and income tax | (14,374)               | 17,730                 | (181)    |
| Operating margin   | –                      | 3%                     | –        |
| Depreciation and amortisation in cost of sales   | 128,480                | 144,923                | (11)     |
| Depreciation and amortisation in administrative expenses   | 2,072                  | 2,638                  | (21)     |
| Exploration expenses   | 17,254                 | 42,871                 | (60)     |
| Personnel and other exploration related fixed expenses   | (6,934)                | (12,699)               | 45       |
| Other non cash expenses  | 9,088                  | 5,516                  | 65       |
| Adjusted EBITDA  | 135,586                | 200,979                | (33)     |
| Adjusted EBITDA margin   | 28%                    | 32%                    |          |

In 2014, Adjusted EBITDA has been presented before the effect of significant non-cash expenses related to changes in mine closure provisions for those mines which have already closed as these were material. The 2013 Adjusted EBITDA has been restated for comparability with the current presentation.



Drill rig at Pallancata

## FINANCE INCOME

Finance income before exceptional items of \$2.2 million reduced from 2013 (\$10.7 million) mainly due to substantially lower interest received on deposits and liquidity funds (\$5.2 million) as well as lower dividends received from Gold Resource Corporation (\$3.0 million).

## FINANCE COSTS

Finance costs before exceptional items increased from \$11.7 million to \$33.1 million in 2014, principally due to the interest due on \$350 million of Senior Notes (issued in January 2014 via the Company's wholly owned subsidiary, Compañía Minera Ares S.A.C) with a coupon rate of 7.75% due for repayment in 2021.

## FOREIGN EXCHANGE LOSSES

The Group recognised a foreign exchange loss of \$5.0 million (2013: \$19.8 million loss) as a result of exposures in currencies other than the functional currency principally the Peruvian Nuevo Sol and Argentinian Peso, both of which depreciated in the year against the US dollar.

## INCOME TAX

The Company's pre-exceptional income tax was \$6.5 million (2013: \$45.0 million). The reduction is mainly explained by lower metal prices reflected in a reduced pre-exceptional profit before income tax (\$50.2 million in 2014 vs \$2.9 million pre-exceptional profit before tax in 2013).

## EXCEPTIONAL ITEMS

Exceptional items in 2014 totalled \$(14.1) million after tax (2013: \$(86.6) million). The tables below detail the exceptional items excluding the exceptional tax effect that amounted to \$3.8 million (2013: \$35.9 million).

Exceptional items in 2014 comprise the following items:

## Positive exceptional items:

| Main items     | \$000 | Description of main items  |
|----------------|-------|--|
| Other income   | 1,643 | Reversal of impairment of San Felipe   |
| Finance income | 4,061 | Gain on the sale of GRC shares (\$2.6 million), Chaparral Gold shares (\$0.8 million), Mirasol shares (\$0.6 million) and others |

## Negative exceptional items:

| Main items              | \$000   | Description of main items   |
|-------------------------|---------|---|
| Cost of sales           | (6,065) | Termination benefits (\$4.8 million) and temporary stoppages at Arcata (\$1.2 million)  |
| Administrative expenses | (2,752) | Termination benefits (\$2.8 million)  |
| Exploration expenses    | (886)   | Termination benefits (\$0.9 million)  |
| Other expenses          | (4,498) | Property, plant & equipment write-off (\$1.5 million) and loss on the sale of the Moris operation in Mexico (\$3.0 million)                                     |
| Finance cost            | (9,491) | The impairment of investments in Pembroke (\$6.0 million) and other minor investments (\$0.2 million), transaction costs on the syndicated loan (\$3.3 million) |



## CASH FLOW & BALANCE SHEET REVIEW

### Cash flow

| \$000 unless otherwise indicated                                       | Year ended<br>31 Dec 2014 | Year ended<br>31 Dec 2013 | Change    |
|--|---------------------------|---------------------------|-----------|
| Net cash generated from operating activities                           | <b>93,779</b>             | 64,674                    | 29,105    |
| Net cash used in investing activities                                  | <b>(263,007)</b>          | (218,113)                 | (44,894)  |
| Cash flows generated/(used) in financing activities                    | <b>5,039</b>              | 99,830                    | (94,791)  |
| Net (decrease)/increase in cash and cash equivalents during the period | <b>(164,189)</b>          | (53,609)                  | (110,580) |

Operating cash flow increased from \$64.7 million in 2013 to \$93.8 million in 2014, mainly due to a significant improvement of working capital and the implementation of the cash optimisation plan, partially offset by lower prices. Net cash used in investing activities increased to \$(263.0) million in 2014 from \$(218.1) million in 2013 mainly due to higher pre-operating capex incurred at the Inmaculada project in 2014. Finally, cash generated from financing activities decreased to \$5.0 million from \$99.8 million in 2013, primarily as a result of the proceeds from the issuance of the unsecured notes (\$350.0 million) and the Scotiabank Credit Facility (\$100.0 million), partially offset by the repayment of the bridge loan facility (\$270.0 million), Convertible Bond (\$114.9 million) and reduction of short term borrowings (\$30.0 million). As a result, total cash generated decreased from \$(53.6) million in 2013 to \$(164.2) million in 2014 (\$110.6 million difference).

### Working capital

| \$000 unless otherwise indicated         | Year ended<br>31 Dec 2014 | Year ended<br>31 Dec 2013 |
|--|---------------------------|---------------------------|
| Trade and other receivables              | <b>173,526</b>            | 179,868                   |
| Inventories                              | <b>58,417</b>             | 69,556                    |
| Net other financial assets/(liabilities) | <b>2,809</b>              | (2,294)                   |
| Net Income tax receivable/(payable)      | <b>20,467</b>             | 20,842                    |
| Trade and other payables and provisions  | <b>(226,603)</b>          | (208,618)                 |
| <b>Working capital</b>                   | <b>28,616</b>             | 59,354                    |

The Company's working capital position decreased to \$28.6 million in 2014 from \$59.4 million in 2013. This was primarily explained by higher trade and other payables and provisions (\$18.0 million) and by lower inventories (\$11.1 million). Also, net other financial assets increased to \$2.8 million in 2014 from \$(2.3) million in 2013 principally due to gains from hedge agreements.

### Net cash

| \$000 unless otherwise indicated | Year ended<br>31 Dec 2014 | Year ended<br>31 Dec 2013 |
|----------------------------------|---------------------------|---------------------------|
| Cash and cash equivalents        | <b>115,999</b>            | 286,435                   |
| Long-term borrowings             | <b>(440,834)</b>          | —                         |
| Short-term borrowings            | <b>(27,882)</b>           | (435,925)                 |
| <b>Net cash/(debt)</b>           | <b>(352,717)</b>          | (149,490)                 |

The Group reported net cash position was \$(352.7) million as at 31 December 2014 (2013: \$149.5 million). The change was mainly driven by cash used to build the Inmaculada Project (\$198 million capex in 2014).

## CAPITAL EXPENDITURE

| \$000 unless otherwise indicated | Year ended<br>31 Dec 2014 | Year ended<br>31 Dec 2013 |
|----------------------------------|---------------------------|---------------------------|
| Arcata                           | <b>28,867</b>             | 43,255                    |
| Ares                             | —                         | 3,783                     |
| Selene                           | <b>497</b>                | 1,364                     |
| Pallancata                       | <b>34,160</b>             | 42,992                    |
| San José                         | <b>51,350</b>             | 56,502                    |
| Moris                            | —                         | 932                       |
| Operations                       | <b>114,874</b>            | 148,828                   |
| Inmaculada                       | <b>198,112</b>            | 98,614                    |
| Crespo                           | <b>4,206</b>              | 21,469                    |
| Volcan                           | <b>1,463</b>              | 4,312                     |
| Azuca                            | <b>853</b>                | 4,741                     |
| Other                            | <b>1,623</b>              | 3,614                     |
| <b>Total</b>                     | <b>321,121</b>            | 281,578                   |

2014 capital expenditure of \$321.1 million (2013: \$281.6 million) mainly composed of operational capex of \$114.9 million and Inmaculada capital expenditure of \$198.1 million.



San José

## SUSTAINABILITY REPORT

Against a continued backdrop of a challenging trading environment, Hochschild Mining maintained its focus on prioritising the welfare of our workers and promoting sustainability within our communities targeting the areas of education, health & nutrition and economic development.

### IN THIS SECTION

#### Safety

see page 22

#### Health and hygiene

see page 23

#### Our people

see page 24

#### Working with our communities

see page 26

#### Managing our environmental impact

see page 28

### ACCIDENT SEVERITY INDEX

|    |       |
|----|-------|
| 14 | 149   |
| 13 | 598   |
| 12 | 1,058 |
| 11 | 910   |

### DEAR SHAREHOLDER

I am delighted to introduce Hochschild Mining's Sustainability Report in which we provide an overview of the work undertaken by the Group in acknowledgement of our responsibilities to our wider stakeholder groups.

#### ANOTHER CHALLENGING YEAR

2014 continued to be a difficult year for the mining sector due to the sustained lower and more volatile precious metal prices. Management's focus on cost reduction was maintained during the year with implementation of further phases of the Cash Optimisation Programme. Inevitably this has translated into limited resources for our sustainability endeavours which as a result have had to be more targeted than ever.

#### ZERO FATALITIES

As a sign of our commitment to our workers, I am very proud to report that for the first time since the Company's listing in 2006, there were no fatalities during 2014. This achievement cannot be understated given the relentless efforts of many across the organisation who have committed themselves to fostering a culture of safety and seeing this translate into safe working practices. We will not use this opportunity to become complacent but rather, we will look to setting another first: two consecutive years without any fatal accidents at our mine sites.

Despite this significant achievement, the Group's injury frequency rate has increased but, as indicated by the c. 75% reduction in the accident severity rate, this is primarily the result of the extended scope of our accident monitoring to include the main contractor and sub-contractors at the Inmaculada project which in 2014 entered the higher-risk construction phase.

#### SOCIAL RESPONSIBILITY

In 2014, we prioritised the resources committed to our communities during the year with a continued focus on our three core areas: education, health and socio-economic development. Not only have we built on the successes of our flagship Travelling Doctor and Digital Chalhuanca projects, but we have also supported communities close to our Inmaculada project by the establishment of local co-operatives. It also gives me great pleasure in sharing with you details of the scholarships we have been able to offer through our operation in Argentina. Further details can be found on pages 26 to 27.

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

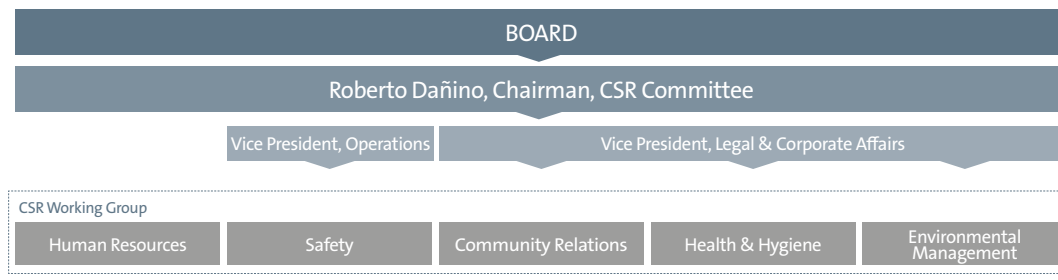
**ROBERTO DAÑINO**  
Chairman, CSR Committee

17 March 2015



Camp at Pallancata

## GOVERNANCE STRUCTURE FOR SUSTAINABILITY



### 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.

#### WHAT IS HOCHSCHILD MINING'S APPROACH TO SUSTAINABILITY?

The Company has adopted a number of policies demonstrating our commitment to:

- a safe and healthy workplace;
- managing and minimising the environmental impact of our operations; and
- 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;
- 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; and
- 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 appropriate 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 and ensuring that appropriate systems and practices are in place Group-wide to ensure the effective management of sustainability-related risks.

As Chairman of the CSR Committee, Roberto Dañino has Board level responsibility for sustainability issues to whom the Vice President of Operations and the Vice President of Legal & Corporate Affairs report to for sustainability issues, as shown in the diagram above.

#### 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 serious accidents within the Group and actions taken by management following each incident; and
- 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.

### THE CSR COMMITTEE'S WORK IN 2014

During the year, the CSR Committee:

- approved the 2013 Sustainability report for inclusion in the 2013 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's various Community Relations projects including the Travelling Doctor programme in Peru, the local co-operatives set up within the rural communities close to Inmaculada and the scholarships granted in Argentina (see case studies later in this report); and
- considered updates from across the Group to manage community and labour relations.

Given the importance of the sustainability risks to the Group's strategy, the full Board reviewed the short/medium term strategy with respect to environmental management and community relations. As part of its role in monitoring key risks, the Board also considered the impact of the Cash Optimisation Programme on the profile of the Group's sustainability risks and the key mitigating actions.

SUSTAINABILITY REPORT  
CONTINUED



*Underground emergency refuge.*

**SAFETY**

Mining has an inherently high risk profile and safety is our highest priority.

**2014 HIGHLIGHTS**

- Zero fatalities
- 75% reduction in accident severity rate

**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.

**OUR ACHIEVEMENTS IN 2014**

- Zero fatalities across all operations – a first for the Company since its listing in 2006
- Continued implementation of the Group’s Safety Management System (designed by the risk management firm DNV GL) at all

operating units and Advanced Projects to support the Group’s proactive approach to safety. All operating units achieved a Level 7 rating under the International Safety Rating System (‘ISRS’) (6<sup>th</sup> edition). The Inmaculada project achieved a Level 3 rating under the same rating system

- The first stage of implementation of the Behaviour Based Safety (‘BBS’) tool was carried out at all mining units. Based on the feedback received, a training programme for safety supervisors has been developed and scheduled to take place in 2015

How we performed against our 2014 objectives

| Target   | Status | Commentary   |
|--|--------|--|
| 2.5% reduction in the Lost Time Injury Frequency Rate (‘LTIFR’) (see footnote 1 to Safety Indicators)  | X      | A 48% year-on-year increase in the LTIFR was primarily the result of extending the reporting of injuries sustained by the main contractor and subcontractors involved in the construction of Inmaculada which, in 2014, entered the higher-risk construction phase |
| 25% reduction in Accident Severity Index (see footnote 2 to Safety Indicators)   | ✓      | A 75% reduction in the Accident Severity Index was achieved  |
| All supervisors to be trained in ‘5 Steps Observation Methodology’ under the Behaviour Based Safety programme:   | ✓      | An additional training programme in this area will be delivered during 2015  |
| To undertake a full impact assessment of moving from DNV GL’s ISRS (6 <sup>th</sup> edition) to the 8 <sup>th</sup> edition as the principal form of appraising the Group’s Safety Management Information System | ✓      | Assessment was completed under the guidance of DNV with transition to the 8 <sup>th</sup> edition expected to take place in H2 2015  |

Safety Indicators

|  | 2014  | 2013 | 2012  | 2011 |
|--|-------|------|-------|------|
| Fatal accidents                                    | 0     | 2    | 4     | 3    |
| Accidents leading to an absence of one day or more | 76*   | 49   | 81    | 81   |
| LTIFR <sup>1</sup>                                 | 3.07* | 2.08 | 3.33  | 3.63 |
| Accident Severity Index <sup>2</sup>               | 149   | 598  | 1,058 | 910  |
| Accidentability rate <sup>3</sup>                  | 0.46  | 1.24 | 3.52  | 3.30 |

\* Includes accidents and injuries reported by the Main Contractor and Subcontractors at the Inmaculada Project.

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.

2015 Targets

- To fully transition to the 8<sup>th</sup> edition of DNV GL’s International Safety Rating System which will incorporate the additional training for supervisors under the Behaviour Based Safety programme
- To commission and implement the first five modules of a safety software tool which will facilitate document sharing, legal compliance, hazard identification and risk assessment, accident investigation and inspections





Community medical consultation.

## CASE STUDY: TRAVELLING DOCTOR PROGRAMME

The Company has built upon its success with this programme by extending its reach to other rural communities and increasing the range of services that the medical mobile units are able to offer. Over the course of 2014, the mobile units facilitated over 12,000 medical consultations providing healthcare to those living in the remotest conditions in the Peruvian Andes.

## HEALTH & HYGIENE

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

### 2014 HIGHLIGHTS

- The establishment of a Health & Hygiene Committee at the Inmaculada Project
- The successful implementation of a health referral network

### THE HOCHSCHILD APPROACH TO HEALTH AND HYGIENE

Underlining the importance we place on our people and their wellbeing, the Group's Health & 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
- Proactively identifying and controlling hazards at source

### OUR ACHIEVEMENTS IN 2014

As the Inmaculada Project advanced to the key construction phase, the Health & Hygiene team sought to ensure the ongoing welfare of company workers

and contractors. A committee comprising representatives from both entities was established and meets weekly to address that all relevant procedures are complied with and that appropriate facilities are available. In addition, as indicated below, the Health team:

- enhanced data storage at operating units through the re-organisation of physical records and the use of software to maintain electronic records;
- re-structured the organisation of the department improving its ability to respond effectively to legal and technical developments; and
- established a health referral network in towns close to our operations. As our mine sites are situated in remote locations, it is crucial to have access to appropriate healthcare facilities in neighbouring towns in case of necessity. Following meetings with local medical professionals, facilities were selected and procedures drawn up to ensure the ongoing welfare of our workers.

## How we performed against our 2014 objectives

| Target   | Status |
|--|--------|
| 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 close to our mines  | ✓      |

## Health Indicators

| Indicator   | 2014   | 2013  | 2012  | 2011  |
|---|--------|-------|-------|-------|
| Average number of medical attendances at Peruvian operations and at San José per month                                | 4,695* | 2,614 | 3,376 | 3,065 |
| Average number of work-related incidents requiring medical attention at Peruvian operations and at San José per month | 23     | 14    | 18    | 32    |
| Average number of occupational health examinations at the Group's Peruvian operations                                 | 507    | 475   | 441   | 396   |

\* The year-on-year increase is the result of the increase in the number of medical attendances carried out at the Inmaculada Project which entered the higher-risk construction phase in 2014.

## 2015 Targets

- To continue the department's active participation in national discussions on new regulation in the area of occupational health
- To improve the offering of services to ensure the mental well-being of our workers
- To review our corporate audit procedures on the provision of employee health data to our insurance partners

## SUSTAINABILITY REPORT CONTINUED



CEO roundtable

## 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.

### 2014 HIGHLIGHTS

- Percentage of workforce trained – 61%
- Average number of hours of training per year per employee – 27 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 Human Resource 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 promotion of social and recreational activities, 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 57% 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 2014

The people-focused initiatives during the year included the following:

#### Developing our people

Driven in part by the Cash Optimisation Programme, budgets for HR programmes were reduced and therefore had to be more targeted. As a result, training and development in key areas and for key positions were prioritised. In Argentina, a two-year course, entitled "Developing Leaders" was completed during the year aimed at enhancing the skills of those in the company with managerial responsibilities.

#### Managing our talent

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

#### Enhancing the working environment

In light of budgetary constraints, the Group has introduced a number of non-financial benefits such as flexible working hours for Head Office staff over the summer period and the holding of regular social events.

#### Open dialogue

Following on from the programme launched in 2013, a series of meetings was organised during the year between the CEO, key personnel and various departments. The aim of these meetings was to provide employees with an opportunity to raise any concerns with the CEO and thereby reducing any uncertainty that may have resulted from the Cash Optimisation Programme.



Arcata employee



Selene workers in the plant

## People Indicators

|   | 2014  | 2013  | 2012  | 2011  |
|---|-------|-------|-------|-------|
| <b>General</b>  |       |       |       |       |
| Average number of Group employees and contractors                           | 5,976 | 6,853 | 7,557 | 6,395 |
| <b>Gender diversity statistics</b>  |       |       |       |       |
| <i>Number of employees*</i>   |       |       |       |       |
| Male  | 3,468 | 4,080 | –     | –     |
| Female  | 229   | 276   | –     | –     |
| <i>Number of senior managers**</i>  |       |       |       |       |
| Male  | 31    | 23    | –     | –     |
| Female  | 2     | 2     | –     | –     |
| <i>Number of Board Members</i>  |       |       |       |       |
| Male  | 8     | 8     | –     | –     |
| Female  | 0     | 0     | –     | –     |
| <b>Training</b>   |       |       |       |       |
| Average number of hours of training undertaken per employee during the year | 27.31 | 30.77 | 52.03 | 37.86 |
| Percentage of workforce trained during the year                             | 61%   | 79%   | 90%   | 90%   |
| <b>Labour relations</b>   |       |       |       |       |
| Number of production days lost as a result of industrial unrest             | 14    | 16    | 7     | 28    |

\* As at 31 December.

\*\* Defined as those who qualify under the UK statutory definition of 'senior manager' as at 31 December.

## 2015 Targets

- Conclude collective negotiations on mutually satisfactory terms
- Oversee optimal resourcing of the Inmaculada Project
- Ensure completion of the technical training plan for the operating units

## SUSTAINABILITY REPORT CONTINUED



Children of Chalhuanca

## WORKING WITH OUR COMMUNITIES

Our relationship with host communities is key to the Company's success and we commit resources in acknowledgment of our social licence to operate.

### 2014 HIGHLIGHTS

- Continued focus on our core areas of Education, Health and Socio-economic development
- Establishment of local co-operatives to promote sustainable development within the communities

## THE HOCHSCHILD APPROACH TO WORKING WITH OUR COMMUNITIES

Hochschild Mining acknowledges that mining is a long term business which is why we place an emphasis on promoting sustainability in our dealings with local communities.

At the core of our approach is a commitment to respecting human rights as a signatory of the United Nations Global Compact and to following best practice as set out in the Group's Code of Conduct. This undertaking informs the way in which we establish and maintain relationships with our communities and the local governmental authorities that host our operations.

We endeavour to align our efforts with the needs of our host communities and the priorities of local government demonstrated by the range of initiatives we have put in place that go simply beyond our supply chain.

### COMMUNITY RELATIONS STRATEGY

We strive to develop social programmes that have a direct impact on the needs of the local communities and that we can use our presence to promote education, healthcare, employment opportunities and socio-economic empowerment.

Given the extent of the budgetary challenges faced as a consequence of the Cash Optimisation Programme, in 2014 we built upon existing initiatives to ensure continuity and maximise their impact.

## How we performed against our 2014 objectives

| Target   | Status | Commentary   |
|--|--------|--|
| Continue with the development of our socio-economic programmes                   | ✓      | See the 'Our Achievements in 2014' section for a summary of the educational, health and socio-economic development programmes undertaken during the year |
| Maximise employment opportunities to members of the community                    | ✓      | Employment opportunities were offered to members of the local communities both directly and in conjunction with our suppliers                            |
| Enhance sustainability in the communities living close to our Inmaculada project | ✓      | Local co-operatives were established as a means of promoting economic self sufficiency for local communities   |

## Community Relations Indicators

|  | 2014   | 2013   | 2012   | 2011   | 2010   |
|--|--------|--------|--------|--------|--------|
| Community investment <sup>1</sup>                      | \$1.9m | \$3.2m | \$6.5m | \$7.7m | \$6.7m |
| Production days lost as a result of community conflict | 0      | 0      | 0      | 1      | 0      |

<sup>1</sup> 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 2014 and 2013 amounted to \$6.7 million and \$10.1 million respectively.

## 2015 Targets

- Continue the development of socio-economic programmes and validate proposals for future innovative initiatives
- Review and restructure, as necessary, the Community Relations team to maximise the efficient delivery of services
- Maximise employment opportunities to members of the community
- Enhance sustainability in the communities living close to our Inmaculada project





Students and families attending the presentation

### CASE STUDY: PROMOTING TOMORROW'S TALENT

The Group granted almost 40 scholarships to students from Perito Moreno, the closest town to our San José operation in the Santa Cruz province of Argentina. Recognising the limited opportunities for young people to pursue further education in the area, the Group has provided the financial means that will enable aspiring students to attend university and achieve their professional ambitions.

## OUR ACHIEVEMENTS IN 2014

During the year we focused on a number of high impact initiatives further details of which are provided below.

### Education

*Elementary Education* – Through its support of 12 schools in Peru, the Company facilitated lessons to over 200 children between the first and sixth grade focusing on literacy and numeracy. In 2014, we continued to commit resources to the use of technology as a teaching aid.

*Secondary Education* – Motivated by a need to equip young people with the tools they need for the future, the Company supported the Life Project for a second year in partnership with the Peruvian charity, Vision Solidaria. This programme, which was delivered to over 450 students, is designed to equip students with a range of social skills to achieve their personal and professional ambitions as they transition to adulthood.

*Scholarships* – Through our Argentinian operations, the Company has provided scholarships which enable students to benefit from further technical studies or college. In addition, we have sponsored a number of students on various mining courses which have resulted in job opportunities being offered.

### Health

*Medico de Cabecera (the Travelling Doctor programme)* – In 2014, we strengthened our collaboration with the Peruvian Ministry of Health and established cooperation agreements with the aim of extending the reach of the Medico de Cabecera programme to more communities and to widen the range of the services offered. In 2014, over 12,000 consultations were facilitated through the Company's mobile medical units.

### Socio-economic development

*Digital Chalhuanca* – During 2014, the Company further built upon the success of its flagship project which promotes education and local business initiatives to the population of Chalhuanca through the provision of IT facilities. In its three years of operation, over 500 teachers have been trained at the IT Centre indirectly benefiting over 3,000 students. In addition, 1,200 of Chalhuanca's citizens and almost 200 state officials have received IT training catering to their specific needs.

*Local Co-operatives* – After completion of an irrigation system to support agricultural activity, families in the communities close to the Inmaculada Project were trained in growing fresh local produce and, in addition, guinea pig breeding. This year, the Company will focus on promoting sustainable self sufficiency by supporting the families as they commence sales to the local markets. A similar programme has also been overseen by our Argentinian operations.



Member of the local co-operatives project

## SUSTAINABILITY REPORT CONTINUED

## HOCHSCHILD ENVIRONMENTAL TEAM

VICE PRESIDENT LEGAL & CORPORATE AFFAIRS

ENVIRONMENTAL  
SUPERINTENDENT  
FOR PROJECTS AND  
EXPLORATIONS

ENVIRONMENTAL  
SUPERINTENDENT  
FOR OPERATIONS

ENVIRONMENTAL  
SUPERINTENDENT  
FOR CLOSURE AND  
REHABILITATION

ENVIRONMENTAL  
CHIEF FOR PERMITS

## MANAGING OUR ENVIRONMENTAL IMPACT

We are committed to ensuring the integrity of the environment in which we develop our operations and new projects.

### 2014 HIGHLIGHTS

- The recruitment of an experienced Corporate Environmental Manager to head the Company's efforts in the crucial area
- Obtained the ISO 14001:2004 re-certification of Arcata, Selene, Pallancata, and San José for 3 years

## THE HOCHSCHILD APPROACH TO ENVIRONMENTAL MANAGEMENT

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

Hochschild Mining recognises that environmental and social responsibility extends beyond the life of our operations and as a result, mine closure plans are in place to restore areas where mining activity has ceased.

## OUR ACHIEVEMENTS IN 2014

- Obtained approval of the Inmaculada revised Project Description.
- Obtained the approval of the Sipan and the Crespo Project mine closure.
- Received environmental permits for the Puquiopata and the Huachuulca exploration projects.
- Successfully completed the environmental closure of the Cuello Cuello and Jasperoide exploration projects. This included the closure of access roads, drilling platforms and open pits.
- A comprehensive audit of all Company waste water treatment plants was completed. This analysis provided recommendations to improve plant efficiencies.



Workers at Pallancata



Arcata plant



Crespo

## How we performed against our 2014 objectives

| Target   | Status         | Commentary  |
|--|----------------|---|
| Update mine closure schedules for Ares, Arcata, Selene, Pallancata and Sipan. Additionally, present site closure plan for Matarani | In progress    | Obtained approval of the revised Ares and Sipan mine closure plans. The plan for Matarani has been presented to the authorities for review. Revised plans for Arcata, Selene and Pallancata are in progress for submission in Q2 2015 |
| Obtain ISO 14001 recertification for Arcata, Selene, Pallancata, Ares and San José   | ✓              | Renewed for 3 years   |
| Initiate the mine closure process for the Ares and Moris mining operations   | Not applicable | Ares is in care and maintenance and the Moris mine has been sold  |

## Environmental Indicators<sup>1</sup>

|  | 2014        | 2013        | 2012 <sup>2</sup> | 2011        |
|--|-------------|-------------|-------------------|-------------|
| Average monthly fresh water consumption per metric tonne of treated ore (cubic metres)                             | 0.34        | 0.15        | 0.18              | 0.24        |
| Electricity consumption per metric tonne of treated ore (Kw-h)   | 98.95       | 82.75       | 88.69             | 53.29       |
| Diesel consumption per metric tonne of treated ore (gallons)   | 1.23        | 1.18        | 1.53              | 1.29        |
| Number of material environmental incidents across entire operations <sup>4</sup>                                   | 0           | 0           | 0                 | 0           |
| Estimated volume of water withdrawn per day (cubic metres)   | 29,716      | 15,538      | 15,925            | 32,424      |
| Estimated proportion of recycled water used  | 36%         | 55%         | 60%               | 69%         |
| Estimated volume of water discharged per day (cubic metres)  | 26,316      | 32,878      | 30,773            | 37,979      |
| <b>Greenhouse gas emissions data<sup>3</sup> (tonnes of CO<sub>2</sub>e)</b>                                       | <b>2014</b> | <b>2013</b> | <b>2012</b>       | <b>2011</b> |
| Emissions from combustion of fuel and operation of facilities (tCO <sub>2</sub> e)                                 | 70,994      | 56,234      | –                 | –           |
| Emissions from purchased electricity (tCO <sub>2</sub> e)  | 68,821      | 72,946      | –                 | –           |
| Emissions intensity, per thousand ounces of total silver equivalent produced (CO <sub>2</sub> e/k oz) <sup>4</sup> | 4.98        | 4.89        | –                 | –           |

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

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 José, Inmaculada, Matarani, Moris and office locations.

4 Total production includes 100% of all production, including attributable to joint venture partners at San José and Pallancata (prior to becoming a wholly owned operation).

## 2015 Targets

- Launch new corporate environmental KPIs
- Review and update corporate environmental policy, environmental management system and organisation of the department
- Implement efficiencies on waste water and drinking water treatment plants across all units

## RISK MANAGEMENT

The Group's risk management framework is premised on the continued monitoring of the prevailing environment, the risks posed by it and the evaluation of potential actions to mitigate those risks.

### RISK PROFILE

The perceived change in the profile of each of the Group's principal risks relative to 2013 has been described to assist the reader in assessing how the risk has evolved during the course of the year under review.

### INTRODUCTION

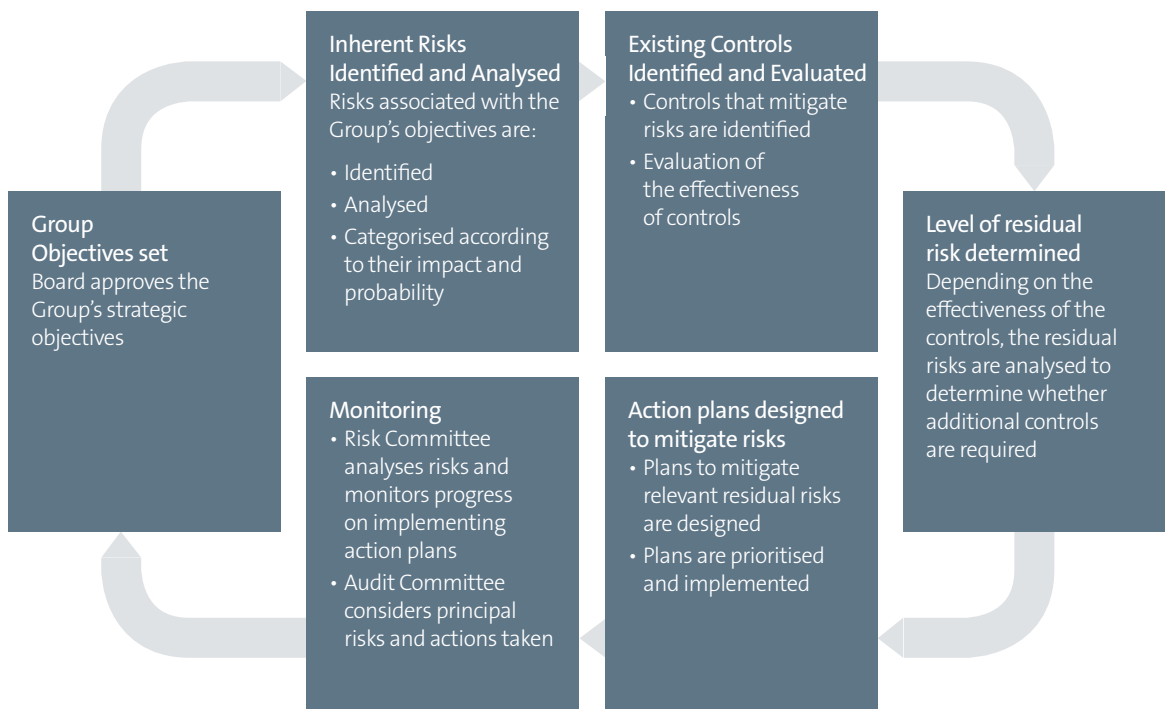
As with all businesses, management of the Group's operations and execution of its growth strategies are subject to a number of risks, the occurrence of which could adversely affect the performance of the Group. The Group's risk management framework is premised on the continued monitoring of the prevailing environment, 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 Group'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 remain unchanged compared to those disclosed in the 2013 Risk Management report however, as indicated in this report, the profile of a number of risks has increased relative to 2013 reflecting the ongoing challenges resulting from the lower and more volatile precious metal price environment.

### Risk management methodology





## FINANCIAL RISKS

| Risk   | Impact  | Mitigation  | 2014 Commentary  |
|--|---|---|--|
| <p><b>Commodity price</b><br/>Change in risk profile vs 2013: HIGHER</p>             | Adverse movements in precious metals' prices could materially impact the Group in various ways beyond a reduction in the results of operations. These include impacts on the feasibility of projects and heightened personnel and sustainability related risks. | <ul style="list-style-type: none"> <li>• Constant focus on maintaining low cost base</li> <li>• Initiatives identified for implementation in the event of a low price environment (included within the Cash Optimisation Plan – see commentary (right))</li> <li>• Flexible hedging policy that allows the Company to approve hedges to mitigate the effect of price movements taking into account the Group's asset mix and forecast production</li> </ul> <p><i>See Market Overview on page 5 for further details</i></p> | <p>The Group maintained the pressure on lowering costs and improving efficiencies through the Cash Optimisation Programme, with its focus on conserving capital and optimising cash flow primarily through:</p> <ul style="list-style-type: none"> <li>• reductions in operating and administrative costs;</li> <li>• minimising sustaining capital expenditure; and</li> <li>• refocusing the Group's exploration strategy.</li> </ul> <p>Significant progress was made in the Inmaculada project, which will considerably contribute to reduce average production costs and will materially dilute fixed costs once in operation.</p> <p>Financial liquidity was ensured via the issue of \$350m Senior Notes, a \$100m credit facility and short term lines available to the Group.</p> <p>The Group hedged part of its 2014 silver and gold production to protect cashflow. For further details see page 19 of the Financial Review.</p> |
| <p><b>Counterparty credit risk</b><br/>Change in risk profile vs 2013: UNCHANGED</p> | The Group may risk financial resources through the failure of financial institutions.   | <ul style="list-style-type: none"> <li>• Surplus cash invested with a diverse list of select highly rated financial institutions within investment limits set by the Board</li> </ul>   | Management has continued to operate its policy with oversight by the Board without any change during the year.   |

## OPERATIONAL RISKS

| Risk   | Impact  | Mitigation  | 2014 Commentary  |
|--|---|---|--|
| <p><b>Operational performance</b><br/>Change in risk profile vs 2013: HIGHER</p> | Failure to meet production targets and manage the cost base could adversely impact the Group's profitability. | <ul style="list-style-type: none"> <li>• Close monitoring by management of operational performance, costs and capital expenditure</li> <li>• Negotiation of long-term supply contracts where appropriate</li> <li>• Exploration to increase high quality resources</li> </ul> | <p>Administrative expenses and sustaining capex trended significantly downwards during 2014, primarily as a result of the cost savings initiatives implemented under the Cash Optimisation Programme.</p> <p>Production goals at all operations were met and 2015 mine plans were thoroughly reviewed to ensure a focus on the extraction of profitable ounces.</p> <p>Significant progress was made at the Inmaculada Project, which, when in production, will materially improve the operational flexibility of the Group.</p> |

## RISK MANAGEMENT CONTINUED

## OPERATIONAL RISKS CONTINUED

| Risk   | Impact   | Mitigation  | 2014 Commentary   |
|--|--|---|---|
| <b>Delivery of Projects</b><br><i>Change in risk profile vs 2013: HIGHER</i>                             | <p>Unanticipated delays in delivering projects could have negative consequences including delaying cash inflows and increasing capital costs, which could ultimately reduce profitability.</p> | <ul style="list-style-type: none"> <li>Teams comprising specialist personnel and world class consultants and contractors are involved in all aspects of project planning and execution</li> <li>Project teams meet with senior management on a weekly basis to monitor ongoing progress against project schedules</li> </ul>  | <p>During the year, senior management of the Group and the EPC Contractor met regularly to monitor progress at the Inmaculada Project against schedule which by the end of the year reached 86% completion.</p> <p>Despite a number of delays, the plant is expected to be commissioned in Q2 2015.</p> <p><i>Further details on Inmaculada can be found on page 12</i></p>   |
| <b>Business Interruption</b><br><i>Change in risk profile vs 2013: UNCHANGED</i>                         | <p>Assets used in operations may break down and insurance policies may not cover against all forms of risks.</p>   | <ul style="list-style-type: none"> <li>Adequate insurance coverage</li> <li>Management reporting systems to support appropriate levels of inventory</li> <li>Annual inspections by insurance brokers and insurers with recommendations addressed in order to mitigate operational risks</li> <li>Availability of contingency power supplies at all operating units</li> </ul> | <p>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.</p> <p>Management reporting systems ensured that an appropriate level of inventory of critical parts is maintained.</p> <p>Adequate preventative maintenance programmes, supported by the SAP Maintenance Module, are in place at the operating units.</p>  |
| <b>Exploration and Reserve and Resource Replacement</b><br><i>Change in risk profile vs 2013: HIGHER</i> | <p>The Group's operating margins and future profitability depend upon its ability to find mineral resources and to replenish reserves.</p>   | <ul style="list-style-type: none"> <li>Implementing and maintaining an annual exploration drilling plan</li> <li>Ongoing evaluation of acquisition and joint venture opportunities to acquire additional ounces</li> </ul>  | <p>The continued focus on cost reduction in 2014 through the Cash Optimisation Programme resulted in a refocusing of exploration activity supported by a budget of over \$20 million which targeted brownfield exploration at current operations, Inmaculada and the resourcing of activity at select sites in Mexico and Peru.</p> <p>In 2015, exploration activity will be primarily focused on brownfield exploration in order to maintain or improve our resource base. As a direct consequence of the continued low price environment, the level of greenfield exploration and appraisal of acquisition/joint venture opportunities has been significantly reduced.</p> <p>The substantial reduction in sustaining capital expenditure in 2015 could affect the Group's ability to replace reserves at its historic rates.</p> |

| Risk   | Impact   | Mitigation  | 2014 Commentary  |
|--|--|---|--|
| <p><b>Exploration and Reserve and Resource Replacement (continued)</b><br/>Change in risk profile vs 2013: UNCHANGED</p> | <p>Reserves stated in this Annual Report are estimates.</p>  | <ul style="list-style-type: none"> <li>Engagement of independent experts to undertake annual audit of mineral reserve and resource estimates</li> <li>Adherence to the JORC code and guidelines therein</li> </ul>                      | <p>The Group engaged P&amp;E Consultants to undertake the annual audit of mineral reserve and resource estimates.<br/><i>See page 166 for further details</i></p>  |
| <p><b>Personnel: Recruitment and retention</b><br/>Change in risk profile vs 2013: HIGHER</p>                            | <p>Inability to retain or attract personnel through a shortage of skilled personnel.</p>                                     | <ul style="list-style-type: none"> <li>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</li> </ul> | <p>Due to the low price environment, there has been a significant headcount reduction during the course of the year, but key personnel have been retained.</p> <p>In the case of critical position holders, retention awards have been granted under the Restricted Share Plan which was approved by shareholders in December 2014.</p> <p>Also, the Group has implemented a number of low cost/high impact initiatives to improve the retention of employees. These include the use of non-financial benefits (e.g. flexible working arrangements for Head Office staff).</p> |
| <p><b>Personnel: Labour relations</b><br/>Change in risk profile vs 2013: UNCHANGED</p>                                  | <p>Failure to maintain good labour relations with workers and/or unions may result in work slowdown, stoppage or strike.</p> | <ul style="list-style-type: none"> <li>Development of a tailored labour relations strategy focusing on profit sharing, working conditions, management style, development opportunities, motivation and communication</li> </ul>         | <p>The reduction in profitability due to lower precious metal prices has resulted in no statutory profit sharing for Peruvian mineworkers.</p> <p>Management has conducted monthly meetings with mineworkers and unions during 2014 to ensure complete understanding of their requirements and concerns and to keep all parties updated on the Group's financial performance with the aim of preparing the groundwork for the 2015 union negotiations.</p>   |



Laboratory at San José

## RISK MANAGEMENT CONTINUED

## MACRO-ECONOMIC RISKS

| Risk   | Impact   | Mitigation   | 2014 Commentary  |
|--|--|--|--|
| <p><b>Political, legal and regulatory</b><br/> <i>Change in risk profile vs 2013: HIGHER</i></p> | <p>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.</p> <p>Implementation of exchange controls could impede the Group's ability to convert or remit hard currency out of its operating countries.</p> | <ul style="list-style-type: none"> <li>Local specialised personnel continually monitor and react, as necessary, to policy changes</li> <li>Active dialogue with governmental authorities</li> <li>Participation in local industry organisations</li> </ul> | <p>During the year, the authorities in Peru and Argentina either adopted new measures or revised their approach with respect to certain aspects which impact the mining sector.</p> <p>Of these, key developments are:</p> <ul style="list-style-type: none"> <li>new environmental regulations which have increased the powers of, and the scale of fines levied by, the relevant regulators;</li> <li>new permitting requirements which will lead to longer permitting periods and costs;</li> <li>the continued consultation on the law requiring the prior consultation with indigenous communities, which is expected to be implemented in the first half of 2015.</li> </ul> <p>By virtue of the fact that 2015 is a pre-electoral year in Peru, the mining sector is expected to be subject to heightened political debate with consequences for, amongst other things, labour and community relations and the regulatory regime.</p> <p>In Argentina:</p> <ul style="list-style-type: none"> <li>at a national Federal Government level, foreign exchange controls were tightened during the year as a result of the country's sovereign debt default;</li> <li>following the implementation of a new regional tax on mining companies' reserves in 2013, the Company launched a challenge regarding its constitutionality of the provincial law. The Supreme Court has decided to hear the case;</li> <li>increased requirements on the import of spare parts has placed more pressure on the Group's San José operation; and</li> <li>the Province of Santa Cruz recently increased the yearly fee for maintaining certain mining concessions by almost 400%.</li> </ul> |

## SUSTAINABILITY RISKS

| Risk  | Impact   | Mitigation  | 2014 Commentary   |
|---|--|---|---|
| <p><b>Health and safety</b><br/> <i>Change in risk profile vs 2013: UNCHANGED</i></p> | <p>Group employees working in the mines may be exposed to health and safety risks.</p> <p>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.</p> | <ul style="list-style-type: none"> <li>Health &amp; Safety operational policies and procedures reflect the Group's zero tolerance approach to accidents</li> <li>Use of world class DNV safety management systems</li> <li>Dedicated personnel to ensure the safety of employees at the operations via stringent controls, training and prevention programmes</li> <li>Rolling programme of training, communication campaigns and other initiatives promoting safe working practices</li> <li>Use of reporting and management information systems to monitor the incidence of accidents and enable preventative measures to be implemented</li> </ul> | <p>For the first time since the Company's IPO in 2006, the Group achieved its on-going objective of Zero Fatalities in 2014. This is reflected in the year-on-year reduction in the accident severity index for the year, of c. 75% from 598 to 149.</p> <p>However, the year-on-year accident frequency rate has increased by c. 48% (from 2.08 to 3.07) primarily due to the fact that accident monitoring has been extended to cover the main contractor and sub-contractors at the Inmaculada project which entered into the higher-risk construction phase.</p> <p>The Group's DNV safety management information systems at the operating units have been given a 7 rating under the International System Rating System (v6) with Inmaculada achieving a 6 rating.</p> <p>As previously reported, a behaviour-based safety tool has been developed and implemented at all units.</p> |



## SUSTAINABILITY RISKS CONTINUED

| Risk   | Impact   | Mitigation   | 2014 Commentary  |
|--|--|--|--|
| <b>Environmental</b><br>Change in risk profile vs 2013: HIGHER       | The Group may be liable for losses arising from environmental hazards associated with the Group's activities and production methods, ageing infrastructure, or may be required to undertake corrective actions or extensive remedial clean-up action or pay for governmental remedial clean-up actions or be subject to fines and/or penalties.  | <ul style="list-style-type: none"> <li>The Group has a team responsible for environmental management</li> <li>The Group has adopted a number of policies and procedures to limit and monitor its environmental impact</li> <li>Use of leading environmental management information systems</li> <li>The Group conducts annual reviews of its mine closure plans for its operating units</li> </ul> | During the year, the environmental regulator (OEFA) increased its oversight activities leading to a significant increase in fines and administrative actions. In addition, there has been an overall increase in the trend of criminal actions pursued by rural communities and third-parties in respect of environmental issues.<br><br>The Cash Optimisation Programme has also affected the environmental budget resulting in the postponement of capital expenditure for infrastructure improvements.<br><br>During the year, the Group: <ul style="list-style-type: none"> <li>succeeded in recertifying the operations in Peru and Argentina as compliant with ISO 14001 for the next three years; and</li> <li>restructured its Environmental team following the appointment of a new Corporate Environmental Manager.</li> </ul> |
| <b>Community Relations</b><br>Change in risk profile vs 2013: 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 for exploration and 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. | <ul style="list-style-type: none"> <li>Constructive engagement with local communities</li> <li>Community Relations strategy focuses on promoting education, health and nutrition, and sustainable development</li> <li>Allocation of budget and personnel for the provision of community support activities</li> <li>Policy to actively recruit workers from local communities</li> </ul>          | Despite the reduction of budgets for the Group's community welfare activities as part of the Cash Optimisation Programme, the Group continued to pursue a number of initiatives benefiting the communities including: <ul style="list-style-type: none"> <li>the establishment of local co-operatives to promote sustainable economic development by enabling communities to trade in local produce; and</li> <li>building on the successes of the Travelling Doctor programme by extending its reach and the scope of its services, and of the award-winning Digital Chalhuanca project.</li> </ul> <p><i>Further details on the Group's activities to mitigate sustainability risks can be found in the Sustainability report on pages 20 to 29</i></p>  |

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

The Strategic Report, as set out on pages 1 to 35 has been reviewed and approved by the Board of Directors and signed on its behalf by:

**IGNACIO BUSTAMANTE**  
 Chief Executive Officer

17 March 2015

## BOARD OF DIRECTORS AND SENIOR MANAGEMENT

The Board's role is to provide leadership to the senior management team through its 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

#### Eduardo Hochschild 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)

#### 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 Fofatos del Pacífico 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 del Perú.

#### Committee membership

CSR 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

#### 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  
CSR Committee  
Nominations Committee

#### Dr Graham Birch Independent 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 Fofatos del Pacífico 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, Ramón 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 & 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.

#### 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 VP Legal.

#### 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.

**Sir Malcolm Field**  
Independent 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.**  
Independent 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. Jorge is also a Director of Dufry AG Zurich and President of the Bunge and Born Charitable Foundation. Previously, Jorge served as a Director and Deputy Chairman of Bunge Limited having served as Head of European operations from 1992 to 1997 and as Head of UK operations from 1989 to 1992.

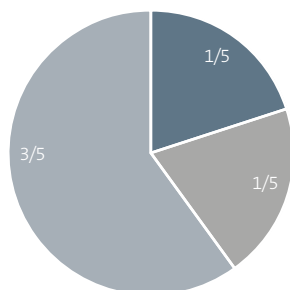
**Committee membership**  
Nominations Committee  
Remuneration Committee (Chairman)

**Nigel Moore**  
Independent Non-Executive Director

Nigel Moore joined the Board in 2006. He is a Chartered Accountant and currently serves as Chairman of JKK 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.

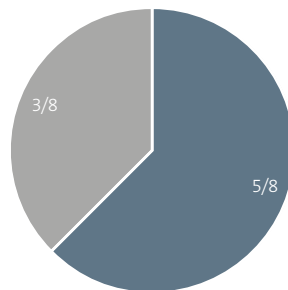
**Committee membership**  
Audit Committee (Chairman)  
Remuneration Committee

LENGTH OF TENURE OF INDEPENDENT NON-EXECUTIVE DIRECTORS



- 0-3 Years
- 3-6 Years
- 6 Years +

BOARD INDEPENDENCE



- Independent Directors
- Non-Independent Directors

## DIRECTORS' REPORT

The Directors present their report for the year ended 31 December 2014.

### DIVIDEND

The Directors did not declare any dividend in respect of the year ended 31 December 2014 and a final dividend is not being recommended (2013 total dividend: nil).

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 36 and 37.

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 spent \$1.94 million<sup>1</sup> on social and community welfare activities surrounding its mining units (2013: \$3.22 million).

### CORPORATE GOVERNANCE STATEMENT

The requirements for a Corporate Governance Statement are fulfilled by the Corporate Governance report on pages 40 to 50.

### GREENHOUSE GAS EMISSIONS

Disclosures relating to the Group's greenhouse gas emissions can be found in the Sustainability report on page 29.

### RELATIONSHIP AGREEMENT

Pelham Investment Corporation (the 'Major Shareholder'), Eduardo Hochschild (who, together with the Major Shareholder are collectively referred to as the 'Controlling Shareholders') and the Company entered into a relationship agreement ('the Relationship Agreement') in preparation for the Company's IPO in 2006 and which was amended and restated during 2014.

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 41 and, with regard to the right to appoint Directors to the Board, are set out on page 54.

As required by the FCA Listing Rules, the Directors confirm that, with respect to the year under review:

- (i) the Company has complied with the independence provisions included in the Relationship Agreement; and
- (ii) so far as the Company is aware:
  - (a) the independence provisions included in the Relationship Agreement have been complied with by the Controlling Shareholders or any of their associates; and
  - (b) the procurement obligation included in the Relationship Agreement has been complied with by the Controlling Shareholders.

### CONFLICTS OF INTEREST

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

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

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

<sup>1</sup> 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 2014 amounted to \$6.7 million (2013: \$10 million).



## POLICY ON FINANCIAL RISK MANAGEMENT

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

## GOING CONCERN

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 1 to 35. The financial position of the Group, its cash flows, liquidity position and borrowings are described in the Financial Review on pages 14 to 19. In addition, note 38 to the financial statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposure to credit risk and liquidity risk.

As described in the Market Overview on page 5, the trading environment in 2014 was a challenging one characterised by low and volatile precious metal prices.

The Group has taken decisive action to mitigate the impact of further downturns in prices, primarily through the cost reduction initiatives implemented as part of the Cash Optimisation Plan and, to a lesser extent, the hedging arrangements put in place in respect of 6 million ounces of silver and 38,000 ounces of gold of the current year's production. The Group has further strengthened its financial position through the issue of \$350m 7.75% Senior Notes and the drawdown of the \$100m Credit facility negotiated in 2014. In addition, in 2015, the Group has also drawn down short-term credit facilities of \$75 million.

During 2014 and, most recently in the process of considering these financial statements, the Board has reviewed the actions that could be pursued as part of a contingency plan in the event that price conditions deteriorate further.

In conclusion, having considered financial forecasts and projections which take into account (i) possible changes in the price of silver and gold; (ii) the Group's expenditure including its capital commitments for the Inmaculada project; and (iii) the lower average cost of production and the dilution of fixed costs brought about by the commencement of the Inmaculada mine, the Directors have a reasonable expectation that the Group and the Company have adequate resources, including access to contingent resources, that would see it 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.

## ANNUAL GENERAL MEETING ('AGM')

The ninth AGM of the Company will be held at 9.30 am on 15 May 2015 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](http://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; and
- 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

17 March 2015

# CORPORATE GOVERNANCE REPORT

## IN THIS REPORT

### The Board, its workings and how it performed in 2014

see page 41

### Audit Committee

see page 44

### Nominations Committee

see page 48

### Corporate Social Responsibility Committee

see page 49

### Remuneration Committee

see page 50



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

## DEAR SHAREHOLDER

The Board takes its governance responsibilities extremely seriously as they serve as a robust foundation upon which the Company can achieve its operational and strategic objectives successfully. This has taken on an increased level of significance in the past year given the continued challenging environment for the mining sector.

These conditions have led the Board to consider the issue of risks more closely as we have proceeded to continue the implementation of cost reduction initiatives across the business.

During the year, the Audit Committee has overseen the risk management process and the Board has considered not only the risks that could endanger our strategy (and which are discussed in the Risk Management section of this Annual Report) but also the risks that are associated with the low price environment and the risks of the mitigating actions taken by management that we have overseen.

The Board acknowledges that in such a turbulent market environment, continuity at Board level provides a bedrock of stability and for this reason, I am grateful to my fellow Board Members for their support in suspending our Non-Executive succession plans for the time being. The Board is mindful of the benefits of a refreshed Board composition which we will embark on implementing at the appropriate time.

At the end of last year, the Company announced my decision to assume a Non-Executive chairmanship of the Company. This decision does not signal my stepping back from the business but, rather, is indicative of our commitment to strong governance. I look forward to reporting on these new arrangements in the 2015 Annual Report.

If you should have any queries arising from this report, please do not hesitate to contact me.

**EDUARDO HOCHSCHILD**

Chairman

17 March 2015

## INTRODUCTION

This report, together with the Directors' remuneration report, describes how the Company has applied the Main Principles of the UK Corporate Governance Code ('the Code') (2012 edition) in respect of the year ended 31 December 2014. A copy of the Code is available on the website of the Financial Reporting Council ('FRC') at [www.frc.org.uk](http://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 51 to 54.

This report reflects the arrangements in place during 2014 and does not, therefore, reflect Eduardo Hochschild's Non-Executive chairmanship that was assumed with effect from 1 January 2015.

## STATEMENT OF COMPLIANCE

The Board confirms that, in respect of the year under review, 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 remuneration of Eduardo Hochschild, who held the position of Executive Chairman until 31 December 2014, was not performance-related.  
As previously reported, the Chairman's remuneration arrangements were reviewed in early 2010. In agreeing the structure, the Board felt that the arrangements should reflect the importance of his contribution to the long-term strategic development of the Group and his current significant shareholding. For this reason, a package comprising fixed elements only was considered to be the most appropriate; and
- (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

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.

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

During 2014, the Board comprised two Executive Directors; the Chairman and the Chief Executive Officer, and six Non-Executive Directors.

## Chairman and Chief Executive

In the year under review, the Company was jointly led by the then 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 were 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 as the majority shareholder of the Company, the Board is satisfied that, given its structure, decisions can be made without any one Director exercising undue influence. This specific issue is the subject of discussion as part of the annual Board evaluation process which, in 2014, concluded that this view is maintained.

Additional safeguards come in the form of the Relationship Agreement originally entered into by Eduardo Hochschild, Pelham Investment Corporation ('the Major Shareholder') and the Company prior to the IPO in November 2006, which ensured that the Company and its subsidiaries are capable of carrying on their business independently of the controlling shareholders at that time and of their respective associates.

The Relationship Agreement was reviewed by the Board during the year following the implementation of new Listing Rules applicable to listed companies with controlling shareholders (the 'New Listing Rules'). As a result, an amended and restated Relationship Agreement was approved and adopted which, in addition to being the subject of a general update, incorporates revised independence provisions reflecting the language of the New Listing Rules.

Under the terms of the agreement, each of Eduardo Hochschild and the Major Shareholder covenants that:

- (i) all transactions with the Company (and its subsidiaries) will be conducted at arm's length and on normal commercial terms;
- (ii) neither of them (nor their associates) (the 'Relevant Parties') will take any action that would have the effect of preventing the Company from complying with its obligations under the Listing Rules;
- (iii) the Relevant Parties will not propose, and neither will they procure the proposal of, a shareholder resolution intended or which appears to be intended to circumvent the proper application of the Listing Rules; and
- (iv) the Relevant Parties will not take any action that would preclude or inhibit any member of the Group from carrying on its business independently of any of them.

The confirmations required to be given by the Board under the New Listing Rules can be found in the Directors' Report on page 38.

## CORPORATE GOVERNANCE REPORT CONTINUED

*Senior Independent Director*

During the year under review, Enrico Bombieri acted as the Senior Independent Director and, as such, was available to act as a sounding board for the Chairman as necessary.

Mr Bombieri was available to meet with major shareholders during the year if their concerns were not resolved by the executive management team.

*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 judgment:

- Enrico Bombieri's employment, until February 2010, with JP Morgan, an affiliate of one of the Company's corporate brokers, 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 2014*

There were six Board meetings held in 2014 comprising five scheduled meetings and one ad hoc meeting convened in connection with the issue of the Group's \$350m 7.75% Senior Notes.

Attendance of the Directors at these meetings is summarised in the following table:

|                    | Maximum possible attendance | Actual attendance |
|--------------------|-----------------------------|-------------------|
| Eduardo Hochschild | 6                           | 5                 |
| Roberto Dañino     | 6                           | 6                 |
| Dr Graham Birch    | 6                           | 6                 |
| Enrico Bombieri    | 6                           | 6                 |
| Jorge Born Jr.     | 6                           | 5                 |
| Ignacio Bustamante | 6                           | 6                 |
| Sir Malcolm Field  | 6                           | 6                 |
| Nigel Moore        | 6                           | 6                 |

Directors usually 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 encouraged to be fed back to the Chairman of the relevant meeting who ensures that all views are represented.

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 2014 were:

*Financial*

- the terms and subsequent issue of \$350m 7.75% Senior Notes in connection with the acquisition of International Minerals Corporation
- the recommendations of the Audit Committee to adopt the 2013 Annual Report and Accounts and the 2014 Half-Yearly Report
- the \$100m medium-term loan with Scotiabank
- updates on the implementation of the phases of the Cash Optimisation Plan and revised financial forecasts
- ongoing financing options
- the 2015 Budget

*Strategy*

- the Group's strategic plan
- hedging strategy

*Business performance*

- detailed updates on progress at the Inmaculada Project
- the revised focus of the Group's business development and exploration activities

*Risk*

- review of the strategic risks faced by the Group
- monitoring of the risks resulting from the Cash Optimisation Plan

*Governance*

- review and subsequent adoption of, a revised Relationship Agreement following changes to the Listing Rules (see earlier section entitled 'Chairman and Chief Executive')
- 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 2013 Board evaluation recommendations, the outcome of the 2014 Board evaluation and the form of the 2015 Board evaluation process
- the annual reviews of Directors' conflicts of interest and the independence of Non-Executive Directors
- the assumption, by Eduardo Hochschild, of a Non-Executive chairmanship of the Company
- the reduction in Non-Executive Directors' remuneration

*Sustainability*

- presentations on the Group's Environmental and Community Relations functions and their respective strategies

In between Board meetings, Directors are kept informed of latest developments through monthly management 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 36 and 37.

Under the terms of the Relationship Agreement, the Major Shareholder has (i) 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 (ii) 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% 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 the various means described as follows.

#### Induction

New Board appointees are offered the opportunity to meet with key management personnel and the Company's principal advisers as well as undertaking 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.

### 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 2013 Board evaluation

A number of actions were taken during the year as a consequence of the findings from the 2013 Board evaluation process.

These actions included:

- the recomposition of the CSR Committee under the chairmanship of Roberto Dañino;
- in-depth discussions on commodity markets and market risk;
- a review of the Group's approach to exploration following the re-organisation of the exploration function; and
- extending the scope of the Group's reporting of risk to also address the specific risks emanating from the Cash Optimisation Plan and the associated mitigating actions.

## 2014 BOARD EVALUATION

In keeping with past practice, the 2014 Board evaluation process was undertaken through one-to-one interviews conducted by the Senior Independent Director assisted by the Company Secretary.

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

#### The Board

- The composition of the Board, focusing on the skills required to fulfil its responsibilities and gender diversity
- Board process and dynamics
- Strategic planning and governance

#### The Committees

- Composition and overall workings
- Identifying opportunities to enhance the committees' roles
- Reviewing specific aspects of each Committee's role as a means of evaluating its performance

#### Specific matters arising during the year

- The implementation of the various phases of the Cash Optimisation Plan
- A review of the Company's resilience to a continued low precious metal price environment

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

## CORPORATE GOVERNANCE REPORT CONTINUED

**2014 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 and Enrico Bombieri as the Senior Independent Director 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 Enrico Bombieri and considered by the Non-Executive Directors collectively before being relayed to the Chairman.

*Outcome*

The principal recommendations arising from the 2014 Board evaluation process can be summarised as follows:

- the resumption of Non-Executive succession planning, taking into account the benefits of gender diversity, following the temporary suspension of the plan in light of the volatile commodity markets;
- the ongoing review of senior management succession plans following the headcount reductions implemented as part of the Cash Optimisation Plan;
- enhancing the flow of communication between the Committees and the Board; and
- reducing the number and length of Board papers to allow sufficient time for the discussion of critical strategic issues.

**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 previously reported, the Board acknowledges the benefits of a periodic external evaluation recommended by the Code but given the extent of the steps taken by management during the year to mitigate the impact of falling precious metal prices, the Board feels that the cost of an externally led evaluation does not justify the expected level of additional benefits. As a result, the Directors feel it is only right to continue the deferral of 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. As foretold in last year's report, 2014 did indeed prove to be a challenging year with continued volatility in precious metal prices. In such an environment, the Committee's key function of protecting shareholders' interests through a robust framework of internal controls, financial management and reporting took on a heightened level of significance. How we are able to reassure our shareholders in these respects is set out in detail later in this report in the description of the Committee's role and responsibilities and the actions taken over the course of the year. This has been primarily achieved through its monitoring activities of the impact of the Cash Optimisation Plan on the Group's internal controls.

The Committee, and indeed the Board, also spent a significant amount of time during the year considering the combined impact on the Group of prevailing market conditions and the consequent actions taken by the Company which, in addition to the cost reduction measures, include the issue of Senior Notes, the \$100m Credit Facility and, to a lesser extent, the hedges taken to protect cashflow. Further detail on these considerations can be found in the Going Concern part of the section of this report addressing the Significant Audit issues.

The UK Corporate Governance Code requires the Company to state whether it anticipates tendering its external audit. Ernst & Young LLP were appointed as Auditors in 2006 in preparation for the Company's Initial Public Offering and, accordingly, under the EU regulations implemented last year and in the absence of any relevant transitional provisions or guidance, the Company is currently obliged to tender its 2017 external audit. This is of course subject always to the Auditors performing to the satisfaction of the Audit Committee and Company management.

In light of the challenging conditions that are likely to continue in to 2015, the Board has agreed not to put the audit contract out to tender earlier than currently required. The Committee has a positive and open relationship with management and the auditors and we thank them for their assistance during the year.

**NIGEL MOORE**  
Committee Chairman

| Members   | Maximum possible attendance | Actual attendance |
|---|-----------------------------|-------------------|
| <b>Nigel Moore</b><br>(Non-Executive Director and Committee Chairman) | 4                           | 4                 |
| <b>Dr Graham Birch</b><br>(Non-Executive Director)                    | 4                           | 4                 |
| <b>Enrico Bombieri</b><br>(Non-Executive Director)                    | 4                           | 4                 |
| <b>Sir Malcolm Field</b><br>(Non-Executive Director)                  | 4                           | 4                 |

There were four meetings of the Audit Committee during the year.

#### 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 Audit Committee Chairman for a number of other listed companies for the last ten years.

All Committee members are considered to be independent Directors. Their biographical details can be found on pages 36 and 37.

#### 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 2013 Annual Report and Accounts and the 2014 Half-Yearly Report were reviewed by the Committee before recommending their adoption by the Board. 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 30 to 35 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. The Audit Committee Chairman receives a report from the Head of the Internal Audit every three months which sets out specific areas covered, improvements being recommended and introduced and proposals for the programme over the following three months. The CEO and CFO also receive copies of this report and robustly support the activities of the Internal Audit function.
- **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 and Bribery Act** – The Audit Committee continued to review and challenge the actions taken by management to promote ethical and transparent working practices.

## CORPORATE GOVERNANCE REPORT CONTINUED

- **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 which result in an action plan, the execution of which is assessed in the following year’s auditor evaluation.
- **Committee objectives** – The Audit Committee has continued its initiative of setting specific objectives for itself and management with a view to ensuring the diligent fulfilment of its responsibilities.

The objectives for 2014 resulted in:

- the periodic reporting of risk to the Committee being supplemented by analysis of specific risks associated with the cost cutting initiatives implemented as part of the Cash Optimisation Plan;
- continued focus on the processes through which employee wrongdoing is detected and reported;
- ongoing review of the Group’s tax structure in ensuring an appropriate effective tax rate;
- a review of the assurance mapping process, to ensure that maximum benefit is derived from the annual review of the source and quality of the assurances provided to the Committee; and
- a detailed review of developments in corporate governance and their impact on the Committee and its scope of responsibilities.

During the year, the Committee members held meetings with the external Auditors without executive management to discuss matters relating to the 2013 annual audit and the 2014 half-yearly report. There were no matters of significance to report from these meetings.

## SIGNIFICANT AUDIT ISSUES

As recommended by the Code, the following is a summary of the significant issues considered by the Committee in relation to the 2014 financial statements and how these issues have been addressed.

### Impairments

This was considered to be a significant audit issue in 2014 given the ongoing challenges faced by the Group during the year arising from declines and volatility in market prices for silver and gold.

The Audit Committee has assessed reports from management on the possible presence of indicators of impairment (as defined in the relevant accounting standard) in respect of the Group’s cash generating units (‘CGUs’).

In addition the Committee subsequently considered Ernst & Young’s audit of, amongst other things, the methodology applied in preparing these recoverable value models which included assessing the models’ appropriateness, testing their accuracy, performing sensitivity analyses on significant inputs, and challenging the appropriateness of key assumptions.

### Conclusion

In light of these assessments, the Audit Committee agreed with management’s conclusion that no impairment charges or reversals of previously recognised impairments are required for any of the Group’s mine asset CGUs (excepting San Felipe where a reversal of a previously recognised impairment was recorded) and that all impairment-related disclosures made in the Group financial statements are complete, sufficient, and appropriate.

### Revenue Recognition

Under auditing standards, there is a rebuttable presumption that revenue recognition is identified as a fraud risk. The Group concludes a number of sales contracts which incorporate complex terms under which title, risk and rewards pass to the customer which increases the risk of misstatement and cut-off errors with respect to the reporting of revenue.

The Audit Committee has reviewed management’s approach to the matter and considered the Auditors’ procedures which focused on:

- testing the key controls around the revenue recognition process to confirm that they are designed and operating effectively, supporting the prevention and detection of material errors in the reported revenue figures;
- the timing of sales; and
- the appropriate treatment of provisional pricing.

### Conclusion

As a result of the procedures performed, the Audit Committee has been able to conclude that revenue has been recognised in accordance with accounting standards and the calculation of any provisional pricing adjustments has been performed in accordance with the Group’s accounting policies.



### Going Concern Assessment

Due to the fall and increased volatility in commodity prices and the Group's increased leverage during 2014, the Board and the Committee (with respect to its delegated authority) regularly considered during the year, the resources available to the Group in determining its status as a going concern.

Management and the Board considered cash flow forecasts, undertook sensitivity analysis of the key assumptions and tested forecast covenant compliance to ensure the Group's ability to operate as a going concern.

The Audit Committee considered the processes undertaken by the auditors to obtain reassurance supporting the continued application of the going concern methodology including the testing of key assumptions, the appropriateness of stress testing and the review of contractual and lending arrangements. In conclusion, the Committee is content that the financial statements are in accordance with relevant accounting standards and guidance.

Please refer to the Directors' Report on page 39 for its confirmation to shareholders on the appropriateness of the Going Concern assumption.

### Adequacy of Tax Provisions

The Audit Committee considered the potential fines or losses that the Group may be subject to in light of open tax reviews and the uncertainty with respect to the quantum and timing of these liabilities.

The Audit Committee considered management's assessment of these potential exposures and the work of the external auditors which focused on:

- corroborating management's assessment's;
- changes to those assessments relative to prior years and the appropriate treatment in light thereof; and
- the views of external counsel in support of management's assessment.

In conclusion and having had regard to management's assessment, the Committee agrees with the treatment and disclosure of the potential liabilities identified.

### Mine Rehabilitation Provisions

The Audit Committee considered the judgment exercised by management in assessing the amounts required to be paid by the Company to rehabilitate the Group's mines.

In its assessment of management's analysis, the Audit Committee took into account:

- the basis of management's estimation of future rehabilitation costs;
- the discount rate applied by management;
- significant changes in estimates and the basis and level of new costs; and
- the accounting for the changes in the provisions.

The Audit Committee concluded that the provision, which takes into account the additional amounts now budgeted to restore the Inmaculada project (to reflect its near completion status) and the revision of budgets to rehabilitate a number of the Group's current and former mines, to be appropriate.

### 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; and
- an annual assessment, by the Audit Committee, of the Auditors' objectivity and independence in light of all relationships between the Company and the audit firm.

#### *2014 Audit and non-audit fees*

Details of fees paid to the external Auditors are provided in note 33 to the Consolidated Financial Statements.

## CORPORATE GOVERNANCE REPORT CONTINUED

**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; and
- 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**

One of the key responsibilities of the Nominations Committee is to oversee the Board's succession planning requirements including the identification and assessment of potential Board candidates and making recommendations to the Board for its approval. The task we had set ourselves early in 2014 was to see through the implementation of such a plan with respect to the Non-Executive Directors, a number of whom will be completing nine years on the Board later this year. However, the trading challenges faced by the Company during the past year prompted the Board to prioritise stability of leadership and, for this reason, the process of refreshing the Board was temporarily suspended.

As a result, we retained our focus during the year on ensuring the efficiency of the Board through the development of the Directors' skills and knowledge by facilitating interaction with staff members and providing briefings on a variety of subjects ranging from the commodity markets to regulatory developments.

**EDUARDO HOCHSCHILD**  
**Committee Chairman**

| Members  | Maximum possible attendance | Actual attendance |
|--|-----------------------------|-------------------|
| <b>Eduardo Hochschild</b><br>(Committee Chairman)    | 2                           | 2                 |
| <b>Enrico Bombieri</b><br>(Non-Executive Director)   | 2                           | 2                 |
| <b>Jorge Born</b><br>(Non-Executive Director)        | 2                           | 1                 |
| <b>Sir Malcolm Field</b><br>(Non-Executive Director) | 2                           | 2                 |

**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 2014. The Company Secretary acts as Secretary to the Committee.

### Activity during the year

The principal matters considered during the year were:

- a review of the Board's skills' matrix to identify the skills to be replaced at the appropriate time;
- discussions on the issue of diversity of the Board, including gender diversity;
- succession planning for the senior management team;
- the format of the 2014 Board evaluation process. As explained earlier in this report, it was decided that, given the extent of the cost reduction initiatives which continued to be taken across the Group, an externally led evaluation was not appropriate. The Committee therefore recommended that an externally led evaluation be deferred until an improvement in trading conditions; and
- the findings of the 2014 Board evaluation process (see earlier section of the Corporate Governance report on Board development).

### Appointments to the Board

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, to Board effectiveness are acknowledged by the Directors who note that the current Board composition is reflective of a cultural diversity that is relevant to the Group's business.

Given current trading conditions, there are no immediate plans to make new Board appointments. However, the Company foresees that retirements over the next 12-18 months will present opportunities to increase gender diversity on the Board.

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

## CORPORATE SOCIAL RESPONSIBILITY COMMITTEE

### Dear Shareholder

The Group has continued to demonstrate its commitment as a responsible operator throughout 2014 underlined by the fact that for the first time since the Company's listing in 2006, the Company has achieved its ongoing objective of zero fatalities. We owe our gratitude for this significant achievement to our many teams who have worked tirelessly to embed a safety driven culture across the organisation and of course to the workers at our operations.

Despite the challenging trading conditions, we remain committed to our responsibilities to our local communities, and details of the work we have done during the year in the core areas of education, health and economic development can be found in the Sustainability report on pages 20 to 29.

### ROBERTO DAÑINO Committee Chairman

| Members  | Maximum possible attendance | Actual attendance |
|--|-----------------------------|-------------------|
| <b>Roberto Dañino</b><br>(Committee Chairman)          | 4                           | 3                 |
| <b>Dr Graham Birch</b><br>(Non-Executive Director)     | 4                           | 4                 |
| <b>Ignacio Bustamante</b><br>(Chief Executive Officer) | 4                           | 4                 |

### 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
- 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

All of the members of the Committee served throughout the year under review. Enrico Bombieri was appointed a member of the Committee with effect from 1 January 2015.

The Vice President of Operations and the Vice President of Legal and Corporate Affairs 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 20 to 29.

## CORPORATE GOVERNANCE REPORT CONTINUED

## REMUNERATION COMMITTEE

*Dear Shareholder*

We seek to implement a simple and transparent remuneration policy that aims to retain and motivate senior executives and, above all, is aligned with the successful achievement of the Group's strategic objectives. This alignment does not only look to reward management's performance in extremely challenging trading conditions but also reflects our commitment as a responsible operator. Further details on the Company's remuneration policy and the Committee's work in 2014 can be found in the Directors' remuneration report on page 55.

**JORGE BORN JR.**  
Committee Chairman

| Members  | Maximum possible attendance | Actual attendance |
|--|-----------------------------|-------------------|
| <b>Jorge Born Jr.</b><br>(Committee Chairman)        | 5                           | 4                 |
| <b>Sir Malcolm Field</b><br>(Non-Executive Director) | 5                           | 5                 |
| <b>Nigel Moore</b><br>(Non-Executive Director)       | 5                           | 5                 |

**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**

There were no changes to the membership of the Committee during 2014. The Company Secretary acts as Secretary to the Committee.

Members of senior management attend meetings at the invitation of the Committee. During the year, such members included the 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 55 to 78.

## 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 2014**

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

| Date                                 | Event   |
|--------------------------------------|---|
| <b>January, April, July, October</b> | Conference calls following the Quarterly Production Reports (and Interim Management Statements, when appropriate)   |
| <b>February</b>                      | BMO Global Metals & Mining Conference   |
| <b>March</b>                         | 2013 Annual Results presentation<br>UK and European and Roadshow  |
| <b>May</b>                           | BoA Merrill Lynch Global Metals, Mining and Steel Conference<br>Annual General Meeting  |
| <b>June</b>                          | HSBC LATAM Investor Forum<br>Zurich Roadshow  |
| <b>August</b>                        | 2014 Half-Yearly Results presentation   |
| <b>September</b>                     | UK and European Roadshow<br>Denver Gold Forum<br>Shareholder communication and meetings led by the Remuneration Committee in connection with the proposed Restricted Share Plan ('RSP') |
| <b>December</b>                      | Extraordinary General Meeting in connection with the RSP  |

An extensive Investor Relations schedule resulted in management holding over 50 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.

**2014 AGM**

Notice of the 2014 AGM was circulated to all shareholders at least 20 working days prior to the meeting. With the exception of Roberto Dañino (Chairman of the CSR Committee) who was unable to attend due to ill health, all of the Chairmen of the Board Committees were available at the AGM 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](http://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 in the year under review was 367,101,352 ordinary shares of 25 pence each ('shares').

The Hochschild Mining Employee Share Trust ('the Trust') is an employee share trust established 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 2014, 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                | 0.17%                                  | 5.90%                                |
| Altima Global Special Situations Master Fund Limited* | 12,003,175                | 3.55%                                  | n/a                                  |

\* 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 17 March 2015.

#### Current share repurchase authority

The Company obtained shareholder approval at the AGM held in May 2014 for the repurchase of up to 36,710,135 shares which represents 10% of the Company's issued share capital ('the 2014 Authority'). Whilst no purchases were made by the Company pursuant to the 2014 Authority, it is intended that shareholder consent will be sought on similar terms at this year's AGM when the 2014 Authority expires.

#### Additional share capital information

This section provides additional information as at 31 December 2014.

##### (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 29 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.

## SUPPLEMENTARY INFORMATION CONTINUED

**(c) Transfer of shares**

The relevant provisions of the Articles state that:

- registration of a transfer of an uncertificated share may be refused in the circumstances set out in the CREST Regulations and where, in the case of a transfer to joint holders, the number of joint holders to whom the uncertificated share is to be transferred exceeds four;
- the Directors may, in their absolute discretion, decline to register any transfer of any share which is not a fully paid share. The Directors may also decline to recognise any instrument of transfer relating to a certificated share unless the instrument of transfer: (i) is duly stamped (if required) and is accompanied by the relevant share certificate(s) and such other evidence of the right to transfer as the Directors may reasonably require; and (ii) is in respect of only one class of share. The Directors may, in their absolute discretion, refuse to register a transfer if it is in favour of more than four persons jointly; and
- the Directors may decline to register a transfer of any of the Company's shares by a person with a 0.25% interest, if such a person has been served with a notice under the Companies Act after failure to provide the Company with information concerning interests in those shares required to be provided under the Companies Act.

**(d) Restrictions on voting**

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

**(e) Deadlines for voting rights**

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

**SHAREHOLDER AGREEMENTS**

The Relationship Agreement entered into prior to the IPO between, amongst others, the Major Shareholder (as defined in the Relationship Agreement) and Eduardo Hochschild (collectively 'the Controlling Shareholders') and the Company:

- contains provisions restricting the Controlling Shareholders' rights to exercise their voting rights to procure an amendment to the Articles that would be inconsistent with the Relationship Agreement; and
- contains an undertaking by the Controlling Shareholders that they will, and will procure that their Associates will, abstain from voting on any resolution to approve a transaction with a related party (as defined in the 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) \$350m 7.75% Senior Notes**

Under the terms and conditions of the \$350 million 7.75% Senior Notes due 2021, 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.

**(b) \$100m Credit Agreement**

Under the terms and conditions of the \$100 million Credit and Guaranty Agreement between, amongst others, the Group and Scotiabank Peru S.A.A, a Change of Control constitutes an Event of Default (as defined in the agreement) as a result of which (i) the Administrative Agent may, with the consent of the Required Lenders; or (ii) the Administrative Agent shall, at the request of the Required Lenders, declare all or a portion of the Commitments terminated and/or the Loans hereunder (with accrued interest thereon) and all other amounts owing under this Agreement to be due and payable forthwith, whereupon the same shall immediately become due and payable.

In summary, a Change of Control means an event or series of events by which: (a) the Permitted Holders (being Eduardo Hochschild, his descendants or investment vehicle for the primary benefit of any of them) shall for any reason cease, individually or in the aggregate, to be the “beneficial owners” (as defined in Rules 13d-3 and 13d-5 under the Securities Exchange Act of 1934), directly or indirectly, of more than 50% of the Equity Interests in the Company; or (b) the Permitted Holders shall for any reason cease, individually or in the aggregate, to have the power to appoint at least a majority of the members of the board of directors or other equivalent governing body of the Company; or (c) the Permitted Holders shall for any reason cease, individually or in the aggregate, to Control the Company (through the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of the Company, whether through the ability to exercise voting power, by contract or otherwise); or (d) the Company shall for any reason cease, directly or through one or more of its Subsidiaries, to be the “beneficial owner” (as so defined) of 100% of the Equity Interests in Compania Minera Ares S.A.C. or Hochschild Mining (Argentina) Corporation S.A.; or (e) the Company shall for any reason cease, directly or indirectly, to Control Compania Minera Ares S.A.C. or Hochschild Mining (Argentina) Corporation S.A.

**(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.

**(d) Derivative Instruments**

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-à-vis the counterparty.

**ADDITIONAL DISCLOSURES****Disclosure table pursuant to Listing Rule 9.8.4C R**

For the purposes of LR 9.8.4C R, the information required to be disclosed by LR 9.8.4 R can be found in the following parts of this Annual Report:

| Section | Subject Matter   | Location   |
|---------|--|--|
| (1)     | Interest capitalised                                     | Note 16 to the consolidated financial statements |
| (2)     | Publication of unaudited financial information           | Not applicable                                   |
| (4)     | Details of specified long-term incentive scheme          | None   |
| (5)     | Waiver of emoluments by a director                       | Directors’ remuneration report                   |
| (6)     | Waiver of future emoluments by a director                | As (5) above                                     |
| (7)     | Non pre-emptive issues of equity for cash                | None   |
| (8)     | Item (7) in relation to major subsidiary undertakings    | None   |
| (9)     | Parent participation in a placing by a listed subsidiary | None   |
| (10)(a) | Contract of significance in which director is interested | None   |
| (10)(b) | Contract of significance with controlling shareholder    | None   |
| (11)    | Provision of services by a controlling shareholder       | None   |
| (12)    | Shareholder waivers of dividends                         | Directors’ report                                |
| (13)    | Shareholder waivers of future dividends                  | Directors’ report                                |
| (14)    | Agreement with controlling shareholder                   | Directors’ report                                |

## SUPPLEMENTARY INFORMATION CONTINUED

**SUMMARY OF CONSTITUTIONAL AND OTHER PROVISIONS****Appointment of Directors***Under the terms of the Articles*

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.

*Approach to Appointment adopted by the Board*

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.

*New Listing Rules*

Following the implementation of new Listing Rules by the Financial Conduct Authority (in its capacity as the UK Listing Authority), as a company with a controlling shareholder, with effect from the upcoming AGM, the election or re-election of any independent director must be approved by: (i) all shareholders of the Company; and (ii) the independent shareholders of the Company (i.e. any person entitled to vote on the election of directors of the Company that is not a controlling shareholder).

If either shareholder resolution to elect or re-elect the independent director is defeated, the Company may propose a further resolution to elect or re-elect the proposed independent director provided that the further resolution must not be voted on within 90 days from the date of the original vote but it must then be voted on within a period of 30 days from the end of the 90 day period. It may then be passed by a simple majority of the shareholders of the Company voting as a single class.

**Removal of Directors**

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.

**Relationship Agreement**

In addition, under the terms of the Relationship Agreement:

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

**Amendment of Articles of Association**

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

**Powers of the Directors**

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

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

**Repurchase of shares**

Subject to authorisation by shareholder resolution, the Company may purchase its own shares in accordance with the Companies Act. Any shares which have been bought back may be held as treasury shares or, if not so held, must be cancelled immediately upon completion of the purchase, thereby reducing the amount of the Company's issued share capital. The minimum price which must be paid for such shares is specified in the relevant shareholder resolution.

**Dividends and distributions**

Subject to the provisions of the Companies Act, the Company may by ordinary resolution from time to time declare dividends not exceeding the amount recommended by the Directors. The Directors may pay interim dividends whenever the financial position of the Company, in the opinion of the Directors, justifies 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

On behalf of the Board, I am pleased to present the Directors' remuneration report for the year ending 31 December 2014.

As in 2013, this report is split into three sections: the Annual Statement, the Directors' Remuneration Policy and the Annual Report on Remuneration. The Remuneration Policy has been updated to include details of the Restricted Share Plan ('RSP'), which was approved at the 29 December 2014 Extraordinary General Meeting, and subject to shareholder approval will take effect from the date of the forthcoming AGM. The Annual Report on Remuneration will be subject to an advisory vote at the AGM.

As previously reported, 2014 was characterised by a continued depressed pricing environment exacerbated by an increased volatility in precious metal prices. Against this backdrop, management has maintained its focus on reducing costs across the business and on making significant progress with the Inmaculada Project which on the commencement of commissioning in Q2 2015 is expected to bring down the Group's average cost of production.

The Committee's key decisions during the year related to the following areas:

### Change in Eduardo Hochschild's role

Following a review of Board structure, Eduardo Hochschild became Non-Executive Chairman of the Company with effect from 1 January 2015. Mr. Hochschild will receive a flat annual fee of \$400,000 and will retain eligibility for the benefits received in respect of his time as an Executive Director. The Committee considers this move will better align the Board structure with best practice corporate governance, whilst also delivering a significant cost saving.

### Review of CEO's base salary

At the beginning of 2015 the Committee reviewed the salary of the CEO. This review took into account a number of factors including pay levels in the global mining sector, the relative cost of living, an assessment of performance during the year, and pay conditions across the Group. Following this review, the Committee agreed that the base salary for the CEO will increase by 16% to US\$541,667, effective 1 March 2015.

### Annual bonus

Since the start of the downward trend in precious metal prices in 2013, management has implemented a series of cost reduction measures under the Cash Optimisation Plan ('COP'). The original target set for the COP of US\$200m has been significantly exceeded with total savings to date estimated at over US\$300 million. Another considerable achievement was the accomplishment of the Company's ongoing strategic objective of zero fatalities which was seen through in 2014 for the first time since the Company's listing in 2006. As a result of these notable actions and the reasons set out later in this report, the annual bonus outcome was 100% of salary for the CEO.

## Long-term incentives

As performance conditions (linked to relative Total Shareholder Return ('TSR')) were not achieved, awards granted in 2012 under the Long Term Incentive Plan ('LTIP') and the four-year tranche of the 2011 Enhanced LTIP ('ELTIP') will lapse in early 2015. In light of ongoing difficulties affecting the precious metals market, and in the face of the increased competition for mining professionals, the Committee consulted with shareholders in 2014 about a one-off grant of restricted shares to key management personnel, including the CEO. Following approval of the RSP at the 29 December 2014 Extraordinary General Meeting, awards were made to Ignacio Bustamante and other executives, details of which can be found on page 75. The Committee strongly believes that awards under the RSP will help ensure the retention of key executives and are in shareholders' best interest.

## Areas of future consideration

The Committee notes the new requirement for malus and clawback in the FRC UK Corporate Governance Code, and confirms that the Company currently has discretion to apply malus to unvested awards under both the annual bonus and long-term incentives in exceptional circumstances, such as material misstatement or gross misconduct. In light of this, the Committee has determined not to effect changes at this time, and will review the appropriateness of clawback at the next formal approval of the Remuneration Policy based on prevailing market practice at that time.

We hope to receive your support at the AGM.

## JORGE BORN JR

Chairman, Remuneration Committee

## DIRECTORS' REMUNERATION REPORT CONTINUED

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 Investment Association (formerly the Association of British Insurers) and the National Association of Pension Funds.

### DIRECTORS' REMUNERATION POLICY (UNAUDITED)

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; and
- 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 CEO in the form of the Enhanced LTIP (ELTIP), which was approved by shareholders at the 2011 AGM.

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 2015 AGM. The Committee intends that this policy will formally come into effect from approval at the 2015 AGM. The report below is broadly unchanged from the Remuneration Policy approved at the 2014 AGM, save a number of minor changes as follows:

- Added details of the Restricted Share Plan ('RSP'), which was approved by shareholders at the 29 December 2014 Extraordinary General Meeting, to the notes to the policy table;
- Details of opportunities under the ELTIP in 2014 have been included;
- Pay scenario charts have been updated to reflect 2015 salary levels and inclusion of the RSP;
- Details for the Executive Chairman role have been omitted in light of his move to a Non-Executive Chairman role with effect from 1 January 2015; and
- Clarification of malus provisions for deferred bonus and ELTIP awards.

### EXECUTIVE DIRECTOR REMUNERATION POLICY TABLE

| Objective  | Details  | Opportunity   | Performance metrics |
|--|--|---|---------------------|
| <p><b>Base salary</b></p> <p>To support recruitment and retention</p>                                  | <p>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.</p> | <p>Any salary increases are applied in line with the outcome of the annual review.</p> <p>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.</p>  | None                |
| <p><b>Benefits</b></p> <p>To provide benefits in line with market practice in relevant geographies</p> | <p>Executive Directors receive compensation for time services and profit share, both of which are provided for by Peruvian law, as well as certain allowances which may include medical insurance, the use of a car and driver, and personal security.</p>   | <p>For the profit share, an amount equal to 8% of the relevant Peruvian company's taxable income for the year is distributable to its employees. This amount is mandated by Peruvian law, and any increases are not within the control of the Group. 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.</p> <p>The value of the other benefits varies 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).</p> | None                |

## DIRECTORS' REMUNERATION REPORT CONTINUED

## EXECUTIVE DIRECTOR REMUNERATION POLICY TABLE CONTINUED

| Objective  | Details   | Opportunity  | Performance metrics  |
|--|---|--|--|
| <p><b>Annual bonus</b><br/>To achieve alignment with the Group's strategy and commitment to operating responsibly</p>  | <p>Performance measures, targets and weightings are set at the start of the year.<br/>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.</p>   | <p>For Executive Directors, the maximum annual bonus opportunity is 150% of salary.<br/>The bonus earned is 67% of maximum for threshold level performance and 83% for target performance.</p> | <p>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.<br/>The financial and strategic/personal objectives are typically weighted between 70% and 80% and 20% and 30% of maximum, respectively.<br/>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.<br/>Each objective in the scorecard has a 'threshold', 'target' and 'maximum' performance target, achievement of which translates into a score for each objective.<br/>The Committee uses its judgment to determine the overall scorecard outcome based on the achievement of the targets and the Committee's broad assessment of Company performance.<br/>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 material changes in commodity prices that could distort the overall quality of earnings.<br/>The Committee has the discretion to reduce bonus payments on the occurrence of an adverse event related to health and safety, the environment or community relations.<br/>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.</p> |
| <p><i>Maximising core assets</i><br/>To optimise life-of mine and production</p>   | <p>Bonus payments are normally delivered in cash.<br/>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. Deferred bonus is subject to malus, i.e. forfeiture or reduction, in exceptional circumstances such as material misstatement or gross misconduct.</p> |  |  |
| <p><i>Exploration and project development</i><br/>To develop a pipeline of high quality projects</p>   |   |  |  |
| <p><i>Mergers &amp; acquisitions</i><br/>To seek early stage value accretive opportunities with strong geological potential with a clear path to control</p> |   |  |  |
| <p><i>Committed to operating responsibly</i><br/>To be responsible corporate citizens</p>  |   |  |  |



## EXECUTIVE DIRECTOR REMUNERATION POLICY TABLE CONTINUED

| Objective  | Details  | Opportunity   | Performance metrics  |
|--|--|---|--|
| <p><b>Long Term Incentive Plan (LTIP)</b></p> <p>To directly incentivise sustained shareholder value creation through operational performance and to support the recruitment of senior positions and longer term retention</p> | <p>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.</p> | <p>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.</p> | <p>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 it 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.</p> |

## DIRECTORS' REMUNERATION REPORT CONTINUED

## EXECUTIVE DIRECTOR REMUNERATION POLICY TABLE CONTINUED

| Objective   | Details  | Opportunity  | Performance metrics   |
|---|--|--|---|
| <p><b>Enhanced Long-Term Incentive Plan</b></p> <p>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</p> | <p>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. Unvested awards are subject to malus, i.e. forfeiture or reduction, in exceptional circumstances such as material misstatement or gross misconduct. The CEO is required to retain 50% of the after-tax vested ELTIP shares until such time as he has accumulated a shareholding with a value of 200% of salary.</p> | <p>The ELTIP award in 2011 was over shares with a face value on the date of grant equivalent to 600% of the CEO's salary (362,196 conditional shares) In line with the approval granted by shareholders at the 2011 AGM, the Committee made a second ELTIP award to the CEO in 2014 of 600% of his salary (951,900 conditional shares). Dividend equivalents are payable over the vesting period in respect of the shares that vest.</p> | <p>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 ELTIP 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.</p> |

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, i.e. before 15 May 2015.

### 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 ELTIP 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).

### One-off Restricted Share Plan

Following shareholder approval at an Extraordinary General Meeting in December 2014, Ignacio Bustamante was granted an award under the RSP. Awards were made over conditional shares with a grant-date value equivalent to five times salary, and which vest in tranches over two to five years subject to satisfactory performance and continued employment with the Company. Unvested awards are subject to malus, i.e. forfeiture or reduction, in exceptional circumstances such as material misstatement or gross misconduct. Further details of the award, including details of treatment for leavers and in the event of a change in control, are included in the Annual Report on Remuneration on page 75.

### 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 the CEO. 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 the CEO. 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 relevant Peruvian company's taxable income for the year is distributable to its employees. The amount receivable by each employee is determined with reference to their annual base salary and the number of days worked in the calendar year.

Selected senior employees participate in the LTIP on the same basis as the CEO who, with respect to 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.

DIRECTORS' REMUNERATION REPORT CONTINUED

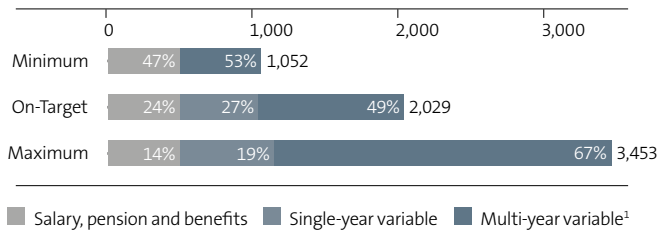
**PAY SCENARIO CHARTS**

The charts below provide an estimate of the potential future reward opportunities for the CEO, 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 March 2015.

**CEO**

(USD \$'000)



1 For the CEO, the 2011 and 2014 ELTIP awards have been annualised over the vesting period and are calculated to have an equivalent face value of 198% of salary in 2015. The value of the one-off RSP award made in 2014 has been similarly annualised over the vesting period and is calculated to have an equivalent face value of 148% of salary in 2015.

The charts above exclude the effect of any Company share price appreciation. For this reason, were the CEO's LTIP and ELTIP 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), and full vesting of the RSP. These are the only elements of the CEO's remuneration package which are not at risk.

The 'On-Target' scenario reflects fixed remuneration as above, plus a target payout of 83% of the annual bonus, threshold vesting of 25% of the maximum award under the LTIP and ELTIP, and full vesting of the RSP.

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  |
|---------------------|--|---|
| <b>Base salary</b>  | 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. |   |
| <b>Benefits</b>     | 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.   |   |
| <b>Annual bonus</b> | 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  |
| <b>LTIP</b>         | New appointees will be granted awards under the LTIP on the same terms as the CEO, 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 on a like-for-like basis, having regard to the fair value of the instruments. 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 aims to use the current remuneration structure in making recruitment awards, however in some cases it may be required to use the flexibility afforded by Listing Rule 9.4.2 R if appropriate in relation to such buy-out awards.

The Remuneration Committee confirms that the Company would engage with its shareholders in exercising the discretion afforded by LR 9.4.2 R whether in relation to recruitment awards or retention 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 61.

### NON-EXECUTIVE DIRECTOR RECRUITMENT

In recruiting a new Non-Executive Director (NED), the Committee will use the policy as set out in the table on page 65. 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.

## DIRECTORS' REMUNERATION REPORT CONTINUED

## SERVICE CONTRACTS AND EXIT PAYMENT POLICY

|                    |                          |
|--------------------|--------------------------|
| Executive Director | Date of service contract |
| Ignacio Bustamante | 1 April 2007             |

Executive Director service contracts, including arrangements for early termination, are carefully considered by the Committee.

Ignacio Bustamante was appointed a Director of the Company with effect from 1 April 2010 and is employed under a contract of employment with Compañía Minera Ares S.A.C. (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.

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. The Chairman's service contracts with the Group, details of which can be found in the 2013 Directors' remuneration report, were terminated on 31 December 2014 following Mr Hochschild's decision to assume a Non-Executive Chairmanship.

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 ELTIP 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 prorated for time served during the year |
| Any other reason   | No bonus is paid   | Not applicable  |

**LTIP and ELTIP**

| 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 awards will be pro-rated for time and performance  |
| Death  | On date of event   | Any outstanding awards will be pro-rated for time and performance  |
| Change of control  | On date of event   | Any outstanding 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   |

**DBP and RSP**

| Reason for leaving  | Timing of vesting | Treatment of awards  |
|---|-------------------|--|
| Death, ill-health, disability, redundancy, injury, retirement with agreement of the Directors (DBP only), or any other reasons the Committee may determine in its absolute discretion | On date of event  | Any outstanding awards will be pro-rated for time and performance  |
| Change of control   | On date of event  | Any outstanding awards will be pro-rated for time. 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 further three year terms. 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<br>(subject to annual re-election) |
|---------------------------------|-----------------------------|--|
| Eduardo Hochschild <sup>1</sup> | 30 January 2015             | 31 December 2017   |
| 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  |
| Roberto Dañino <sup>2</sup>     | 11 January 2011             | 11 January 2017  |
| Dr Graham Birch                 | 20 June 2011                | 30 June 2017   |
| Enrico Bombieri                 | 20 October 2012             | 20 October 2015  |

1 Mr. Hochschild, previously Executive Chairman, became Non-Executive Chairman effective 1 January 2015.

2 Pursuant to a contract between Mr Dañino and Ares dated 28 December 2010, a fee is payable to Mr Dañino in respect of his engagement as Special Adviser to the Chairman and the senior management team. 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. With effect from 1 January 2015, Mr Dañino has waived the fee payable to him under this contract in light of the challenging trading conditions faced by the Company. This fee may be reinstated in the future on the terms of any renewed or extended contract.

The Non-Executive Directors are not eligible to participate in the Company's performance-related incentive plans and do not receive any pension contributions. As part of his change of role from Executive to Non-Executive Chairman, the Committee agreed that Mr. Hochschild would retain his eligibility for benefits received in respect of his time as an Executive Director, consisting primarily of personal security, car and driver, and medical insurance.

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 | <p>Fee levels are reviewed from time to time, with any adjustments effective from 1 March each year.</p> <p>The fee paid to the Chairman is determined by the Committee, and fees to Non-Executive Directors are determined by the Board.</p> <p>Additional fees are payable for acting as Chairman of the Audit and Remuneration Committees and as Senior Independent Director.</p> <p>Fee levels are reviewed by reference to FTSE-listed companies of similar size and complexity.</p> <p>Time commitment, level of involvement required and responsibility are taken into account when reviewing fee levels.</p> <p>Fees for the year ending 31 December 2014 are set out in the Annual Report on Remuneration on page 70.</p> | <p>Non-Executive Director fee increases are applied in line with the outcome of the fee review.</p> <p>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.</p> <p>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.</p> <p>The maximum aggregate annual fee for all Directors provided in the Company's Articles of Association is £3 million p.a.</p> | None                 |

## DIRECTORS' REMUNERATION REPORT CONTINUED

### 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 in respect of remuneration resolutions during 2014 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 2014.

### Remuneration Committee membership

The Remuneration Committee is chaired by Jorge Born and its other members are Sir Malcolm Field and Nigel Moore. 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](http://www.hochschildmining.com)

Members of senior management attend meetings at the invitation of the Committee. During the year, such members included the Chairman, the CEO 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 five times during the year (details of members' attendance at meetings are provided in the Corporate Governance report on page 50) and undertook the items of business noted below.

#### March 2014

- Considered the 2013 performance evaluations of the CEO and approved the bonus payment arrangements including the Deferred Bonus Plan. In addition, the Committee noted the performance of, and bonuses for, the Group's Vice Presidents;
- Approved the 2013 Directors' remuneration report;
- Considered and approved the 2014 objectives for the CEO and CFO (who is not an Executive Director);
- Confirmed the nil vesting outcome of 2011 LTIP awards;
- Approved the grant of LTIP awards and an ELTIP award to the CEO; and
- Approved the balancing payment due to award holders under the Exploration Incentive Plan, a plan designed to incentivise the Group's geologists which has subsequently lapsed.

#### August 2014

- Considered an update on senior executive remuneration and the design of a RSP in light of prevailing market conditions and the impact of the Cash Optimisation Plan.

#### September 2014 (two meetings)

- Considered:
  - the detailed implementation steps in respect of the RSP; and
  - the outcome of the shareholder consultation.

#### November 2014

- Considered the re-initiation of the RSP following the decision to postpone its implementation in light of market conditions;
- Considered the new remuneration arrangements for Eduardo Hochschild following his decision to take on a Non-Executive Chairmanship effective 1 January 2015;
- Considered provisional assessments in advance of the year-end with respect to:
  - senior executive salaries;
  - the CEO's 2014 performance evaluation; and
  - the status of vesting of subsisting LTIP awards;
- Considered management's proposed approach to the 2015 LTIP awards; and
- Considered the 2015 objectives for the CEO.



## DIRECTORS' REMUNERATION REPORT CONTINUED

**Advisers**

Kepler Associates Partnership LLP ('Kepler'), who were appointed by the Remuneration Committee in 2007 as part of a formal selection process for a remuneration adviser, 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](http://www.remunerationconsultantsgroup.com). Kepler adheres to this Code of Conduct.

In 2014, Kepler provided independent advice on remuneration for executives, TSR performance updates, and support in drafting the Directors' remuneration report and shareholder consultation materials. Kepler reports directly to the Chairman of the Committee and provides no other services to the Company. Kepler's total fees for the provision of remuneration services to the Committee in 2014 were £24,970 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 2014 AGM and December Extraordinary General Meeting (EGM)**

The following table shows the results of the shareholder vote on the 2013 Remuneration report at the 2014 AGM:

|  | Directors' Remuneration Policy |                 | Annual Report on Remuneration |                 |
|--|--------------------------------|-----------------|-------------------------------|-----------------|
|  | Total number of votes          | % of votes cast | Total number of votes         | % of votes cast |
| For (including discretionary)                      | 308,258,985                    | 91.91%          | 338,788,812                   | 99.59%          |
| Against  | 27,144,983                     | 8.09%           | 1,404,990                     | 0.41%           |
| Total votes cast (excluding withheld votes)        | 335,403,968                    |                 | 340,193,802                   |                 |
| Votes withheld                                     | 4,790,137                      |                 | 303                           |                 |
| <b>Total votes cast (including withheld votes)</b> | <b>340,194,105</b>             |                 | <b>340,194,105</b>            |                 |

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

In light of ongoing difficulties affecting the precious metals market, and in the face of the increased competition for mining professionals, the Committee consulted with shareholders in 2014 about a one-off grant of restricted shares to key management personnel, including the CEO. The following table shows the results of the shareholder vote on the resolutions at the December 2014 EGM:

|  | Approval of RSP       |                 | Approval of RSP award to CEO |                 |
|--|-----------------------|-----------------|------------------------------|-----------------|
|  | Total number of votes | % of votes cast | Total number of votes        | % of votes cast |
| For (including discretionary)                      | 263,434,374           | 81.76%          | 263,431,522                  | 81.76%          |
| Against  | 58,762,213            | 18.24%          | 58,764,213                   | 18.24%          |
| Total votes cast (excluding withheld votes)        | 322,196,587           |                 | 322,195,735                  |                 |
| Votes withheld                                     | 4,563,294             |                 | 4,564,146                    |                 |
| <b>Total votes cast (including withheld votes)</b> | <b>326,759,881</b>    |                 | <b>326,759,881</b>           |                 |

### 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 2014 and the prior year:

|                                     | Eduardo Hochschild |                 | Ignacio Bustamante |                 |
|-------------------------------------|--------------------|-----------------|--------------------|-----------------|
|                                     | 2014<br>US\$000    | 2013<br>US\$000 | 2014<br>US\$000    | 2013<br>US\$000 |
| Base salary <sup>1</sup>            | 776                | 931             | 471                | 515             |
| Taxable benefits <sup>2</sup>       | 525                | 553             | 27                 | 24              |
| Pension <sup>3</sup>                | 160                | 194             | 0                  | 0               |
| Single-year variable <sup>4</sup>   | n/a                | n/a             | 409                | 460             |
| Multiple-year variable <sup>5</sup> | n/a                | n/a             | 0                  | 0               |
| Profit share <sup>6</sup>           | 0                  | 0               | 0                  | 0               |
| <b>Total</b>                        | <b>1,461</b>       | <b>1,678</b>    | <b>907</b>         | <b>999</b>      |

- 1 Base salary includes compensation for time services and for 2014 a one-off tax rebate on a portion of salary, as mandated by the Peruvian government.
- 2 Taxable benefits include: use of a car and driver (Eduardo Hochschild – 2014 \$23,429; 2013 \$30,557. Ignacio Bustamante – 2014 \$22,019; 2013 \$22,353), personal security (Eduardo Hochschild – 2014 \$493,510; 2013 \$518,072), 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 Neither the LTIP nor ELTIP shares were due to vest for performance to 31 December 2013 or 2014.
- 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 2014 and 2013:

| Non-Executive Director | Base fee<br>US\$000 |      | Additional fees<br>US\$000 |                  | Benefits-in-kind<br>US\$000 |                 | Total<br>US\$000 |      |
|------------------------|---------------------|------|----------------------------|------------------|-----------------------------|-----------------|------------------|------|
|                        | 2014                | 2013 | 2014                       | 2013             | 2014                        | 2013            | 2014             | 2013 |
| Jorge Born Jr.         | 116                 | 137  | – <sup>1</sup>             | –                | –                           | –               | 116              | 137  |
| Sir Malcolm Field      | 116                 | 137  | –                          | 27 <sup>2</sup>  | –                           | –               | 116              | 164  |
| Nigel Moore            | 116                 | 137  | 23 <sup>3</sup>            | 27 <sup>3</sup>  | –                           | –               | 139              | 164  |
| Roberto Dañino         | 116                 | 137  | 240 <sup>4</sup>           | 240 <sup>4</sup> | 19 <sup>5</sup>             | 42 <sup>5</sup> | 375              | 419  |
| Dr Graham Birch        | 116                 | 137  | –                          | –                | –                           | –               | 116              | 137  |
| Enrico Bombieri        | 116                 | 137  | –                          | –                | –                           | –               | 116              | 137  |

- 1 Jorge Born waived the supplement payable following his appointment to the position of Chairman of the Remuneration Committee from 1 January 2014 in light of the challenging trading conditions faced by the Company.
- 2 Sir Malcolm Field's additional fee relates to his role as Chairman of the Remuneration Committee.
- 3 Nigel Moore's additional fee relates to his role as Chairman of the Audit Committee.
- 4 The amount represents the fee of \$240,000 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 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. Mr Dañino has waived this fee effective 1 January 2015 in light of the challenging trading conditions faced by the Company.
- 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, out-of-pocket expenses and medical insurance.

## DIRECTORS' REMUNERATION REPORT CONTINUED

**SALARY AND FEE ADJUSTMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (UNAUDITED)**

Base salaries for Executive Directors were reduced with effect from 1 July 2013. Following a review in 2014, the Committee determined that the CEO's salary would remain unchanged effective 1 March 2014. As a result of a significant depreciation of the Peruvian Nuevos Soles, the currency in which the CEO's salary is denominated, against the US dollars over the course of 2014, the CEO's US dollar equivalent salary with effect from 1 March 2014 was \$467,000.

| Executive Director              | Base salary <sup>1</sup> from<br>1 July 2013<br>US\$000 | Base salary <sup>1</sup> from<br>1 March 2014<br>US\$000 | Percentage<br>decrease           |
|---------------------------------|---|--|----------------------------------|
| Ignacio Bustamante <sup>2</sup> | 502   | 467  | 0% – see<br>explanation<br>above |

1 Includes compensation for time services (CTS).

2 Ignacio Bustamante's salary is denominated in PEN. From 1 July 2013, his salary (inclusive of CTS) was PEN 1,324,201. Salary from 1 July 2013 is calculated based on the 12-month average exchange rate over 2013 of US\$1 = PEN 2.702, and salary from 1 March 2014 is based on the 12-month average exchange rate over 2014 of US\$1 = PEN 2.838.

Effective 1 January 2015, Eduardo Hochschild became Non-Executive Chairman of the Company.

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 typically paid for the role of Chairman of the Remuneration Committee and Chairman of the Audit Committee.

Non-Executive Director fees (both base and additional fees) were reduced by 30% from 1 August 2013, and further reduced by an additional 30% effective 1 January 2015. Eduardo Hochschild became Non-Executive Chairman of the Company effective 1 January 2015 and will receive an annual fee of \$400,000. Mr Hochschild will also be entitled to retain the same level of benefits as under his previous role. A summary of current fee levels is provided below:

| Non-Executive Director fee   | Fee from<br>1 August 2013 | Fee from<br>1 January 2015 | Percentage<br>decrease |
|------------------------------|---------------------------|----------------------------|------------------------|
| Chairman fee                 | n/a                       | \$400,000                  | n/a                    |
| Base fee                     | £70,000                   | £50,000                    | -28.6%                 |
| Additional fees <sup>1</sup> | £14,000                   | £10,000                    | -28.6%                 |

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 in light of the challenging trading conditions faced by the Company.

## INCENTIVE OUTCOMES FOR THE YEAR ENDED 31 DECEMBER 2014 (AUDITED)

### Performance-related annual bonus in respect of 2014 performance

Objectives for the 2014 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 February 2015.

Further details of the bonuses paid for 2014, 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  | 21%              | 22m Oz Aq Eq                                |   |   | Maximum:<br>22.2m Oz Ag Eq                         |
|                                  | EBITDA  | 21%              | US\$187m                                    | US\$192m                                    | US\$202m                                    | Maximum:<br>US\$202m <sup>1</sup>                  |
|                                  | Sustaining Capex                                    | 11%              | US\$144m                                    | US\$137m                                    | US\$131m                                    | Maximum:<br>US\$112m                               |
| Business growth                  | Brownfields exploration – Arcata                    | 5%               | 13.3m Oz Ag Eq<br>(<0.64Mt; ≥650 g/t Ag Eq) | 14.5m Oz Ag Eq<br>(<0.69Mt; ≥650 g/t Ag Eq) | 15.7m Oz Ag Eq<br>(<0.75Mt; ≥650 g/t Ag Eq) | Maximum (after RemCo discretion):<br>15m Oz Ag Eq  |
|                                  | Brownfields exploration – Pallancata                | n/a              | 17.7m Oz Ag Eq<br>(<0.64Mt; ≥650 g/t Ag Eq) | 19.2m Oz Ag Eq<br>(<0.69Mt; ≥650 g/t Ag Eq) | 20.8m Oz Ag Eq<br>(<0.75Mt; ≥650 g/t Ag Eq) | Removed from scorecard (see below)                 |
|                                  | Cash generated through project sales                | 11%              | Not disclosed                               |   |   | Below threshold                                    |
| Project development              | Project milestones – Inmaculada schedule and budget | 11%              | Not disclosed                               |   |   | Below threshold                                    |
| Safety                           | Frequency rate                                      | 16%              | 2013 rate                                   | 2013 rate -2.5%                             | 2013 rate -5%                               | Threshold (after Remco discretion): 2013 rate +48% |
|                                  | Severity rate                                       | 5%               | 2013 rate -10%                              | 2013 rate -25%                              | 2013 rate -50%                              | Maximum:<br>2013 rate -75%                         |

1 In line with the Committee's usual approach and as described in the policy section of this report, the final assessment for EBITDA is arrived at after a review of the quality of earnings to ensure that they are not distorted by external circumstances. The final assessment is the post-reconciliation EBITDA after stripping out the impact of, amongst other things, the differences in actual precious metal prices and inventory levels versus those originally assumed.

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 150% of salary for the CEO, which is used in the Committee's judgment in determining the actual bonus awarded.

## DIRECTORS' REMUNERATION REPORT CONTINUED

The Committee assessed performance against the scorecard and the CEO's performance in 2014. A number of small adjustments to the formulaic outcome were made, for example brownfield exploration for Pallancata was dropped as a KPI as the project budget had been reduced significantly and the Committee used its judgment to uplift the assessment for Arcata in light of the significant budget reductions, and the Committee used its judgment to uplift the safety score to reflect zero fatalities during the year, a significant achievement for the Company. Accordingly, and in light of the CEO's contribution to the success of the Cash Optimisation Plan which exceeded its original savings target of US\$200 million by more than US\$100 million, the Committee determined that the final bonus outcome was 100% of salary for the CEO. The bonus will be paid entirely in cash.

Partial disclosure of the CEO's 2013 objectives and his performance against them was provided in last year's Annual Report on Remuneration, and can be found on page 92 of the 2013 Annual Report and Accounts. Full details 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:<br>20.5m Oz Ag Eq                  |
|                                  | EBITDA   | 17%              | US\$142m                                      | US\$146m  | US\$154m       | Maximum: US\$200m                           |
| Business growth                  | Brownfield exploration   | 12%              | Pallancata discoveries (<1Mt; ≥600 g/t Ag Eq) |   |                | Maximum: 20.9m Oz Ag Eq (600 g/t Ag Eq)     |
|                                  |  |                  | 17.7m Oz Ag Eq                                | 19.2m Oz Ag Eq  | 20.8m Oz Ag Eq |   |
|                                  | Identification of targets with economic potential at Arcata/San Jose |                  |   | Maximum: more than 4 targets identified at Arcata and 2 at San Jose |                |   |
|                                  |  |                  | 2 targets                                     | 4 targets   |                |   |
|                                  | Business development   | 10%              | Remuneration Committee judgment <sup>1</sup>  |   |                | Maximum                                     |
| Project development              | Project milestones   | 15%              | Range of targets <sup>2</sup>                 |   |                | 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: 2012rate -40% |

1 The Committee considered a range of acquisitions and divestitures, including (i) for acquisitions: Volcan closing, IMZ closing, Riverside regional alliance, 17 opportunities reviewed (2 advanced) and (ii) for divestitures: Cristo de los Andes, Josnitoro & Victoria.

2 Targets related to Inmaculada and Crespo schedule and budget, loan terms for the Suyamarca Loan for Inmaculada, profitability of the Matarani deposit, effective cash management in Argentina and management of the group effective tax rate.

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



## 2012 LTIP VESTING

On 31 March 2012, 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 both a tailored peer group (70% of the total award) and the constituents of the FTSE350 Mining Index (30% of the total award). There was no retesting of performance. Further details of the performance conditions are shown in the table below.

| Performance measure   | Weighting | Performance targets   |
|---|-----------|---|
| Relative TSR performance vs. tailored peer group <sup>1</sup>         | 70%       | Upper quintile (80th percentile): Full vesting<br>Upper tercile (67th percentile): 75% vesting<br>Median (50th percentile): 25% vesting<br>Straight-line vesting between these points |
| Relative TSR performance vs. Constituents of the FTSE350 Mining Index | 30%       | Median TSR +10% p.a.: Full vesting<br>Median TSR: 25% vesting<br>Straight-line vesting between these points   |

<sup>1</sup> Acacia Mining plc, Agnico-Eagle Mines Ltd, Alamos Gold, AngloGold Ashanti Ltd, Barrick Gold Corp, Centamin Egypt Limited, Cia des Minas Buenaventura SA, Coeur 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.

The Committee has considered the extent to which the performance conditions attached to the 2012 LTIP award had been satisfied and since the Company's TSR in the performance period between 1 January 2012 and 31 December 2014 was below that for the tailored peer group and the FTSE350 Mining Index, this award will lapse.

## 2011 ELTIP VESTING

On 28 April 2011, Ignacio Bustamante was granted an award under the ELTIP. Vesting was dependent on four-, five- and six-year relative TSR performance against a tailored peer group. There was no retesting of performance. Further details of the performance conditions are shown in the table below:

|   |  |
|---|--|
| Performance periods                       | 1 January 2011 to 31 December 2014 in respect of 25% of the award<br>1 January 2011 to 31 December 2015 in respect of 25% of the award<br>1 January 2011 to 31 December 2016 in respect of 50% of the award  |
| Vesting dates<br>(subject to performance) | 28 April 2015 in respect of 90,549 shares<br>28 April 2016 in respect of 90,549 shares<br>28 April 2017 in respect of 181,098 shares   |
| Performance conditions                    | Relative TSR performance<br>Upper Decile: Full vesting<br>Upper Quartile: 75% vesting<br>Median: 25% vesting<br>Straight-line vesting between these points   |
| TSR comparator group                      | Acacia Mining plc, Agnico-Eagle Mines Ltd, Alamos Gold, AngloGold Ashanti Ltd, Barrick Gold Corp, Centamin Egypt Limited, Cia des Minas Buenaventura SA, Coeur d'Alène Mines Corp, Eldorado Gold Corp, Fresnillo plc, Gold Fields Ltd, Goldcorp Inc, 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. |

Subsequent to the year end, the Committee considered the extent to which the performance condition attached to the four-year tranche of the 2011 ELTIP award had been satisfied. The Company's TSR in the performance period between 1 January 2011 and 31 December 2014 was below that for the tailored peer group, and as a result all shares under this tranche will lapse.

## DIRECTORS' REMUNERATION REPORT CONTINUED

## SCHEME INTERESTS AWARDED IN 2014 (AUDITED)

## LTIP

On 12 March 2014, Ignacio Bustamante was granted a cash-settled award under the LTIP with a face value of \$1 million.

Vesting is dependent on three-year relative TSR from 1 January 2014 to 31 December 2016, 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 malus if, before vesting, 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. Awards are settled in cash and the CEO will be required to invest at least 20% of any amount vesting into Hochschild shares, until such time as he has achieved the relevant shareholding guideline.

Further details, including vesting schedules, are provided in the table below:

| Executive Director | Grant date | Performance period                      | Face value of award at grant<br>US\$000 | Award value for minimum performance<br>US\$000 |
|--------------------|------------|---|---|--|
| Eduardo Hochschild |            | <i>Does not participate in the LTIP</i> |   |  |
| Ignacio Bustamante | 12.03.14   | 01.01.14 – 31.12.16                     | \$1,000                                 | \$250  |

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

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

2 Acacia Mining plc, Agnico-Eagle Mines Ltd, Alamos Gold, AngloGold Ashanti Ltd, Barrick Gold Corp, Centamin Egypt Limited, Cia des Minas Buenaventura SA, Coeur 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.

## ELTIP

As reported in the 2013 Directors' remuneration report, on 20 March 2014 Ignacio Bustamante was granted a second award under the ELTIP. Awards were made over conditional shares with a value, on the date of grant, equivalent to six times salary and which vest in tranches over an extended performance period of four, five and six years.

Further details on the design of the ELTIP award are included in the table below:

|  |   |
|--|---|
| Performance periods                          | 1 January 2014 to 31 December 2017 in respect of 25% of the award<br>1 January 2014 to 31 December 2018 in respect of 25% of the award<br>1 January 2014 to 31 December 2019 in respect of 50% of the award |
| Vesting dates (subject to performance)       | 20 March 2018 in respect of 237,975 shares<br>20 March 2019 in respect of 237,975 shares<br>20 March 2020 in respect of 475,950 shares  |
| Performance conditions                       | Relative TSR performance<br>Upper Decile: Full vesting<br>Upper Quartile: 75% vesting<br>Median: 25% vesting<br>Straight-line vesting between these points  |
| TSR comparator group                         | As for the 2014 LTIP Awards   |
| Malus provisions                             | Yes <sup>1</sup>  |
| Basis of TSR calculation of Comparator Group | Average of local and common currencies  |
| Shareholding requirement                     | 50% of the after-tax vested shares is required to be retained until an overall beneficial shareholding equal to two times salary has been achieved  |

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

Details of the Conditional Shares awarded to Ignacio Bustamante under the ELTIP in 2014 are provided in the table below:

| Date of grant | Number of Conditional Shares granted | Share price on date of award | Face value (000)    |
|---------------|--------------------------------------|------------------------------|---------------------|
| 20.03.14      | 951,900                              | 175.0p <sup>1</sup>          | £1,666 <sup>1</sup> |

1 Based on the mid-market closing share price on the date of award. The reference price used was 183.6p, equal to the average market value of shares for the three trading days prior to the grant of the award.

#### RESTRICTED SHARE PLAN

Following shareholder approval at the 29 December 2014 Extraordinary General Meeting, Ignacio Bustamante was granted an award under the RSP. Awards were made over conditional shares with a grant-date value equivalent to five times salary, and which vest in tranches over two to five years subject to satisfactory performance and continued employment with the company.

Further details on the design of the RSP award are included in the table below:

|                                       |   |
|---------------------------------------|---|
| Vesting dates subject to performance) | 30 December 2016 in respect of 263,878 shares<br>30 December 2017 in respect of 263,878 shares<br>30 December 2018 in respect of 263,878 shares<br>30 December 2019 in respect of 527,758 shares                                  |
| Performance conditions                | Vesting is subject to satisfactory performance and continued employment with the company  |
| Malus provisions                      | Yes <sup>1</sup>  |
| Treatment for leavers                 | For good leavers (e.g. death, injury, disability, redundancy or as otherwise agreed by the Committee), awards will be pro-rated for time and vest immediately on cessation of employment. For any other reason, awards will lapse |
| Treatment on change of control        | Awards will be pro-rated for time and vest immediately. Alternatively, the Committee can allow/require awards to be exchanged for equivalent awards in any acquirer   |

1 Potential malus if, before vesting, the Remuneration Committee considers that corporate or the participant's individual performance justifies such an adjustment.

Details of the Conditional Shares awarded to Ignacio Bustamante under the RSP in 2014 are provided in the table below:

| Date of grant | Number of Conditional Shares granted | Share price on date of award | Face value          |
|---------------|--------------------------------------|------------------------------|---------------------|
| 30.12.14      | 1,319,392                            | 86.8p <sup>1</sup>           | £1,145 <sup>1</sup> |

1 Based on the mid-market closing share price on the date of award. The reference price used was 102.2p, equal to the average market value of shares for the three months prior to the grant of the award.

## DIRECTORS' REMUNERATION REPORT CONTINUED

**EXIT PAYMENTS MADE IN THE YEAR (AUDITED)**

No exit payments were made to Directors in the year (2013: £25,000 (US\$35,000) comprising payments to two Non-Executive Directors in lieu of notice who stepped down from the Board during 2013).

**PAYMENTS TO PAST DIRECTORS (AUDITED)**

No payments were made to past Directors in the year (2013: nil).

**IMPLEMENTATION OF REMUNERATION POLICY FOR 2015**

2015 remuneration arrangements will be implemented in line with the approved Remuneration Policy. Further details are provided below.

**SALARY**

2014 saw a significant and sustained depreciation of the Peruvian Nuevos Soles against the US dollar, and as a result, the CEO's salary (currently denominated in PEN) has decreased significantly in US dollar terms. To protect against significant future movements in exchange rates, the Committee has decided to re-denominate the CEO's salary from PEN to US dollars. The new denomination will be fixed for a period of 5 years, subject to review by the Committee if there is a sustained and material increase or decrease in the exchange rate. Any further changes to salary denomination will be detailed and explained in the relevant year's Annual Report on Remuneration.

As a result of the re-denomination and a salary review by the Remuneration Committee at the start of 2015, it was agreed that with effect from 1 March 2015, Ignacio Bustamante's base salary shall be \$541,667 (including CTS). Subject to the commencement of production from Inmaculada, the Committee will consider a further increase in base salary for Mr Bustamante the amount of which will be determined following an external benchmarking of his remuneration.

**ANNUAL BONUS**

The Annual Bonus for the 2015 financial year will operate on the same basis as in 2014. The Committee has approved a maximum bonus opportunity for the CEO of 150% of salary. Bonuses will be based on broadly the same measures as those used in 2014, 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 2015 Directors' remuneration report.

**LTIP**

The Committee will make awards in 2015 within the maximum limits described in the Remuneration Policy. The performance conditions will be the same as for 2014 awards.

**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 remuneration<br>US\$000 |                  |          | Other employees <sup>1</sup> |
|--------------------------|-----------------------------|------------------|----------|------------------------------|
|                          | 2013                        | 2014             | % change | % change                     |
| Base salary <sup>2</sup> | 515                         | 471              | (8.4%)   | 9.2%                         |
| Taxable benefits         | 24                          | 27               | 11.8%    | n/a                          |
| Single-year variable     | 460                         | 409 <sup>3</sup> | (11.1%)  | (31%)                        |

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

2 Includes compensation for time services, and for 2014 a one-off tax rebate on a portion of salary, as mandated by the Peruvian government.

3 Calculated using the exchange rate as at 31 December 2014 of \$1: PEN 2.989.

**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 2013 to the financial year ended 31 December 2014.

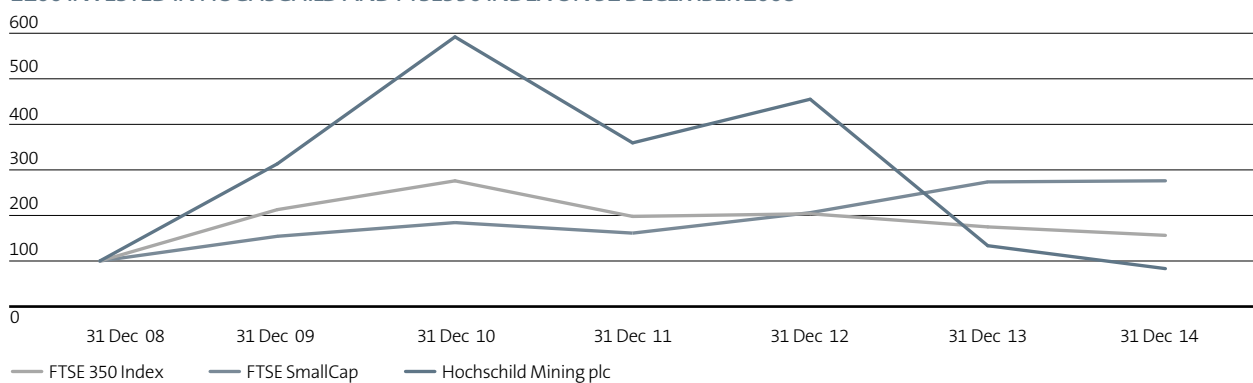
| Distribution to shareholders<br>US\$000 |      |          | Employee remuneration<br>US\$000 |           |          |
|---|------|----------|----------------------------------|-----------|----------|
| 2014                                    | 2013 | % change | 2014                             | 2013      | % change |
| NIL                                     | NIL  | n/a      | \$157,696                        | \$175,933 | -10%     |

The Directors are not recommending the payment of a final dividend for the year ended 31 December 2014 (2013: nil).

## PAY FOR PERFORMANCE

The following graph shows the TSR 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 a broad equity market index of which Hochschild was a constituent for the majority of the period. 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



|   | 2009  | 2010  | 2011  | 2012  | 2013 | 2014       |
|---|-------|-------|-------|-------|------|------------|
| <b>Ignacio Bustamante<sup>1</sup></b>     |       |       |       |       |      |            |
| CEO single figure of remuneration (\$000) | –     | 1,525 | 1,120 | 1,852 | 999  | <b>907</b> |
| Annual bonus outcome (% of maximum)       | –     | 100%  | 100%  | 90%   | 81%  | <b>67%</b> |
| LTI vesting outcome (% of maximum)        | –     | 47%   | 0%    | 98%   | 0%   | <b>0%</b>  |
| <b>Miguel Aramburú<sup>2</sup></b>        |       |       |       |       |      |            |
| 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' REMUNERATION REPORT CONTINUED

**DIRECTORS' INTERESTS (AUDITED)**

The interests of the Directors and their families in the ordinary shares of the Company as at 31 December 2014 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 ELTIP shares until such time as he has accumulated a shareholding with a value of 200% of salary.

|                    | Shares held                              |  |                                      |  | Shareholding requirement (% of salary) | Current shareholding (% of salary/fee) | Requirement met? |
|--------------------|--|--|--------------------------------------|--|--|--|------------------|
|                    | Owning outright or vested at 31 Dec 2013 | Owning outright or vested at 31 Dec 2014 | Vested but subject to holding period | Unvested and subject to performance conditions |  |  |                  |
| Eduardo Hochschild | 199,320,272                              | 199,320,272                              | –                                    | –  | –                                      | –                                      | –                |
| Ignacio Bustamante | 62,219                                   | 62,219                                   | –                                    | 2,751,538                                      | 200%                                   | 21% <sup>1</sup>                       | No               |
| Jorge Born Jr.     | –  | –  | –                                    | –  | –                                      | –                                      | –                |
| Sir Malcolm Field  | 14,285                                   | 14,285                                   | –                                    | –  | –                                      | –                                      | –                |
| Nigel Moore        | 26,434                                   | 40,000                                   | –                                    | –  | –                                      | –                                      | –                |
| Roberto Dañino     | 200,000                                  | 200,000                                  | –                                    | –  | –                                      | –                                      | –                |
| Dr Graham Birch    | 10,000                                   | 10,000                                   | –                                    | –  | –                                      | –                                      | –                |
| Enrico Bombieri    | –  | –  | –                                    | –  | –                                      | –                                      | –                |

1 Using Company's share price as at 31 December 2014 of 88.0p.

There have been no changes to Directors' shareholdings since 31 December 2014.

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 <sup>1</sup> | Performance period  | Vesting Date |
|---------------------------|---------------|----------------------|-------------------------|--------------------------|----------------------------------|---------------------|--------------|
| <b>Ignacio Bustamante</b> |               |                      |                         |                          |                                  |                     |              |
| DBP                       | 20.03.14      | 175p                 | Nil                     | 118,050                  | £206,588                         | n/a                 | 20.03.16     |
| 2011 ELTIP                | 28.04.11      | 428p                 | Nil                     | 90,549                   | £387,550                         | 01.01.11 – 31.12.14 | 28.04.15     |
| 2011 ELTIP                | 28.04.11      | 428p                 | Nil                     | 90,549                   | £387,550                         | 01.01.11 – 31.12.15 | 28.04.16     |
| 2011 ELTIP                | 28.04.11      | 428p                 | Nil                     | 181,098                  | £775,099                         | 01.01.11 – 31.12.16 | 28.04.17     |
| 2014 ELTIP                | 20.03.14      | 175p                 | Nil                     | 237,975                  | £416,456                         | 01.01.14 – 31.12.17 | 20.03.18     |
| 2014 ELTIP                | 20.03.14      | 175p                 | Nil                     | 237,975                  | £416,456                         | 01.01.14 – 31.12.18 | 20.03.19     |
| 2014 ELTIP                | 20.03.14      | 175p                 | Nil                     | 475,950                  | £832,913                         | 01.01.14 – 31.12.19 | 20.03.20     |
| 2012 LTIP                 | 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     |
| 2014 LTIP                 | 12.03.14      | n/a                  | n/a                     | n/a                      | \$1m                             | 01.01.14 – 31.12.16 | 12.03.17     |
| RSP                       | 30.12.14      | 86.8p                | Nil                     | 263,878                  | £229,046                         | n/a                 | 30.12.16     |
| RSP                       | 30.12.14      | 86.8p                | Nil                     | 263,878                  | £229,046                         | n/a                 | 30.12.17     |
| RSP                       | 30.12.14      | 86.8p                | Nil                     | 263,878                  | £229,046                         | n/a                 | 30.12.18     |
| RSP                       | 30.12.14      | 86.8p                | Nil                     | 527,758                  | £458,094                         | n/a                 | 30.12.19     |

1 The face value of (a) equity settled incentives are stated in Pounds Sterling and (b) cash settled incentives, namely Long Term Incentive Plan awards, are stated in US Dollars (to be paid in US Dollars or its equivalent in Peruvian Nuevos Soles)

### 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 OF EXECUTIVE DIRECTORS IN 2014 (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 <sup>1</sup>                 |
|--------------------|---|--|
| Eduardo Hochschild | Banco Crédito del Peru                            | PEN 283,683 (US\$99,924)                   |
|                    | Inversiones Pacasmayo SA and affiliated companies | PEN 8,334,502 (US\$2,935,718) <sup>2</sup> |
|                    | Pacifico Peruano Suiza Cia. de Seguros            | PEN 126,360 (US\$44,509)                   |

1 Converted from Peruvian Nuevos Soles (PEN) to US dollars using the 12-month average exchange rate over 2014 of US\$1 = PEN 2.838

2 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

**JORGE BORN JR.**

Chairman of the Remuneration Committee

17 March 2015

## 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 AUDITORS' REPORT TO THE MEMBERS OF HOCHSCHILD MINING PLC

## 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 2014 and of the Group's loss for the year then ended;
- the Group's financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

## WHAT WE HAVE AUDITED

We have audited the financial statements of Hochschild Mining plc for the year ended 31 December 2014 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 39 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.

## 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.

## OUR ASSESSMENT OF RISK OF MATERIAL MISSTATEMENT AND OUR RESPONSE TO THAT RISK

The risks of material misstatement that had the greatest effect on our audit strategy, including the allocation of our resources and effort, are those identified in the table below together with an explanation of how we tailored our audit to address these risks. As in all of our audits, we also addressed the risk of management override of internal controls, including evaluating whether there is evidence of bias by the directors that may represent a risk of material misstatement due to fraud. This is not a complete list of all risks identified by our audit.

## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF HOCHSCHILD MINING PLC CONTINUED

| Risk   | How our audit addressed the risk  |
|--|---|
| <p><b>Assessment of the carrying value of the Group's mining assets</b> (as described on page 46 in the report of the Audit Committee and notes 16, 17 and 18 to the Group financial statements).</p> <p>We focused on this because of the materiality of the balances involved and because the assessment of the recoverability of the carrying value of the Group's Cash Generating Units ('CGUs') involves significant judgements about the future results of the business and the discount rates applied to future cash flow forecasts.</p> <p>We continued to consider this to be a risk area in 2014, given the ongoing challenges faced by the Group during the year arising from declines and volatility in market prices for silver and gold.</p>               | <p>Our approach focused on the following procedures:</p> <ul style="list-style-type: none"> <li>• we obtained an understanding of management's process around impairment assessment, including all related controls;</li> <li>• we audited management's assessment of whether indicators of impairment (as defined in IAS 36 "Impairment of Assets" and IFRS 6 "Exploration for and Evaluation of Mineral Resources") exist for its CGUs and evaluating this assessment, including a challenge of the validity and completeness of the indicators identified with reference to our knowledge of the business obtained elsewhere in our audit;</li> <li>• where indicators existed, we obtained recoverable value models from management for the Group's CGUs and assessed the appropriateness of the methodology applied in preparing these recoverable value models;</li> <li>• we tested the recoverable value models for accuracy, performed sensitivity analyses on significant inputs, and challenged the appropriateness of key assumptions (e.g. price assumptions, production and costing figures, etc.) as compared with third party/independent sources (e.g. analyst price forecasts) or other evidence;</li> <li>• we involved valuations specialists to assist the audit team in challenging and assessing the appropriateness of the discount rates used in the calculation;</li> <li>• we agreed key inputs to approved mine plans or budgets as appropriate, and compared these with historical actual figures, considering the accuracy of previous internal forecasts;</li> <li>• we compared the calculated recoverable values to the associated carrying values, assessing whether any impairment charges or reversals of previously recognised impairment charges were necessary; and</li> <li>• we considered the appropriateness, sufficiency, and clarity of any impairment-related disclosures provided in the Group Financial Statements, including the disclosure of key sensitivities.</li> </ul> |
| <p><b>Going concern and impact of new borrowings</b> (as described on page 47 in the report of the Audit Committee and note 27 to the Group financial statements).</p> <p>This area was considered an area of increased risk for 2014 as the Group has increased its leverage during 2014 and now has to make regular debt repayments and there are restrictive covenants over its debt. These factors coupled with the recent volatility in commodity prices have led to our increased focus on this area.</p> <p>Management and the Board prepare a cash flow forecast and undertake sensitivity analysis of the key assumptions to ensure that the Group can operate as a going concern for at least 12 months from the date the financial statements are signed.</p> | <p>Our approach focused on the following procedures:</p> <ul style="list-style-type: none"> <li>• we obtained the Group's going concern forecasts covering the 12 month period following approval of the financial statements. We challenged the key assumptions and judgements made by the directors therein. We satisfied ourselves as to the reasonableness of all key assumptions, as well as their consistency, where appropriate, with other key assumptions noted elsewhere throughout our audit (notably those in our audit of the Group's impairment models above);</li> <li>• we obtained an understanding the contractual arrangements surrounding the Group's financing arrangements completed during the year on 23 January 2014 (US \$350 million bond) and on 29 October 2014 (US\$ 100 million medium term facility);</li> <li>• we also read these lending agreements to substantiate our knowledge of the borrowing covenants to which the Group is subject and recalculated its forecast compliance with the same over the going concern assessment period;</li> <li>• we read the Group financial statements to ensure the new borrowings were presented and disclosed appropriately; and</li> <li>• we considered whether, given the available information and based on management's forecasts, the use of the going concern assumption is appropriate.</li> </ul>   |



## Risk

**Tax contingencies** (as described on page 47 in the report of the Audit Committee and note 36 to the Group financial statements)

We identified tax exposures as another area of higher risk, due to the size of the potential fines or losses that the Group could suffer as a result of open tax authority reviews and the uncertainty surrounding the amount and timing of these potential liabilities.

**Revenue recognition** (as described on page 46 in the report of the Audit Committee and notes 5 and 23 to the Group financial statements)

We continue to consider revenue recognition as an area of higher risk which drives our audit strategy and allocation of resources. The number of sales contracts and complex terms under which title, risk and rewards pass to the customer increases the risk of overstatement and cut-off errors. We have also identified risks in relation to the revenue hedging arrangements entered into by the Group and the calculation of the adjustment for provisional pricing, including the estimate of silver and gold in the concentrate sold.

## How our audit addressed the risk

Our approach focused on the following procedures:

- we analysed management's assessment with regards to potential tax contingencies arising from tax authority reviews, primarily in Peru and Argentina;
- we obtained an understanding of management's process for assessing the contingencies;
- we challenged the likelihood of an unfavourable outcome for the Group with regards to these contingencies, by forming an independent assessment based on the relevant facts and circumstance of each significant review, concluding that the Group has appropriately designated all contingencies as either 'remote' or 'possible', or 'probable' and has recognised and disclosed any such contingencies in the Group financial statements as required; and
- where applicable, we obtained confirmations from external legal counsel to support Group management's position in respect of these potential contingencies.

Our approach focused on the following procedures:

- we obtained an understanding of and tested that the key controls around the revenue recognition process are designed and operating effectively, supporting the prevention, detection or correction of material errors in the reported revenue figures (in locations where this was deemed a more efficient approach than substantive testing);
- we performed cut off testing to ensure revenue is recognised in the correct period;
- we audited the terms and conditions of material sales contracts and ensure they have been accounted for in line with the Group's revenue recognition policy, which is in line with the requirements of IFRS;
- where provisional pricing applies, we compared the fair value price assumptions to market forward rates;
- for the silver and gold price swaps taken out during the year, we audited management's hedging documentation, forming an independent view that the application of hedge accounting was appropriate, and tested any resulting realised and unrealised gains, including the agreement of market forward rates used in determining the unrealised fair value gain at year-end; and
- we read the financial statements assessing whether all required disclosures in respect of the provisional pricing and hedging arrangements were included in the Group financial statements.

## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF HOCHSCHILD MINING PLC CONTINUED

**AN OVERVIEW OF THE SCOPE OF OUR AUDIT**

For the Parent Company – our assessment of audit risk and our evaluation of materiality determines our audit scope for the Parent Company financial statements. This helps us to form an opinion on the Parent Company financial statements under International Standards on Auditing (ISA) (UK and Ireland).

For the Group – we tailored the scope of our audit to ensure that we obtained sufficient audit evidence to be able to give an opinion on the Group financial statements as a whole under ISA (UK and Ireland), taking into account the structure of the Group, its accounting processes and controls, the industry in which the Group operates, and the risks of material misstatement to the Group financial statements as noted above.

In establishing the overall approach to the Group audit, we determined the type of work that needed to be performed at the reporting units by us as the Group audit team, or by component auditors from other EY network firms operating under our instruction. Where work was performed by component auditors, notably the Peruvian and Argentinian EY member firms, we determined the level of involvement we needed to have in the audit work at those components to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole.

Accordingly, our Group audit scope focused on the Group's two primary operating locations, Peru and Argentina, and two other locations (the UK and Mexico). Three subsidiaries at these locations were subject to a full audit, while a fourth was subject to an audit of specified account balances where the extent of our testing was based on our assessment of the risks of material misstatement and of the materiality of the Group's operations at this location. Together with the Group functions, which were also subject to audit, these locations represent the principal business units of the Group and account for 99% (2013: 99%) of the Group's Adjusted EBITDA, 100% (2013: 98%) of Group's Revenue, and 91% (2013: 92%) of the Group's Total Assets. Audits of these locations are performed at a materiality level calculated as 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. The Senior Statutory Auditor visits the Peru operating location twice every year, and the Argentina operating location at least once every two years. For all locations subject to a full audit, in addition to location visits, the Group audit team also reviewed key working papers, participated in the component team's planning, including the component team's discussion of fraud and error, and attended all closing meetings either in person or by call. The Group audit team also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to full audit or an audit of specified account balance. This, together with additional procedures performed at the Group level, gave us the evidence we needed to support our opinion on the Group financial statements as a whole.

**OUR APPLICATION OF MATERIALITY**

The scope of our audit is influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing, and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

|                                  |  |
|----------------------------------|--|
| <b>Overall Group materiality</b> | US\$2.7 million (2013: US\$3.1 million)  |
| <b>How we determined it</b>      | 2% of Adjusted EBITDA (2013: 0.5% of Revenue)  |
| <b>Rationale</b>                 | As in 2013, the Group is loss making in 2014. Accordingly, we considered other earnings-based measures of significance to users of the financial statements on which we could set our materiality. We changed the base on which we set materiality in the current year to Adjusted EBITDA (as defined on page 14 of the Annual Report), as this was deemed to be a more critical measure for users of the financial statements in 2014, given the focus on this metric by the Group's external lenders, specifically as an Adjusted EBITDA measure is used to assess the Group's compliance with key restrictive covenants on these borrowings.    |
| <b>Performance materiality</b>   | US\$2.0 million (2013: \$1.6 million)  |
| <b>How we determined it</b>      | 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 75% (2013: 50%) of materiality.   |
| <b>Rationale</b>                 | Our performance materiality was set to a lower threshold in 2013, in response to changes to the Group's control environment resulting from redundancies made as part of the cash optimisation plan implemented during that year. As these changes had no adverse impact on the Group's reporting, and no further significant changes have taken place in the current year, it was deemed appropriate to increase this figure for our 2014 audit. Our objective in adopting this approach is to ensure that total detected and undetected audit differences do not exceed our materiality of US\$2.7 million for the financial statements as whole. |

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of US\$135,000 (2013: US\$155,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in the light of other relevant qualitative considerations.

### RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

As explained more fully in the Statement of Directors' Responsibilities set out on page 80, the directors are responsible for the preparation of the Group and Parent Company 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 Group and Parent Company financial statements in accordance with applicable law and ISA (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### 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 ISA (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 39, 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

17 March 2015

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 2014

|  | Notes | Year ended 31 December 2014      |                                     |                 | Year ended 31 December 2013      |                                     |               |
|--|-------|----------------------------------|-------------------------------------|-----------------|----------------------------------|-------------------------------------|---------------|
|  |       | Before exceptional items US\$000 | Exceptional items (note 11) US\$000 | Total US\$000   | Before exceptional items US\$000 | Exceptional items (note 11) US\$000 | Total US\$000 |
| <b>Continuing operations</b>   |       |                                  |                                     |                 |                                  |                                     |               |
| Revenue  | 3,5   | 492,951                          | –                                   | 492,951         | 622,158                          | –                                   | 622,158       |
| Cost of sales  | 6     | (404,639)                        | (6,065)                             | (410,704)       | (466,766)                        | (2,466)                             | (469,232)     |
| <b>Gross profit</b>  |       | <b>88,312</b>                    | <b>(6,065)</b>                      | <b>82,247</b>   | 155,392                          | (2,466)                             | 152,926       |
| Administrative expenses  | 7     | (43,335)                         | (2,752)                             | (46,087)        | (54,425)                         | (2,351)                             | (56,776)      |
| Exploration expenses   | 8     | (17,254)                         | (886)                               | (18,140)        | (42,871)                         | (3,456)                             | (46,327)      |
| Selling expenses   | 9     | (28,697)                         | –                                   | (28,697)        | (28,785)                         | –                                   | (28,785)      |
| Other income   |       | 4,112                            | –                                   | 4,112           | 3,974                            | 2,442                               | 6,416         |
| Other expenses   | 12    | (17,512)                         | (2,963)                             | (20,475)        | (15,555)                         | –                                   | (15,555)      |
| Impairment and write-off of assets net   |       | –                                | 109                                 | 109             | –                                | (90,671)                            | (90,671)      |
| <b>(Loss)/profit from continuing operations before net finance income/(cost), foreign exchange loss and income tax</b> |       | <b>(14,374)</b>                  | <b>(12,557)</b>                     | <b>(26,931)</b> | 17,730                           | (96,502)                            | (78,772)      |
| Share of post-tax profit of associates accounted for under equity method   | 19    | –                                | –                                   | –               | 5,921                            | –                                   | 5,921         |
| Finance income   | 13    | 2,215                            | 4,061                               | 6,276           | 10,675                           | 2,417                               | 13,092        |
| Gain on transfer from investment accounted for under the equity method to available-for-sale financial assets          |       | –                                | –                                   | –               | –                                | 107,942                             | 107,942       |
| Finance costs  | 13    | (33,074)                         | (9,491)                             | (42,565)        | (11,697)                         | (136,353)                           | (148,050)     |
| Foreign exchange loss  |       | (4,990)                          | –                                   | (4,990)         | (19,753)                         | –                                   | (19,753)      |
| <b>(Loss)/profit from continuing operations before income tax</b>  |       | <b>(50,223)</b>                  | <b>(17,987)</b>                     | <b>(68,210)</b> | 2,876                            | (122,496)                           | (119,620)     |
| Income tax (expense)/benefit   | 14    | (6,466)                          | 3,845                               | (2,621)         | (44,979)                         | 35,922                              | (9,057)       |
| <b>Loss for the year from continuing operations</b>  |       | <b>(56,689)</b>                  | <b>(14,142)</b>                     | <b>(70,831)</b> | (42,103)                         | (86,574)                            | (128,677)     |
| <b>Attributable to:</b>  |       |                                  |                                     |                 |                                  |                                     |               |
| Equity shareholders of the Company   |       | (54,963)                         | (13,914)                            | (68,877)        | (50,345)                         | (72,738)                            | (123,083)     |
| Non-controlling interests  |       | (1,726)                          | (228)                               | (1,954)         | 8,242                            | (13,836)                            | (5,594)       |
|  |       | (56,689)                         | (14,142)                            | (70,831)        | (42,103)                         | (86,574)                            | (128,677)     |
| Basic and diluted loss per ordinary share from continuing operations for the year (expressed in US dollars per share)  | 15    | (0.15)                           | (0.04)                              | (0.19)          | (0.15)                           | (0.21)                              | (0.36)        |

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2014

|   | Notes | Year ended 31 December |                 |
|---|-------|------------------------|-----------------|
|   |       | 2014<br>US\$000        | 2013<br>US\$000 |
| <b>Loss for the year</b>  |       | <b>(70,831)</b>        | (128,677)       |
| <b>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</b> |       |                        |                 |
| Exchange differences on translating foreign operations  |       | (1,716)                | (842)           |
| Change in fair value of available-for-sale financial assets                                   | 20    | (3,106)                | (125,932)       |
| Recycling of the loss on available-for-sale financial assets                                  |       | 2,096                  | 130,286         |
| Change in fair value of cash flow hedges  |       | 18,945                 | –               |
| Recycling of the gain on cash flow hedges   |       | (14,603)               | –               |
| Deferred income tax relating to components of other comprehensive income                      | 14    | (1,216)                | –               |
| Other comprehensive gain for the period, net of tax   |       | 400                    | 3,512           |
| <b>Total comprehensive expense for the year</b>   |       | <b>(70,431)</b>        | (125,165)       |
| <b>Total comprehensive expense attributable to:</b>   |       |                        |                 |
| Equity shareholders of the Company  |       | (68,477)               | (119,571)       |
| Non-controlling interests   |       | (1,954)                | (5,594)         |
|   |       | <b>(70,431)</b>        | (125,165)       |



# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2014

|  | Notes | As at<br>31 December<br>2014<br>US\$000 | As at<br>31 December<br>2013<br>US\$000 |
|--|-------|---|---|
| <b>ASSETS</b>  |       |   |   |
| <b>Non-current assets</b>  |       |   |   |
| Property, plant and equipment  | 16    | 1,076,310                               | 873,477                                 |
| Evaluation and exploration assets                                      | 17    | 207,290                                 | 204,643                                 |
| Intangible assets  | 18    | 42,815                                  | 43,683                                  |
| Available-for-sale financial assets                                    | 20    | 455                                     | 51,658                                  |
| Trade and other receivables  | 21    | 6,488                                   | 12,128                                  |
| Deferred income tax assets   | 30    | 1,574                                   | 2,416                                   |
|  |       | <b>1,334,932</b>                        | <b>1,188,005</b>                        |
| <b>Current assets</b>  |       |   |   |
| Inventories  | 22    | 58,417                                  | 69,556                                  |
| Trade and other receivables  | 21    | 167,038                                 | 167,740                                 |
| Income tax receivable  |       | 25,584                                  | 22,156                                  |
| Other financial assets   | 23    | 4,342                                   | –                                       |
| Cash and cash equivalents  | 24    | 115,999                                 | 286,435                                 |
|  |       | <b>371,380</b>                          | <b>545,887</b>                          |
| <b>Total assets</b>  |       | <b>1,706,312</b>                        | <b>1,733,892</b>                        |
| <b>EQUITY AND LIABILITIES</b>  |       |   |   |
| <b>Capital and reserves attributable to shareholders of the Parent</b> |       |   |   |
| Equity share capital   | 29    | 170,389                                 | 170,389                                 |
| Share premium  | 29    | 396,021                                 | 396,021                                 |
| Treasury shares  | 29    | (898)                                   | (898)                                   |
| Other reserves   | 29    | (217,335)                               | (211,143)                               |
| Retained earnings  |       | 451,047                                 | 511,492                                 |
|  |       | <b>799,224</b>                          | <b>865,861</b>                          |
| <b>Non-controlling interests</b>                                       |       | <b>95,160</b>                           | <b>104,375</b>                          |
| <b>Total equity</b>  |       | <b>894,384</b>                          | <b>970,236</b>                          |
| <b>Non-current liabilities</b>   |       |   |   |
| Trade and other payables   | 26    | 92                                      | 174                                     |
| Borrowings   | 27    | 440,834                                 | –                                       |
| Provisions   | 28    | 111,751                                 | 79,649                                  |
| Deferred income  | 25    | 25,000                                  | 22,000                                  |
| Deferred income tax liabilities  | 30    | 84,959                                  | 93,505                                  |
|  |       | <b>662,636</b>                          | <b>195,328</b>                          |
| <b>Current liabilities</b>   |       |   |   |
| Trade and other payables   | 26    | 111,890                                 | 119,222                                 |
| Other financial liabilities  | 23    | 1,533                                   | 2,294                                   |
| Borrowings   | 27    | 27,882                                  | 435,925                                 |
| Provisions   | 28    | 2,870                                   | 9,573                                   |
| Income tax payable   |       | 5,117                                   | 1,314                                   |
|  |       | <b>149,292</b>                          | <b>568,328</b>                          |
| <b>Total liabilities</b>   |       | <b>811,928</b>                          | <b>763,656</b>                          |
| <b>Total equity and liabilities</b>                                    |       | <b>1,706,312</b>                        | <b>1,733,892</b>                        |

These financial statements were approved by the Board of Directors on 17 March 2015 and signed on its behalf by:

**IGNACIO BUSTAMANTE**  
Chief Executive Officer  
17 March 2015

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2014

|   | Notes | Year ended 31 December |                  |
|---|-------|------------------------|------------------|
|   |       | 2014<br>US\$000        | 2013<br>US\$000  |
| <b>Cash flows from operating activities</b>               |       |                        |                  |
| Cash generated from operations                            | 34    | 129,993                | 116,084          |
| Interest received   |       | 1,931                  | 6,236            |
| Interest paid   |       | (25,585)               | (10,292)         |
| Payment of mine closure costs                             | 28    | (5,524)                | (4,781)          |
| Income tax paid   |       | (7,036)                | (42,573)         |
| <b>Net cash generated from operating activities</b>       |       | <b>93,779</b>          | <b>64,674</b>    |
| <b>Cash flows from investing activities</b>               |       |                        |                  |
| Purchase of property, plant and equipment                 |       | (309,033)              | (248,335)        |
| Purchase of evaluation and exploration assets             |       | (6,071)                | (10,781)         |
| Purchase of intangibles                                   |       | (281)                  | (1,625)          |
| Acquisition of subsidiary                                 | 4(b)  | –                      | (14,615)         |
| Dividends received  |       | 494                    | 2,423            |
| Dividends received from associates                        |       | –                      | 3,385            |
| Proceeds from deferred income                             | 25    | 3,223                  | 17,593           |
| Proceeds from sale of available-for-sale financial assets |       | 48,097                 | 33,498           |
| Proceeds from sale of property, plant and equipment       |       | 564                    | 344              |
| <b>Net cash used in investing activities</b>              |       | <b>(263,007)</b>       | <b>(218,113)</b> |
| <b>Cash flows from financing activities</b>               |       |                        |                  |
| Proceeds of borrowings                                    |       | 482,393                | 440,010          |
| Repayment of borrowings                                   |       | (458,132)              | (116,701)        |
| Transaction costs of borrowings                           |       | (9,166)                | (9,145)          |
| Acquisition of non-controlling interest                   |       | –                      | (272,127)        |
| Proceeds from issue of ordinary shares                    |       | –                      | 71,916           |
| Dividends paid  | 31    | (10,056)               | (18,503)         |
| Capital contribution from non-controlling interests       |       | –                      | 4,380            |
| <b>Cash flows generated in financing activities</b>       |       | <b>5,039</b>           | <b>99,830</b>    |
| Net decrease in cash and cash equivalents during the year |       | (164,189)              | (53,609)         |
| Exchange difference                                       |       | (6,247)                | (18,900)         |
| Cash and cash equivalents at beginning of year            |       | 286,435                | 358,944          |
| <b>Cash and cash equivalents at end of year</b>           | 24    | <b>115,999</b>         | <b>286,435</b>   |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2014

|   | Notes | Other reserves               |                       |                         |   |  |  |   |                        |                                     |                              |                           | Capital and reserves attributable to shareholders of the Parent US\$000 | Non-controlling interests US\$000 | Total equity US\$000 |
|---|-------|------------------------------|-----------------------|-------------------------|---|--|--|---|------------------------|-------------------------------------|------------------------------|---------------------------|---|-----------------------------------|----------------------|
|   |       | Equity share capital US\$000 | Share premium US\$000 | Treasury shares US\$000 | Unrealised gain/(loss) on available-for-sale financial assets US\$000 | Unrealised gain/(loss) on hedges US\$000 | Bond equity component (note 27(c)) 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 |   |                                   |                      |
| Balance at 1 January 2013                             |       | 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)            |
| <b>Total comprehensive income/(loss) for the year</b> |       | –                            | –                     | –                       | 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(a)  | –                            | –                     | –                       | –   | –  | –  | –   | –                      | –                                   | –                            | (135,368)                 | (135,368)   | (148,185)                         | (283,553)            |
| Issuance of shares                                    |       | 11,752                       | 93                    | –                       | –   | –  | –  | –   | 60,071                 | –                                   | 60,071                       | –                         | 71,916  | –                                 | 71,916               |
| Transfer to retained earnings                         |       | –                            | –                     | –                       | –   | –  | –  | –   | (60,071)               | –                                   | (60,071)                     | 60,071                    | –   | –                                 | –                    |
| CEO ELTIP   |       | –                            | –                     | –                       | –   | –  | –  | –   | –                      | 291                                 | 291                          | –                         | 291   | –                                 | 291                  |
| Expiration of dividends                               |       | –                            | –                     | –                       | –   | –  | –  | –   | –                      | –                                   | –                            | –                         | –   | (38)                              | (38)                 |
| Dividends   | 31    | –                            | –                     | –                       | –   | –  | –  | –   | –                      | –                                   | –                            | (10,139)                  | (10,139)  | –                                 | (10,139)             |
| Dividends declared to non-controlling interests       | 31    | –                            | –                     | –                       | –   | –  | –  | –   | –                      | –                                   | –                            | –                         | –   | (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              |
| Other comprehensive (loss)/income                     |       | –                            | –                     | –                       | (1,010)   | 3,126                                    | –  | (1,716)                                   | –                      | –                                   | 400                          | –                         | 400   | –                                 | 400                  |
| Loss for the year                                     |       | –                            | –                     | –                       | –   | –  | –  | –   | –                      | –                                   | –                            | (68,877)                  | (68,877)  | (1,954)                           | (70,831)             |
| <b>Total comprehensive income/(loss) for the year</b> |       | –                            | –                     | –                       | (1,010)   | 3,126                                    | –  | (1,716)                                   | –                      | –                                   | 400                          | (68,877)                  | (68,477)  | (1,954)                           | (70,431)             |
| Transfer to retained earnings                         |       | –                            | –                     | –                       | –   | –  | (8,432)                                    | –   | –                      | –                                   | (8,432)                      | 8,432                     | –   | –                                 | –                    |
| Deferred bonus plan                                   |       | –                            | –                     | –                       | –   | –  | –  | –   | –                      | 1,230                               | 1,230                        | –                         | 1,230   | –                                 | 1,230                |
| CEO ELTIP   |       | –                            | –                     | –                       | –   | –  | –  | –   | –                      | 610                                 | 610                          | –                         | 610   | –                                 | 610                  |
| Dividends declared to non-controlling interests       | 31    | –                            | –                     | –                       | –   | –  | –  | –   | –                      | –                                   | –                            | –                         | –   | (7,261)                           | (7,261)              |
| <b>Balance at 31 December 2014</b>                    |       | <b>170,389</b>               | <b>396,021</b>        | <b>(898)</b>            | <b>14</b>   | <b>3,126</b>                             | <b>–</b>                                   | <b>(13,005)</b>                           | <b>(210,046)</b>       | <b>2,576</b>                        | <b>(217,335)</b>             | <b>451,047</b>            | <b>799,224</b>  | <b>95,160</b>                     | <b>894,384</b>       |

# 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 23 Hanover Square, London W1S 1JB, United Kingdom.

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

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

The Group's principal business is the mining, processing and sale of silver and gold. The Group has three operating mines (Ares, which ceased operations during 2014, Arcata and Pallancata) and a plant (Selene, used to treat ore from the Pallancata mine) located in southern Peru and one operating mine (San Jose) located in Argentina. The Group also has a portfolio of projects located across Peru, Argentina, Mexico and Chile at various stages of development. The Inmaculada advanced project, located in Peru, will enter production in 2015.

These consolidated financial statements were approved for issue by the Board of Directors on 17 March 2015.

The Group's subsidiaries are as follows:

| Company   | Principal activity          | Country of incorporation | Equity interest at 31 December |        |
|---|-----------------------------|--------------------------|--------------------------------|--------|
|   |                             |                          | 2014 %                         | 2013 % |
| Hochschild Mining (Argentina) Corporation S.A.        | Holding company             | Argentina                | 100                            | 100    |
| MH Argentina S.A.                                     | Exploration office          | Argentina                | 100                            | 100    |
| Minera Santa Cruz S.A. <sup>1</sup>                   | Production of gold & silver | Argentina                | 51                             | 51     |
| HOC Holdings Canada Inc. <sup>2</sup>                 | Holding company             | Canada                   | –                              | 100    |
| International Minerals Corporation <sup>2</sup>       | Holding company             | Canada                   | –                              | 100    |
| Hochschild Mining Chile S.A.                          | Holding company             | Chile                    | 100                            | 100    |
| Minera Hochschild Chile S.C.M.                        | Exploration office          | Chile                    | 100                            | 100    |
| Andina Minerals Chile Ltd.                            | Exploration office          | Chile                    | 100                            | 100    |
| Sociedad Contractual Minera Victoria                  | Exploration office          | Chile                    | 100                            | 100    |
| 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 <sup>3</sup>                   | 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. <sup>4</sup>   | Holding company             | Mexico                   | –                              | 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. <sup>5</sup> | Production of gold & silver | Mexico                   | –                              | 100    |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## 1 CORPORATE INFORMATION CONTINUED

| Company  | Principal activity          | Country of incorporation | Equity interest at 31 December |        |
|--|-----------------------------|--------------------------|--------------------------------|--------|
|  |                             |                          | 2014 %                         | 2013 % |
| Hochschild Mining (Peru) S.A.  | 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 <sup>6</sup>   | Not-for-profit              | Peru                     | –                              | –      |
| Number Company S.A.C. (formerly 0848818 BC Ltd) <sup>7</sup>                                   | Holding company             | Peru                     | –                              | 100    |
| Southwestern Gold (Bermuda) S.A.C. (formerly Southwestern Gold (Bermuda) Limited) <sup>7</sup> | Holding company             | Peru                     | –                              | 100    |
| Minera Suyamarca S.A.C. <sup>8</sup>   | Production of gold & silver | Peru                     | –                              | 100    |
| Minera Oro Vega S.A.C.   | Exploration office          | Peru                     | 100                            | 100    |
| Minera Qorihuayta S.A.C. <sup>9</sup>  | Exploration office          | Peru                     | –                              | 100    |
| Empresa de Transmisión Aymaraes S.A.C. <sup>10</sup>   | Power transmission          | Peru                     | 50                             | 50     |
| Inmaculada Holdings S.A.C. <sup>11</sup>   | Holding company             | Peru                     | –                              | 100    |
| Liam Holdings S.A.C. <sup>7</sup>  | Holding company             | Peru                     | –                              | 100    |
| Minera del Suroeste S.A.C. <sup>7</sup>  | Exploration office          | Peru                     | –                              | 100    |
| Minera Antay S.A.C.  | Exploration office          | Peru                     | 99.9                           | –      |
| Hochschild Mining (US) Inc.  | Holding company             | USA                      | 100                            | 100    |

1 The Group has a 51% interest in Minera Santa Cruz S.A. while the remaining 49% is held by a non-controlling interest. The significant financial information in respect of this subsidiary before intercompany eliminations as at and for the years ended 31 December 2014 and 2013 is as follows:

|   | As at 31 December |                 |
|---|-------------------|-----------------|
|   | 2014<br>US\$000   | 2013<br>US\$000 |
| Non current assets                                      | 226,886           | 225,955         |
| Current assets  | 109,700           | 123,332         |
| Non current liabilities                                 | (78,297)          | (72,446)        |
| Current liabilities                                     | (66,937)          | (66,678)        |
| Equity  | (191,352)         | (210,163)       |
| Revenue   | 213,013           | 240,723         |
| Loss for the year                                       | (3,997)           | (19,725)        |
| Net cash generated from operating activities            | 75,108            | 53,962          |
| Net cash used in investing activities                   | (59,398)          | (66,184)        |
| Cash flow (used in)/generated from financing activities | (23,700)          | 24,396          |

2014: Loss attributable to non-controlling interests in the Consolidated Income Statement, non-controlling interest in the Consolidated Statement of Financial Position, and dividends declared to non-controlling interests in the Consolidated Statement of Changes in Equity are solely related to Minera Santa Cruz S.A. (2013: non-controlling interest in the Consolidated Statement of Financial Position, and dividends declared to non-controlling interests in the Consolidated Statement of Changes in Equity are solely attributable to Minera Santa Cruz S.A., while the Loss attributable to non-controlling interests in the Consolidated Income Statement is attributable to Minera Santa Cruz S.A. as well as Minera Suyamarca S.A.C. in which the Group had a 60% interest until October 2013).

2 On 17 March 2014 HOC Holdings Canada Inc absorbed International Minerals Corporation. On 24 March 2014 HOC Holdings Canada Inc was liquidated.

3 Skyfall Jersey Limited was incorporated on 23 September 2013 and liquidated on 20 January 2014.

4 On 1 July 2014 Minera Hochschild Mexico, S.A. de C.V. absorbed Hochschild Mining Mexico, S.A. de C.V.

5 On 28 February 2014 the Group sold its interest in Minas Santa María de Moris, S.A. de C.V. (note 4(c)).

6 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.

7 On 1 February 2014 Compañía Minera Ares S.A.C. absorbed Number Company S.A.C. (formerly 0848818 BC Ltd), Southwestern Gold (Bermuda) S.A.C. (formerly Southwestern Gold (Bermuda) Limited), Minera del Suroeste S.A.C. and Liam Holdings S.A.C.

8 On 1 January 2014, Compañía Minera Ares S.A.C. absorbed Minera Suyamarca S.A.C.

9 On 1 June 2014 Minera Oro Vega S.A.C. absorbed Minera Qorihuayta S.A.C.

10 Although the Group's interest in this company does not exceed 50%, it remains considered as a subsidiary in accordance with IFRS 10, as the Group has all of the following elements: (1) power over the investee in the relevant activities, (2) exposure, or rights, to variable returns from its involvement with the investee, and (3) the ability to use its power over the investee to affect the amount of the investor's returns. The Group was deemed to have control as it directs the financial and operating policy decisions of that investee.

11 On 1 May 2014, Compañía Minera Ares S.A.C. absorbed Inmaculada Holdings S.A.C.

## 2 SIGNIFICANT ACCOUNTING POLICIES

### (a) Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by 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 2014 and 2013 are set out below. The consolidated financial statements have been prepared on a historical cost basis except for the revaluation of certain financial instruments that are measured at fair value at the end of each reporting period, as explained 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(a)).

The financial statements are presented in US dollars (\$) and all monetary amounts are rounded to the nearest thousand (\$000) except when otherwise indicated.

#### *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 2013, except for the adoption of the following relevant standards and interpretations:

- IFRIC Interpretation 21 Levies (IFRIC 21), applicable to annual periods beginning on or after 1 January 2014.

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. This application of this interpretation has had no impact on the Group's financial position or performance.

- IAS 39 Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39, applicable to annual periods beginning on or after 1 January 2014.

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 any of its derivatives during the current period, therefore the application of these amendments has had no impact on the Group's financial position or performance.

- 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. The application of these amendments has had 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 adoption of this new standard has had 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 adoption of this new standard has had 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, its adoption has had no impact on the Group's financial position or performance. The Group has made all additional disclosures required by this standard in respect of the financial information of its material non-controlling interest in Minera Santa Cruz S.A.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

**2 SIGNIFICANT ACCOUNTING POLICIES CONTINUED**

- 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 application of this amendment has had no impact on the Group's financial position or performance.

- IAS 36 'Impairment of Assets' – recoverable amount disclosures, applicable for annual periods 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 application of this amendment has had no impact on the Group's financial position or performance, but has affected its impairment disclosures.

*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 2015 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', not yet endorsed by the EU.

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. The Group is currently assessing the impact of IFRS 9 and plans to adopt the new standard on the required effective date.

- Annual improvements 2010-2012 Cycle, not yet endorsed by the EU.

These improvements relate to IFRS 2 Share-based payments, IFRS 3 Business combinations, IFRS 8 Operating segments, IAS 16 Property, plant and equipment, IAS 38 Intangible assets, and IAS 24 Related party disclosures and are effective from 1 July 2014. These improvements are not expected to have a material impact on the Group.

- Annual improvements 2011-2013 Cycle, not yet endorsed by the EU.

These improvements relate to IFRS 3 Business combinations, IFRS 13 Fair value measurement, and IAS 40 Investment property and are effective from 1 July 2014. These improvements are not expected to have material impact on the Group.

- Annual improvements 2012-2014 Cycle, not yet endorsed by the EU.

These improvements relate to IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, IFRS 7 Financial Instruments: Disclosures, IAS 19 Employee Benefits, and IAS 34 Interim Financial Reporting and are effective from 1 July 2016. The Group is currently assessing the impact of these improvements and will apply them from the required effective date.

- IFRS 15 Revenue from contracts with customers, not yet endorsed by the EU.

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017 with early adoption permitted. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

- IAS 1 Disclosure initiative, not yet endorsed by the EU.

The IAS 1 Disclosure initiative was issued in December 2014 and seeks to clarify the concept of materiality in filtering out entity-specific information which is not relevant to financial statement users. Specifically, this initiative will clarify that materiality applies to the whole financial statements and that information which is not material need not be presented in the primary financial statements or disclosed in the notes. It will further clarify that some disclosures specified in standards are simply not important enough to justify separate disclosure for a particular entity, whilst making it clear that preparers should exercise judgement in presenting their financial reports. This initiative is not expected to impact the financial performance of the Group, but may impact its disclosures. The Group is currently assessing the impact of the disclosure initiative and will apply it from the required effective date.

## 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(e).

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(g).

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(h), 2(j), 2(u), 16 and 17.

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(n) and 28.

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 statement of financial position 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 the income statement. For closed sites, changes to estimated costs are recognised immediately in the income statement.

Critical judgements:

- Determination of functional currencies – note 2(d).

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(s), 14, 30 and 36.

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

- Recognition of evaluation and exploration assets and transfer to development costs – note 2(f).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

### 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) and 4(b).

In identifying a business combination (note 2(c)) 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 19.

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) Basis of consolidation

The consolidated financial statements set out the Group's financial position, performance and cash flows as at 31 December 2014 and 31 December 2013 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 is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Non-controlling interests' rights to safeguard their interest are fully considered in assessing whether the Group controls a subsidiary. Specifically, the Group controls an investee if, and only if, the Group has:

- power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- the contractual arrangement with the other vote holders of the investee;
- rights arising from other contractual arrangements; and
- the Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

## 2 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

### *Basis of consolidation*

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.

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; and (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 statement of financial position, 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*

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.

### **(d) 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

**2 SIGNIFICANT ACCOUNTING POLICIES CONTINUED****(e) Property, plant and equipment**

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

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

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

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

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

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

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

*Mining properties and development costs*

Purchased mining properties are recognised as assets at their cost of acquisition or at fair value if purchased as part of a business combination. Costs associated with developments of mining properties are capitalised.

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

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

*Construction in progress and capital advances*

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

*Subsequent expenditure*

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

## 2 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

### (f) 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.

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

The Group estimates its ore reserves and mineral resources based on information compiled by internal competent persons. Reports to support these estimates are prepared 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.

### (h) 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. 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.

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.

### (i) 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.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

**2 SIGNIFICANT ACCOUNTING POLICIES CONTINUED***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.

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

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

The carrying amounts of property, plant and equipment 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 of disposal 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 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.

*Reversal of impairment*

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

**(k) Inventories**

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

For this purpose, the costs of production include:

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

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

**(l) Trade and other receivables**

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

**(m) Share capital**

Ordinary shares are classified as equity. 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.

**(n) Provisions**

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

## 2 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

### *Mine closure cost*

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

### *Workers' profit sharing and other employee benefits*

In accordance with Peruvian legislation, companies in Peru must provide for workers' profit sharing equivalent to 8% of taxable income of each year. Mexican law also requires Mexican companies to provide for workers' profit sharing equivalent to 10% of the profit of each year. This amount is charged to the income statement within personnel expenses (note 10) and is considered deductible for income tax purposes. The Group has no pension or retirement benefit schemes.

### *Other*

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

### **(o) 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 reporting 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 reporting 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).

### **(p) 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.

### **(q) Revenue recognition**

The Group is involved in the production and sale of gold and silver from dore and concentrate containing both gold and silver. Dore bars are either sold directly to customers or are sent to a third-party for further refining into gold and silver before they are sold. Concentrate is sold directly to customers.

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 32) is recognised in income when services are provided.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

**2 SIGNIFICANT ACCOUNTING POLICIES CONTINUED****(r) 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.

**(s) 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; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

**(t) 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.

**(u) Financial instruments**

Financial assets and liabilities are recognised when the Group becomes party to the contracts that give rise to them and are classified as loans 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(z)), 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 twelve 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.

### *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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

**2 SIGNIFICANT ACCOUNTING POLICIES CONTINUED**

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.

**(v) Dividend distribution**

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

**(w) Cash and cash equivalents**

Cash and cash equivalents are carried in the 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.

**(x) Exceptional items**

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

- impairments of assets, including goodwill, assets held for sale, 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 restructuring within the Group;
- the impact of infrequent labour action related to work stoppages in mine units; and
- the related tax impact of the above items.

**(y) Comparatives**

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

**(z) Hedging**

The Group uses commodity swaps to hedge certain of its cash flows from product sales against price risk. 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 commodity swap contracts is determined by reference to market values for similar instruments.

These swaps 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 sales transactions.

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

## 2 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

flows attributable to the hedged risk. Such hedges are expected to be highly effective in offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine their effectiveness in the financial reporting periods for which they were designated.

Where the commodity 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 forecast transaction occurs.

If the forecast sales transaction 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 sales transaction occurs.

### (aa) Fair value measurement

The Group measures financial instruments, such as, derivatives, and non-financial assets at fair value at each statement of financial position 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 at market prices. 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, in suspension, which generated revenue from the sale of gold and silver.
- Operating unit – Arcata, which generates revenue from the sale of gold, silver, dore 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, dore and concentrate.
- Operating unit – Moris, which generated revenue from the sale of gold and silver, disclosed as a segment until 31 December 2013. Minas Santa María de Moris, S.A. de C.V., which held the Moris operating unit, was sold to a third party on 28 February 2014 (note 4(c)). Accordingly, this operation did not meet the quantitative thresholds to be a separate reportable segment in 2014 and has been included in 'Other'. The comparative segment information has been restated to reflect these changes.
- Pre operating unit – Inmaculada, which will generate revenue from the sale of gold and silver is now considered as a segment due to the significant investment in the construction of the mine. Accordingly, the comparative segment information has been restated to reflect this change.
- 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 costs charged to the profit and loss and capitalised as assets.
- Other – includes the profit or loss generated by Empresa de Transmisión Callalli S.A.C. (a power transmission company), HMX, S.A. de C.V. (a service company in Mexico), Empresa de Transmisión Aymaraes S.A.C. (a power transmission company), and the Selene plant (used to process some of the Group's production).

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.

## 3 SEGMENT REPORTING CONTINUED

## (a) Reportable segment information

|   | Ares<br>US\$000 | Arcata<br>US\$000 | Pallancata<br>US\$000 | San Jose<br>US\$000 | Inmaculada<br>US\$000 | Exploration<br>US\$000 | Other <sup>1</sup><br>US\$000 | Adjustment<br>and<br>eliminations<br>US\$000 | Total<br>US\$000 |
|---|-----------------|-------------------|-----------------------|---------------------|-----------------------|------------------------|-------------------------------|--|------------------|
| <b>Year ended</b>                                 |                 |                   |                       |                     |                       |                        |                               |  |                  |
| <b>31 December 2014</b>                           |                 |                   |                       |                     |                       |                        |                               |  |                  |
| <b>Revenue from external customers</b>            | 25,889          | 106,061           | 147,360               | 213,013             | –                     | –                      | 628                           | –  | <b>492,951</b>   |
| Inter segment revenue                             | –               | –                 | –                     | –                   | –                     | –                      | 2,857                         | (2,857)                                      | –                |
| <b>Total revenue</b>                              | <b>25,889</b>   | <b>106,061</b>    | <b>147,360</b>        | <b>213,013</b>      | <b>–</b>              | <b>–</b>               | <b>3,485</b>                  | <b>(2,857)</b>                               | <b>492,951</b>   |
| Segment profit/(loss)                             | (437)           | 5,054             | 20,894                | 28,429              | –                     | (18,662)               | 884                           | (752)  | <b>35,410</b>    |
| Others <sup>2</sup>                               |                 |                   |                       |                     |                       |                        |                               |  | <b>(103,620)</b> |
| Loss from continuing operations before income tax |                 |                   |                       |                     |                       |                        |                               |  | <b>(68,210)</b>  |
| <b>Other segment information</b>                  |                 |                   |                       |                     |                       |                        |                               |  |                  |
| Depreciation <sup>3</sup>                         | (418)           | (31,348)          | (48,008)              | (46,820)            | (7,558)               | (930)                  | (2,596)                       | –  | <b>(137,678)</b> |
| Amortisation                                      | –               | –                 | –                     | (1,181)             | –                     | (458)                  | –                             | –  | <b>(1,639)</b>   |
| Impairment and write-off of assets net            | (6)             | (499)             | (31)                  | (717)               | (85)                  | 1,580                  | (133)                         | –  | <b>109</b>       |
| <b>Assets</b>                                     |                 |                   |                       |                     |                       |                        |                               |  |                  |
| Capital expenditure                               | –               | 28,867            | 34,160                | 51,350              | 193,445               | 6,522                  | 6,777                         | –  | <b>321,121</b>   |
| Current assets                                    | 6,740           | 27,993            | 21,174                | 66,995              | 5,877                 | 35                     | 2,421                         | –  | <b>131,235</b>   |
| Other non-current assets                          | 832             | 143,524           | 112,365               | 223,295             | 497,771               | 277,829                | 70,799                        | –  | <b>1,326,415</b> |
| <b>Total segment assets</b>                       | <b>7,572</b>    | <b>171,517</b>    | <b>133,539</b>        | <b>290,290</b>      | <b>503,648</b>        | <b>277,864</b>         | <b>73,220</b>                 | <b>–</b>                                     | <b>1,457,650</b> |
| Not reportable assets <sup>4</sup>                | –               | –                 | –                     | –                   | –                     | –                      | 248,662                       | –  | <b>248,662</b>   |
| <b>Total assets</b>                               | <b>7,572</b>    | <b>171,517</b>    | <b>133,539</b>        | <b>290,290</b>      | <b>503,648</b>        | <b>277,864</b>         | <b>321,882</b>                | <b>–</b>                                     | <b>1,706,312</b> |

1 'Other' revenue primarily relates to revenues earned by HMX S.A. de C.V. for services provided to the Moris mine, the Mexican exploration activities, and revenue for the sale of gold and silver generated by the Moris mine.

2 Comprised of administrative expenses of US\$46,087,000, other income of US\$4,112,000, other expenses of US\$20,475,000, gain on the reversal of impairment net of write-off of assets of US\$109,000, finance income of US\$6,276,000, finance expense of US\$42,565,000, and foreign exchange loss of US\$4,990,000.

3 Includes US\$967,000 and US\$7,558,000 of depreciation capitalised in the Crespo and the Inmaculada projects respectively.

4 Not reportable assets are comprised of available-for-sale financial assets of US\$455,000, other receivables of US\$100,708,000, income tax receivable of US\$25,584,000, deferred income tax assets of US\$1,574,000, other financial assets of US\$4,342,000 and cash and cash equivalents of US\$115,999,000.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## 3 SEGMENT REPORTING CONTINUED

## (a) Reportable segment information

|   | Ares<br>US\$000 | Arcata<br>US\$000 | Pallancata<br>US\$000 | San Jose<br>US\$000 | Inmaculada<br>US\$000 | Exploration<br>US\$000 | Other <sup>1</sup><br>US\$000 | Adjustment<br>and<br>eliminations<br>US\$000 | Total<br>US\$000 |
|---|-----------------|-------------------|-----------------------|---------------------|-----------------------|------------------------|-------------------------------|--|------------------|
| <b>Year ended</b>                                 |                 |                   |                       |                     |                       |                        |                               |  |                  |
| <b>31 December 2013</b>                           |                 |                   |                       |                     |                       |                        |                               |  |                  |
| <b>Revenue from external customers</b>            | 50,362          | 136,968           | 181,795               | 240,723             | –                     | –                      | 12,310                        | –  | <b>622,158</b>   |
| Inter segment revenue                             | –               | –                 | –                     | –                   | –                     | –                      | 8,796                         | (8,796)                                      | –                |
| <b>Total revenue</b>                              | <b>50,362</b>   | <b>136,968</b>    | <b>181,795</b>        | <b>240,723</b>      | <b>–</b>              | <b>–</b>               | <b>21,106</b>                 | <b>(8,796)</b>                               | <b>622,158</b>   |
| Segment profit/(loss)                             | (3,515)         | 31,710            | 49,357                | 44,142              | –                     | (50,894)               | 5,467                         | 1,547  | <b>77,814</b>    |
| Others <sup>2</sup>                               |                 |                   |                       |                     |                       |                        |                               |  | <b>(197,434)</b> |
| Loss from continuing operations before income tax |                 |                   |                       |                     |                       |                        |                               |  | <b>(119,620)</b> |
| <b>Other segment information</b>                  |                 |                   |                       |                     |                       |                        |                               |  |                  |
| Depreciation <sup>3</sup>                         | (8,723)         | (31,044)          | (50,222)              | (52,790)            | (1,158)               | (769)                  | (4,908)                       | –  | <b>(149,614)</b> |
| Amortisation                                      | –               | –                 | –                     | (1,300)             | –                     | (441)                  | –                             | –  | <b>(1,741)</b>   |
| Impairment and write-off of assets net            | (3,791)         | (115)             | (271)                 | (41,382)            | –                     | (45,112)               | –                             | –  | <b>(90,671)</b>  |
| <b>Assets</b>                                     |                 |                   |                       |                     |                       |                        |                               |  |                  |
| Capital expenditure                               | 3,783           | 43,255            | 42,992                | 56,502              | 89,120                | 30,551                 | 15,375                        | –  | <b>281,578</b>   |
| Current assets                                    | 13,211          | 14,009            | 31,563                | 73,844              | 1,421                 | 453                    | 4,757                         | –  | <b>139,258</b>   |
| Other non-current assets                          | 1,328           | 142,618           | 122,058               | 217,344             | 297,311               | 284,802                | 56,342                        | –  | <b>1,121,803</b> |
| <b>Total segment assets</b>                       | <b>14,539</b>   | <b>156,627</b>    | <b>153,621</b>        | <b>291,188</b>      | <b>298,732</b>        | <b>285,255</b>         | <b>61,099</b>                 | <b>–</b>                                     | <b>1,261,061</b> |
| Not reportable assets <sup>4</sup>                | –               | –                 | –                     | –                   | –                     | –                      | 472,831                       | –  | <b>472,831</b>   |
| <b>Total assets</b>                               | <b>14,539</b>   | <b>156,627</b>    | <b>153,621</b>        | <b>291,188</b>      | <b>298,732</b>        | <b>285,255</b>         | <b>533,930</b>                | <b>–</b>                                     | <b>1,733,892</b> |

1 'Other' revenue primarily relates to revenues earned by Minas Santa Maria de Moris, S.A. de C.V., generated by the sale of gold and silver and 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 of US\$5,921,000, gain on transfer from investments 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.

### 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 |                 |
|-------------------|------------------------|-----------------|
|                   | 2014<br>US\$000        | 2013<br>US\$000 |
| External customer |                        |                 |
| USA               | 96,427                 | 148,201         |
| Peru              | 178,217                | 91,781          |
| Canada            | 36,421                 | 53,664          |
| Germany           | 10,987                 | 4,901           |
| Switzerland       | 45,020                 | 149,452         |
| United Kingdom    | 2,450                  | 38,697          |
| Korea             | 121,868                | 135,100         |
| Japan             | 1,561                  | 362             |
| <b>Total</b>      | <b>492,951</b>         | <b>622,158</b>  |
| Inter-segment     |                        |                 |
| Peru              | 1,804                  | 3,122           |
| Mexico            | 1,053                  | 5,674           |
| <b>Total</b>      | <b>495,808</b>         | <b>630,954</b>  |

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 2014 |           |                                 | Year ended 31 December 2013 |           |                           |
|----------------------|-----------------------------|-----------|---------------------------------|-----------------------------|-----------|---------------------------|
|                      | US\$000                     | % Revenue | Segment                         | US\$000                     | % Revenue | Segment                   |
| LS Nikko             | 121,868                     | 25%       | Arcata, Pallancata and San Jose | 135,100                     | 22%       | Pallancata and San Jose   |
| Glencore Perú S.A.C. | 114,192                     | 23%       | Arcata and Pallancata           | 35,188                      | 6%        | Pallancata                |
| Argor Heraus         | 45,045                      | 9%        | San Jose                        | 105,730                     | 17%       | Ares, Arcata and San Jose |
| Johnson Matthey Inc. | 26,850                      | 5%        | Ares, Arcata                    | 70,547                      | 11%       | Ares, Arcata and Others   |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

**3 SEGMENT REPORTING CONTINUED**

Non-current assets, excluding financial instruments and deferred income tax assets, were allocated to the geographical areas in which the assets are located as follows:

|   | As at 31 December |                  |
|---|-------------------|------------------|
|   | 2014<br>US\$000   | 2013<br>US\$000  |
| Peru                                    | 942,411           | 746,211          |
| Argentina                               | 223,295           | 217,415          |
| Mexico                                  | 41,944            | 40,591           |
| Chile                                   | 118,765           | 117,466          |
| United Kingdom                          | –                 | 120              |
| <b>Total non-current segment assets</b> | <b>1,326,415</b>  | <b>1,121,803</b> |
| Available-for-sale financial assets     | 455               | 51,658           |
| Trade and other receivables             | 6,488             | 12,128           |
| Deferred income tax assets              | 1,574             | 2,416            |
| <b>Total non-current assets</b>         | <b>1,334,932</b>  | <b>1,188,005</b> |

**4 ACQUISITIONS AND DISPOSALS****(a) Acquisition of Non-controlling interest***Minera Suyamarca S.A.C.*

In 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'). Prior to the Acquisition, Hochschild held a 60% interest in the Peruvian Assets.

IMZ is also the 100% owner of Minera Oro Vega S.A.C. and 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 payment                  | (4,264)          |
| Available-for-sale financial assets (note 20)      | (8,939)          |
| Net assets received from Minera Oro Vega S.A.C     | 1,777            |
| <b>Total consideration</b>                         | <b>(283,553)</b> |
| <b>Non-controlling interest</b>                    | <b>148,185</b>   |
| <b>Retained earnings</b>                           | <b>(135,368)</b> |

## 4 ACQUISITIONS AND DISPOSALS CONTINUED

### (b) Acquisition of assets

#### *Andina Minerals Inc*

On 20 February 2013 the Group completed the acquisition of Andina Minerals Inc. ('Andina')

Andina's principal asset, the 100% owned Volcan project, includes the Volcan area, located in Chile.

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.

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 total consideration was settled in cash.

### (c) Sale of subsidiary

#### *Minas Santa María de Moris, S.A. de C.V.*

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') for consideration with a fair value of nil. The terms of the transaction stipulate that:

- the Group was entitled to a 1% net smelter return over the Moris concessions once production reaches 50,000 ounces of gold equivalent following the sale; and
- EDR and APE would assume all costs associated with the mine and plant rehabilitation obligations.

The carrying value of the net assets disposed was:

|                               | US\$000 |
|-------------------------------|---------|
| Property, plant and equipment | 13      |
| Inventories                   | 278     |
| Trade and other receivables   | 3,878   |
| Income tax receivable         | 241     |
| Cash and cash equivalents     | 33      |
| Trade and other payables      | (214)   |
| Provision for mine closure    | (1,266) |
| Net assets disposed           | 2,963   |

The transaction resulted in a loss of US\$2,963,000.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

**5 REVENUE**

|                           | Year ended 31 December |                 |
|---------------------------|------------------------|-----------------|
|                           | 2014<br>US\$000        | 2013<br>US\$000 |
| Gold (from dore bars)     | 62,911                 | 112,855         |
| Silver (from dore bars)   | 67,418                 | 179,773         |
| Gold (from concentrate)   | 109,045                | 103,721         |
| Silver (from concentrate) | 253,420                | 225,746         |
| Services                  | 157                    | 63              |
| <b>Total</b>              | <b>492,951</b>         | <b>622,158</b>  |

Included within revenue is a loss of US\$16,518,000 relating to provisional pricing adjustments representing the change in the fair value of embedded derivatives (2013: loss of US\$29,867,000) arising on sales of concentrates and dore (refer to note 2(q) and footnote 2 of note 23).

The realised gain on gold and silver swaps sales contracts in the period recognised within revenue was US\$14,603,000 (gold: US\$2,451,000, silver: US\$12,152,000) (2013: US\$Nil).

Other sources of revenue are disclosed at note 13.

**6 COST OF SALES**

Included in cost of sales are:

|  | Year ended 31 December |                 |
|--|------------------------|-----------------|
|  | 2014<br>US\$000        | 2013<br>US\$000 |
| Depreciation and amortisation                    | 128,720                | 146,918         |
| Personnel expenses (note 10)                     | 114,322                | 124,834         |
| Mining royalty (note 37)                         | 6,581                  | 8,293           |
| Change in products in process and finished goods | 8,641                  | 3,926           |

**7 ADMINISTRATIVE EXPENSES**

|  | Year ended 31 December |                 |
|--|------------------------|-----------------|
|  | 2014<br>US\$000        | 2013<br>US\$000 |
| Personnel expenses (note 10 and 11)                | 24,206                 | 28,445          |
| Professional fees                                  | 3,846                  | 5,553           |
| Social and community welfare expenses <sup>1</sup> | 1,943                  | 3,216           |
| Lease rentals                                      | 1,442                  | 1,925           |
| Travel expenses                                    | 865                    | 1,342           |
| Communications                                     | 579                    | 834             |
| Indirect taxes                                     | 2,678                  | 3,044           |
| Depreciation and amortisation                      | 2,072                  | 2,638           |
| Technology and systems                             | 718                    | 1,092           |
| Security   | 951                    | 1,083           |
| Supplies   | 188                    | 243             |
| Other  | 6,599                  | 7,361           |
| <b>Total</b>                                       | <b>46,087</b>          | <b>56,776</b>   |

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

## 8 EXPLORATION EXPENSES

|                                    | Year ended 31 December |                 |
|------------------------------------|------------------------|-----------------|
|                                    | 2014<br>US\$000        | 2013<br>US\$000 |
| Mine site exploration <sup>1</sup> |                        |                 |
| Arcata                             | 2,038                  | 2,052           |
| Ares                               | 42                     | 452             |
| Selene                             | 58                     | –               |
| Sipan                              | –                      | 600             |
| Pallancata                         | 1,728                  | 2,149           |
| San Jose                           | 1,003                  | 1,795           |
| Moris                              | –                      | 129             |
|                                    | <b>4,869</b>           | <b>7,177</b>    |
| Prospects <sup>2</sup>             |                        |                 |
| Peru                               | 788                    | 1,459           |
| Argentina                          | 73                     | 294             |
| Mexico                             | 195                    | 3,504           |
| Chile                              | 237                    | 12,696          |
|                                    | <b>1,293</b>           | <b>17,953</b>   |
| Generative <sup>3</sup>            |                        |                 |
| Peru                               | 1,180                  | 3,502           |
| Argentina                          | 11                     | 53              |
| Mexico                             | 2,588                  | 1,157           |
| Chile                              | 379                    | 330             |
|                                    | <b>4,158</b>           | <b>5,042</b>    |
| Personnel (note 10 and 11(1))      | 7,412                  | 12,302          |
| Others                             | 408                    | 3,853           |
| <b>Total</b>                       | <b>18,140</b>          | <b>46,327</b>   |

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 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 cash flows which relate to the exploration activities of Group companies engaged only in exploration. 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.

Cash flows on exploration activities are as follows:

|          | As at 31 December |                 |
|----------|-------------------|-----------------|
|          | 2014<br>US\$000   | 2013<br>US\$000 |
| Payments | 3,362             | 23,441          |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

**9 SELLING EXPENSES**

|  | Year ended 31 December |                 |
|--|------------------------|-----------------|
|  | 2014<br>US\$000        | 2013<br>US\$000 |
| Transportation of dore, concentrate and maritime freight | 6,020                  | 4,256           |
| Sales commissions  | 429                    | 1,050           |
| Personnel expenses (note 10)                             | 249                    | 210             |
| Warehouse services                                       | 2,930                  | 3,256           |
| Taxes  | 15,609                 | 16,596          |
| Other  | 3,460                  | 3,417           |
| <b>Total</b>   | <b>28,697</b>          | <b>28,785</b>   |

**10 PERSONNEL EXPENSES<sup>1</sup>**

|                            | Year ended 31 December |                 |
|----------------------------|------------------------|-----------------|
|                            | 2014<br>US\$000        | 2013<br>US\$000 |
| Salaries and wages         | 115,770                | 128,225         |
| Workers' profit sharing    | (34)                   | (737)           |
| Other legal contributions  | 22,168                 | 24,641          |
| Statutory holiday payments | 7,074                  | 7,860           |
| Long Term Incentive Plan   | (657)                  | (1,127)         |
| Termination benefits       | 11,570                 | 10,487          |
| Other                      | 1,805                  | 6,584           |
| <b>Total</b>               | <b>157,696</b>         | <b>175,933</b>  |

1. Personnel expenses are distributed in cost of sales, administrative expenses, exploration expenses, selling expenses, other expenses and capitalised as property plant and equipment amounting to US\$114,322,000 (2013: US\$124,834,000), US\$24,206,000 (2013: US\$28,445,000), US\$7,412,000 (2013: US\$12,302,000), US\$249,000 (2013: US\$210,000), US\$1,642,000 (2013: US\$nil) and US\$9,865,000 (2013: US\$10,142,000) respectively.

Average number of employees for 2014 and 2013 were as follows:

|                | As at 31 December |              |
|----------------|-------------------|--------------|
|                | 2014              | 2013         |
| Peru           | 2,852             | 3,226        |
| Argentina      | 1,179             | 1,227        |
| Mexico         | 19                | 122          |
| Chile          | 11                | 38           |
| United Kingdom | 9                 | 12           |
| <b>Total</b>   | <b>4,070</b>      | <b>4,625</b> |

## 11 PRE-TAX 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.

|  | Year ended<br>31 December<br>2014<br>US\$000 | Year ended<br>31 December<br>2013<br>US\$000 |
|--|--|--|
| <b>Cost of sales</b>   |  |  |
| Termination benefits <sup>1</sup>  | (1,327)                                      | (2,466)                                      |
| Termination benefits Ares mine unit <sup>2</sup>   | (3,511)                                      | –  |
| Work stoppage at Arcata mine unit  | (1,227)                                      | –  |
| <b>Total</b>   | <b>(6,065)</b>                               | <b>(2,466)</b>                               |
| <b>Administrative expenses</b>   |  |  |
| Termination benefits <sup>1</sup>  | (2,752)                                      | (2,351)                                      |
| <b>Total</b>   | <b>(2,752)</b>                               | <b>(2,351)</b>                               |
| <b>Exploration expenses</b>  |  |  |
| Termination benefits <sup>1</sup>  | (886)  | (3,456)                                      |
| <b>Total</b>   | <b>(886)</b>                                 | <b>(3,456)</b>                               |
| <b>Other income</b>  |  |  |
| Gain on sale of property, plant and equipment  | –  | 2,442  |
| <b>Total</b>   | <b>–</b>                                     | <b>2,442</b>                                 |
| <b>Other expenses</b>  |  |  |
| Loss on sale of subsidiary <sup>3</sup>  | (2,963)                                      | –  |
| <b>Total</b>   | <b>(2,963)</b>                               | <b>–</b>                                     |
| <b>Impairment and write-off of assets (net)</b>  |  |  |
| Impairment and write-off of assets <sup>4</sup>  | (1,534)                                      | (105,071)                                    |
| Reversal of impairment of assets <sup>5</sup>  | 1,643  | 14,400                                       |
| <b>Total</b>   | <b>109</b>                                   | <b>(90,671)</b>                              |
| <b>Finance income</b>  |  |  |
| Gain on sale of available-for-sale financial assets <sup>6</sup>   | 4,061  | –  |
| Gain from changes in the fair value of financial instruments <sup>7</sup>  | –  | 2,417  |
| <b>Total</b>   | <b>4,061</b>                                 | <b>2,417</b>                                 |
| <b>Gain on transfer from investment accounted under the equity method to available-for-sale financial assets<sup>8</sup></b> | <b>–</b>                                     | <b>107,942</b>                               |
| <b>Total</b>   | <b>–</b>                                     | <b>107,942</b>                               |
| <b>Finance costs</b>   |  |  |
| Amortisation of transaction costs on secure bank loans <sup>9</sup>  | (3,336)                                      | (1,072)                                      |
| Transaction costs on bank loans <sup>10</sup>  | –  | (2,577)                                      |
| Loss from changes in the fair value of financial instruments <sup>11</sup>   | (6,155)                                      | (124,899)                                    |
| Loss on sale of available-for-sale financial assets <sup>12</sup>  | –  | (7,805)                                      |
| <b>Total</b>   | <b>(9,491)</b>                               | <b>(136,353)</b>                             |

1 Termination benefits paid to workers following the restructuring plan approved by management, amounting to US\$4,965,000 (2013:US\$8,273,000).

2 Termination benefits generated in connection with the suspension of the Ares mine unit.

3 Loss generated by the sale of the Group's interest in Moris (refer to note 4(c)).

4 As at 31 December 2014 corresponds to the write-off of assets of US\$1,534,000. 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.

5 Corresponds to a reversal of previously recorded impairment at the San Felipe property of US\$1,643,000 (2013: US\$14,400,000) (note 17).

6 Corresponds to the gain on sale of the Group's holding in Gold Resource Corp ("GRC") of US\$2,642,000, Chaparral Gold of US\$842,000, Mirasol Resources Ltd of US\$556,000 and Northern Superior Resources Inc of US\$21,000.

7 Corresponds to the recycling of the unrealised gain generated by the shares of International Minerals Corporation, at the time of acquisition (refer to note 4(a)).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

**11 PRE-TAX EXCEPTIONAL ITEMS CONTINUED**

- 8 Gain on the reclassification of 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 19).
- 9 Corresponds to the attributable issue cost of the syndicated loan granted to Compañía Minera Ares S.A.C. (note 27), disclosed as an exceptional item as a significant one-off expense.
- 10 Corresponds to the write-off of transaction costs related to bank facilities never drawn by Minera Suyamarca S.A.C.
- 11 As at 31 December 2014 corresponds to the impairment of the investments in Pembroke Mining Corp of US\$6,000,000, Brionor Resources of US\$54,000, Revelo Resources Corp (formerly Iron Creek Capital Corp) of US\$53,000, Northern Superior Resources Inc of US\$45,000 and Empire Petroleum Corp of US\$3,000. 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, Pembroke 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.
- 12 Corresponds to the loss on sale of part of the Group's holding in 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.

**12 OTHER EXPENSES BEFORE EXCEPTIONAL ITEMS**

|  | Year ended<br>31 December<br>2014         | Year ended<br>31 December<br>2013         |
|--|---|---|
|  | Before<br>exceptional<br>items<br>US\$000 | Before<br>exceptional<br>items<br>US\$000 |
| <b>Increase of provision for mine closure (note 28(4))</b> | <b>9,088</b>                              | 5,516                                     |
| Tax on mining reserves in Argentina (note 37)              | 3,453                                     | 2,453                                     |
| <b>Contingencies</b>                                       | <b>1,680</b>                              | 845                                       |
| Other  | 3,291                                     | 6,741                                     |
| <b>Total</b>   | <b>17,512</b>                             | 15,555                                    |

**13 FINANCE INCOME AND FINANCE COSTS BEFORE EXCEPTIONAL ITEMS**

|  | Year ended<br>31 December<br>2014         | Year ended<br>31 December<br>2013         |
|--|---|---|
|  | Before<br>exceptional<br>items<br>US\$000 | Before<br>exceptional<br>items<br>US\$000 |
| <b>Finance income</b>  |   |   |
| Interest on deposits and liquidity funds                     | 1,567                                     | 6,751                                     |
| <b>Interest income</b>                                       | <b>1,567</b>                              | 6,751                                     |
| Dividends  | 525                                       | 3,551                                     |
| Other  | 123                                       | 373                                       |
| <b>Total</b>   | <b>2,215</b>                              | 10,675                                    |
| <b>Finance costs</b>   |   |   |
| Interest on secured bank loans (note 27)                     | (5,027)                                   | (4,633)                                   |
| Interest on convertible bond (note 27)                       | (5,364)                                   | (4,594)                                   |
| <b>Interest on bond (note 27)</b>                            | <b>(20,302)</b>                           | –   |
| <b>Interest expense</b>                                      | <b>(30,693)</b>                           | (9,227)                                   |
| Unwind of discount rate                                      | (1,865)                                   | (1,267)                                   |
| Loss from changes in the fair value of financial instruments | (90)                                      | (220)                                     |
| Other  | (426)                                     | (983)                                     |
| <b>Total</b>   | <b>(33,074)</b>                           | (11,697)                                  |

## 14 INCOME TAX EXPENSE

|  | Year ended 31 December 2014               |                                 |                  | Year ended 31 December 2013               |                                 |                  |
|--|---|---------------------------------|------------------|---|---------------------------------|------------------|
|  | Before<br>exceptional<br>items<br>US\$000 | Exceptional<br>items<br>US\$000 | Total<br>US\$000 | Before<br>exceptional<br>items<br>US\$000 | Exceptional<br>items<br>US\$000 | Total<br>US\$000 |
| <b>Current corporate income tax from continuing operations</b>                         |   |                                 |                  |   |                                 |                  |
| Current corporate income tax charge  | 10,082                                    | (251)                           | 9,831            | 10,971                                    | (752)                           | 10,219           |
| Current mining royalty charge (note 37)  | 1,611                                     | –                               | 1,611            | 2,344                                     | –                               | 2,344            |
| Current special mining tax charge (note 37)  | 375                                       | –                               | 375              | 905                                       | –                               | 905              |
| Withholding taxes  | (343)                                     | –                               | (343)            | (641)                                     | –                               | (641)            |
|  | 11,725                                    | (251)                           | 11,474           | 13,579                                    | (752)                           | 12,827           |
| <b>Deferred taxation</b>   |   |                                 |                  |   |                                 |                  |
| Origination and reversal of temporary differences from continuing operations (note 30) | (457)                                     | (3,851)                         | (4,308)          | 31,400                                    | (35,170)                        | (3,770)          |
| Effect of change in tax rate   | (4,802)                                   | 257                             | (4,545)          | –   | –                               | –                |
|  | (5,259)                                   | (3,594)                         | (8,853)          | 31,400                                    | (35,170)                        | (3,770)          |
| <b>Total taxation charge/(credit) in the income statement</b>                          | 6,466                                     | (3,845)                         | 2,621            | 44,979                                    | (35,922)                        | 9,057            |



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

**14 INCOME TAX EXPENSE CONTINUED**

The weighted average statutory income tax rate was 28.7% for 2014 and 28.5% for 2013. 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.

In December 2014, the Peruvian government approved a schedule for the gradual reduction of the statutory income tax rate, from its current level of 30% to 26% by 2019.

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

|  | As at 31 December |                 |
|--|-------------------|-----------------|
|  | 2014<br>US\$000   | 2013<br>US\$000 |
| Deferred taxation:   |                   |                 |
| Deferred income tax relating to fair value gains on cash flow hedges   | 1,216             | –               |
| <b>Total tax charge in the statement of other comprehensive income</b> | <b>1,216</b>      | <b>–</b>        |

The total taxation charge on the Group's loss 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 |                 |
|---|-------------------|-----------------|
|   | 2014<br>US\$000   | 2013<br>US\$000 |
| Loss from continuing operations before income tax                   | (68,210)          | (119,620)       |
| At average statutory income tax rate of 28.7% (2013: 28.5%)         | (19,547)          | (34,140)        |
| Expenses not deductible for tax purposes                            | 3,058             | 2,685           |
| Non-taxable income <sup>1</sup>                                     | (851)             | (1,366)         |
| Non-taxable share of gains of associates                            | –                 | (1,377)         |
| Deferred tax recognised on special investment regime                | (780)             | (4,246)         |
| Movement in unrecognised deferred tax                               | 6,700             | 13,048          |
| Change in statutory income tax rate                                 | (4,545)           | –               |
| Withholding tax   | (343)             | (641)           |
| Special mining tax and mining royalty <sup>2</sup>                  | 1,986             | 3,249           |
| Foreign exchange rate effect <sup>3</sup>                           | 14,473            | 30,366          |
| Other   | 2,470             | 1,479           |
| <b>At average effective income tax rate of -3.8% (2013: -11.8%)</b> | <b>2,621</b>      | <b>9,057</b>    |
| Taxation charge attributable to continuing operations               | 2,621             | 9,057           |
| <b>Total taxation charge in the income statement</b>                | <b>2,621</b>      | <b>9,057</b>    |

1. Mainly corresponds to the gain on sale of Gold Resource Corp shares (2013: Mainly corresponds to dividends received from Gold Resource Corp. and International Minerals Corporation).

2. Corresponds to the impact of a mining royalty and special mining tax in Peru (note 37).

3. Mainly corresponds to the foreign exchange effect of converting tax bases and monetary items from local currency to the functional currency.

## 15 BASIC AND DILUTED EARNINGS PER SHARE

Earnings per share ('EPS') is calculated by dividing profit/(loss) 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 2014 and 2013, EPS has been calculated as follows:

|   | As at 31 December |               |
|---|-------------------|---------------|
|   | 2014              | 2013          |
| <b>Basic loss per share from continuing operations</b>          |                   |               |
| Before exceptional items (US\$)                                 | (0.15)            | (0.15)        |
| Exceptional items (US\$)  | (0.04)            | (0.21)        |
| <b>Total for the year and from continuing operations (US\$)</b> | <b>(0.19)</b>     | <b>(0.36)</b> |
| <b>Diluted loss per share from continuing operations</b>        |                   |               |
| Before exceptional items (US\$)                                 | (0.15)            | (0.15)        |
| Exceptional items (US\$)  | (0.04)            | (0.21)        |
| <b>Total for the year and from continuing operations (US\$)</b> | <b>(0.19)</b>     | <b>(0.36)</b> |

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

|   | As at 31 December |           |
|---|-------------------|-----------|
|   | 2014              | 2013      |
| Loss attributable to equity holders of the parent – continuing operations (US\$000)                                     | (68,877)          | (123,083) |
| Exceptional items after tax – attributable to equity holders of the parent (US\$000)                                    | 13,914            | 72,738    |
| Loss from continuing operations before exceptional items attributable to equity holders of the parent (US\$000)         | (54,963)          | (50,345)  |
| Diluted loss from continuing operations before exceptional items attributable to equity holders of the parent (US\$000) | (54,963)          | (50,345)  |

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

|  | As at 31 December |         |
|--|-------------------|---------|
|  | 2014              | 2013    |
| Basic weighted average number of ordinary shares in issue (thousands)  | 366,975           | 345,225 |
| Dilutive potential ordinary shares related to convertible bond (thousands) <sup>1</sup>                        | –                 | –       |
| Dilutive potential ordinary shares related to contingently issuable shares (thousands) <sup>1</sup>            | –                 | –       |
| Diluted weighted average number of ordinary shares in issue and dilutive potential ordinary shares (thousands) | 366,975           | 345,225 |

<sup>1</sup> The potential ordinary shares related to the convertible bond and the contingently issuable shares under the Enhanced Long Term Incentive Plan and Restricted Share Plan have not been included in the calculation of diluted EPS for 2014 and 2013 as they have an antidilutive effect.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## 16 PROPERTY, PLANT AND EQUIPMENT

|  | Mining properties and development costs <sup>1</sup><br>US\$000 | Land and buildings<br>US\$000 | Plant and equipment<br>US\$000 | Vehicles<br>US\$000 | Mine closure asset<br>US\$000 | Construction in progress and capital advances<br>US\$000 | Total<br>US\$000 |
|--|---|-------------------------------|--------------------------------|---------------------|-------------------------------|--|------------------|
| <b>Year ended 31 December 2014</b>             |   |                               |                                |                     |                               |  |                  |
| <b>Cost</b>                                    |   |                               |                                |                     |                               |  |                  |
| At 1 January 2014                              | 869,780   | 220,083                       | 371,079                        | 6,511               | 74,362                        | 136,383  | 1,678,198        |
| Additions                                      | 136,742   | 1,913                         | 20,281                         | 46                  | –                             | 157,192  | 316,174          |
| Change in discount rate                        | –   | –                             | –                              | –                   | 4,357                         | –  | 4,357            |
| Change in mine closure estimate                | –   | –                             | –                              | –                   | 18,741                        | –  | 18,741           |
| Disposals                                      | –   | (178)                         | (2,657)                        | (309)               | –                             | (61)   | (3,205)          |
| Write-offs                                     | (114)   | (276)                         | (3,943)                        | (308)               | –                             | –  | (4,641)          |
| Disposal of subsidiary (note 4(c))             | (11,015)  | (7,851)                       | (6,972)                        | (355)               | (1,247)                       | –  | (27,440)         |
| Transfers and other movements <sup>2</sup>     | 4,384   | 43,480                        | 11,254                         | 445                 | –                             | (56,206)   | 3,357            |
| <b>At 31 December 2014</b>                     | <b>999,777</b>  | <b>257,171</b>                | <b>389,042</b>                 | <b>6,030</b>        | <b>96,213</b>                 | <b>237,308</b>   | <b>1,985,541</b> |
| <b>Accumulated depreciation and impairment</b> |   |                               |                                |                     |                               |  |                  |
| At 1 January 2014                              | 452,777   | 120,923                       | 175,453                        | 3,645               | 48,425                        | 3,498  | 804,721          |
| Depreciation for the year                      | 84,928  | 19,836                        | 29,854                         | 752                 | 2,308                         | –  | 137,678          |
| Disposals                                      | –   | (178)                         | (2,385)                        | (256)               | –                             | –  | (2,819)          |
| Write-offs                                     | (51)  | (184)                         | (2,677)                        | (195)               | –                             | –  | (3,107)          |
| Disposal of subsidiary (note 4(c))             | (11,015)  | (7,851)                       | (6,969)                        | (345)               | (1,247)                       | –  | (27,427)         |
| Transfers and other movements <sup>2</sup>     | 185   | 2,092                         | (66)                           | 62                  | –                             | (2,088)  | 185              |
| <b>At 31 December 2014</b>                     | <b>526,824</b>  | <b>134,638</b>                | <b>193,210</b>                 | <b>3,663</b>        | <b>49,486</b>                 | <b>1,410</b>   | <b>909,231</b>   |
| <b>Net book amount at 31 December 2014</b>     | <b>472,953</b>  | <b>122,533</b>                | <b>195,832</b>                 | <b>2,367</b>        | <b>46,727</b>                 | <b>235,898</b>   | <b>1,076,310</b> |

The carrying value of plant and equipment held under finance leases at 31 December 2014 was US\$Nil (2013: US\$539,627). Additions during the year included US\$Nil (2013: US\$Nil) of plant and equipment under finance leases. Leased assets are pledged as security for the related finance lease.

There were borrowing costs capitalised in property, plant and equipment amounting to US\$9,904,000 (2013: US\$5,736,000). The capitalisation rate used was 8.83% (2013: 9.45%).

1 Mining properties and development costs related to Azuca, Crespo, Inmaculada and Volcan projects are not currently being depreciated.

2 Net of transfers and other movements of US\$3,172,000 were transferred from evaluation and exploration assets.

At the end of 2014, given the continued challenging environment for the mining sector, the Group carried out an impairment review of all of its operating mines (Arcata, Pallancata, and San Jose), its advanced project (Inmaculada), and its growth projects (Crespo, Azuca, and Volcan). As a result of this review, no impairment charges were identified.

The recoverable values of these CGUs were determined using a fair value less costs of disposal ('FVLCD') methodology. FVLCD was determined using a combination of level 2 and level 3 inputs to construct a discounted cash flow model to estimate the amount that would be paid by a willing third party in an arm's length transaction. The key assumptions on which management has based its determination of fair value less costs of disposal, and the associated recoverable values calculated are presented below.

*Gold and silver prices*

| US\$ per oz. | 2015  | 2016  | 2017  | 2018  | Long-term |
|--------------|-------|-------|-------|-------|-----------|
| Gold         | 1,266 | 1,288 | 1,288 | 1,325 | 1,300     |
| Silver       | 19.4  | 20.1  | 21.3  | 21.8  | 20.0      |

*Other key assumptions*

|                         | Arcata | Pallancata | San Jose | Inmaculada | Crespo | Azuca             | Volcan             |
|-------------------------|--------|------------|----------|------------|--------|-------------------|--------------------|
| Discount rate           | 5.1%   | 5.1%       | 12.8%    | 6.1%       | 6.6%   | n/a               | n/a                |
| Value per in-situ ounce | n/a    | n/a        | n/a      | n/a        | n/a    | 0.56 <sup>1</sup> | 18.00 <sup>1</sup> |

1 With respect to the Azuca and Volcan growth projects, given their early stage, 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 Azuca and Volcan CGUs, which includes the water permits held by the Group. The enterprise value used in the calculation performed at 31 December 2014 was US\$18.00 per gold equivalent ounce of resources (Volcan) and \$0.56 per silver equivalent ounce of resources (Azuca). The enterprise value figures are based on observable external market information.

## 16 PROPERTY, PLANT AND EQUIPMENT CONTINUED

### Sensitivity analysis

Other than as disclosed below, management believes that no reasonably possible change in any of the key assumptions above would cause the carrying value of any of its cash generating units to exceed its recoverable amount.

The estimated recoverable amounts of the following of the Group's CGUs are equal to, or not materially greater than, their carrying values; consequently, any adverse change in the following key assumptions would, in isolation, cause an impairment loss to be recognised:

|  | Arcata   | Pallancata | Inmaculada | San Jose | Crespo   | Azuca   |
|--|----------|------------|------------|----------|----------|---------|
| <b>Approximate impairment resulting from the following changes (US\$000)</b> |          |            |            |          |          |         |
| <b>Prices (10% decrease)</b>   | (52,000) | (47,000)   | (98,000)   | (84,000) | (21,000) | n/a     |
| Discount rate (3% increase)  | (9,000)  | (3,000)    | (59,000)   | (18,000) | (16,000) | n/a     |
| Production costs (10% increase)  | (25,000) | (20,000)   | (5,000)    | (41,000) | (10,000) | n/a     |
| Value per in-situ ounce (10% decrease)                                       | n/a      | n/a        | n/a        | n/a      | n/a      | (3,000) |
|  |          |            |            |          |          |         |
| <b>Current carrying value of CGU, net of deferred tax (US\$000)</b>          |          |            |            |          |          |         |
| <b>31 December 2014</b>  | 135,356  | 108,388    | 464,355    | 171,977  | 64,877   | 39,288  |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## 16 PROPERTY, PLANT AND EQUIPMENT CONTINUED

|  | Mining properties and development costs<br>US\$000 | Land and buildings<br>US\$000 | Plant and equipment<br>US\$000 | Vehicles<br>US\$000 | Mine closure asset<br>US\$000 | Construction in progress and capital advances<br>US\$000 | Total<br>US\$000 |
|--|--|-------------------------------|--------------------------------|---------------------|-------------------------------|--|------------------|
| <b>Year ended 31 December 2013</b>               |  |                               |                                |                     |                               |  |                  |
| <b>Cost</b>                                      |  |                               |                                |                     |                               |  |                  |
| 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)          |
| Change in mine closure estimate                  | –  | –                             | –                              | –                   | 8,487                         | –  | 8,487            |
| Disposals  | –  | –                             | (724)                          | (43)                | –                             | –  | (767)            |
| Write-offs                                       | (321)  | (57)                          | (7,089)                        | (150)               | –                             | –  | (7,617)          |
| 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              |
| <b>At 31 December 2013</b>                       | <b>869,780</b>                                     | <b>220,083</b>                | <b>371,079</b>                 | <b>6,511</b>        | <b>74,362</b>                 | <b>136,383</b>   | <b>1,678,198</b> |
| <b>Accumulated depreciation and impairment</b>   |  |                               |                                |                     |                               |  |                  |
| 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          |
| Disposals  | –  | –                             | (351)                          | (14)                | –                             | –  | (365)            |
| Write-offs                                       | (41)   | (9)                           | (5,567)                        | (110)               | –                             | –  | (5,727)          |
| Impairment <sup>1</sup>                          | 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               |
| <b>At 31 December 2013</b>                       | <b>452,777</b>                                     | <b>120,923</b>                | <b>175,453</b>                 | <b>3,645</b>        | <b>48,425</b>                 | <b>3,498</b>   | <b>804,721</b>   |
| <b>Net book amount at 31 December 2013</b>       | <b>417,003</b>                                     | <b>99,160</b>                 | <b>195,626</b>                 | <b>2,866</b>        | <b>25,937</b>                 | <b>132,885</b>   | <b>873,477</b>   |

1 In 2013, 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 combination of level 2 and level 3 inputs to construct a discounted cash flow model to estimate the amount that would be paid by a willing third party in an arm's length transaction. The key assumptions on which management has based its determination of fair value less costs of disposal include: forecast commodity prices, discount rates, production volumes, production costs, and required capital expenditures. Where applicable, the post-tax discount rates used in the measurement of the fair value less costs of disposal were: Azuca: 5.1%, Crespo: 6.8%, San Jose: 11.7%. Any variation in these key assumptions would either result in further impairment or a reduction of the impairment. The recoverable amount of CGUs impaired during 2013 was determined to be US\$28,285,000, US\$50,005,000 and US\$154,214,000 for Azuca, Crespo and San Jose respectively.

## 17 EVALUATION AND EXPLORATION ASSETS

|   | Azuca<br>US\$000 | Crespo<br>US\$000 | Inmaculada<br>US\$000 | San Felipe<br>US\$000 | Volcan<br>US\$000 | Others<br>US\$000 | Total<br>US\$000 |
|---|------------------|-------------------|-----------------------|-----------------------|-------------------|-------------------|------------------|
| <b>Cost</b>                                       |                  |                   |                       |                       |                   |                   |                  |
| Balance at 1 January 2013                         | 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 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          |
| Additions   | 821              | –                 | 779                   | –                     | 1,463             | 1,603             | 4,666            |
| Transfers from/(to) property, plant and equipment | 3,593            | (3,620)           | (92)                  | –                     | (3)               | (3,730)           | (3,852)          |
| <b>Balance at 31 December 2014</b>                | <b>79,954</b>    | <b>25,556</b>     | <b>687</b>            | <b>55,950</b>         | <b>92,035</b>     | <b>8,557</b>      | <b>262,739</b>   |
| <b>Accumulated impairment</b>                     |                  |                   |                       |                       |                   |                   |                  |
| Balance at 1 January 2013                         | 22               | 9,904             | –                     | 30,950                | –                 | 1,171             | 42,047           |
| Impairment <sup>1</sup>                           | 29,840           | 5,507             | –                     | (14,400)              | –                 | 1,706             | 22,653           |
| Transfers to 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           |
| Impairment <sup>1</sup>                           | –                | –                 | –                     | (1,643)               | –                 | –                 | (1,643)          |
| Transfers from/(to) property, plant and equipment | 3,430            | (3,620)           | –                     | –                     | –                 | –                 | (190)            |
| <b>Balance at 31 December 2014</b>                | <b>33,292</b>    | <b>5,510</b>      | <b>–</b>              | <b>14,907</b>         | <b>–</b>          | <b>1,740</b>      | <b>55,449</b>    |
| Net book value as at 31 December 2013             | 45,678           | 20,046            | –                     | 39,400                | 90,575            | 8,944             | 204,643          |
| <b>Net book value as at 31 December 2014</b>      | <b>46,662</b>    | <b>20,046</b>     | <b>687</b>            | <b>41,043</b>         | <b>92,035</b>     | <b>6,817</b>      | <b>207,290</b>   |

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

1. In 2014, the Group partially reversed the impairment of the San Felipe project of US\$1,643,000. In 2013, 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 (note 16).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## 18 INTANGIBLE ASSETS

|  | Goodwill<br>US\$000 | Transmission<br>line <sup>1</sup><br>US\$000 | Water<br>permits <sup>2</sup><br>US\$000 | Software<br>licences<br>US\$000 | Legal<br>rights <sup>3</sup><br>US\$000 | Total<br>US\$000 |
|--|---------------------|--|--|---------------------------------|---|------------------|
| <b>Cost</b>                                    |                     |  |  |                                 |   |                  |
| Balance at 1 January 2013                      | 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           |
| Additions                                      | –                   | –  | –  | 4                               | 277                                     | 281              |
| Transfer                                       | –                   | –  | –  | 421                             | –                                       | 421              |
| <b>Balance at 31 December 2014</b>             | <b>2,091</b>        | <b>22,157</b>                                | <b>26,583</b>                            | <b>1,773</b>                    | <b>6,681</b>                            | <b>59,285</b>    |
| <b>Accumulated amortisation and impairment</b> |                     |  |  |                                 |   |                  |
| Balance at 1 January 2013                      | –                   | 7,138  | –  | 1,127                           | –                                       | 8,265            |
| Amortisation for the year <sup>4</sup>         | –                   | 1,213  | –  | 87                              | 441                                     | 1,741            |
| Impairment of the period <sup>5</sup>          | 2,091               | 1,671  | –  | 24                              | 1,108                                   | 4,894            |
| Balance at 31 December 2013                    | 2,091               | 10,022                                       | –  | 1,238                           | 1,549                                   | 14,900           |
| Amortisation for the year <sup>4</sup>         | –                   | 1,102  | –  | 79                              | 458                                     | 1,639            |
| Transfer                                       | –                   | –  | –  | (69)                            | –                                       | (69)             |
| <b>Balance at 31 December 2014</b>             | <b>2,091</b>        | <b>11,124</b>                                | <b>–</b>                                 | <b>1,248</b>                    | <b>2,007</b>                            | <b>16,470</b>    |
| Net book value as at 31 December 2013          | –                   | 12,135                                       | 26,583                                   | 110                             | 4,855                                   | 43,683           |
| <b>Net book value as at 31 December 2014</b>   | <b>–</b>            | <b>11,033</b>                                | <b>26,583</b>                            | <b>525</b>                      | <b>4,674</b>                            | <b>42,815</b>    |

1 The transmission line is amortised using the units of production method. At 31 December 2014 the remaining amortisation period is approximately 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 to 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 2014 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 In 2013 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 (refer to note 16).

The carrying amount of water permits is reviewed annually to determine whether it is in excess of its recoverable amount.

**(a) Goodwill**

The 2013 impairment test carried out for the San Jose CGU to which this goodwill relates used a fair value less cost of disposal methodology which 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 and external market consensus forecasts. The prices considered in the 2013 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      |

- 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 twelve days of maintenance per year;
- 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; and



## 18 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 post-tax discount rate used in the 2013 impairment test was 11.7%.

The period approved by management to project the cash flows was 10 years (which approximated the remaining life of the San Jose mine at the time).

### (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 Volcan cash-generating unit, which includes the water permits held by the Group. The enterprise value used in the calculation performed at 31 December 2014 was US\$18.00 per gold equivalent ounce of resources (2013: US\$13.60). The enterprise value figures are based on observable external market information.

Headroom for the 2014 impairment test was US\$53,185,000 (2013: US\$14,172,000).

## 19 INVESTMENTS ACCOUNTED UNDER EQUITY METHOD

### Gold Resource Corp.

The Group had an interest in Gold Resource Corp. ("GRC"), which is involved in the exploration for and production of gold and silver in Mexico.

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. Accordingly, 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. In the period prior to reclassification, the Group's share of the profit and total comprehensive income of GRC was US\$5,921,000. A portion of the Group's interest in GRC was disposed of in 2013 following the reclassification to an available-for-sale financial asset.

The Group disposed of its available-for-sale investment in GRC during 2014 (note 20).

## 20 AVAILABLE-FOR-SALE FINANCIAL ASSETS

|  | Year ended 31 December |                 |
|--|------------------------|-----------------|
|  | 2014<br>US\$000        | 2013<br>US\$000 |
| Beginning balance  | 51,658                 | 30,609          |
| Additions <sup>1</sup>   | –                      | 1,119           |
| Reclassification from investments accounted under the equity method <sup>2</sup> | –                      | 189,418         |
| Fair value change recorded in equity   | (3,106)                | (125,932)       |
| Disposals <sup>3</sup>   | (48,097)               | (33,498)        |
| Other <sup>4</sup>   | –                      | (10,058)        |
| <b>Ending balance</b>  | <b>455</b>             | <b>51,658</b>   |

1 In 2013 represents 3,755,746 shares of Chaparral Gold Corp. received as a result of the Group's 3.2% original interest in International Minerals Corporation ("IMZ") (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 Group 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 9,451,874 shares of Gold Resource Corp., 3,334,000 shares of Norther Superior Resources Inc., 3,755,746 shares of Chaparral Gold Corp., and 500,000 shares of Mirasol Resources Ltd. (2013: Sale of 3,375,000 and 1,800,000 shares 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 ordinary shares of 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)).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

**20 AVAILABLE-FOR-SALE FINANCIAL ASSETS CONTINUED**

Available-for-sale financial assets include the following:

|  | Year ended 31 December |                 |
|--|------------------------|-----------------|
|  | 2014<br>US\$000        | 2013<br>US\$000 |
| Equity securities – quoted Canadian companies        | 216                    | 2,030           |
| Equity securities – quoted US companies <sup>1</sup> | 12                     | 42,883          |
| Equity securities – quoted British companies         | 227                    | 745             |
| Equity securities – unquoted <sup>2</sup>            | –                      | 6,000           |
| <b>Total</b>   | <b>455</b>             | <b>51,658</b>   |

1 Includes Gold Resource Corp shares of US\$Nil (2013: US\$42,817,000).

2 Includes Pembroke 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 (Pembroke 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 investments in ECI Exploration and Mining Inc. and Pembroke Mining Corp. are fully impaired as at 31 December 2014 (2013: impairment of US\$5,745,000).

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

|                  | 2014<br>US\$000 | 2013<br>US\$000 |
|------------------|-----------------|-----------------|
| Canadian dollars | 216             | 8,030           |
| US dollars       | 12              | 42,883          |
| Pounds sterling  | 227             | 745             |
| <b>Total</b>     | <b>455</b>      | <b>51,658</b>   |

## 21 TRADE AND OTHER RECEIVABLES

|  | As at 31 December      |                    |                        |                    |
|--|------------------------|--------------------|------------------------|--------------------|
|  | 2014                   |                    | 2013                   |                    |
|  | Non-current<br>US\$000 | Current<br>US\$000 | Non-current<br>US\$000 | Current<br>US\$000 |
| Trade receivables (note 38(c))                         | –                      | 72,818             | –                      | 69,702             |
| Advances to suppliers                                  | –                      | 5,347              | –                      | 22,667             |
| Duties recoverable from exports of Minera Santa Cruz   | 2,016                  | 6,000              | 5,776                  | –                  |
| Receivables from related parties (note 32)             | –                      | 45                 | –                      | 111                |
| Loans to employees                                     | 1,192                  | 748                | 2,030                  | 909                |
| Interest receivable                                    | –                      | 78                 | –                      | 600                |
| Receivable from Kaupthing, Singer and Friedlander Bank | –                      | 264                | –                      | 294                |
| Other <sup>1</sup>                                     | 2,186                  | 15,939             | 2,638                  | 19,115             |
| Provision for impairment <sup>2</sup>                  | –                      | (5,136)            | –                      | (5,084)            |
| Financial assets classified as receivables             | 5,394                  | 96,103             | 10,444                 | 108,314            |
| Prepaid expenses                                       | 389                    | 11,336             | 755                    | 11,602             |
| Value Added Tax (VAT) <sup>3</sup>                     | 705                    | 59,599             | 929                    | 47,824             |
| <b>Total</b>   | <b>6,488</b>           | <b>167,038</b>     | <b>12,128</b>          | <b>167,740</b>     |

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

- 1 Mainly corresponds to account receivables from contractors for the sale of supplies of US\$9,763,000 (2013: US\$6,870,000), a tax claim related to the withholding tax on the GRC dividends received of US\$1,447,000 (2013: US\$2,724,000), other tax claims of US\$2,767,000 (2013: US\$1,835,000).
- 2 Includes the provision for impairment of trade receivable from a customer in Peru of US\$1,108,000 (2013: US\$1,108,000), the impairment of deposits in Kaupthing, Singer and Friedlander of US\$264,000 (2013: US\$294,000) and other receivables of US\$3,764,000 (2013: US\$3,682,000) that mainly relates to an exploration project that would be recovered through an ownership interest if it succeeds.
- 3 Primarily relates to US\$19,583,000 (2013: US\$17,807,000) of VAT receivable 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\$Nil (2013: US\$10,639,000), Compañía Minera Ares S.A.C. of US\$35,026,000 (2013: US\$11,005,000) and Minas Santa María de Moris of US\$Nil (2013: US\$3,108,000). The VAT is valued at its recoverable amount.

Movements in the provision for impairment of receivables:

|                              | Individually<br>impaired<br>US\$000 |
|------------------------------|-------------------------------------|
| <b>At 1 January 2013</b>     | 3,819                               |
| Provided for during the year | 1,485                               |
| Released during the year     | (220)                               |
| <b>At 31 December 2013</b>   | 5,084                               |
| Provided for during the year | 110                                 |
| Released during the year     | (58)                                |
| <b>At 31 December 2014</b>   | <b>5,136</b>                        |

As at 31 December 2014 and 2013, none of the financial assets classified as receivables (net of impairment) were past due.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## 22 INVENTORIES

|  | As at 31 December |                 |
|--|-------------------|-----------------|
|  | 2014<br>US\$000   | 2013<br>US\$000 |
| Finished goods                         | 7,147             | 7,871           |
| Products in process                    | 13,326            | 21,246          |
| Raw materials                          | –                 | 2               |
| Supplies and spare parts               | 42,404            | 47,118          |
|  | 62,877            | 76,237          |
| Provision for obsolescence of supplies | (4,460)           | (6,681)         |
| <b>Total</b>                           | <b>58,417</b>     | <b>69,556</b>   |

Finished goods include ounces of gold and silver, dore and concentrate.

Products in process include dore, concentrate and stockpile.

Dore is an alloy containing a variable mixture of silver, gold and minor impurities. The Group either sells dore bars as a finished product or if it is commercially advantageous to do so, delivers the bars for refining into gold and silver ounces which are then sold. In the latter scenario, the dore bars are classified as products in process. The amount of dore on hand at 31 December 2014 included in products in process is US\$1,405,000 (2013: US\$697,000).

Concentrate is a product containing sulphides with a variable content of base and precious metals and is sold to smelters, but in addition could be used as a product in process to produce dore.

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\$75,066,000 (2013: US\$94,235,000).

Movements in the provision for obsolescence comprise an increase in the provision of US\$192,000 (2013: US\$1,832,000) and the reversal of US\$1,137,000 relating to the sale of supplies and spare parts, that had been provided for (2013: US\$Nil).

The amount of income relating to the reversal of the inventory provision is US\$Nil (2013: US\$90,000).

## 23 OTHER FINANCIAL ASSETS AND LIABILITIES

|  | As at 31 December |                 |
|--|-------------------|-----------------|
|  | 2014<br>US\$000   | 2013<br>US\$000 |
| <b>Other financial assets</b>  |                   |                 |
| Swap contracts <sup>1</sup>  | 4,342             | –               |
| <b>Derivative instruments in designated hedge accounting relationships</b> | <b>4,342</b>      | <b>–</b>        |
| <b>Other financial liabilities</b>   |                   |                 |
| Embedded derivatives <sup>2</sup>  | 1,533             | 2,294           |
| <b>Total financial liabilities at fair value through profit or loss</b>    | <b>1,533</b>      | <b>2,294</b>    |

1 Corresponds to the fair value of the unsettled commodity forward contract signed in 19 August 2014 with JP Morgan to hedge the sale of 38,000 ounces of gold at US\$1,300 per ounce, during the period from January to December 2015.

2 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).

## 24 CASH AND CASH EQUIVALENTS

|   | As at 31 December |                 |
|---|-------------------|-----------------|
|   | 2014<br>US\$000   | 2013<br>US\$000 |
| Cash at bank  | 293               | 454             |
| Liquidity funds <sup>1</sup>  | 935               | 8,751           |
| Current demand deposit accounts <sup>2</sup>  | 76,850            | 62,259          |
| Time deposits <sup>3</sup>  | 37,921            | 214,971         |
| <b>Cash and cash equivalents considered for the statement of cash flows<sup>4</sup></b> | <b>115,999</b>    | <b>286,435</b>  |

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 10 days as at 31 December 2014 (2013: average of 8 days).
- 2 Relates to bank accounts which are freely available and bear interest.
- 3 These deposits have an average maturity of 2 days (2013: Average of 27 days) (refer to note 38(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 2014 is US\$14,233,000 (2013: US\$29,112,000), which is not readily available for use in subsidiaries outside of Argentina.

## 25 DEFERRED INCOME

On 3 August 2011, Hochschild entered into an agreement with Impulsora Minera Santa Cruz ("IMSC") whereby IMSC acquired the right to explore the San Felipe properties and an option to purchase the related concessions. Under the terms of this agreement the Group has received the following non-refundable payments to date:

|                     | As at 31 December |                 |
|---------------------|-------------------|-----------------|
|                     | 2014<br>US\$000   | 2013<br>US\$000 |
| San Felipe contract | 25,000            | 22,000          |

These payments reduce the total consideration IMSC will be required to pay upon exercise of the option on December 2016, and constitute an advance of the final purchase price, rather than an option premium, as such, they were recorded as deferred income.

## 26 TRADE AND OTHER PAYABLES

|   | As at 31 December      |                    |                        |                    |
|---|------------------------|--------------------|------------------------|--------------------|
|   | 2014                   |                    | 2013                   |                    |
|   | Non-current<br>US\$000 | Current<br>US\$000 | Non-current<br>US\$000 | Current<br>US\$000 |
| Trade payables <sup>1</sup>                   | –                      | 64,458             | –                      | 73,339             |
| Salaries and wages payable <sup>2</sup>       | –                      | 23,890             | –                      | 18,620             |
| Dividends payable                             | –                      | 1,789              | –                      | 4,584              |
| Taxes and contributions                       | –                      | 11,441             | –                      | 8,264              |
| Guarantee deposits                            | –                      | 7,327              | –                      | 7,266              |
| Mining royalty (note 37)                      | –                      | 951                | –                      | 840                |
| Accounts payable to related parties (note 32) | –                      | 11                 | –                      | 16                 |
| Other   | 92                     | 2,023              | 174                    | 6,293              |
| <b>Total</b>                                  | <b>92</b>              | <b>111,890</b>     | <b>174</b>             | <b>119,222</b>     |

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:

|   | 2014          | 2013          |
|---|---------------|---------------|
|   | US\$000       | US\$000       |
| Remuneration payable                                    | 23,890        | 17,885        |
| Board members' remuneration                             | –             | 152           |
| Long Term Incentive Plan and Exploration Incentive Plan | –             | 583           |
| <b>Total</b>  | <b>23,890</b> | <b>18,620</b> |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## 27 BORROWINGS

|  | As at 31 December       |                     |                 |                         |                     |                 |
|--|-------------------------|---------------------|-----------------|-------------------------|---------------------|-----------------|
|  | 2014                    |                     |                 | 2013                    |                     |                 |
|  | Effective interest rate | Non-current US\$000 | Current US\$000 | Effective interest rate | Non-current US\$000 | Current US\$000 |
| <b>Bond payable (a)</b>                                  | <b>8.48%</b>            | <b>342,043</b>      | <b>13,457</b>   | –                       | –                   | –               |
| Secured bank loans (b)                                   |                         |                     |                 |                         |                     |                 |
| • Pre-shipment loans in Minera Santa Cruz (note 22)      | –                       | –                   | <b>13,843</b>   | –                       | –                   | 24,122          |
| • Pre-shipment loans in Minera Suyamarca S.A.C.(note 22) | –                       | –                   | –               | –                       | –                   | 30,053          |
| • Syndicated loan  | –                       | –                   | –               | 25.26%                  | –                   | 265,877         |
| • Medium-term bank loan                                  | <b>3.47%</b>            | <b>98,791</b>       | <b>582</b>      | –                       | –                   | –               |
| Convertible bond payable (c)                             | –                       | –                   | –               | 8.26%                   | –                   | 115,873         |
| <b>Total</b>   |                         | <b>440,834</b>      | <b>27,882</b>   |                         | –                   | 435,925         |

**(a) Bond payable**

On 23 January 2014 the Group issued US\$ 350,000,000 7.75% Senior Unsecured Notes of Compañía Minera Ares S.A.C. guaranteed by Hochschild Mining plc and Hochschild Mining (Argentina) Corporation S.A. The interest will be paid semi-annually, commencing 23 July 2014 until maturity in 23 January 2021. The balance at 31 December 2014 comprises the carrying value, including accrued interest payable, of US\$355,500,000 determined in accordance with the effective interest method.

The following options could be taken before the maturity:

- Optional Redemption with Proceeds of Equity Offerings: Up to 35% at 107.750% prior to 23 January 2017;
- Optional Redemption with Make-Whole Premium: At any time prior to January 23, 2018, the issuer may redeem all or part of the notes, at a price equal to 100% of the outstanding principal amount of the notes plus accrued and unpaid interest and additional amounts, if any, to the redemption date, plus a “make-whole” premium at Treasury Rate + 50 bps;
- Optional Redemption without Make-Whole Premium: The issuer may redeem all or part of the notes on or after 23 January 2018 at the redemption prices specified plus accrued and unpaid interest and additional amounts, if any, to the redemption date. The Make Whole Premium requires repayment of 103.875%, 101.938% or 100% of the outstanding principal balance it exercised in 2018, 2019 or 2020 respectively;
- Optional Redemption Upon Tax Event: 100% of the outstanding principal amount plus accrued and unpaid interest and additional amounts, if any; and
- Change of Control Offer: 101% of principal amount plus accrued and unpaid interest.

**(b) Secured bank loans**

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, of which \$270,000,000 was drawn with an effective interest rate of 25.26% and was 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\$265,877,000 determined in accordance with the effective interest method. This loan was repaid on 23 January 2014.

## 27 BORROWINGS CONTINUED

Medium-term bank loan:

Credit agreement of US\$100,000,000 with Scotiabank Peru S.A.A. acting as Lead Arranger and The Bank of Nova Scotia and Corpbanca as lenders. The borrower is Compañía Minera Ares S.A.C. and the loan is guaranteed by Hochschild Mining plc. The loan has an interest rate of LIBOR + 2.6% payable quarterly. The first principal repayment is scheduled for July 2016, with subsequent payments quarterly thereafter until maturity in April 2019. The carrying value including accrued interest payable at 31 December 2014 of US\$99,373,000 was determined in accordance with the effective interest method.

### (c) Convertible bond payable

Relates to the placement of US\$115,000,000 of senior unsecured convertible bonds, due 2014, which were convertible into ordinary shares of Hochschild Mining plc. The Group settled the convertible bonds in cash upon their maturity in October 2014. The bonds had a coupon of 5.75% per annum payable semi-annually on 28 January and 28 July of each year.

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 convertible bonds were repaid on 16 October 2014.

The maturity of non-current borrowings is as follows:

|                       | As at 31 December |                 |
|-----------------------|-------------------|-----------------|
|                       | 2014<br>US\$000   | 2013<br>US\$000 |
| Between 1 and 2 years | 16,660            | —               |
| Between 2 and 5 years | 82,131            | —               |
| Over 5 years          | 342,043           | —               |
| <b>Total</b>          | <b>440,834</b>    | <b>—</b>        |

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<br>as at 31 December |                 | Fair value<br>as at 31 December |                 |
|---------------------|--------------------------------------|-----------------|---------------------------------|-----------------|
|                     | 2014<br>US\$000                      | 2013<br>US\$000 | 2014<br>US\$000                 | 2013<br>US\$000 |
| Secured bank loans  | 98,791                               | —               | 99,083                          | —               |
| <b>Bond payable</b> | <b>342,043</b>                       | <b>—</b>        | <b>348,250</b>                  | <b>—</b>        |
| <b>Total</b>        | <b>440,834</b>                       | <b>—</b>        | <b>447,333</b>                  | <b>—</b>        |

The fair value of secured bank loans was determined by discounting the remaining principal and interest payments at the three month U.S. LIBOR rate plus 2.6 percent. The U.S. LIBOR rate is a Level 1 input. In the case of the bond payable, the fair value was determined with reference to the quoted price of these bonds in an active market, another Level 1 input.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## 28 PROVISIONS

|                                 | Provision<br>for mine closure <sup>1</sup><br>US\$000 | Workers'<br>profit<br>sharing <sup>2</sup><br>US\$000 | Long Term<br>Incentive<br>Plan <sup>3</sup><br>US\$000 | Other<br>US\$000 | Total<br>US\$000 |
|---------------------------------|---|---|--|------------------|------------------|
| <b>At 1 January 2013</b>        | 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 <sup>4</sup>                                   | (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)            |
| <b>At 31 December 2013</b>      | 82,149  | 374   | 1,879  | 4,820            | 89,222           |
| Less current portion            | (6,311)   | (374)   | –  | (2,888)          | (9,573)          |
| <b>Non-current portion</b>      | 75,838  | –   | 1,879  | 1,932            | 79,649           |
| <b>At 1 January 2014</b>        | 82,149  | 374   | 1,879  | 4,820            | 89,222           |
| Additions                       | –   | –   | –  | 1,680            | 1,680            |
| Accretion                       | 242   | –   | –  | –                | 242              |
| Change in discount rate         | 4,357   | –   | –  | –                | 4,357            |
| Change in estimates             | 27,829 <sup>4</sup>                                   | –   | (1,285)  | –                | 26,544           |
| Payments                        | (5,524)   | (374)   | –  | (260)            | (6,158)          |
| Sale of subsidiary (note 4(c))  | (1,266)   | –   | –  | –                | (1,266)          |
| <b>At 31 December 2014</b>      | <b>107,787</b>  | <b>–</b>  | <b>594</b>   | <b>6,240</b>     | <b>114,621</b>   |
| Less current portion            | –   | –   | –  | (2,870)          | (2,870)          |
| <b>Non-current portion</b>      | 107,787   | –   | 594  | 3,370            | 111,751          |

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 2014 and 2013 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 rate used was 0.02% (2013: 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 2014 is: (i) Legal US\$Nil (2013: US\$374,000), (ii) Voluntary US\$Nil (2013: US\$Nil).

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) 2014 awards, granted in March 2014, payable in March 2017 (ii) 2013 awards, granted in March 2013, payable in March 2016. 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 2014 there is change to the provision and corresponding expense of US\$-1,285,000 (2013: US\$-2,960,000) that is disclosed under administrative expenses US\$-1,064,000 (2013: US\$-1,698,000), exploration expenses US\$-221,000 (2013: US\$-244,000) and capitalised as evaluation and exploration expenses US\$Nil (2013: US\$-1,018,000). The amount of US\$537,000 corresponded to the Exploration Incentive Plan award which was transferred to salary and wages payable as the performance period ended on 31 December 2012 (note 26(2)).

4. Based on the 2014 and 2013 internal review of mine rehabilitation budgets, an increase of US\$27,829,000 (2013: US\$14,005,000) was recognised, of which US\$9,088,000 (2013: US\$5,516,000) related to project already closed and has therefore been recognised directly in the income statement.

## 29 EQUITY

### (a) Share capital and share premium

#### *Issued share capital*

The issued share capital of the Company as at 31 December 2013 and 2014 is as follows:

| Class of shares | Issued      |             |
|-----------------|-------------|-------------|
|                 | Number      | Amount      |
| Ordinary shares | 367,101,352 | £91,775,338 |

At 31 December 2014 and 2013, all issued shares with a par value of 25 pence each were fully paid (2014: weighted average of US\$0.464 per share, 2013: weighted average of US\$0.464 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 2013   | 338,085,226      | 158,637               | 395,928               |
| Conversion of 1 convertible bond on 2 January 2013 (note 27(c))            | 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               |
| Shares issued as at 31 December 2014                                       | 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(o)). During 2011, the Group purchased 126,769 shares for the purposes of the plan, for a total consideration of £561,477.91 (equivalent to US\$898,000). No shares were purchased by the Group during 2013 and 2014.

### (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 instruments (refer to note 2(z)).

#### *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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

**29 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*

Represented the equity component of a Convertible bond issued on 20 October 2009 (note 27(c)) which was repaid on 16 October 2014. Upon repayment the equity component was transferred to retained earnings.

*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.

**30 DEFERRED INCOME TAX**

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

|   | As at 31 December |                 |
|---|-------------------|-----------------|
|   | 2014<br>US\$000   | 2013<br>US\$000 |
| Beginning of the year   | (91,089)          | (94,859)        |
| Income statement charge (note 14)   | 8,853             | 3,770           |
| Deferred income tax arising on net unrealised gains cash flow hedges recognised in equity (note 14) | (1,216)           | –               |
| Others  | 67                | –               |
| End of the year   | (83,385)          | (91,089)        |

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<br>in cost<br>of PP&E<br>US\$000 | Mine<br>development<br>US\$000 | Financial<br>instruments<br>US\$000 | Others<br>US\$000 | Total<br>US\$000 |
|--|--|--------------------------------|-------------------------------------|-------------------|------------------|
| <b>Deferred income tax liabilities</b>   |  |                                |                                     |                   |                  |
| <b>At 1 January 2013</b>   | 31,882                                       | 108,420                        | 2,109                               | 434               | 142,845          |
| Income statement (credit)/charge   | 2,582  | (17,237)                       | –                                   | 2,584             | (12,071)         |
| <b>At 31 December 2013</b>   | 34,464                                       | 91,183                         | 2,109                               | 3,018             | 130,774          |
| Income statement (credit)/charge   | 7,453  | (11,202)                       | –                                   | (844)             | (4,593)          |
| <b>Deferred income tax arising on net unrealised gains cash flow hedges recognised in equity</b> | –  | –                              | 1,216                               | –                 | 1,216            |
| <b>At 31 December 2014</b>   | <b>41,917</b>                                | <b>79,981</b>                  | <b>3,325</b>                        | <b>2,174</b>      | <b>127,397</b>   |

|                                   | Differences<br>in cost<br>of PP&E<br>US\$000 | Provision<br>for mine<br>closure<br>US\$000 | Tax<br>losses<br>US\$000 | Mine<br>development<br>US\$000 | Financial<br>instruments<br>US\$000 | Others<br>US\$000 | Total<br>US\$000 |
|-----------------------------------|--|---|--------------------------|--------------------------------|-------------------------------------|-------------------|------------------|
| <b>Deferred income tax assets</b> |  |   |                          |                                |                                     |                   |                  |
| <b>At 1 January 2013</b>          | 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)          |
| <b>At 31 December 2013</b>        | 18,426                                       | 12,832                                      | 640                      | –                              | 2,394                               | 5,393             | 39,685           |
| Income statement credit/(charge)  | (8,879)                                      | 1,703                                       | 7,911                    | 697                            | (132)                               | 2,960             | 4,260            |
| <b>Foreign exchange effect</b>    | –  | –   | –                        | –                              | –                                   | 67                | 67               |
| <b>At 31 December 2014</b>        | <b>9,547</b>                                 | <b>14,535</b>                               | <b>8,551</b>             | <b>697</b>                     | <b>2,262</b>                        | <b>8,420</b>      | <b>44,012</b>    |

**30 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 |                 |
|---------------------------------|-------------------|-----------------|
|                                 | 2014<br>US\$000   | 2013<br>US\$000 |
| Deferred income tax assets      | 1,574             | 2,416           |
| Deferred income tax liabilities | (84,959)          | (93,505)        |

Tax losses expire in the following years:

|   | As at 31 December |                 |
|---|-------------------|-----------------|
|   | 2014<br>US\$000   | 2013<br>US\$000 |
| Recognised <sup>1</sup>                               |                   |                 |
| Expire in one year                                    | 970               | –               |
| Expire in two years                                   | 1,276             | –               |
| Expire in three years                                 | 1,330             | –               |
| Expire in four years                                  | 26,996            | –               |
| Expire after four years                               | –                 | 2,134           |
|   | 30,572            | 2,134           |
| Unrecognised  |                   |                 |
| Expire in one year                                    | –                 | –               |
| Expire in two years                                   | 1,256             | –               |
| Expire in three years                                 | 3,184             | 1,414           |
| Expire in four years                                  | 6,017             | 3,511           |
| Expire after four years                               | 108,143           | 184,613         |
|   | 118,600           | 189,538         |
| <b>Total tax losses (recognised and unrecognised)</b> | <b>149,172</b>    | <b>191,672</b>  |

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 |                 |
|---|-------------------|-----------------|
|   | 2014<br>US\$000   | 2013<br>US\$000 |
| Provision for mine closure <sup>1</sup> | 55,637            | 39,086          |
| Impairments of assets <sup>2</sup>      | (493)             | (4,320)         |

1 This relates to a 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 (note 17).

*Unrecognised deferred tax liability on retained earnings*

At 31 December 2014, there was no recognised deferred tax liability (2013: nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries as the intention is that these amounts are permanently reinvested.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## 31 DIVIDENDS PAID AND PROPOSED

|   | 2014<br>US\$000 | 2013<br>US\$000 |
|---|-----------------|-----------------|
| <b>Declared and paid during the year</b>  |                 |                 |
| Equity dividends on ordinary shares:  |                 |                 |
| Final dividend for 2013: US\$Nil (2012: US\$0.03)   | –               | 10,139          |
| Interim dividend for 2014: US\$Nil (2013: US\$Nil)  | –               | –               |
| Dividends declared to non-controlling interests: US\$0.04 and US\$Nil (2013: US\$0.03 and US\$0.05) | 5,542           | 6,197           |
| <b>Dividends declared and paid</b>  | <b>5,542</b>    | <b>16,336</b>   |
| Dividends declared to non-controlling interests: US\$0.04 (2013: US\$0.03)                          | 1,719           | 4,509           |
| <b>Dividends declared and not paid</b>  | <b>1,719</b>    | <b>4,509</b>    |
| <b>Total dividends declared</b>   | <b>7,261</b>    | <b>20,845</b>   |
| <b>Final dividend for 2014: US\$Nil (2013: US\$Nil)</b>   | <b>–</b>        | <b>–</b>        |

*Dividends per share*

The Directors of the Company are not recommending a dividend in respect of the years ended 31 December 2014 and 31 December 2013.

## 32 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 2014 and 2013. The related parties are companies owned or controlled by the main shareholder of the parent company or associates.

|  | Accounts receivable<br>as at 31 December |                 | Accounts payable<br>as at 31 December |                 |
|--|--|-----------------|---------------------------------------|-----------------|
|  | 2014<br>US\$000                          | 2013<br>US\$000 | 2014<br>US\$000                       | 2013<br>US\$000 |
| Current related party balances         |  |                 |                                       |                 |
| Cementos Pacasmayo S.A.A. <sup>1</sup> | 45                                       | 111             | 49                                    | 16              |
| <b>Total</b>                           | <b>45</b>                                | <b>111</b>      | <b>49</b>                             | <b>16</b>       |

1 The account receivable relates to reimbursement of expenses paid by the Group on behalf of Cementos Pacasmayo S.A.A. The account payable relates to the payment of rentals.

As at 31 December 2014 and 2013, 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      |                 |
|---|-----------------|-----------------|
|   | 2014<br>US\$000 | 2013<br>US\$000 |
| <b>Income</b>   |                 |                 |
| Dividend recognised for Gold Resource Corp. investment (note 19)    | –               | 2,633           |
| <b>Expenses</b>   |                 |                 |
| Expense recognised for the rental paid to Cementos Pacasmayo S.A.A. | (185)           | (164)           |

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

## 32 RELATED-PARTY BALANCES AND TRANSACTIONS CONTINUED

### (b) Compensation of key management personnel of the Group

|  | As at 31 December |                 |
|--|-------------------|-----------------|
|  | 2014<br>US\$000   | 2013<br>US\$000 |
| Compensation of key management personnel (including Directors) |                   |                 |
| Short-term employee benefits                                   | 5,369             | 5,781           |
| Termination benefits   | –                 | 77              |
| Long Term Incentive Plan                                       | 679               | (434)           |
| Others   |                   | 1               |
| <b>Total compensation paid to key management personnel</b>     | <b>6,048</b>      | <b>5,425</b>    |

This amount includes the remuneration paid to the Directors of the parent company of the Group of US\$4,005,780 (2013: US\$4,410,956), out of which US\$160,462 (2013: US\$193,831) relates to pension payments.

### (c) Participation in placing by Inversiones Pacasmayo S.A. (IPSA)

IPSA, 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.

## 33 AUDITOR'S REMUNERATION

The auditor's remuneration for services provided to the Group during the years ended 31 December 2014 and 2013 is as follows:

|   | Amounts paid to Ernst & Young LLP in the year ended 31 December |                 | Amounts paid to others in the year ended 31 December |                 |
|---|---|-----------------|--|-----------------|
|   | 2014<br>US\$000   | 2013<br>US\$000 | 2014<br>US\$000                                      | 2013<br>US\$000 |
| Audit fees pursuant to legislation <sup>1</sup>     | 899   | 1,046           | 1  | 7               |
| Audit-related assurance services                    | 84  | 76              | –  | –               |
| Taxation compliance services                        | 84  | 25              | –  | –               |
| Taxation advisory services                          | 34  | 67              | –  | –               |
| Services relating to corporate finance transactions | –   | 436             | –  | –               |
| <b>Total</b>  | <b>1,101</b>  | <b>1,650</b>    | <b>1</b>   | <b>7</b>        |

<sup>1</sup> The total audit fee in respect of local statutory audits of subsidiaries is US\$524,000 (2013: US\$607,000).

In 2014 and 2013, 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).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## 34 NOTES TO THE STATEMENT OF CASH FLOWS

|   | As at 31 December |                 |
|---|-------------------|-----------------|
|   | 2014<br>US\$000   | 2013<br>US\$000 |
| <b>Reconciliation of loss for the year to net cash generated from operating activities</b>                    |                   |                 |
| Loss for the year   | (70,831)          | (128,677)       |
| <b>Adjustments to reconcile Group loss to net cash inflows from operating activities</b>                      |                   |                 |
| Depreciation (note 3(a))  | 129,153           | 149,586         |
| Amortisation of intangibles   | 1,639             | 1,741           |
| Write-off of assets (net)   | 1,534             | 991             |
| (Reversals of impairment)/Impairment of assets (net)  | (1,643)           | 89,680          |
| Impairment of available-for-sale financial assets   | 6,155             | 124,899         |
| (Gain)/loss on sale of available-for-sale financial assets  | (4,061)           | 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   | (269)             | (2,442)         |
| Provision for obsolescence of supplies  | (945)             | 1,832           |
| Loss on sale of subsidiary  | 2,963             | –               |
| Share of post-tax gains of associates and joint ventures accounted under equity method                        | –                 | (5,921)         |
| Provision for mine closure  | 9,088             | 5,516           |
| Finance income  | (2,215)           | (10,675)        |
| Finance costs   | 33,074            | 11,697          |
| Income tax expense  | 2,621             | 9,057           |
| Other   | 7,323             | 22,883          |
| <b>Increase/(decrease) of cash flows from operations due to changes in assets and liabilities</b>             |                   |                 |
| Trade and other receivables   | (3,417)           | 477             |
| Other financial assets and liabilities  | (761)             | (4,447)         |
| Inventories   | 11,843            | 5,025           |
| Trade and other payables  | 8,982             | (31,246)        |
| Provisions  | (240)             | (21,338)        |
| <b>Cash generated from operations</b>   | <b>129,993</b>    | <b>116,084</b>  |



## 35 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 |                 |
|---|-------------------|-----------------|
|   | 2014<br>US\$000   | 2013<br>US\$000 |
| Commitment for the subsequent 12 months | 350               | 1,484           |
| More than one year                      | 6,850             | 16,250          |

Some of the significant agreements are explained below:

#### (i) *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 2014 the Group had invested US\$300,000.

#### (ii) *Lara Exploration Ltd (Corina)*

On 13 June 2014, the Group entered into a purchase option agreement with Lara Exploration Ltd. to explore and develop minerals and to earn the right to purchase 100% of the properties in 'Corina' located in Apurimac, Peru. Upon signing the purchase option agreement the Group paid US\$150,000 to Lara Exploration Ltd.

In order to exercise the option, the Group is required to make a total payment of US\$5,000,000 within four years since the mining exploration authorisation. The Group is entitled to withdraw from the agreement at any time. At 31 December 2014 the Group had invested US\$150,000.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

**35 COMMITMENTS CONTINUED***(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 2014 and 2013 are included in production costs (2014: US\$7,108,000, 2013: US\$10,287,000), administrative expenses (2014: US\$1,442,000, 2013: US\$1,925,000), exploration expenses (2014: US\$611,000, 2013: US\$2,216,000) and selling expenses (2014: US\$1,000, 2013: US\$13,507).

As at 31 December 2014 and 2013, the future aggregate minimum lease payments under the operating lease agreements are as follows:

|   | For the year ended<br>31 December |                 |
|---|-----------------------------------|-----------------|
|   | 2014<br>US\$000                   | 2013<br>US\$000 |
| Not later than one year                           | 6,371                             | 5,149           |
| Later than one year and not later than five years | 2,224                             | 258             |

*(c) Capital commitments*

|           | For the year ended<br>31 December |                 |
|-----------|-----------------------------------|-----------------|
|           | 2014<br>US\$000                   | 2013<br>US\$000 |
| Peru      | 97,826                            | 151,362         |
| Argentina | 6,091                             | 6,767           |
|           | 103,917                           | 158,129         |

**36 CONTINGENCIES**

As at 31 December 2014, 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 2014, the Group had exposures totalling US\$46,100,000 (2013: US\$38,630,000) 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.

## 37 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 "Income Taxes".

- 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 maintained 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 2014, 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\$395,000 (2013: US\$389,000), US\$266,000 (2013: US\$629,000), and US\$Nil (2013: US\$148,000) 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\$1,279,000 (2013: US\$1,784,000) representing the former mining royalty, classified as cost of sales, US\$1,611,000 (2013: US\$2,344,000) of new mining royalty and US\$375,000 (2013: US\$905,000) 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 2014, the amount payable as mining royalties amounted to US\$556,000 (2013: US\$451,000). The amount recorded in the income statement as cost of sales was US\$5,302,000 (2013: US\$6,509,000).

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. According to these regulations, the tax applies only on "proved reserves" and certain deductions (related to the production cost) apply. Minera Santa Cruz S.A. (a subsidiary of Hochschild Mining plc) is affected by this tax. 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 2014, the amount payable as tax on mining reserves was US\$4,088,000 (2013: US\$1,381,000) recorded as 'Trade and other payables'. The amount recorded in the income statement was US\$3,453,000 (2013: US\$2,453,000) as other expenses.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

**38 FINANCIAL RISK MANAGEMENT**

The Group is exposed to a variety of risks and uncertainties which may have a financial impact on the Group and which also impact the achievement of social, economic and environmental objectives. These risks include strategic, commercial, operational and financial risks and are further categorised into risk areas to facilitate consolidated risk reporting across the Group.

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

For the year ended 31 December 2014 the gain recognised in the income statement for the commodity swaps contracts signed during the year is as follows (2013: nil):

| Entity                           | Oz Ag            | Oz Au  | Price per oz<br>US\$ | Effect<br>Income<br>statement<br>US\$000 |
|----------------------------------|------------------|--------|----------------------|--|
| Citibank N.A.                    | <b>1,000,000</b> |        | 22                   | 3,180                                    |
| Goldman Sachs International      | <b>1,000,000</b> |        | 22                   | 3,180                                    |
| Goldman Sachs International      | <b>2,000,000</b> |        | 21                   | 5,793                                    |
| JP Morgan                        | –                | 33,300 | 1,338.45             | 2,450                                    |
| Gain in commodity swaps contacts |                  |        |                      | 14,603                                   |

The fair value of unsettled commodity swaps contracts is as follows:

| Entity                              | Oz Ag | Oz Au  | Price per oz<br>US\$ | Effect in<br>equity<br>US\$000 |
|-------------------------------------|-------|--------|----------------------|--------------------------------|
| JP Morgan                           |       | 38,000 | 1,300                | 4,342                          |
| Unrealised gain on cash flow hedges |       |        |                      | 4,342                          |

The Group is exposed to commodity price risk on these commodity swap contracts. A 10% favourable or adverse change in the price of gold would have an impact on amounts recognised in the comprehensive income of approximately +/- US\$4,940,000.

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 23(2)). 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/<br>decrease price of<br>ounces of: | Effect on<br>profit before tax<br>US\$000 |
|-------------|--|---|
| <b>2014</b> | <b>Gold +/-10%</b>                           | <b>+/-238</b>                             |
|             | <b>Silver +/-10%</b>                         | <b>+/-1,414</b>                           |
| 2013        | Gold +/-10%                                  | +/-831                                    |
|             | Silver +/-10%                                | +/-2,155                                  |

**(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.

### 38 FINANCIAL RISK MANAGEMENT CONTINUED

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/<br>decrease in<br>US\$/other<br>currencies' rate | Effect<br>on profit before<br>tax<br>US\$000 | Effect<br>on equity<br>US\$000 |
|-----------------------|--|--|--------------------------------|
| <b>2014</b>           |  |  |                                |
| Pounds sterling       | <b>+/-10%</b>  | <b>+/-9</b>                                  | <b>+/-23</b>                   |
| Argentinian pesos     | <b>+/-10%</b>  | <b>+/-2,197</b>                              | <b>-</b>                       |
| Mexican pesos         | <b>+/-10%</b>  | <b>+/-237</b>                                | <b>-</b>                       |
| Peruvian nuevos soles | <b>+/-10%</b>  | <b>+/-7,757</b>                              | <b>-</b>                       |
| Canadian dollars      | <b>+/-10%</b>  | <b>+/-41</b>                                 | <b>-</b>                       |
| Chilean pesos         | <b>+/-10%</b>  | <b>-/+17</b>                                 | <b>-</b>                       |
| <b>2013</b>           |  |  |                                |
| 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                                       | -                              |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

**38 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 2014 and 31 December 2013:

|  | As at<br>31<br>December<br>2014<br>US\$000 | Credit<br>rating or %<br>collected as<br>at 17 March<br>2015 | As at<br>31 December<br>2013<br>US\$000 | Credit<br>rating or %<br>collected as<br>at 11 March<br>2014 |
|--|--|--|---|--|
| <b>Summary commercial partners – Trade receivables</b>                       |  |  |   |  |
| LS Nikko   | 28,765                                     | 54%  | 29,087                                  | A1   |
| Glencore Peru S.A.C.   | 21,203                                     | 96%  | 9,045                                   | 84%  |
| Republic Metals Corporation  | 8,319                                      | 100%   | 4,826                                   | 100%   |
| Aurubis AG (formerly Nordeutsche Affinerie AG)                               | 3,785                                      | 89%  | 5,185                                   | 26%  |
| Johnson Matthey Inc.   | 3,393                                      | 0%   | –                                       | –  |
| Teck Metals Ltd (formerly Teck Cominco Metals Ltd.)                          | 3,226                                      | 63%  | 4,577                                   | BBB  |
| Trafigura Perú S.A.C.  | 1,913                                      | 3%   | –                                       | –  |
| Doe Run Peru S.R.L.  | 1,108                                      | 0%   | 1,108                                   | 0%   |
| Sumitomo Corporation   | 1,066                                      | 0%   | 59                                      | 1%   |
| Consorcio Minero S.A.  | –  | –  | 7,434                                   | 61%  |
| Argor Heraus S.A.  | –  | –  | 4,011                                   | 100%   |
| Glencore International AG  | –  | –  | 3,945                                   | 63%  |
| Others   | 40   | –  | 425                                     | –  |
|  | <b>72,818</b>                              |  | <b>69,702</b>                           |  |
| <b>Summary commercial partners – Embedded derivatives and swap contracts</b> |  |  |   |  |
| JP Morgan  | 4,342                                      | A  | –                                       | –  |
| Johnson Matthey Inc.   | 1  | 0%   | –                                       | –  |
| Aurubis AG (formerly Nordeutsche Affinerie AG)                               | (461)                                      | 89%  | (282)                                   | 26%  |
| LS Nikko   | (420)                                      | 54%  | (393)                                   | A1   |
| Trafigura Perú S.A.C.  | (346)                                      | 3%   | –                                       | –  |
| Teck Metals Ltd (formerly Teck Cominco Metals Ltd.)                          | (198)                                      | 63%  | (696)                                   | BBB  |
| Republic Metals Corporation  | (39)                                       | 100%   | (227)                                   | 100%   |
| Glencore Peru S.A.C.   | (66)                                       | 96%  | (36)                                    | 84%  |
| Sumitomo Corporation   | (4)  | 0%   | (27)                                    | 1%   |
| Consorcio Minero S.A.  | –  | –  | (645)                                   | 61%  |
| Glencore International AG  | –  | –  | (17)                                    | 63%  |
| Argor Heraus S.A.  | –  | –  | 29                                      | 100%   |
|  | <b>2,809</b>                               |  | <b>(2,294)</b>                          |  |

## 38 FINANCIAL RISK MANAGEMENT CONTINUED

| Financial counterparties        | As at<br>31 December<br>2014<br>US\$000 | Credit<br>rating <sup>1</sup> | As at<br>31 December<br>2013<br>US\$000 | Credit<br>rating |
|---------------------------------|---|-------------------------------|---|------------------|
| JP Morgan                       | 6,512                                   | A                             | 175,673                                 | A                |
| Citibank                        | 71,761                                  | A-                            | 43,426                                  | A-               |
| Interbank                       | 27,001                                  | BBB                           | 4                                       | BBB              |
| Banco de Crédito del Peru       | 5,238                                   | BBB+                          | 18,822                                  | BBB+             |
| Banco de la Nacion              | 3,058                                   | BBB+                          | 2,317                                   | BBB+             |
| Banco Bilbao Vizcaya Argentaria | 888                                     | BBB                           | 18,771                                  | BBB-             |
| ICBC                            | 405                                     | A                             | 9,356                                   | A                |
| HSBC                            | 540                                     | A                             | –                                       | –                |
| Others (including cash in hand) | 596                                     | NA                            | 18,066                                  | NA               |
| <b>Total</b>                    | <b>115,999</b>                          |                               | <b>286,435</b>                          |                  |

1 The long-term credit rating as at 4 March 2015.

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); and
- 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; and
- 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 notes 21, 23 and 24.

**(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 with all other variables held constant:

| Year        | Increase/<br>decrease in<br>prices | Effect on<br>profit before<br>tax<br>US\$000 | Effect<br>on equity<br>US\$000 |
|-------------|------------------------------------|--|--------------------------------|
| <b>2014</b> | <b>+25%</b>                        | <b>–</b>                                     | <b>+114</b>                    |
|             | <b>-25%</b>                        | <b>-100</b>                                  | <b>-14</b>                     |
| 2013        | +25%                               | –  | +428                           |
|             | -25%                               | -242   | -186                           |



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

**38 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 2014 and 2013, the Group held the following financial instruments measured at fair value:

|   | 31 December<br>2014<br>US\$000 | Level 1<br>US\$000 | Level 2<br>US\$000 | Level 3<br>US\$000 |
|---|--------------------------------|--------------------|--------------------|--------------------|
| Assets measured at fair value             |                                |                    |                    |                    |
| Equity shares (note 20)                   | 455                            | 455                | –                  | –                  |
| Commodity swaps (note 23(1))              | 4,342                          | –                  | 4,342              | –                  |
| <b>Liabilities measured at fair value</b> |                                |                    |                    |                    |
| Embedded derivatives (note 23(2))         | (1,533)                        | –                  | –                  | (1,533)            |
|   |                                |                    |                    |                    |
|   | 31 December<br>2013<br>US\$000 | Level 1<br>US\$000 | Level 2<br>US\$000 | Level 3<br>US\$000 |
| Assets measured at fair value             |                                |                    |                    |                    |
| Equity shares (note 20)                   | 51,658                         | 45,658             | –                  | 6,000              |
| <b>Liabilities measured at fair value</b> |                                |                    |                    |                    |
| Embedded derivatives (note 23(2))         | (2,294)                        | –                  | –                  | (2,294)            |

During the period ending 31 December 2014 and 2013, there were no transfers between these levels.

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

|   | Embedded<br>derivatives<br>liabilities<br>US\$000 | Equity<br>shares<br>US\$000 <sup>1</sup> |
|---|---|--|
| Balance at 1 January 2013                               | (6,891)   | 12,009                                   |
| Gain from the period recognised in revenue (note 23(2)) | 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                                    |
| Gain from the period recognised in revenue (note 23(2)) | 761   | –  |
| Impairment through profit and loss (finance costs)      | –   | (6,000)                                  |
| <b>Balance at 31 December 2014</b>                      | <b>(1,533)</b>                                    | <b>–</b>                                 |

1 Pembroke Mining Corp ('Pembroke'): Macroeconomic uncertainty has been putting downward pressure on commodity prices. Furthermore, the Group is concerned that Pembroke 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 full impairment of the remaining cost of the investment has been recorded as at 31 December 2014 (2013: 50%). The impairment percentage was calculated based on available observable market data of similar peers.

### 38 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.

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<br>1 year<br>US\$000 | Between<br>1 and<br>2 years<br>US\$000 | Between<br>2 and<br>5 years<br>US\$000 | Over<br>5 years<br>US\$000 | Total<br>US\$000 |
|-------------------------------|--------------------------------|--|--|----------------------------|------------------|
| <b>At 31 December 2014</b>    |                                |  |  |                            |                  |
| Trade and other payables      | 93,122                         | 92                                     | –                                      | –                          | <b>93,214</b>    |
| Embedded derivative liability | 1,533                          | –                                      | –                                      | –                          | <b>1,533</b>     |
| Borrowings                    | 45,053                         | 46,618                                 | 167,980                                | 390,688                    | <b>650,339</b>   |
| Provisions                    | –                              | 166                                    | 1,932                                  | –                          | <b>2,098</b>     |
| <b>Total</b>                  | <b>139,708</b>                 | <b>46,876</b>                          | <b>169,912</b>                         | <b>390,688</b>             | <b>747,184</b>   |
| <b>At 31 December 2013</b>    |                                |  |  |                            |                  |
| 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            |
| <b>Total</b>                  | <b>554,341</b>                 | <b>5,111</b>                           | <b>–</b>                               | <b>–</b>                   | <b>559,452</b>   |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## 38 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 at 31 December 2014, interest on the US\$100,000,000 medium-term bank loan facility drawn in October 2014 are variable based on the 3 month U.S. LIBOR rate plus an applicable margin (note 27). All other currently existing financial obligations are at fixed rates.

|                              | As at 31 December 2014      |  |  |                            |                  |
|------------------------------|-----------------------------|--|--|----------------------------|------------------|
|                              | Within<br>1 year<br>US\$000 | Between<br>1 and<br>2 years<br>US\$000 | Between<br>2 and<br>5 years<br>US\$000 | Over<br>5 years<br>US\$000 | Total<br>US\$000 |
| Fixed rate                   |                             |  |  |                            |                  |
| Cash at bank (note 24)       | 293                         | –                                      | –                                      | –                          | 293              |
| Time deposits (note 24)      | 37,921                      | –                                      | –                                      | –                          | 37,921           |
| Liquidity funds (note 24)    | –                           | –                                      | –                                      | –                          | –                |
| Secured bank loans (note 27) | (13,843)                    | –                                      | –                                      | –                          | (13,843)         |
| Bond payable (note 27)       | (13,457)                    | –                                      | –                                      | (342,043)                  | (355,500)        |
| Floating rate                |                             |  |  |                            |                  |
| Liquidity funds (note 24)    | 935                         | –                                      | –                                      | –                          | 935              |
| Secured bank loans (note 27) | (582)                       | (16,660)                               | (82,131)                               | –                          | (99,373)         |

|                                    | As at 31 December 2013      |  |  |                            |                  |
|------------------------------------|-----------------------------|--|--|----------------------------|------------------|
|                                    | Within<br>1 year<br>US\$000 | Between<br>1 and<br>2 years<br>US\$000 | Between<br>2 and<br>5 years<br>US\$000 | Over<br>5 years<br>US\$000 | Total<br>US\$000 |
| Fixed rate                         |                             |  |  |                            |                  |
| Cash at bank (note 24)             | 454                         | –                                      | –                                      | –                          | 454              |
| Time deposits (note 24)            | 214,971                     | –                                      | –                                      | –                          | 214,971          |
| Liquidity funds (note 24)          | –                           | –                                      | –                                      | –                          | –                |
| Secured bank loans (note 27)       | (54,175)                    | –                                      | –                                      | –                          | (54,175)         |
| Convertible bond payable (note 27) | (115,873)                   | –                                      | –                                      | –                          | (115,873)        |
| Floating rate                      |                             |  |  |                            |                  |
| Liquidity funds (note 24)          | 8,751                       | –                                      | –                                      | –                          | 8,751            |
| Secured bank loans (note 27)       | (265,877)                   | –                                      | –                                      | –                          | (265,877)        |

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.

### 38 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 fluctuations in market interest rates. This assumes that the amount remains unchanged from that in place at 31 December 2014 and 2013 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/<br>decrease<br>interest<br>rate | Effect<br>on profit<br>before tax<br>US\$000 |
|-------------|---|--|
| <b>2014</b> | <b>+/-50bps</b>                           | <b>-/+495</b>                                |
| 2013        | +/-50bps                                  | +/-1,394                                     |

#### (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 27 and 29).

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 partner in Pallancata and Inmaculada, International Minerals Corporation. 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 with joint venture partners) with a mix of equity and joint venture partners' debt.

#### 39 SUBSEQUENT EVENTS

(a) On 20 January 2015, the group signed a commodity swap contract with JPMorgan Chase Bank, National Association, London Branch to hedge 6,000,000 ounces of silver at at price of US\$17.75 per ounce from 21 January 2015 to 31 December 2015.

(b) On 9 and 13 January 2015, and 11 and 12 February 2015 the Group drew down US\$75,000,000 of its short-term credit lines in Peru. US\$50,000,000 will mature in December 2015 and US\$25,000,000 will mature in February 2016. The average annual interest rate is 1.56%.

# PARENT COMPANY STATEMENT OF FINANCIAL POSITION

As at 31 December 2014

|                                     | Notes | As at 31 December |                 |
|-------------------------------------|-------|-------------------|-----------------|
|                                     |       | 2014<br>US\$000   | 2013<br>US\$000 |
| <b>ASSETS</b>                       |       |                   |                 |
| <b>Non-current assets</b>           |       |                   |                 |
| Property, plant and equipment       | 4     | –                 | 120             |
| Investments in subsidiaries         | 5     | <b>911,016</b>    | 1,343,000       |
|                                     |       | <b>911,016</b>    | 1,343,120       |
| <b>Current assets</b>               |       |                   |                 |
| Other receivables                   | 6     | <b>2,179</b>      | 1,058           |
| Cash and cash equivalents           | 7     | <b>3,293</b>      | 71,797          |
|                                     |       | <b>5,472</b>      | 72,855          |
| <b>Total assets</b>                 |       | <b>916,488</b>    | 1,415,975       |
| <b>EQUITY AND LIABILITIES</b>       |       |                   |                 |
| Equity share capital                | 8     | <b>170,389</b>    | 170,389         |
| Share premium                       | 8     | <b>416,247</b>    | 416,247         |
| Treasury shares                     | 8     | <b>(898)</b>      | (898)           |
| Other reserves                      |       | <b>2,576</b>      | 347,915         |
| Retained earnings                   |       | <b>23,693</b>     | 135,167         |
| <b>Total equity</b>                 |       | <b>612,007</b>    | 1,068,820       |
| <b>Non-current liabilities</b>      |       |                   |                 |
| Trade and other payables            | 9     | <b>11,866</b>     | –               |
| Provisions                          | 11    | <b>45</b>         | 128             |
|                                     |       | <b>11,911</b>     | 128             |
| <b>Current liabilities</b>          |       |                   |                 |
| Trade and other payables            | 9     | <b>292,570</b>    | 231,154         |
| Borrowings                          | 10    | –                 | 115,873         |
|                                     |       | <b>292,570</b>    | 347,027         |
| <b>Total liabilities</b>            |       | <b>304,481</b>    | 347,155         |
| <b>Total equity and liabilities</b> |       | <b>916,488</b>    | 1,415,975       |

The financial statements on pages 150 to 164 were approved by the Board of Directors on 17 March 2015 and signed on its behalf by:

**IGNACIO BUSTAMANTE**

Chief Executive Officer

17 March 2015

# PARENT COMPANY STATEMENT OF CASH FLOWS

For the year ended 31 December 2014

|   | Notes | Year ended 31 December |                 |
|---|-------|------------------------|-----------------|
|   |       | 2014<br>US\$000        | 2013<br>US\$000 |
| <b>Reconciliation of loss for the year to net cash used in operating activities</b>               |       |                        |                 |
| Loss for the year   |       | (458,653)              | (992,233)       |
| <b>Adjustments to reconcile Company loss to net cash outflows from operating activities</b>       |       |                        |                 |
| Depreciation  | 4     | 27                     | 27              |
| Impairment on investment in subsidiary  | 5     | 448,345                | 976,649         |
| Write off of property, plant and equipment  | 4     | 93                     | –               |
| Finance income  |       | (2,082)                | (250)           |
| Finance costs   |       | 7,157                  | 9,439           |
| Income tax  |       | 3                      | –               |
| Foreign exchange loss   |       | 47                     | 437             |
| <b>(Decrease)/increase of cash flows from operations due to changes in assets and liabilities</b> |       |                        |                 |
| Other receivables   |       | (1,285)                | 37              |
| Trade and other payables  |       | (370)                  | 8,738           |
| Provision for Long Term Incentive Plan  |       | 1,757                  | 200             |
| <b>Cash generated from/(used in) operating activities</b>   |       |                        |                 |
|   |       | (4,961)                | 3,044           |
| Interest received   |       | 109                    | 357             |
| Interest paid   |       | (8,111)                | (6,607)         |
| <b>Net cash used in operating activities</b>  |       |                        |                 |
|   |       | (12,963)               | (3,206)         |
| <b>Cash flows from investing activities</b>   |       |                        |                 |
| Acquisition of subsidiary   |       | –                      | (7)             |
| Dividends received  |       | 33                     | –               |
| Loans to subsidiaries   |       | 131                    | (238)           |
| <b>Net cash used in investing activities</b>  |       |                        |                 |
|   |       | 164                    | (245)           |
| <b>Cash flows from financing activities</b>   |       |                        |                 |
| Proceeds of loans from related parties  |       | 59,242                 | 10,651          |
| Repayment of borrowings   |       | (114,900)              | (109)           |
| Proceeds from issue of ordinary shares  |       | –                      | 71,816          |
| Dividends paid  | 13    | –                      | (10,139)        |
| <b>Cash flows generated from financing activities</b>   |       |                        |                 |
|   |       | (55,658)               | 72,219          |
| <b>Net (decrease)/increase in cash and cash equivalents during the year</b>                       |       |                        |                 |
|   |       | (68,457)               | 68,768          |
| Foreign exchange loss   |       | (47)                   | (437)           |
| <b>Cash and cash equivalents at beginning of year</b>   |       |                        |                 |
|   |       | 71,797                 | 3,466           |
| <b>Cash and cash equivalents at end of year</b>   |       |                        |                 |
|   | 7     | 3,293                  | 71,797          |

## PARENT COMPANY STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2014

|                                    | Notes | Equity share capital<br>US\$000 | Share premium<br>US\$000 | Treasury Shares<br>US\$000 | Other reserves                   |  |                           |                                 | Retained earnings<br>US\$000 | Total equity<br>US\$000 |
|------------------------------------|-------|---------------------------------|--------------------------|----------------------------|----------------------------------|--|---------------------------|---------------------------------|------------------------------|-------------------------|
|                                    |       |                                 |                          |                            | Bond equity component<br>US\$000 | Share-based payment reserve<br>US\$000 | Merger reserve<br>US\$000 | Total other reserves<br>US\$000 |                              |                         |
| <b>Balance at 1 January 2013</b>   |       | 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                          |       | –                               | –                        | –                          | –                                | –                                      | –                         | –                               | (10,139)                     | (10,139)                |
| <b>Balance at 31 December 2013</b> |       | 170,389                         | 416,247                  | (898)                      | 8,432                            | 736                                    | 338,747                   | 347,915                         | 135,167                      | 1,068,820               |
| Other comprehensive income         |       | –                               | –                        | –                          | –                                | –                                      | –                         | –                               | –                            | –                       |
| Loss for the year                  |       | –                               | –                        | –                          | –                                | –                                      | –                         | –                               | (458,653)                    | (458,653)               |
| Total comprehensive loss for 2014  |       | –                               | –                        | –                          | –                                | –                                      | –                         | –                               | (458,653)                    | (458,653)               |
| Transfer to retained earnings      |       | –                               | –                        | –                          | (8,432)                          | –                                      | (338,747)                 | (347,179)                       | 347,179                      | –                       |
| CEO LTIP                           |       | –                               | –                        | –                          | –                                | 610                                    | –                         | 610                             | –                            | 610                     |
| Deferred bonus plan                |       | –                               | –                        | –                          | –                                | 1,230                                  | –                         | 1,230                           | –                            | 1,230                   |
| <b>Balance at 31 December 2014</b> |       | 170,389                         | 416,247                  | (898)                      | –                                | 2,576                                  | –                         | 2,576                           | 23,693                       | 612,007                 |



# NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 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 23 Hanover Square, London W1S 1JB, United Kingdom. The Company was incorporated to serve as a holding company to be listed on the London Stock Exchange. The Company acquired its interest in a group of companies to constitute the Hochschild Mining Group ('the Group') pursuant to a share exchange agreement ('Share Exchange Agreement') dated 2 November 2006.

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

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

## 2 SIGNIFICANT ACCOUNTING POLICIES

### (a) Basis of preparation

The Company's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and are also consistent with IFRS issued by the IASB, as applied in accordance with the Companies Act 2006.

The financial statements of the Company have been prepared on a historical cost basis. The financial statements are presented in US dollars (US\$) and all monetary amounts are rounded to the nearest thousand (\$000) except when otherwise indicated.

The ability for the Company to continue as a going concern is dependent on Hochschild Mining Holdings Limited providing additional funding to the extent that the operating inflows of the Company are insufficient to meet future cash requirements. As Hochschild Mining Holdings Limited has committed to provide this support, is 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 2014 and 31 December 2013. 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 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 application of these amendments has had no impact on the Company's financial position or performance.

**NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS CONTINUED**

For the year ended 31 December 2014

**2 SIGNIFICANT ACCOUNTING POLICIES CONTINUED**

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

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 application of this amendment has had no impact on the Company's financial position or performance, but has affected its impairment disclosures.

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 2015 or later periods but which the Company has not early adopted. A list of these items is included in note 2(a) of the Group financial statements.

**(e) Currency translation**

The functional currency of the Company is the US dollar and is determined by the currency of the primary economic environment in which it operates.

Transactions denominated in currencies other than the functional currency of the Company are initially recorded in the functional currency using the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are remeasured at the rate of exchange ruling at the statement of financial position date. Exchange gains and losses on settlement of foreign currency transactions which are translated at the rate prevailing at the date of the transactions, or on the translation of monetary assets and liabilities which are translated at period-end exchange rates, are taken to the income statement. Non-monetary assets and liabilities denominated in foreign currencies that are stated at historical cost are translated to the functional currency at the foreign exchange rate prevailing at the date of the transaction.

**(f) Property, plant and equipment**

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

The cost less residual value of each item of property, plant and equipment is depreciated over its useful life. Each item's estimated useful life has been assessed with regard to its own physical life. Estimates of remaining useful lives are made on a regular basis for all buildings, machinery and equipment, with annual reassessments for major items. Depreciation is charged to administrative expenses over the estimated useful life of the individual asset on a straight-line basis. Changes in estimates are accounted for prospectively. Depreciation commences when assets are available for use. Land is not depreciated.

An asset's carrying amount is written-down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within other income/expenses, in the income statement.

***Subsequent expenditure***

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

## 2 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

### (g) 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.

### (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 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.

### (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 reporting 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 reporting 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 contribution to 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 and 2014, the Company approved an equity-settled scheme for its CEO.

## NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2014

### 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 with the following exemptions:

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

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

#### *Financial guarantees*

Financial guarantees are guarantees provided by the Company on behalf of one of the Group's subsidiaries. At inception the fair value of a financial guarantee is determined and recognised as a liability in the Company's accounts, while the debit is recognised as a capital contribution to its subsidiary. The liability is subsequently amortised on a straight-line basis over the life of the guarantee, unless it is considered probable that the guarantee will be called, in which case it is measured at the value of the guaranteed amount payable, if higher.

The liability is presented within creditors as 'Financial liability – financial guarantee'.

#### *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 twelve months after the statement of financial position date.

A detailed description of the Company's policies in respect of financial instruments is included in the Group's financial statements (note 2(u)).

## 2 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

### (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 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.

The convertible bond issued by the Company was derecognised in October 2014, upon repayment of the debt.

## 3 PROFIT AND LOSS ACCOUNT

The Company made a loss attributable to equity shareholders of US\$458,653,000 (2013: loss of US\$992,233,000).

## 4 PROPERTY, PLANT AND EQUIPMENT

|   | Office<br>building<br>US\$000 | Equipment<br>US\$000 | Total<br>US\$000 |
|---|-------------------------------|----------------------|------------------|
| <b>Year ended 31 December 2013</b>        |                               |                      |                  |
| Cost                                      |                               |                      |                  |
| At 1 January 2013 and 31 December 2013    | 277                           | 267                  | 544              |
| <b>Accumulated depreciation</b>           |                               |                      |                  |
| At 1 January 2013                         | 130                           | 267                  | 397              |
| Depreciation                              | 27                            | –                    | 27               |
| At 31 December 2013                       | 157                           | 267                  | 424              |
| <b>Net book value at 31 December 2013</b> | 120                           | –                    | 120              |
| <b>Year ended 31 December 2014</b>        |                               |                      |                  |
| Cost                                      |                               |                      |                  |
| At 1 January 2014                         | 277                           | 267                  | 544              |
| <b>Disposals</b>                          | –                             | (2)                  | (2)              |
| <b>Write off</b>                          | (277)                         | –                    | (277)            |
| <b>At 31 December 2014</b>                | –                             | 265                  | 265              |
| <b>Accumulated depreciation</b>           |                               |                      |                  |
| At 1 January 2014                         | 157                           | 267                  | 424              |
| Depreciation                              | 27                            | –                    | 27               |
| Disposals                                 | –                             | (2)                  | (2)              |
| Write off                                 | (184)                         | –                    | (184)            |
| At 31 December 2014                       | –                             | 265                  | 265              |
| <b>Net book value at 31 December 2014</b> | –                             | –                    | –                |

## NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2014

## 5 INVESTMENTS IN SUBSIDIARIES

|   | Total<br>US\$000   |
|---|--------------------|
| <b>Year ended 31 December 2013</b>        |                    |
| Cost                                      |                    |
| At 1 January 2013                         | 2,319,649          |
| Additions                                 | 10,274             |
| Disposals                                 | (10,274)           |
| At 31 December 2013                       | 2,319,649          |
| <b>Accumulated impairment</b>             |                    |
| At 1 January 2013                         | –                  |
| Impairment loss                           | (976,649)          |
| At 31 December 2013                       | (976,649)          |
| <b>Net book value at 31 December 2013</b> | <b>1,343,000</b>   |
| <b>Year ended 31 December 2014</b>        |                    |
| Cost                                      |                    |
| At 1 January 2014                         | <b>2,319,649</b>   |
| Additions                                 | <b>16,361</b>      |
| At 31 December 2014                       | <b>2,336,010</b>   |
| <b>Accumulated impairment</b>             |                    |
| At 1 January 2014                         | <b>(976,649)</b>   |
| Impairment loss                           | <b>(448,345)</b>   |
| At 31 December 2014                       | <b>(1,424,994)</b> |
| <b>Net book value at 31 December 2014</b> | <b>911,016</b>     |

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 publicly listed share price, which were determined to be indicators of impairment. As a result of this test, the Company recognised an impairment of the investment in Hochschild Mining Holdings Ltd. of US\$448,345,000 (2013: 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 Limited was determined using a fair value less costs of disposal. The fair value less costs of disposal was determined with reference to the market capitalisation of the Group at 31 December 2014 and 2013 translated from Pounds Sterling into U.S. Dollars using the year-end exchange rate (both Level 1 inputs), to which a control premium was added based on recent market transactions (a Level 2 input), and subsequently adjusted for the net debt held directly by the Company. A Level 1 input refers to quoted prices in active markets, while a Level 2 input corresponds to other information that can be observed directly or indirectly. 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:

| Name                               | As at 31 December 2014   |                   |                        | As at 31 December 2013   |                   |                        |
|------------------------------------|--------------------------|-------------------|------------------------|--------------------------|-------------------|------------------------|
|                                    | 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%              | <b>911,016</b>         | England & Wales          | 100%              | 1,343,000              |
| <b>Total</b>                       |                          |                   | <b>911,016</b>         |                          |                   | 1,343,000              |

The list of indirectly held 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\$10,443,000 (US\$10,274,000).

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\$10,274,000.

During 2014 the Company recorded a capital contribution of \$16,361,000 related to the financial guarantee granted over some borrowings entered into by Compañía Minera Ares S.A.C., one of its indirectly held subsidiaries (note 9).

## 6 OTHER RECEIVABLES

|   | Year ended 31 December |                 |
|---|------------------------|-----------------|
|   | 2014<br>US\$000        | 2013<br>US\$000 |
| Amounts receivable from subsidiaries (note 12)    | 2,169                  | 892             |
| Prepayments                                       | 10                     | 66              |
| Receivable from Kaupthing, Singer and Friedlander | 264                    | 289             |
| Other debtors                                     | –                      | 100             |
|   | 2,443                  | 1,347           |
| Provision for impairment <sup>1</sup>             | (264)                  | (289)           |
| <b>Total</b>                                      | <b>2,179</b>           | <b>1,058</b>    |

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\$264,000 accrued in 2008 and partially recovered in 2014 (2013: US\$289,000).

Movements in the provision for impairment of receivables:

|                            | Total<br>US\$000 |
|----------------------------|------------------|
| At 1 January 2013          | 330              |
| Amounts recovered          | (41)             |
| At 31 December 2013        | 289              |
| Amounts recovered          | (25)             |
| <b>At 31 December 2014</b> | <b>264</b>       |

As at 31 December 2014 and 2013, none of the financial assets classified as receivables (net of impairment) were past due.

## NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2014

**7 CASH AND CASH EQUIVALENTS**

|   | Year ended 31 December |                 |
|---|------------------------|-----------------|
|   | 2014<br>US\$000        | 2013<br>US\$000 |
| Bank current account <sup>1</sup>                                       | 307                    | 402             |
| Time deposits <sup>2</sup>  | 2,986                  | 71,395          |
| <b>Cash and cash equivalents considered for the cash flow statement</b> | <b>3,293</b>           | <b>71,797</b>   |

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

2 These deposits have an average maturity of 2 days (2013: 2 days).

**8 EQUITY****(a) Share capital and share premium***Issued share capital*

The issued share capital of the Company as at 31 December 2013 and 31 December 2014 is as follows:

| Class of shares | Issued      |             |
|-----------------|-------------|-------------|
|                 | Number      | Amount      |
| Ordinary shares | 367,101,352 | £91,775,338 |

At 31 December 2014 and 2013, all issued shares with a par value of 25 pence each were fully paid (2014: weighted average of US\$0.464 per share, 2013: weighted average of US\$0.464 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<br>shares | Share Capital<br>US\$000 | Share premium<br>US\$000 |
|---|---------------------|--------------------------|--------------------------|
| Shares issued as at 1 January 2013  | 338,085,226         | 158,637                  | 416,154                  |
| Conversion of 1 convertible bond on 2 January 2013 (note 10)                  | 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                  |
| Shares issued as at 31 December 2014  | 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 US\$898,000). No shares were purchased by the Company in 2013 and 2014.



## 8 EQUITY CONTINUED

### (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 and 2014 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. As the convertible bond was repaid on 16 October 2014, the bond equity component was transferred to retained earnings.

#### 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      |                    |                        |                    |
|---|------------------------|--------------------|------------------------|--------------------|
|   | 2014                   |                    | 2013                   |                    |
|   | Non-current<br>US\$000 | Current<br>US\$000 | Non-current<br>US\$000 | Current<br>US\$000 |
| Trade payables                          | –                      | 511                | –                      | 991                |
| Payables to subsidiaries (note 12)      | –                      | 289,236            | –                      | 229,994            |
| Remuneration payable                    | –                      | 59                 | –                      | –                  |
| Taxes and contributions                 | –                      | 242                | –                      | 169                |
| <b>Financial guarantees<sup>1</sup></b> | <b>11,866</b>          | <b>2,522</b>       | –                      | –                  |
| <b>Total</b>                            | <b>11,866</b>          | <b>292,570</b>     | –                      | 231,154            |

1 The Company has provided financial guarantees to certain banks over the medium-term bank loan and bond payable entered into by its subsidiary Compañía Minera Ares S.A.C. The financial guarantee was recognised at its fair value at initial recognition of US\$16,361,000. This fair value was determined through the use of certain Level 3 estimates, the most significant of which being the estimated rate of interest Compañía Minera Ares S.A.C. would have been charged were it not for the guarantee provided by the Company. The liability is subsequently amortised on a straight-line basis over the life of the guarantee.

Trade payables mainly relate to the purchase of third-party services. These payables do not accrue interest and no guarantees have been granted in relation to these payables. The fair value of trade and other payables approximate their book values.

## 10 BORROWINGS

|                          | As at 31 December      |                    |                        |                    |
|--------------------------|------------------------|--------------------|------------------------|--------------------|
|                          | 2014                   |                    | 2013                   |                    |
|                          | Non-current<br>US\$000 | Current<br>US\$000 | Non-current<br>US\$000 | Current<br>US\$000 |
| Convertible bond payable | –                      | –                  | –                      | 115,873            |
| <b>Total</b>             | –                      | –                  | –                      | 115,873            |

This relates to the placement of US\$115,000,000 of senior unsecured convertible bonds, due 2014, which were convertible into ordinary shares of Hochschild Mining plc. The Group settled the convertible bonds in cash upon their maturity in October 2014. The bonds had a coupon of 5.75% per annum payable semi-annually on 28 January and 28 July of each year.

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 convertible bond was repaid on 16 October 2014.

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.

## NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2014

## 11 PROVISIONS

|                            | As at 31 December |                 |
|----------------------------|-------------------|-----------------|
|                            | 2014<br>US\$000   | 2013<br>US\$000 |
| <b>Beginning balance</b>   | <b>128</b>        | 219             |
| Decrease in provision      | (83)              | (91)            |
| <b>At 31 December</b>      | <b>45</b>         | 128             |
| Less current portion       | –                 | –               |
| <b>Non-current portion</b> | <b>45</b>         | 128             |

Corresponds to the provision related to cash-settled share-based payment 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 2014, payable in March 2017, (ii) Long Term Incentive Plan awards, granted in March 2013, payable in March 2016. 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 2014 and 31 December 2013.

|  | As at 31 December 2014            |                                | As at 31 December 2013            |                                |
|--|-----------------------------------|--------------------------------|-----------------------------------|--------------------------------|
|  | Accounts<br>receivable<br>US\$000 | Accounts<br>payable<br>US\$000 | Accounts<br>receivable<br>US\$000 | Accounts<br>payable<br>US\$000 |
| <b>Subsidiaries</b>                          |                                   |                                |                                   |                                |
| Compañía Minera Ares S.A.C. <sup>1</sup>     | 1,468                             | 617                            | 124                               | 775                            |
| HOC Holdings Canada Inc. <sup>2</sup>        | –                                 | –                              | 223                               | –                              |
| Minera del Suroeste S.A.C. <sup>3</sup>      | –                                 | –                              | –                                 | 600                            |
| Hochschild Mining Holdings Ltd. <sup>4</sup> | 488                               | 288,593                        | 488                               | 228,594                        |
| Other subsidiaries                           | 213                               | 26                             | 57                                | 25                             |
| <b>Total</b>                                 | <b>2,169</b>                      | <b>289,236</b>                 | 892                               | 229,994                        |

1 The account receivable mainly relates to the Deferred Bonus Plan provision that is going to be paid by Hochschild Mining plc in shares on behalf of Compañía Minera Ares S.A.C. The account payable mainly relates to the services performed by Compañía Minera Ares S.A.C. to Hochschild Mining plc during 2014 of US\$617,000 (2013: US\$775,000). The Company has also provided certain financial guarantees on behalf of Compañía Minera Ares S.A.C. (notes 5 and 9).

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) of the Consolidated Financial Statements).

3 The Company paid the obligation to Minera del Suroeste S.A.C. in July 2014.

4 Relates to loans receivable by and payable to Hochschild Mining Holdings Ltd. The loan payable is repayable on demand and is free of interest.

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\$1,509,604 (2013: US\$1,641,176), out of which US\$28,059 (2013: US\$33,989) relates to cash supplements in lieu of pension contributions.

|  | As at 31 December |                 |
|--|-------------------|-----------------|
|  | 2014<br>US\$000   | 2013<br>US\$000 |
| Compensation of key management personnel (including directors) |                   |                 |
| Short-term employee benefits                                   | 899               | 1,273           |
| Termination benefits   | –                 | 77              |
| Long Term Incentive Plan                                       | 610               | 291             |
| <b>Total compensation</b>                                      | <b>1,509</b>      | 1,641           |

### 13 DIVIDENDS PAID AND PROPOSED

|   | 2014<br>US\$000 | 2013<br>US\$000 |
|---|-----------------|-----------------|
| Declared and paid during the year                       |                 |                 |
| Equity dividends on ordinary shares:                    |                 |                 |
| Final dividend for 2013: US\$Nil (2012: US\$0.03)       | –               | 10,139          |
| Interim dividend for 2014: US\$Nil (2013: US\$Nil)      | –               | –               |
| <b>Dividends paid</b>                                   | <b>–</b>        | <b>10,139</b>   |
| <b>Proposed for approval by shareholders at the AGM</b> | <b>–</b>        | <b>–</b>        |
| <b>Final dividend for 2014: US\$Nil (2013: US\$Nil)</b> | <b>–</b>        | <b>–</b>        |

#### Dividends per share

The Directors of the Company are not recommending the payment of a dividend in respect of the years ended 31 December 2014 and 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. The Company is not exposed to significant sources of commodity price, equity or interest rate risk.

#### (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/<br>decrease in<br>US\$/other<br>currencies<br>rate | Effect<br>on profit<br>before tax<br>US\$000 | Effect<br>on equity<br>US\$000 |
|----------------|--|--|--------------------------------|
| <b>2014</b>    |  |  |                                |
| Pound sterling | <b>+/-10%</b>  | <b>-/+8</b>                                  | <b>–</b>                       |
| 2013           |  |  |                                |
| Pound sterling | +/-10%   | -/+32  | –                              |

#### (b) Credit risk

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 has evaluated and introduced efforts to try to mitigate credit risk exposure.

To manage credit risk associated with cash balances deposited in banks, the Company is:

- increasing banking relationships with large, established and well-capitalised institutions in order to secure access to credit and to diversify credit risk;
- investing cash in short-term, highly liquid and low risk instruments (term deposits); and
- 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 2014

**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 Limited through loans in order to meet its obligations. Liquidity is supported by the balance of cash in the Company and Hochschild Mining Holdings Limited at 31 December 2014 of US\$3,293,000 (2013: S\$71,797,000) and US\$3,519,000 (2013: US\$113,472,000) respectively. The Company also serves as principal funding conduit for the Group's capital raising activities such as equity 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<br>1 year<br>US\$000 | Between<br>1 and<br>2 years<br>US\$000 | Between<br>2 and<br>5 years<br>US\$000 | Over<br>5 years<br>US\$000 | Total<br>US\$000 |
|----------------------------|--------------------------------|--|--|----------------------------|------------------|
| <b>At 31 December 2014</b> |                                |  |  |                            |                  |
| Trade and other payables   | <b>289,806</b>                 | –                                      | –                                      | –                          | <b>289,806</b>   |
| Borrowings                 | –                              | –                                      | –                                      | –                          | –                |
| Provisions                 | –                              | <b>13</b>                              | <b>146</b>                             | –                          | <b>159</b>       |
| <b>At 31 December 2013</b> |                                |  |  |                            |                  |
| Trade and other payables   | 230,985                        | –                                      | –                                      | –                          | 230,985          |
| Borrowings                 | 123,202                        | –                                      | –                                      | –                          | 123,202          |
| Provisions                 | –                              | 332                                    | –                                      | –                          | 332              |

The table below analyses the maximum amounts payable under financial guarantees provided to Compañía Minera Ares S.A.C. (notes 5 and 9), considering that if the guarantees were to be called, the guaranteed amounts would be due immediately:

|                                   | Less than<br>1 year<br>US\$000 | Between<br>1 and<br>2 years<br>US\$000 | Between<br>2 and<br>5 years<br>US\$000 | Over<br>5 years<br>US\$000 | Total<br>US\$000 |
|-----------------------------------|--------------------------------|--|--|----------------------------|------------------|
| <b>At 31 December 2014</b>        | <b>450,000</b>                 | –                                      | –                                      | –                          | <b>450,000</b>   |
| Financial guarantees <sup>1</sup> | <b>450,000</b>                 | –                                      | –                                      | –                          | <b>450,000</b>   |
| <b>At 31 December 2013</b>        | –                              | –                                      | –                                      | –                          | –                |

1 Not including any accumulated interest that may be payable at the call date.

**(d) 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 (notes 8, 9 and 10). 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<sup>1</sup>

(Segment report reconciliation) as at 31 December 2014

| Company (US\$000)   | Ares            | Arcata          | Pallancata       | Inmaculada | San Jose         | Consolidation<br>adjustment<br>and others | Total           |
|---|-----------------|-----------------|------------------|------------|------------------|---|-----------------|
| Revenue   | 25,889          | 106,061         | 147,360          | –          | 213,013          | 628                                       | 492,951         |
| Cost of sales (Pre consolidation)                                     | (26,259)        | (99,020)        | (124,471)        | –          | (159,936)        | (1,018)                                   | (410,704)       |
| Consolidation adjustment  | (2)             | (245)           | 303              | –          | –                | (56)                                      | –               |
| <b>Cost of sales (Post consolidation)</b>                             | <b>(26,257)</b> | <b>(98,775)</b> | <b>(124,774)</b> | <b>–</b>   | <b>(159,936)</b> | <b>(962)</b>                              |                 |
| Production cost<br>excluding depreciation                             | (17,853)        | (62,644)        | (71,742)         | (3,309)    | (110,089)        | –   | (265,637)       |
| Depreciation in production cost                                       | (438)           | (31,398)        | (48,963)         | –          | (45,156)         | –   | (125,955)       |
| Other items   | (4,142)         | (3,065)         | (1,540)          | –          | (1,724)          |   | (10,471)        |
| Change in inventories   | (3,824)         | (1,668)         | (2,529)          | 3,309      | (2,967)          | (962)                                     | (8,641)         |
| <b>Gross profit</b>   | <b>(370)</b>    | <b>7,041</b>    | <b>22,889</b>    | <b>–</b>   | <b>53,077</b>    | <b>(390)</b>                              | <b>82,247</b>   |
| Administrative expenses   | –               | –               | –                | –          | –                | (46,087)                                  | (46,087)        |
| Exploration expenses  | –               | –               | –                | –          | –                | (18,140)                                  | (18,140)        |
| Selling expenses  | (67)            | (1,987)         | (1,995)          | –          | (24,648)         | –   | (28,697)        |
| Other income/expenses   | –               | –               | –                | –          | –                | (16,363)                                  | (16,363)        |
| <b>Operating profit before impairment</b>                             | <b>(437)</b>    | <b>5,054</b>    | <b>20,894</b>    | <b>–</b>   | <b>28,429</b>    | <b>(80,980)</b>                           | <b>(27,040)</b> |
| Impairment of assets  | –               | –               | –                | –          | –                | 109                                       | 109             |
| Finance income  | –               | –               | –                | –          | –                | 6,276                                     | 6,276           |
| Finance costs   | –               | –               | –                | –          | –                | (42,565)                                  | (42,565)        |
| Foreign exchange loss   | –               | –               | –                | –          | –                | (4,990)                                   | (4,990)         |
| <b>Profit/(loss) from continuing<br/>operations before income tax</b> | <b>(437)</b>    | <b>5,054</b>    | <b>20,894</b>    | <b>–</b>   | <b>28,429</b>    | <b>(122,150)</b>                          | <b>(68,210)</b> |
| Income tax  | –               | –               | –                | –          | –                | (2,621)                                   | (2,621)         |
| <b>Profit/(loss) for the year from<br/>continuing operations</b>      | <b>(437)</b>    | <b>5,054</b>    | <b>20,894</b>    | <b>–</b>   | <b>28,429</b>    | <b>(124,771)</b>                          | <b>(70,831)</b> |

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 167 to 171 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 2014, 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.

## ATTRIBUTABLE METAL RESERVES AS AT 31 DECEMBER 2014

| Reserve category                   | Proved and probable (t) | Ag (g/t)   | Au (g/t)   | Ag (moz)    | Au (koz)       | Ag Eq (moz)  |
|------------------------------------|-------------------------|------------|------------|-------------|----------------|--------------|
| <b>MAIN OPERATIONS<sup>1</sup></b> |                         |            |            |             |                |              |
| <b>Arcata</b>                      |                         |            |            |             |                |              |
| Proved                             | 782,317                 | 341        | 1.0        | 8.6         | 24.7           | 10.1         |
| Probable                           | 1,307,744               | 308        | 1.0        | 12.9        | 43.1           | 15.5         |
| <b>Total</b>                       | <b>2,090,061</b>        | <b>320</b> | <b>1.0</b> | <b>21.5</b> | <b>67.9</b>    | <b>25.6</b>  |
| <b>Pallancata</b>                  |                         |            |            |             |                |              |
| Proved                             | 903,257                 | 261        | 1.4        | 7.6         | 39.5           | 9.9          |
| Probable                           | 834,331                 | 250        | 1.2        | 6.7         | 33.3           | 8.7          |
| <b>Total</b>                       | <b>1,737,588</b>        | <b>256</b> | <b>1.3</b> | <b>14.3</b> | <b>72.8</b>    | <b>18.7</b>  |
| <b>San Jose</b>                    |                         |            |            |             |                |              |
| Proved                             | 624,370                 | 520        | 7.2        | 10.4        | 143.6          | 19.1         |
| Probable                           | 360,949                 | 365        | 6.1        | 4.2         | 70.7           | 8.5          |
| <b>Total</b>                       | <b>985,319</b>          | <b>463</b> | <b>6.8</b> | <b>14.7</b> | <b>214.2</b>   | <b>27.5</b>  |
| <b>Main operations total</b>       |                         |            |            |             |                |              |
| Proved                             | 2,309,944               | 358        | 2.8        | 26.6        | 207.9          | 39.1         |
| Probable                           | 2,503,025               | 297        | 1.8        | 23.9        | 147.1          | 32.7         |
| <b>Total</b>                       | <b>4,812,968</b>        | <b>326</b> | <b>2.3</b> | <b>50.5</b> | <b>354.9</b>   | <b>71.8</b>  |
| <b>ADVANCED PROJECTS</b>           |                         |            |            |             |                |              |
| <b>Inmaculada<sup>2</sup></b>      |                         |            |            |             |                |              |
| 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         |
| <b>Total</b>                       | <b>7,800,000</b>        | <b>120</b> | <b>3.4</b> | <b>30.1</b> | <b>849.2</b>   | <b>81.1</b>  |
| <b>GROUP TOTAL</b>                 |                         |            |            |             |                |              |
| <b>Proved</b>                      | <b>6,149,944</b>        | <b>201</b> | <b>3.2</b> | <b>39.7</b> | <b>632.6</b>   | <b>77.7</b>  |
| <b>Probable</b>                    | <b>6,463,025</b>        | <b>197</b> | <b>2.8</b> | <b>40.9</b> | <b>571.6</b>   | <b>75.2</b>  |
| <b>TOTAL</b>                       | <b>12,612,968</b>       | <b>199</b> | <b>3.0</b> | <b>80.6</b> | <b>1,204.1</b> | <b>152.9</b> |

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.

## RESERVES AND RESOURCES CONTINUED

## ATTRIBUTABLE METAL RESOURCES AS AT 31 DECEMBER 2014

| 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) |
|---------------------------------|-------------------|------------|-------------|--------|--------|--------|-------------|--------------|--------------|--------------|---------|---------|---------|
| <b>MAIN OPERATIONS</b>          |                   |            |             |        |        |        |             |              |              |              |         |         |         |
| <b>Arcata</b>                   |                   |            |             |        |        |        |             |              |              |              |         |         |         |
| Measured                        | 1,566,470         | 467        | 1.40        | –      | –      | –      | 551         | 23.5         | 70.4         | 27.8         | –       | –       | –       |
| Indicated                       | 2,375,166         | 381        | 1.31        | –      | –      | –      | 459         | 29.1         | 100.3        | 35.1         | –       | –       | –       |
| Total                           | 3,941,636         | 415        | 1.35        | –      | –      | –      | 496         | 52.6         | 170.7        | 62.8         | –       | –       | –       |
| Inferred                        | 3,572,309         | 322        | 1.29        | –      | –      | –      | 399         | 37.0         | 148.2        | 45.9         | –       | –       | –       |
| <b>Pallancata</b>               |                   |            |             |        |        |        |             |              |              |              |         |         |         |
| Measured                        | 2,669,327         | 348        | 1.66        | –      | –      | –      | 447         | 29.9         | 142.2        | 38.4         | –       | –       | –       |
| Indicated                       | 1,268,572         | 287        | 1.37        | –      | –      | –      | 370         | 11.7         | 56.1         | 15.1         | –       | –       | –       |
| Total                           | 3,937,899         | 328        | 1.57        | –      | –      | –      | 422         | 41.6         | 198.3        | 53.5         | –       | –       | –       |
| Inferred                        | 2,560,082         | 263        | 1.12        | –      | –      | –      | 330         | 21.7         | 92.0         | 27.2         | –       | –       | –       |
| <b>San Jose</b>                 |                   |            |             |        |        |        |             |              |              |              |         |         |         |
| Measured                        | 958,979           | 589        | 8.19        | –      | –      | –      | 1,081       | 18.2         | 252.5        | 33.3         | –       | –       | –       |
| Indicated                       | 1,384,056         | 390        | 5.83        | –      | –      | –      | 740         | 17.4         | 259.3        | 32.9         | –       | –       | –       |
| Total                           | 2,343,035         | 472        | 6.79        | –      | –      | –      | 879         | 35.5         | 511.8        | 66.2         | –       | –       | –       |
| Inferred                        | 887,930           | 380        | 6.21        | –      | –      | –      | 753         | 10.8         | 177.4        | 21.5         | –       | –       | –       |
| <b>Main operations total</b>    |                   |            |             |        |        |        |             |              |              |              |         |         |         |
| Measured                        | <b>5,194,776</b>  | <b>428</b> | <b>2.78</b> | –      | –      | –      | <b>596</b>  | <b>71.6</b>  | <b>465.1</b> | <b>99.5</b>  | –       | –       | –       |
| Indicated                       | <b>5,027,794</b>  | <b>360</b> | <b>2.57</b> | –      | –      | –      | <b>514</b>  | <b>58.1</b>  | <b>415.7</b> | <b>83.1</b>  | –       | –       | –       |
| Total                           | <b>10,222,570</b> | <b>395</b> | <b>2.68</b> | –      | –      | –      | <b>555</b>  | <b>129.7</b> | <b>880.8</b> | <b>182.6</b> | –       | –       | –       |
| Inferred                        | <b>7,020,321</b>  | <b>308</b> | <b>1.85</b> | –      | –      | –      | <b>419</b>  | <b>69.5</b>  | <b>417.7</b> | <b>94.5</b>  | –       | –       | –       |
| <b>ADVANCED/GROWTH PROJECTS</b> |                   |            |             |        |        |        |             |              |              |              |         |         |         |
| <b>Inmaculada<sup>1</sup></b>   |                   |            |             |        |        |        |             |              |              |              |         |         |         |
| 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         | –       | –       | –       |
| <b>Crespo<sup>2</sup></b>       |                   |            |             |        |        |        |             |              |              |              |         |         |         |
| 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          | –       | –       | –       |
| <b>Azuca</b>                    |                   |            |             |        |        |        |             |              |              |              |         |         |         |
| 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         | –       | –       | –       |
| <b>Volcan<sup>3</sup></b>       |                   |            |             |        |        |        |             |              |              |              |         |         |         |
| 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         | –       | –       | –       |

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.

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.



## ATTRIBUTABLE METAL RESOURCES AS AT 31 DECEMBER 2014 CONTINUED

| Resource category             | Tonnes<br>(t) | Ag<br>(g/t) | Au<br>(g/t) | Zn<br>(%) | Pb<br>(%) | Cu<br>(%) | Ag Eq<br>(g/t) | Ag<br>(moz) | Au<br>(koz) | Ag Eq<br>(moz) | Zn<br>(kt) | Pb<br>(kt) | Cu<br>(kt) |
|-------------------------------|---------------|-------------|-------------|-----------|-----------|-----------|----------------|-------------|-------------|----------------|------------|------------|------------|
| <b>Advanced/Growth</b>        |               |             |             |           |           |           |                |             |             |                |            |            |            |
| <b>Projects total</b>         |               |             |             |           |           |           |                |             |             |                |            |            |            |
| 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          | –          | –          | –          |
| <b>Other projects</b>         |               |             |             |           |           |           |                |             |             |                |            |            |            |
| <b>Jasperoide<sup>4</sup></b> |               |             |             |           |           |           |                |             |             |                |            |            |            |
| Measured                      | –             | –           | –           | –         | –         | –         | –              | –           | –           | –              | –          | –          | –          |
| Indicated                     | –             | –           | –           | –         | –         | –         | –              | –           | –           | –              | –          | –          | –          |
| Total                         | –             | –           | –           | –         | –         | –         | –              | –           | –           | –              | –          | –          | –          |
| Inferred                      | 12,187,270    | –           | 0.32        | –         | –         | 1.32      | 147            | –           | 126.8       | 57.6           | –          | –          | 161.2      |
| <b>San Felipe</b>             |               |             |             |           |           |           |                |             |             |                |            |            |            |
| 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        |
| <b>Other projects total</b>   |               |             |             |           |           |           |                |             |             |                |            |            |            |
| 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      |
| <b>GRAND TOTAL</b>            |               |             |             |           |           |           |                |             |             |                |            |            |            |
| Measured                      | 121,191,583   | 25          | 0.90        | 0.08      | 0.04      | 0.00      | 82             | 97.5        | 3,493.1     | 318.1          | 99.3       | 43.1       | 5.5        |
| Indicated                     | 318,084,696   | 14          | 0.75        | 0.03      | 0.01      | 0.00      | 60             | 143.2       | 7,668.7     | 612.4          | 83.2       | 37.0       | 4.2        |
| Total                         | 439,276,279   | 17          | 0.79        | 0.04      | 0.02      | 0.00      | 66             | 240.7       | 11,161.8    | 930.5          | 182.4      | 80.1       | 9.7        |
| Inferred                      | 74,677,869    | 57          | 0.85        | 0.10      | 0.04      | 0.22      | 132            | 136.1       | 2,051.0     | 317.1          | 77.8       | 28.5       | 163.6      |

4 The silver equivalent grade (147 g/t Ag Eq) has been calculated applying the following ratios, Cu/Ag = 96.38 and Au/Ag = 60.

## RESERVES AND RESOURCES CONTINUED

## CHANGE IN TOTAL RESERVES AND RESOURCES

| Ag equivalent content (million ounces) | Category | December<br>2013 | Production <sup>1</sup> | Movements <sup>2</sup> | December<br>2014 | Net<br>difference | % change     |
|--|----------|------------------|-------------------------|------------------------|------------------|-------------------|--------------|
| Arcata                                 | Resource | 99.4             | –                       | 9.2                    | <b>108.7</b>     | 9.2               | 9.3          |
|  | Reserve  | 23.5             | 7.6                     | 9.7                    | <b>25.6</b>      | 2.1               | 8.8          |
| Pallancata                             | Resource | 109.7            | –                       | (29.0)                 | <b>80.7</b>      | (29.0)            | (26.5)       |
|  | Reserve  | 29.0             | 10.1                    | (0.3)                  | <b>18.7</b>      | (10.4)            | (35.8)       |
| San Jose                               | Resource | 188.9            | –                       | (16.9)                 | <b>172.0</b>     | (16.9)            | (8.9)        |
|  | Reserve  | 54.6             | 13.8                    | 13.1                   | <b>54.0</b>      | (0.6)             | (1.2)        |
| <b>Main operations total</b>           | Resource | <b>398.0</b>     | –                       | <b>(36.7)</b>          | <b>361.4</b>     | <b>(36.7)</b>     | <b>(9.2)</b> |
|  | Reserve  | <b>107.2</b>     | <b>31.5</b>             | <b>22.5</b>            | <b>98.2</b>      | <b>(9.0)</b>      | <b>(8.4)</b> |
| Inmaculada                             | Resource | 149.7            | –                       | –                      | <b>149.7</b>     | –                 | –            |
|  | Reserve  | 81.1             | –                       | –                      | <b>81.1</b>      | –                 | –            |
| Crespo                                 | Resource | 48.9             | –                       | –                      | <b>48.9</b>      | –                 | –            |
|  | Reserve  | –                | –                       | –                      | –                | –                 | –            |
| Azuca                                  | Resource | 103.0            | –                       | –                      | <b>103.0</b>     | –                 | –            |
|  | Reserve  | –                | –                       | –                      | –                | –                 | –            |
| Volcan                                 | Resource | 572.9            | –                       | –                      | <b>572.9</b>     | –                 | –            |
|  | Reserve  | –                | –                       | –                      | –                | –                 | –            |
| <b>Advanced/Growth Projects total</b>  | Resource | <b>874.5</b>     | –                       | –                      | <b>874.5</b>     | –                 | –            |
|  | Reserve  | <b>81.1</b>      | –                       | –                      | <b>81.1</b>      | –                 | –            |
| Jasperoide                             | Resource | 57.6             | –                       | –                      | <b>57.6</b>      | –                 | –            |
|  | Reserve  | –                | –                       | –                      | –                | –                 | –            |
| San Felipe                             | Resource | 38.5             | –                       | –                      | <b>38.5</b>      | –                 | –            |
|  | Reserve  | –                | –                       | –                      | –                | –                 | –            |
| <b>Other projects total</b>            | Resource | <b>96.0</b>      | –                       | –                      | <b>96.0</b>      | –                 | –            |
|  | Reserve  | –                | –                       | –                      | –                | –                 | –            |
| <b>TOTAL</b>                           | Resource | <b>1,368.5</b>   | –                       | <b>(36.7)</b>          | <b>1,331.9</b>   | <b>(36.7)</b>     | <b>(2.7)</b> |
|  | Reserve  | <b>188.3</b>     | <b>31.5</b>             | <b>22.5</b>            | <b>179.3</b>     | <b>(9.0)</b>      | <b>(4.8)</b> |

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.

## CHANGE IN ATTRIBUTABLE RESERVES AND RESOURCES

| Ag equivalent content (million ounces) | Category | Percentage attributable December 2014 | December 2013 Att. <sup>1</sup> | December 2014 Att. <sup>1</sup> | Net difference | % change |
|--|----------|---------------------------------------|---------------------------------|---------------------------------|----------------|----------|
| Arcata                                 | Resource | 100%                                  | 99.4                            | 108.7                           | 9.2            | 9.3      |
|  | Reserve  |                                       | 23.5                            | 25.6                            | 2.1            | 8.8      |
| Pallancata                             | Resource | 100%                                  | 109.7                           | 80.7                            | (29.0)         | (26.5)   |
|  | Reserve  |                                       | 29.0                            | 18.7                            | (10.3)         | (35.5)   |
| San Jose                               | Resource | 51%                                   | 96.3                            | 87.7                            | (8.6)          | (8.9)    |
|  | Reserve  |                                       | 27.9                            | 27.5                            | (0.3)          | (1.1)    |
| <b>Main operations total</b>           | Resource |                                       | 305.5                           | 277.1                           | (28.4)         | (9.3)    |
|  | Reserve  |                                       | 80.4                            | 71.8                            | (8.6)          | (10.7)   |
| Inmaculada                             | Resource | 100%                                  | 149.7                           | 149.7                           | –              | –        |
|  | Reserve  |                                       | 81.1                            | 81.1                            | –              | –        |
| Crespo                                 | Resource | 100%                                  | 48.9                            | 48.9                            | –              | –        |
|  | Reserve  |                                       | –                               | –                               | –              | –        |
| Azuca                                  | Resource | 100%                                  | 103.0                           | 103.0                           | –              | –        |
|  | Reserve  |                                       | –                               | –                               | –              | –        |
| Volcan                                 | Resource | 100%                                  | 572.9                           | 572.9                           | –              | –        |
|  | Reserve  |                                       | –                               | –                               | –              | –        |
| <b>Advanced/Growth Projects total</b>  | Resource |                                       | 874.5                           | 874.5                           | –              | –        |
|  | Reserve  |                                       | 81.1                            | 81.1                            | –              | –        |
| Jasperoide                             | Resource | 100%                                  | 57.6                            | 57.6                            | –              | –        |
|  | Reserve  |                                       | –                               | –                               | –              | –        |
| San Felipe                             | Resource | 100%                                  | 38.5                            | 38.5                            | –              | –        |
|  | Reserve  |                                       | –                               | –                               | –              | –        |
| <b>Other projects total</b>            | Resource |                                       | 96.0                            | 96.0                            | –              | –        |
|  | Reserve  |                                       | –                               | –                               | –              | –        |
| <b>TOTAL</b>                           | Resource |                                       | 1,276.0                         | 1,247.6                         | (28.4)         | (2.2)    |
|  | Reserve  |                                       | 161.5                           | 152.9                           | (8.7)          | (5.4)    |

1. Attributable reserves and resources based on the Group's percentage ownership of its joint venture projects.

## PRODUCTION

### 2014 TOTAL GROUP PRODUCTION<sup>1</sup>

|                               | Year ended<br>31 December<br>2014 | Year ended<br>31 December<br>2013 | % change |
|-------------------------------|-----------------------------------|-----------------------------------|----------|
| Silver production (koz)       | 19,357                            | 19,754                            | (2)      |
| Gold production (koz)         | 147.03                            | 175.22                            | (16)     |
| Total silver equivalent (koz) | 28,179                            | 30,267                            | (7)      |
| Total gold equivalent (koz)   | 469.65                            | 504.45                            | (7)      |
| Silver sold (koz)             | 18,981                            | 19,555                            | (3)      |
| Gold sold (koz)               | 142.77                            | 168.56                            | (15)     |

1. Total production includes 100% of all production, including production attributable to Hochschild's joint venture partner at San Jose as well as production in 2013 from the now-sold Moris operation

### ATTRIBUTABLE PRODUCTION BY MINE<sup>2</sup>

|                                      | Year ended<br>31 December<br>2014 | Year ended<br>31 December<br>2013 | % change |
|--------------------------------------|-----------------------------------|-----------------------------------|----------|
| Silver production (koz)              | 16,187                            | 16,639                            | (3)      |
| Gold production (koz)                | 100.89                            | 126.80                            | (20)     |
| Attributable silver equivalent (koz) | 22,241                            | 24,247                            | (8)      |
| Attributable gold equivalent (koz)   | 370.68                            | 404.11                            | (8)      |

2. Attributable production for Q4 2014 and Full Year 2014 includes 100% of all production from Arcata, Pallancata and Ares and 51% from San Jose. Comparatives for 2013 have been restated to include 100% of production from Pallancata and also include production from the now-sold Moris operation.

### PRODUCTION BY MINE

#### Arcata

|                                  | Year ended<br>31 December<br>2014 | Year ended<br>31 December<br>2013 | % change |
|----------------------------------|-----------------------------------|-----------------------------------|----------|
| Ore production (tonnes)          | 701,947                           | 900,861                           | (22)     |
| Average head grade silver (g/t)  | 286                               | 217                               | 32       |
| Average head grade gold (g/t)    | 0.85                              | 0.74                              | 15       |
| Silver produced (koz)            | 5,827                             | 4,984                             | 17       |
| Gold produced (koz)              | 16.89                             | 16.83                             | –        |
| Silver equivalent produced (koz) | 6,841                             | 5,994                             | 14       |
| Silver sold (koz)                | 5,621                             | 4,924                             | 14       |
| Gold sold (koz)                  | 15.66                             | 15.95                             | (2)      |

#### Ares

|                                  | Year ended<br>31 December<br>2014 | Year ended<br>31 December<br>2013 | % change |
|----------------------------------|-----------------------------------|-----------------------------------|----------|
| Ore production (tonnes)          | 167,331                           | 329,095                           | (49)     |
| Average head grade silver (g/t)  | 110                               | 82                                | 34       |
| Average head grade gold (g/t)    | 2.34                              | 2.39                              | (2)      |
| Silver produced (koz)            | 534                               | 757                               | (29)     |
| Gold produced (koz)              | 11.63                             | 23.40                             | (50)     |
| Silver equivalent produced (koz) | 1,232                             | 2,162                             | (43)     |
| Silver sold (koz)                | 540                               | 761                               | (29)     |
| Gold sold (koz)                  | 11.45                             | 23.25                             | (51)     |

**Pallancata<sup>1</sup>**

|                                  | Year ended<br>31 December<br>2014 | Year ended<br>31 December<br>2013 | % change |
|----------------------------------|-----------------------------------|-----------------------------------|----------|
| Ore production (tonnes)          | <b>1,051,068</b>                  | 1,088,712                         | (3)      |
| Average head grade silver (g/t)  | <b>238</b>                        | 264                               | (10)     |
| Average head grade gold (g/t)    | <b>1.03</b>                       | 1.13                              | (9)      |
| Silver produced (koz)            | <b>6,527</b>                      | 7,628                             | (14)     |
| Gold produced (koz)              | <b>24.34</b>                      | 27.83                             | (13)     |
| Silver equivalent produced (koz) | <b>7,988</b>                      | 9,298                             | (14)     |
| Silver sold (koz)                | <b>6,502</b>                      | 7,567                             | (14)     |
| Gold sold (koz)                  | <b>24.02</b>                      | 26.67                             | (10)     |

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<sup>2</sup>**

|                                  | Year ended<br>31 December<br>2014 | Year ended<br>31 December<br>2013 | % change |
|----------------------------------|-----------------------------------|-----------------------------------|----------|
| Ore production (tonnes)          | <b>571,017</b>                    | 536,937                           | 6        |
| Average head grade silver (g/t)  | <b>404</b>                        | 425                               | (5)      |
| Average head grade gold (g/t)    | <b>5.77</b>                       | 6.42                              | (10)     |
| Silver produced (koz)            | <b>6,469</b>                      | 6,357                             | 2        |
| Gold produced (koz)              | <b>94.16</b>                      | 98.83                             | (5)      |
| Silver equivalent produced (koz) | <b>12,119</b>                     | 12,286                            | (1)      |
| Silver sold (koz)                | <b>6,316</b>                      | 6,278                             | 1        |
| Gold sold (koz)                  | <b>91.28</b>                      | 94.76                             | (4)      |

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

## GLOSSARY

### AG

Silver

### ADJUSTED EBITDA

Adjusted EBITDA is calculated as profit from continuing operations before exceptional items, net finance costs, foreign exchange loss and income tax plus depreciation, and exploration expenses other than personnel and other exploration related fixed expenses and other non-cash 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 15 May 2015 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](http://www.hochschildmining.com). Shareholders can also access the latest information about the Company and press announcements as they are released, together with details of future events and how to obtain further information.

## REGISTRARS

The Registrars can be contacted as follows for information about the AGM, shareholdings, dividends and to report changes in personal details:

### BY POST

Capita Asset Services, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU.

### BY TELEPHONE

If calling from the UK: 0871 664 0300 (Calls cost 10p per minute plus network extras, lines are open 8.30am-5.30pm Mon to Fri).

If calling from overseas: +44 20 8639 3399

### BY FAX

+44 (0)1484 600 911

## INVESTOR RELATIONS

For investor enquiries please contact our Investor Relations team by writing to the London Office address (see below), by phone on 020 3714 9040 or via the website by visiting the 'Contact Us' section.

## FINANCIAL CALENDAR

|                               |             |
|-------------------------------|-------------|
| Annual General Meeting        | 15 May 2015 |
| Half-yearly results announced | August 2015 |

## LONDON OFFICE AND REGISTERED OFFICE ADDRESS

23 Hanover Square  
London  
W1S 1JB  
United Kingdom

## COMPANY SECRETARY

R D Bhasin



Designed and produced by Black Sun Plc  
[www.blacksunplc.com](http://www.blacksunplc.com)

Printed on iprint, a paper independently certified according to the rules of the Forest Stewardship Council® (FSC).

The pulp used is elemental chlorine free (ECF).

Printed at Pureprint Group, registered to EMAS, ISO14001, FSC certified and CarbonNeutral®

## 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.

---

**HOCHSCHILD MINING PLC**

23 HANOVER SQUARE  
LONDON W1S 1JB  
UNITED KINGDOM

TEL: +44 (0) 203 714 9040  
FAX: +44 (0) 203 714 9041  
INFO@HOCPLC.COM

WWW.HOCHSCHILDMINING.COM

---



**HOCHSCHILD MINING PLC**