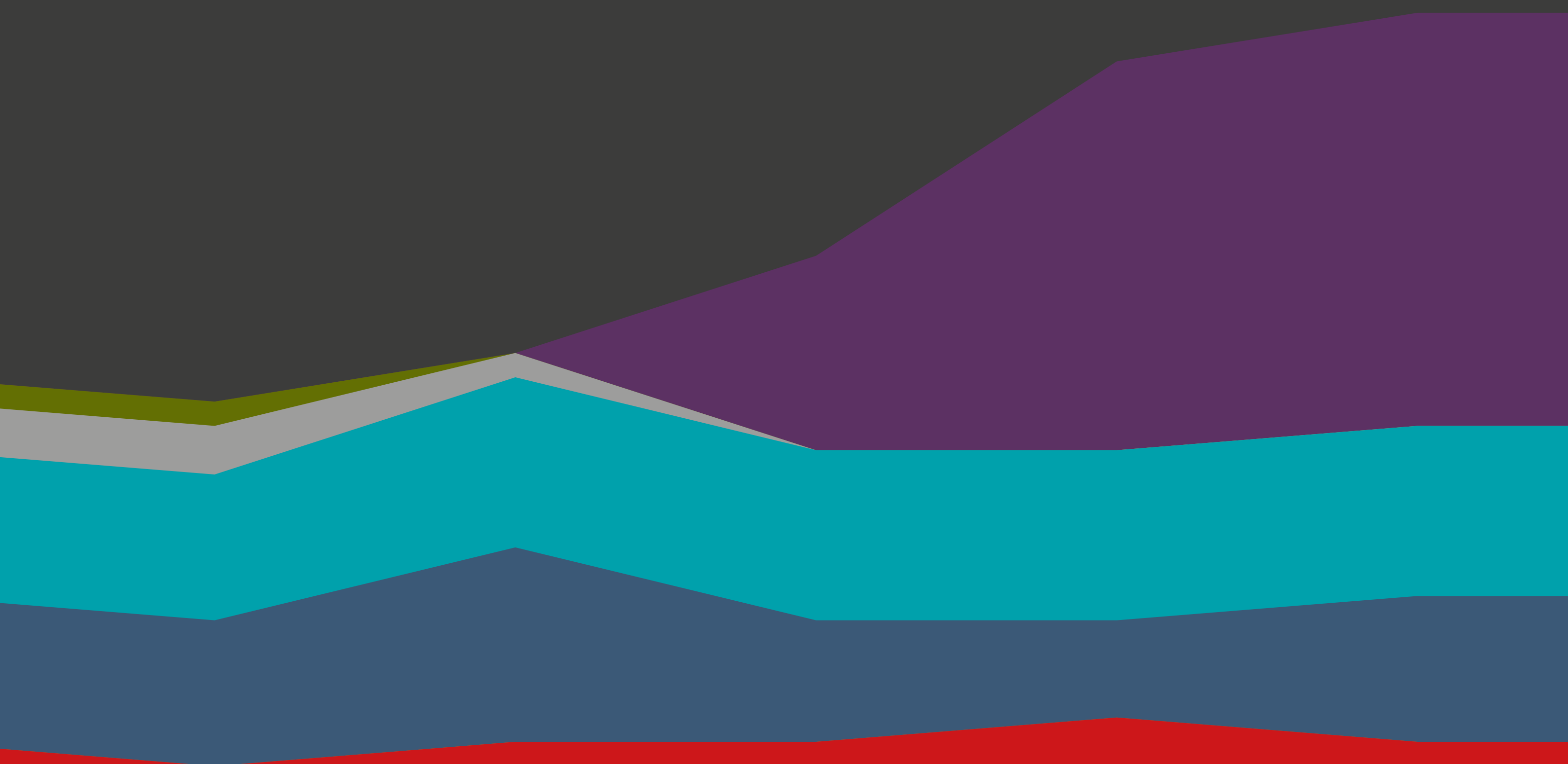
Annual Report & Accounts 2016

A decade of progress...



HOCHSCHILD MINING PLC

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

Adjusted EBITDA of

$329m

(2015: $139m)

Basic adjusted EPS

$0.11

(2015: loss of $0.14)

Final dividend of

1.38¢ /share

(2015: Nil)

AISC cut by 13% to

$11.2 /oz Ag Eq

Cash and cash equivalents of

$140m

(31 Dec 2015: $84m)

Net debt of

$187m

(31 Dec 2015: $351m)

Gold production (attrib.) up 48% to

246,000 oz

Silver production (attrib.) up 17% to

17.3m oz

Contents

"Hochschild Mining has come a long way in the decade since our listing on the London Stock Exchange.

We have successfully navigated a volatile industry environment with several phases of international expansion, internal restructuring, mine construction and delivered consistently on annual production targets and low cost organic growth while maintaining a constant focus on our duties as a responsible operator. This has placed the Company in an ideal position to continue to generate long-term value for all stakeholders.

Over the last few years we have maintained a consistent strategy and in 2016 I was pleased that, as a signal of its ongoing success, the Board was able to reinstate the interim dividend in August and now can also announce a proposed final dividend payout of $7 million."

Eduardo Hochschild
Chairman

We have delivered a decade of progress...

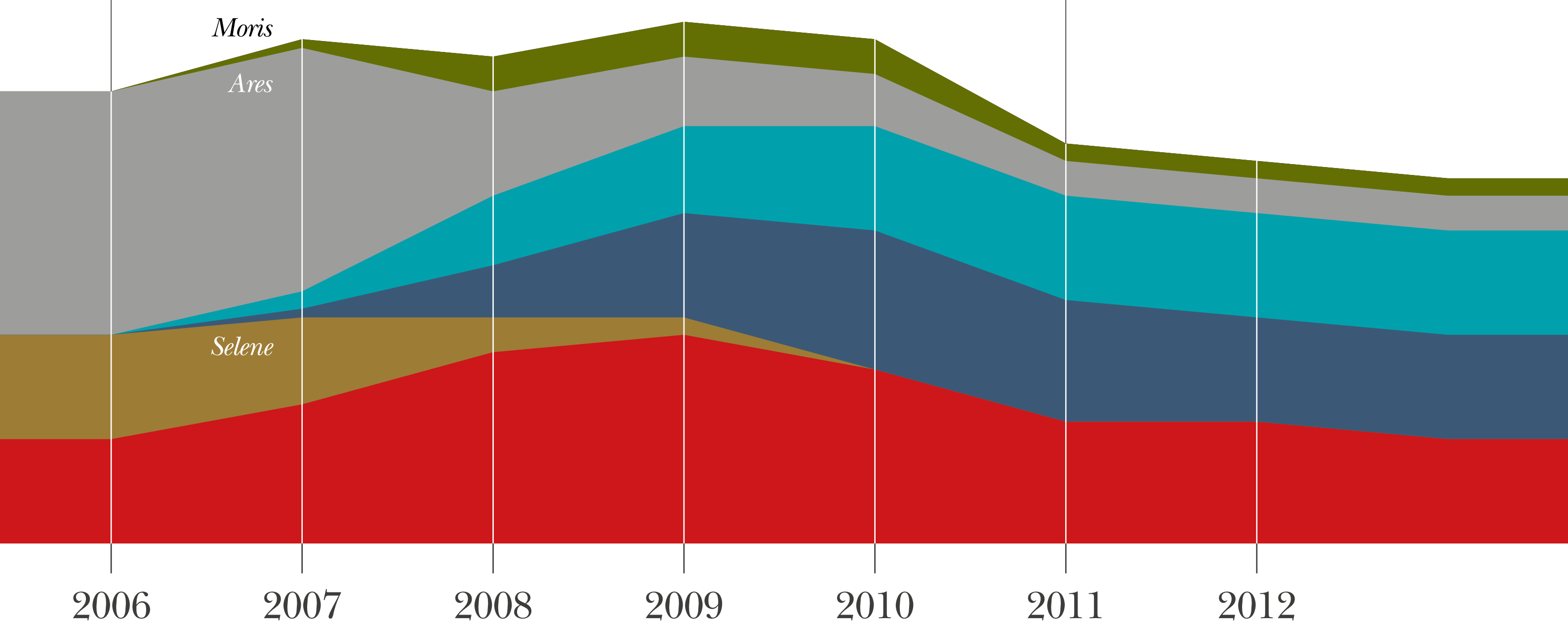
For the last few years, we have been focused on an organic investment strategy combined with a highly successful cost efficiency programme. We are now delivering the results.

International expansion

- IPO in 2006
- San Jose, Pallancata and Moris mines begin operation in 2007
- Inmaculada deposit discovered in 2008
- Investment in Lake Shore Gold Corp. (Canada) and Gold Resource Corp. (Mexico) announced in 2008

Consolidation

- Stake in Lake Shore Gold disposed
- Significant increase in Inmaculada grades & resource announced
- Inmaculada given go-ahead following positive feasibility study
- Excess cash position
- Acquisition of Volcan project in Chile



Restructuring & construction

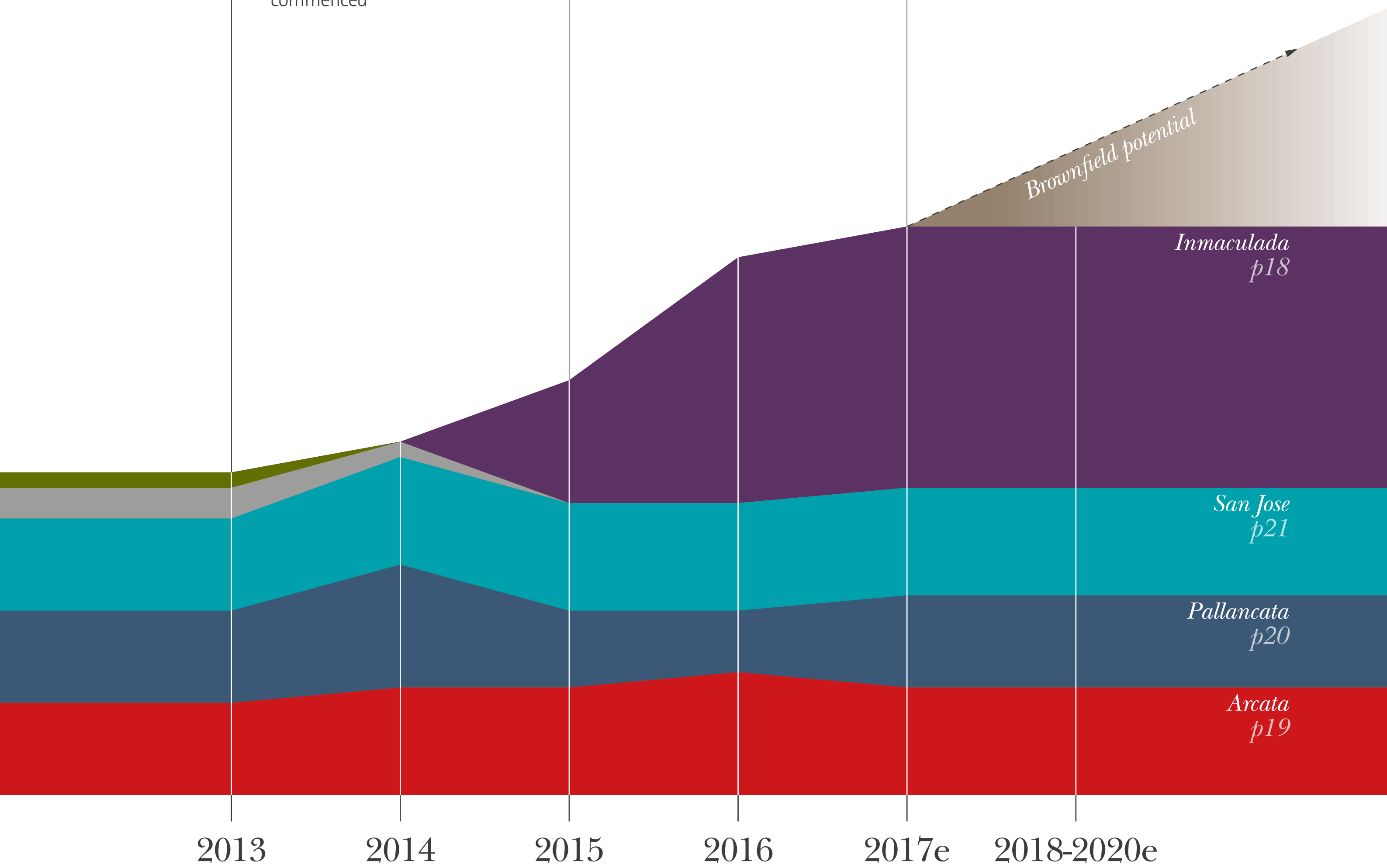
- Cashflow optimisation programme launched in 2013
- $725million total cumulative savings achieved since 2012
- Acquisition of Inmaculada and Pallancata minorities in 2013
- $350m senior note issued in 2014
- Inmaculada construction commenced

Delivery

- Inmaculada achieved commercial production in Aug 2015
- Debt repayment begins following successful $100m equity issue: $230m since Q4 2015
- Record 35.5m Ag Eq oz output in 2016 with 17m oz from Inmaculada

Organic expansion

- New 5 year brownfield exploration programme announced in Sept 2016
- Spare plant capacity available
- Inmaculada expansion options



We are confident of our enormous potential...

Operationally, 2016 was characterised by a strong first full year from our top-tier Inmaculada operation in Peru. There were also improved contributions from Arcata – its best since 2010 – and from our Argentinian mine, San Jose, reflecting a much more promising economic environment in the country.

In line with the production growth, cost reduction continued for a fourth straight year and together with a supportive precious metal price environment, the Company generated strong cashflow throughout the year. Consequently, the Company has been able to follow through decisively on our promise to reduce leverage by repaying $127 million of debt during the year and building up a healthy cash balance. We are now in an increasingly solid financial position to manage our remaining debt profile whilst giving management the flexibility to invest in further organic growth options and continue to return capital to shareholders.

Hochschild has always aimed to invest in mineralised districts with the possibility to grow over time and in this regard we are excited by the potential of our portfolio. The discovery and subsequent resource growth of our new Pablo vein district at Pallancata demonstrates our ability to reinvigorate existing operations, at a low cost through local exploration. We believe that there are significant further opportunities to capitalise on latent processing capacity at our plants as well as to extend the lives of our mines and expand their capacity. The Board is confident that the ambitious exploration programme announced in the third quarter will deliver substantial low cost resources and provide the Company with further growth optionality in the years to come.

Precious metal prices once again experienced periods of volatility in 2016 although both silver and gold did rise to levels not seen since 2013 thereby providing the Company with an unanticipated boost to already strong cashflow generation. However, the subsequent sharp decline in prices at the end of the year illustrated the ongoing unpredictability of our markets and consequently I am encouraged by the Company's continuing emphasis on cost control and debt repayment.

Sustainability

Despite the progress made in 2016 as the third consecutive year without any fatalities, it is with huge regret that an accident at the Inmaculada mine early in 2017 resulted in two deaths. On behalf of the Board, I would like to convey our deepest condolences to the families of the victims involved. The accident serves as a reminder of the high level of risks emanating from mining operations in general. I would like to thank those across the Group whose efforts are focused on making our operations a safe place to work and to whom I pledge the Board's unequivocal support in the belief that every accident is avoidable.

With regards to our environmental efforts, I am pleased to report that the Group continued to improve its environmental performance and maintained its corporate ISO 14001 certification. Furthermore, as part of our ongoing focus on aligning remuneration with our strategic goals, a new environmental scorecard has been adopted, performance against which bonus entitlements will be calculated for senior management over and above the usual operational and financial metrics.

Our relations with local communities are of the utmost importance and we dedicate significant resources in recognition of the social licence granted to us. Details on the varied programmes that the Group has run focusing on our core themes of education, health and socio-economic development can be found in our Sustainability Report and online.

Board

I wish to thank the employees across the business and my fellow Board members for their dedication and support over the year. At the Board level, the stabilised operating environment during the year led to the resumption of our Non-Executive succession plan and I was delighted that we were able to announce the appointment, in November, of Eileen Kamerick and, from the start of this year, Sanjay Sarma. Each brings a varied skill set to the board table and we look forward to our future board discussions. It leaves me to pay special thanks, on behalf of the Board, to Roberto Dañino and Nigel Moore who have served as Directors since the IPO in 2006 and will be retiring at the forthcoming AGM. Their contribution over the past decade has been invaluable and we wish them the very best for the future.

Outlook

The Company is determined to retain emphasis on our low cost organic growth strategy and the ongoing repayment of debt particularly given the already unpredictable nature of 2017 so far. We are confident in the sizeable potential shown in the areas surrounding our operations as well as our team's ability to bring early stage projects through the pipeline and combined with an embedded cost control culture, the prospects for further shareholder return are very strong.

Eduardo Hochschild
Chairman
7 March 2017

And there is still plenty more to come.

We are positioned to deliver sustainable and significant growth in total shareholder returns.

OUR PRIORITIES GOING FORWARD

1. *Management focused on productivity and cost controls*
2. *Significant brownfield potential identified – potential to deliver additional low cost growth*
3. *Pablo already a reality, but untapped geological potential could be material*
4. *Projects in portfolio offer optionality and long-term resources*
5. *Commitment to CSR is a responsibility but also a competitive advantage*

"Our exploration team is working on a variety of opportunities for securing additional low cost growth in the areas surrounding our mines"

– Ignacio Bustamante

2016 has proved to be a watershed year for the Company. We are now fully benefitting from the results of our growth and cost focused strategy with a consistent record of operational excellence driving significantly improved cashflows, reduced leverage and increased shareholder returns. Furthermore, our exploration team is working on a variety of opportunities for securing additional low cost growth in the areas surrounding our mines which we believe will allow for capacity improvements and life-of-mine extensions at our operations.

Operations

A consistent delivery of annual production targets has become a trademark of our Company and 2016 was no exception. We produced a record 35.5 million attributable silver equivalent ounces, an 11% improvement on our original 32 million ounce target, with Inmaculada's output at almost 17 million ounces (229 million gold equivalent ounces). In its first full year, the all-in sustaining cost at this world class operation was a highly competitive $8.7 per silver equivalent ounce ($644 per gold equivalent ounce) which resulted from robust operational delivery. We also saw a successful year at Arcata, which produced just over 8 million ounces at a cost of $13.7 per silver equivalent ounce. At San Jose, continuing operational consistency combined with a vastly improved fiscal environment in Argentina led to an 18% reduction in AISC and strongly improved cashflow generation. The renewed Pallancata mine experienced a transitional year as we prepare to move production to low cost feed from the new Pablo vein district during 2017. We have maintained our focus on cost control at all operations, and the resulting 13% reduction in overall all-in sustaining costs to $11.2 per silver equivalent ounce demonstrates the effectiveness of our policies. As a management team, we are committed to ensuring a safe working environment and we will redouble our efforts in the area of safety in light of the tragic accident at Inmaculada earlier this year.

Exploration

In September, following a number of years of prospective work by our brownfield team, we announced the launch of a new long-term exploration programme with the expectation of not only replacing our production but materially improving our reserves and resources by 2020. We are confident that this key organic growth strategy can deliver further low cost growth through the potential to fill our existing spare plant capacity as well as increase our visible resource life-of-mine. Part of the programme focuses on the Pablo vein at Pallancata and, in 2016, we successfully increased the quality and quantity of resources with the discovery of the high grade Pablo Piso structures. Total resources from this new vein system have now increased to 40 million silver equivalent ounces from 23 million a year ago. In addition, in order to ensure a high future conversion of our

"Net debt ended the year at $187 million which translates to a leverage ratio of 0.57x, significantly below the guidance provided for the year"

– Ignacio Bustamante

resources to reserves, we have made the prudent decision to exclude material in our deposits that has a low probability of being mined. This has reduced our overall operational resources by almost 15% but represents a more robust approach to classification.

Financial position

The proactive management of our balance sheet in order to de-risk the Company has been a clear aim during the construction and subsequent first 18 months of operation at Inmaculada from its commissioning. The strong cashflow from the operations has ensured that in 2016 we made considerable further progress in reducing our debt position. $127 million of short- to medium-term lines were repaid and we still ended the year with a healthy cash and cash equivalents position of $140 million. In 2017, our aim is to continue to strengthen the financial position in anticipation of the Company's option to redeem some or all of the remaining Senior Notes from January 2018 and thereby reduce our financing costs. It is worth adding that currently, we no longer have any hedging agreements in place.

Financial results

As mentioned above, our average price achieved improved in 2016, by 5% for gold and by 6% for silver and consequently when combined with the 25% production increase, revenue rose strongly, by 47% in 2016 to $688 million (2015: $469 million). The improved cost performance led to Adjusted EBITDA of $329 million (2015: $139 million), an increase of 137% versus 2015, reflecting a year of higher margin contribution from Inmaculada. This strong cashflow generation has finally offset the finance costs arising from our 2014 bond issue and adjusted earnings per share therefore rose to $0.11 per share from a loss of $(0.14) per share. We ended the year with net debt of $187 million (2015: $351 million) which translates to a leverage ratio of 0.57x (2015: 2.5x), significantly below guidance for the year.

Outlook

Overall, 2017 is expected to be another record year for the Company with attributable production set to rise to 37 million silver equivalent ounces (or 500,000 gold equivalent ounces) driven by another 17 million ounces from Inmaculada and a first contribution from our highly prospective new Pablo vein at Pallancata with production there expected to be second-half weighted. The all-in sustaining cost per silver equivalent ounce is forecast to be between $12.2 and $12.7 which reflects a stable underlying unit cost and includes an increased investment in brownfield growth as well as a tailings dam expansion at Inmaculada and the initial infrastructure for the development of Pablo.

We are well-positioned for the future

Investment case *p8*
We have a number of attributes which we believe delivers competitive advantage throughout the cycle.

Strategy *p10*
Our strategy is reviewed by our Board on an ongoing basis to ensure relevance to the Company's current and future requirements.

Market *p12*
Precious metals markets have been volatile in the last few years but in 2016 prices rose for the first time in four years.

KPIs *p14*
We use our KPIs to assess performance in terms of meeting our strategic and operational objectives.

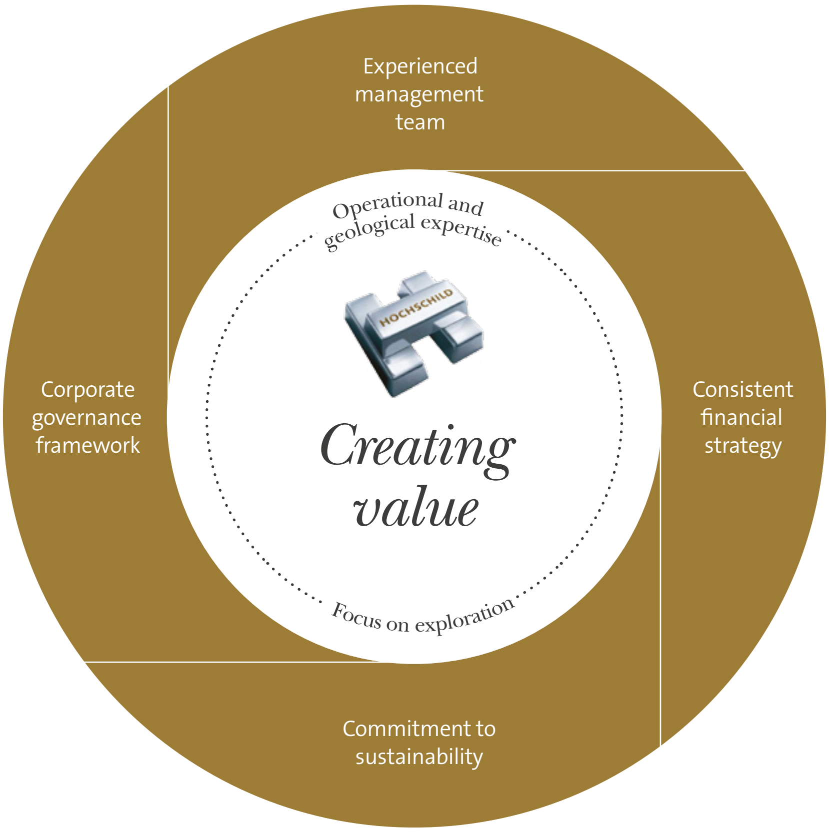
Operations *p16*
We have once again delivered an increase in production at our operations combined with a further reduction in costs.

Sustainability *p29*
We aim to manage our CSR programmes with the same rigour and focus as our operational and exploration programmes.

2016 has represented the consolidation of our organic growth strategy and it is thanks to the efforts of not only our management team but all our employees that we have been able to execute so efficiently. We can look forward to a fifth year of increased production in 2017, further strengthening of our balance sheet and the potential for additional upside from our enhanced brownfield exploration plan.

Ignacio Bustamante
Chief Executive Officer
7 March 2017

Our business model drives long-term sustainable growth



We believe that our consistent and sustainable business model will not only create long-term value for our stakeholders but also sets Hochschild Mining apart, offering an attractive investment proposition.

During the last decade, we have emphasised that a key attribute of this model is our focus on exploration. Our operational assets and the projects that we have advanced through our pipeline depend on our in-house geological expertise and the resulting ability to enhance their resources and hence their value through exploration success.

This has been supported by the depth of our management's experience in the Americas as well as a disciplined but flexible financial strategy. We recognise that, at all levels of our business, the contribution of our talented workforce and their commitment to our corporate values is a fundamental aspect of this model. These values promote an ethical approach and good corporate governance as well acknowledging our responsibilities to our wider stakeholders.

With an investment case that sets us apart

We believe we have an attractive portfolio of assets which can deliver long-term profitable growth.

Operational and geological expertise

We primarily operate underground epithermal deposits in the Americas. For over half a century, we have developed a unique in-depth knowledge base of the regional business environment and legislative framework where we operate. Historically, we have been able to consistently meet annual production targets, increase our resource base and achieve positive results from brownfield exploration at existing mines. This has been achieved despite periods of significant volatility in precious metal markets as well as dynamic political and economic environments.

What sets us apart?

We have a particular expertise in mining mid-sized, narrow, epithermal veins in complex geological conditions, remote areas and changing political environments.

World class flagship mine

Inmaculada is a world class precious metal mine located in the Group's Southern Peru Cluster close to several of our other mining assets. The presence of high grades of gold and silver in a single vein, Angela, characterised by its impressive width and favourable rock quality, allows the mine to achieve a highly competitive cost position. However, whilst the deposit has a more than adequate reserve life, there is significant exploration potential in the district including probable extensions to the main Angela vein as well other vein systems identified in the Company's concession area.

What sets us apart?

The brownfield exploration team have identified geological upside in the surrounding area which is expected to allow the Company to potentially expand this world class operation's capacity and drive costs still lower.

Focus on exploration

The Group has continuously placed a strong emphasis on exploration as a key component of its business model to secure long-term sustainability of the core producing assets as well as finding new projects to expand its portfolio. To this end, in 2016 the Company launched a new brownfield exploration programme aimed at achieving five years of mine life in reserves and an additional five years of mine life in resources by 2020.

What sets us apart?

The value of ounces discovered at the Company in less than 10 years exceeds $5 billion in revenue and the brownfield team believe that, following a long period of prospection, there is still potential at all our assets to find low cost ounces.

Consistent financial strategy

With volatile underlying markets, the Company's financing initiatives are a key underpin to our business strategy. Hochschild has long-standing and flexible financial relationships, allowing it to invest in near-term growth, manage the current operations and provide access to further liquidity should the need arise.

What sets us apart?

Whilst the Company enjoys robust existing global banking relationships and has raised both debt and equity to fund project construction, our long-standing Peruvian presence also allows us favourable access to significant local sources of finance.

Experienced management team

The Group's management team has extensive experience in sustainable mining, developing successful projects and adding economic mineral reserves. This experience has enabled us to operate efficiently and profitably through volatile commodity price cycles for more than 50 years. Hochschild's team has also managed joint venture operations and successfully integrated several acquisitions and business expansions.

What sets us apart?

The management team has considerable experience in the Americas: operating different types of deposits; driving successful cost reduction programmes; planning and building high value projects in short spaces of time; acquiring and divesting companies; and working with local communities.

Commitment to sustainability

We have a historical commitment to safety as well as social and environmental sustainability, with operational safety being one of our core values. In addition, the Group considers its surrounding communities as its long-term business partners and commits skilled professionals as well as financial resources to support programmes in three different categories: health, safety and sustainable development. As a result of these programmes, the Group has been able to operate collaboratively with its neighbours in the Southern Peru Cluster for more than 50 years.

What sets us apart?

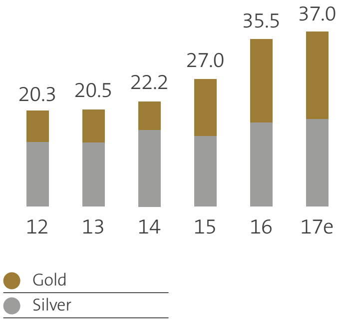
Our mines are located in remote parts of Peru where Hochschild is amongst the very few organisations with a meaningful presence in the area.
We therefore look to form partnerships with regional authorities to provide much needed support to the local communities focusing on education, health and promoting sustainable economic development. As a mining operator, we have a zero tolerance to incidents relating to safety and the environment supported by recognised management information systems and controls.

Results

We have already delivered 75% production growth since 2012 and a 48% reduction in costs.

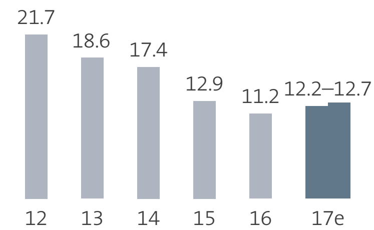
ATTRIBUTABLE PRODUCTION

m oz Ag Eq



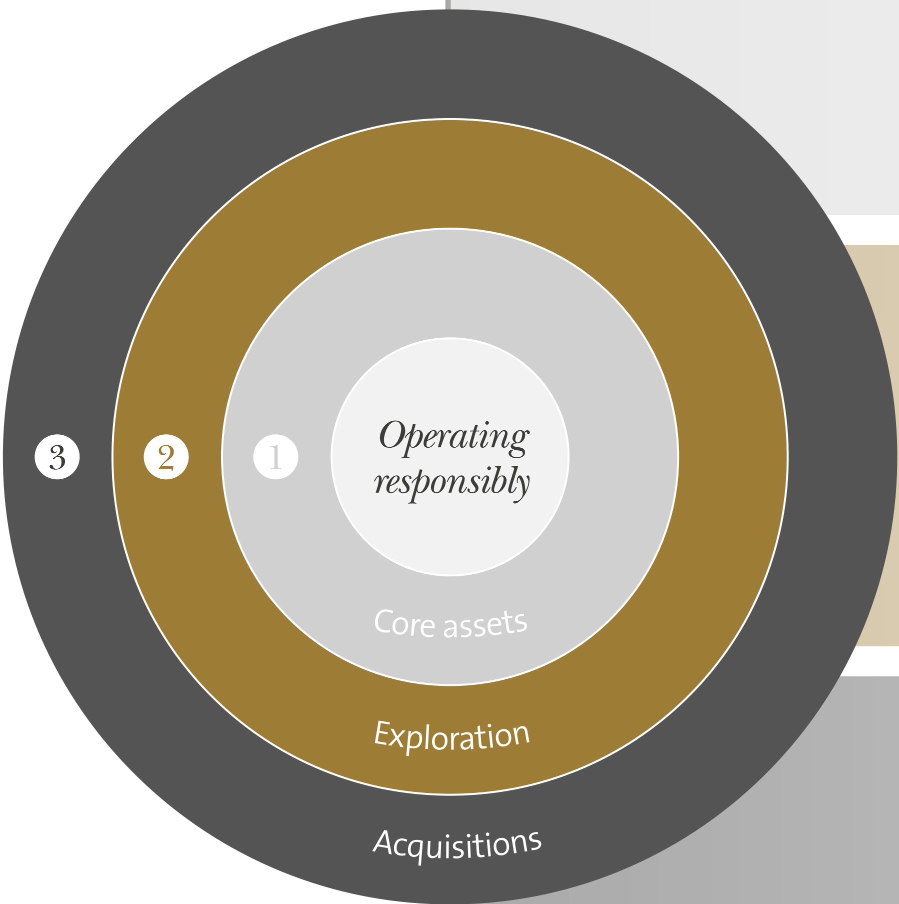
ALL-IN SUSTAINING COSTS

$/oz Ag Eq



And a strategy that remains unchanged.

Our strategy is to create value for shareholders by optimising current operations, focusing on exploration and pursuing opportunistic early-stage acquisitions.



1 Core assets

Short-term priorities

- Cost control and operational efficiencies
- Identify short-term resources to fill spare plant capacity
- Continue execution of brownfield programme

2 Exploration

Short-term priorities

- Progressing drill-ready greenfield projects
- Staking opportunities in Peru

3 Acquisitions

Short-term priorities

- Early-stage
- Earn-in JVs considered

CASE STUDY

A key example of our strategy in action is the discovery, approval, financing and construction of our flagship Inmaculada mine in only six years. The deposit was first drilled in early 2009 and by 2012, its feasibility study had been approved by the Board. Mine development was able to begin in 2012 with construction of the processing plant commencing in 2014 on receipt of the requisite government permits. Hochschild purchased the remaining minority interests in late 2013 and funded this acquisition and the construction of the project through existing cash resources and the issuing of a senior note in January 2014. First production was achieved in June 2015 and the mine was then ramped up to full production within three months.

Long-term priorities

- Increase life-of-mine at all operations
- High value, cost efficient capacity expansions

Progress

- Cash optimisation plan achieved $725m of cumulative savings since 2012
- Announced five year brownfield exploration programme in 2016
- Evaluating opportunities to fill plants at Arcata, Pallancata & Ares
- Inmaculada designed for modular expansion
- Discovered/delivering Pablo opportunity

Long-term priorities

- Building greenfield portfolio
- Re-evaluating and optimising early-stage projects

Progress

- Studying water solutions for Volcan
- New geological hypotheses to be tested at Azuca in 2017
- Two drill-ready opportunities being advanced (Corina, Fresia)

Long-term priorities

- Geological upside potential
- Return on invested capital of 12-15%

Progress

- Inmaculada and Pallancata minorities
- Volcan
- Lake Shore stake divested for net profit of $115m in 2010
- Gold Resource Corp stake divested

We have long market experience...

We have operated in shifting commodity markets for over fifty years and are used to managing the Company whatever the global and political economic circumstances.

What happened in 2016?

Gold

Gold prices broke their losing streak, rising 7.9% on an annual average basis during the year after declining for three consecutive years between 2013 and 2015. While gold started 2016 on a very strong note, rising 20% during the first ten weeks, prices weakened sharply during the last quarter of the year. Prices declined during that period on renewed expectations of a U.S. interest rate hike, which was announced in December 2016, along with the prospects for three more rate hikes in 2017. Markets also turned very optimistic on U.S. economic growth following Donald Trump's election as U.S. president and pushed higher everything from stocks to base metals and the dollar. Meanwhile, bonds and gold declined.

Why?

Demand

Gold investment demand rose sharply in 2016, after declining for four consecutive years, to 20.0 million ounces, up from 13.6 million ounces in 2015. Another important component was central banks who remained net buyers of gold during 2016 and, on a net basis, added approximately 21.55 million ounces of gold to their holdings. The primary goal for their purchases was the same as it has been the past few years – to diversify their monetary reserve assets by adding gold as well as foreign exchange reserves, presently held primarily in U.S. dollars.

Gold fabrication demand is estimated to have totalled 95.1 million ounces in 2016, down 1.1% from 2015. One of the primary factors that weighed during 2016 was the strengthening of gold prices during the first eight months of the year. Another factors was the strengthening of the U.S. dollar versus the domestic currencies of some of the major consumers of gold.

Silver

Annual average silver prices broke a four-year losing streak in 2016 averaging $17.17 in 2016, up 9.6% over 2015. Shorter term speculative investors combined with longer term investors to drive the price of silver higher during the first half of 2016 with reasons including investor expectations on the pace of U.S. interest rate rises, further global loosening of monetary policy and the surprise Brexit vote. However, the same explanation as gold drove the price of silver down during the last quarter of 2016. Silver prices ended 2016 at $15.98, down from their intraday high of $21.22 on 5 July 2016 but still 15.8% higher than their settlement price of $13.80 at the end of 2015.

Demand

Investors were net buyers of 98.1 million ounces of silver in 2016. The net additions to investor holdings were lower than the average of 147 million ounces added to investor inventories annually between 2009 and 2015, but were still very high historically. This was in stark contrast to 1990-2005, when investors were consistent net sellers of silver.

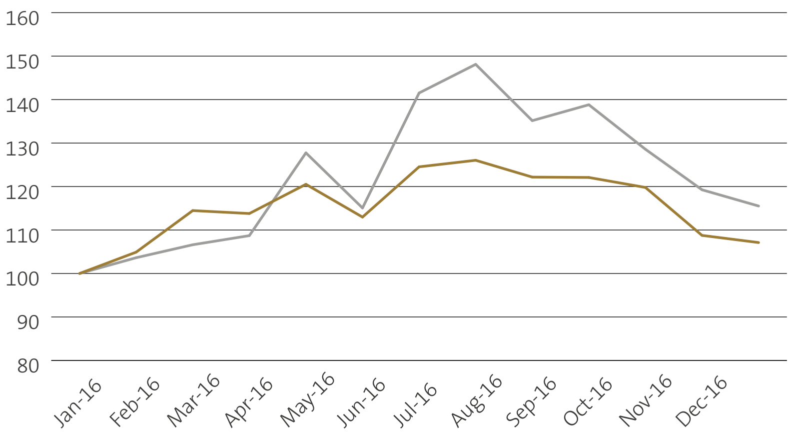
The largest source of demand for silver is jewellery and silverware. Silver use in these products rose to a record 301.9 million ounces in 2016 although the rate of increase slowed significantly in 2016 to 1.5% from a 7% increase in demand from this sector in 2015. This can primarily be attributed to silver price strength during 2016 relative to 2015 with jewellery demand typically sensitive to the price.

Demand from the electronics sector, the second largest use of silver, rose by 0.4% to a record 224.7 million ounces in 2016. Demand from electronics manufacturers declined during the first seven months of the year but picked up in August 2016 and is expected to continue into 2017. In 2016, the photovoltaic industry surpassed photography to become the third largest use of silver with government support in various countries playing a key role in driving higher demand for solar panels. Demand is estimated to have reached around 74 million ounces in 2016, up 18.8%.

Source: CPM Group LLC

GOLD AND SILVER PRICES IN 2016

Monthly settlement prices indexed to 4 January 2016



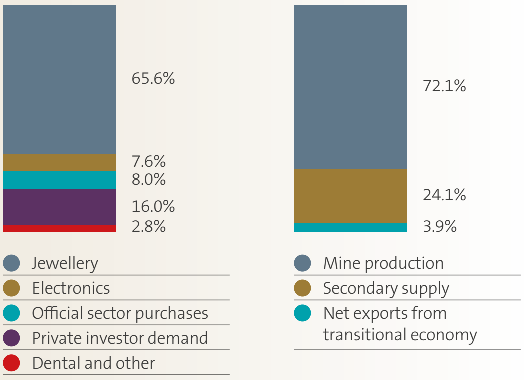
COUNTRY PRODUCTION BY RANKINGS

	2015		2016	
	Gold	Silver	Gold	Silver
Peru	6	3	**7**	**3**
Argentina	13	9	**13**	**10**
Mexico	8	1	**8**	**1**
Chile	17	5	**16**	**5**

Supply

Total gold supply, which is composed primarily of mine supply and secondary or scrap supply, rose to 125.0 million ounces in 2016, up 1.6% from 2015. The growth during the year was primarily driven by an increase in mine production. which has been rising on account of the large number of new projects that came onstream in response to the rise in prices between 2002 and 2011. After falling sharply for three consecutive years, gold secondary supply stabilised somewhat in 2016 at 30.1 million ounces.

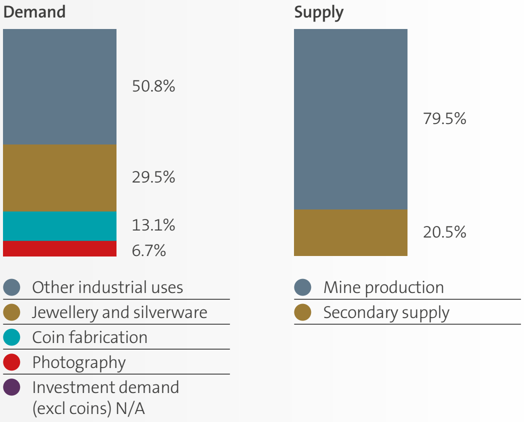
DEMAND AND SUPPLY IN 2016



Supply

Total supply of silver, from mine production, secondary supply, government disposals, and net exports from transitional economies, is estimated to have declined by 2% to 987.8 million ounces in 2016. Global silver mine supply is estimated to have slipped to 886.1 million ounces in 2016, down from 889.9 million ounces in 2015 due to scheduled closures and planned production cutbacks during the year at a mix of primary mines as well as by-product mines. Total secondary supply is estimated to have slipped 1%, significantly slower than sharper declines in scrap recovery between 2013 and 2015.

DEMAND AND SUPPLY IN 2016



Note: Investors were net sellers of silver excluding coins in 2016, exchanging bullion bars for coins. Total newly refined silver supply reached 987.8 million ounces in 2016. Total industrial fabrication demand reached 889.7 million ounces and coin fabrication reached 133.7 million ounces. The excess demand during 2016 was met with liquidation of bar holdings by institutional investors.

What could drive precious metal prices in 2017?

- Economic and political uncertainty
- Central bank purchases of gold
- Rising mine supply (gold)/ further supply declines (silver)
- Steady scrap supply
- Rising fabrication demand from jewellery, electronics, and solar panels (silver)
- Flat fabrication demand
- Price weakness leading to increased retail demand

What do we do in response?

- We have always aimed to ensure our operations generate positive cashflows throughout the price cycle with a keen focus on cost control, efficient mine planning and other productivity measures
- Hochschild's aim is to be a 100% hedge free company. However, during the period of the construction of Inmaculada and the subsequent repayment of our debt position, Hochschild took measures to hedge a portion of production in order to ensure sustainable cashflows despite significant moves in the prices of gold and silver

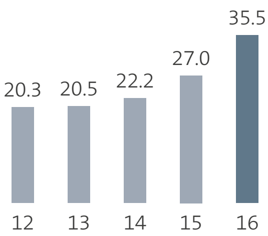
That continues to create and deliver value

Hochschild's Key Performance Indicators (KPIs) are important in evaluating the overall health and performance of the Company and include a range of operational, financial and non-financial measures that are tracked every month by the Board.

Financial

PRODUCTION[1]

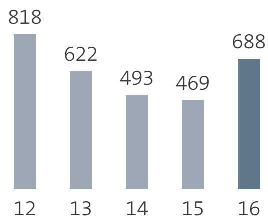
m oz Ag equivalent



Performance
Total silver equivalent production increased by 31% versus 2015 due to the contribution of a full year of Inmaculada.

REVENUE

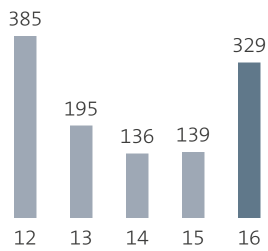
$m



Performance
Total revenue increased by 47% versus 2015 due to increased production and prices.

ADJUSTED EBITDA

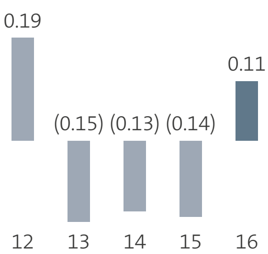
$m



Performance
Adjusted EBITDA increased by 137% versus 2015 due to increased revenue and reduced costs.

BASIC EARNINGS PER SHARE

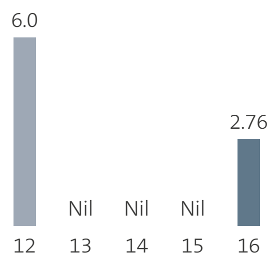
$ pre-exceptional



Performance
Basic earnings per share increased by 179% from a loss in 2015.

DIVIDEND PER SHARE

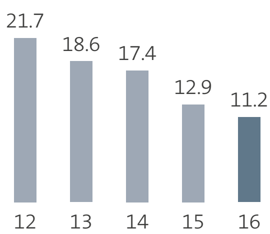
US cents per share



Performance
The dividend was restored in 2016 following the ongoing success of the Company's strategy.

ALL-IN SUSTAINING COSTS

$/oz Ag equivalent

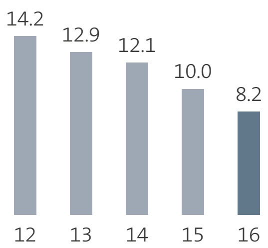


Performance
AISC reduced by 13% to $11.2 per silver equivalent ounce due to a full year at Inmaculada, better grades and operational initiatives.

1 Calculated using gold/silver ratio for 2015 and 2016 of 74x to convert gold to silver equivalent. Historic ratio of 60x used for 2011 – 2014.

TOTAL SILVER CASH COSTS

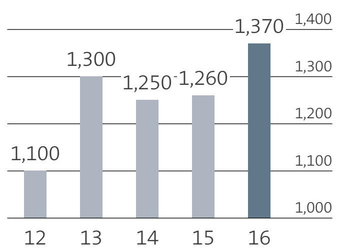
$/oz Ag co-product



Performance
Total silver cash costs were reduced by 18% versus 2015.

RESOURCE BASE

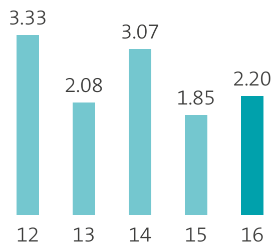
m oz Ag equivalent



Performance
Total resources increased by 9% to 1,370 million ounces.

Non-financial

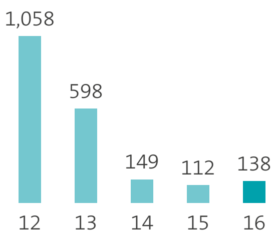
LTIFR



Performance
LTIFR increased by 19% but still remains low relative to the industry.

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

ACCIDENT SEVERITY INDEX



Performance
Accident Severity Index increased by 23% primarily due to an increase in manual mining methods.

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

With over half a century of regional expertise...

The operational and geological experience we have developed over many years has allowed us to maximise the productivity of our Core Assets, develop mining projects and find new deposits across the Americas.

MINING OPERATIONS[1]

1	**Arcata** Peru	Silver equivalent production All-in sustaining costs	8.0 moz $13.7/oz Ag Eq
2	**Inmaculada** Peru	Silver equivalent production All-in sustaining costs	16.9 moz $8.7/oz Ag Eq
3	**Pallancata** Peru	Silver equivalent production All-in sustaining costs	3.5 moz $16.3/oz Ag Eq
4	**San Jose[2]** Argentina	Silver equivalent production All-in sustaining costs	13.7 moz $11.6/oz Ag Eq

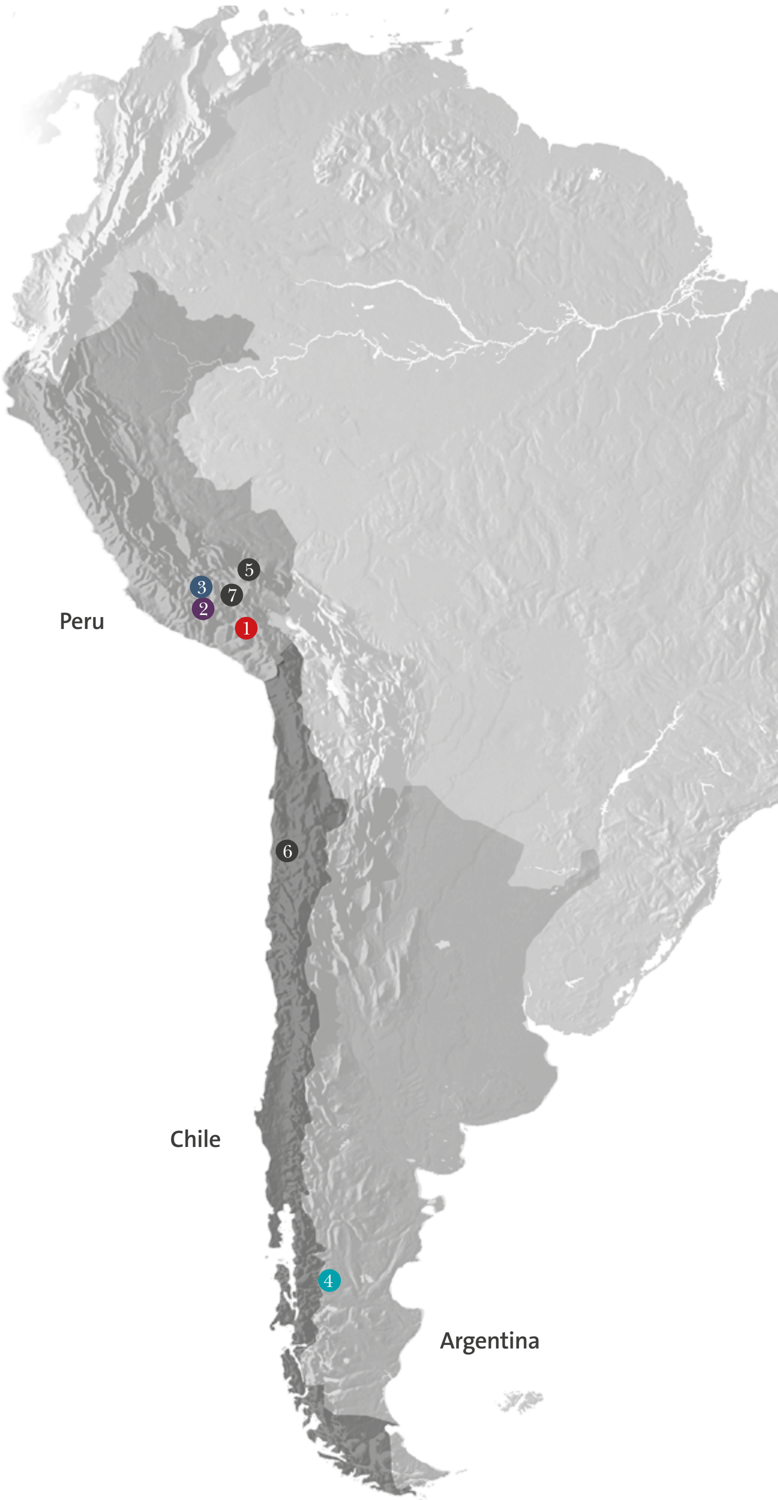
GROWTH PROJECTS

5	**Crespo** Peru	Estimated silver equivalent production p.a.	2.7 moz
6	**Volcan** Chile	Estimated silver equivalent production p.a.	n/a
7	**Azuca** Peru	Estimated silver equivalent production p.a.	n/a

OTHER ASSETS

Selene	Peru
Corina	Peru
Ares	Peru
Fresia	Peru

1 Silver equivalent production equals total gold production multiplied by 74 and added to the total silver production.
2 The Company has a 51% interest in San Jose.



World-class portfolio in Latin America

In 2016 Hochschild once again exceeded its full year production target, delivering attributable production of 35.5 million silver equivalent ounces, including 17.3 million ounces of silver and 246.1 thousand ounces of gold.

Operations

Production

The overall production target for 2017 is 37.0 million silver equivalent ounces, which consists of 17 million ounces from Inmaculada, approximately 7 million attributable ounces from the 51% owned San Jose operation and also from Arcata with the balance of 6 million ounces from Pallancata.

Total group production

	Year ended 31 Dec 2016	Year ended 31 Dec 2015
Silver production (koz)	**20,562**	18,037
Gold production (koz)	**292.63**	213.37
Total silver equivalent (koz)	**42,217**	33,827
Total gold equivalent (koz)	**570.50**	457.12
Silver sold (koz)	**21,091**	17,263
Gold sold (koz)	**298.96**	187.39

Total production includes 100% of all production, including production attributable to Hochschild's joint venture partner at San Jose.

Attributable group production

	Year ended 31 Dec 2016	Year ended 31 Dec 2015
Silver production (koz)	**17,284**	14,752
Gold production (koz)	**246.08**	166.02
Silver equivalent (koz)	**35,493**	27,037
Gold equivalent (koz)	**479.64**	365.37

Attributable production includes 100% of all production from Arcata, Inmaculada, Pallancata and 51% from San Jose.

Note: silver/gold equivalent production figures assume a gold/silver ratio of 74:1.

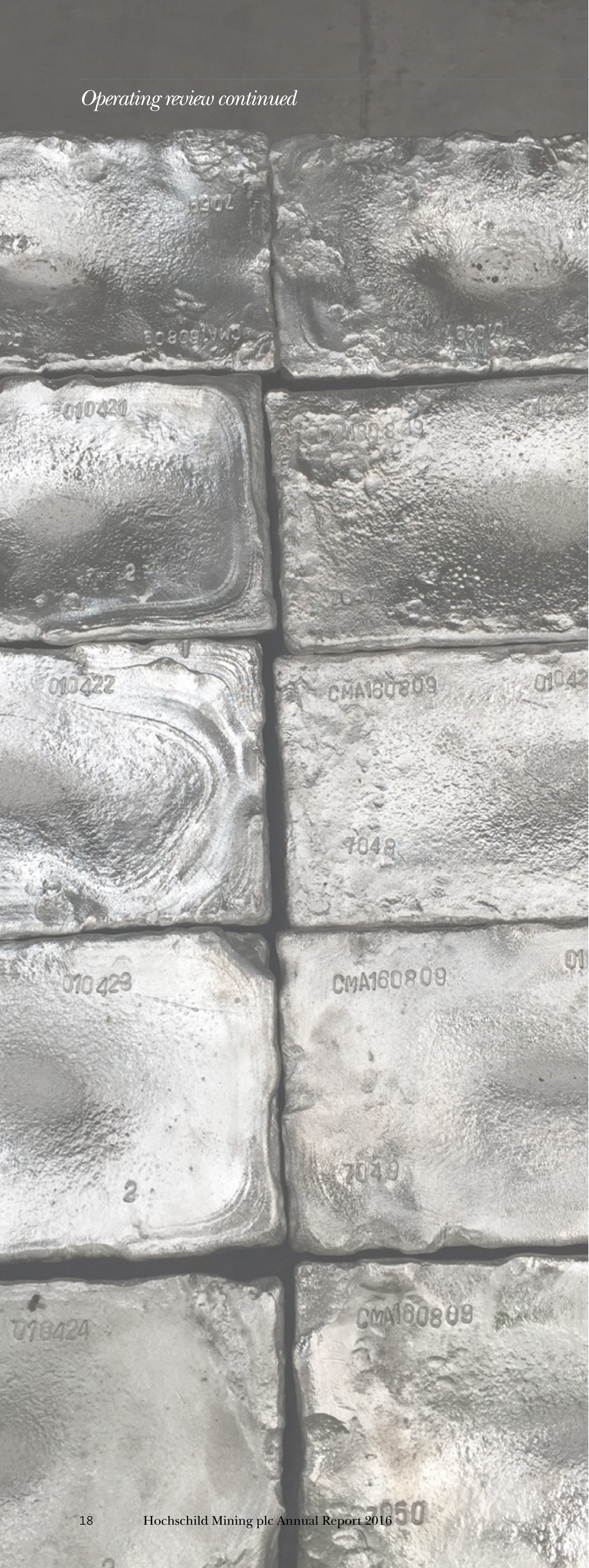
Costs

The Company's all-in sustaining cost was reduced by 13% in 2016 to $11.2 per silver equivalent ounce driven by Inmaculada's very competitive $8.7 per silver equivalent ounce ($644 per gold equivalent ounce). A full year of production at Inmaculada, better than expected grades and operational initiatives contributed to the reduction. Please see page 25 of the Financial Review for further details on costs.

The all-in sustaining cost per silver equivalent ounce in 2017 is expected to be between $12.2 and $12.7 which includes the previously announced increased budget for brownfield exploration as well as further expenditure on the development of the Pablo vein. Excluding the increased investment in resource growth as well as the one-off investment in Pablo infrastructure, the all-in sustaining cost forecast is between $11.5 and $12.0 per silver equivalent ounce.

2017 AISC forecast split

Operation	2017 AISC ($/oz silver equivalent)	2017 AISC ($/oz silver equivalent) Excluding growth investment
Inmaculada	**9.5-10.0**	9.0-9.5
Arcata	**15.3-15.8**	14.5-15.0
Pallancata	**14.2-14.7**	12.5-13.0
San Jose	**12.8-13.3**	12.5-13.0



Inmaculada (Peru)

The 100% owned Inmaculada gold/silver underground operation is located in the Department of Ayacucho in southern Peru. It commenced commissioning in June 2015.

Inmaculada summary	Year ended 31 Dec 2016	Year ended 31 Dec 2015	% change
Ore production (tonnes)	**1,306,606**	659,737	98
Average silver grade (g/t)	**133**	115	16
Average gold grade (g/t)	**4.21**	4.36	(3)
Silver produced (koz)	**4,908**	2,055	139
Gold produced (koz)	**162.71**	84.64	92
Silver equivalent produced (koz)	**16,948**	8,318	104
Gold equivalent produced (koz)	**229.03**	112.41	104
Silver sold (koz)	**5,004**	1,638	205
Gold sold (koz)	**164.75**	67.51	144
Unit cost ($/t)	**64.4**	63.3	2
Total cash cost ($/oz Ag co-product)	**5.2**	4.6	13
All-in sustaining cost ($/oz)	**8.7**	7.3	19

Production

Inmaculada has delivered a very successful first full year with production reaching a better than expected 229 thousand gold equivalent ounces (16.9 million silver equivalent ounces) consisting of 162.7 thousand ounces of gold and 4.9 million ounces of silver. Throughout the year, grades and silver recoveries achieved were better than expected in the original mine plan in addition to higher tonnage per day being processed through the plant (3,850 tonnes versus 3,500 tonnes per day).

Costs

The all-in sustaining costs were better than expected in the original plan at $8.7 per silver equivalent ounce. This was driven by higher production resulting from stronger gold grades as well as operational efficiencies versus plan. AISC in 2017 is expected to be between $9.5 and $10.0 per silver equivalent ounce reflecting lower gold grades and a $15 million investment in the expansion of the tailings dam.

Arcata (Peru)

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

Arcata summary	Year ended 31 Dec 2016	Year ended 31 Dec 2015	% change
Ore production (tonnes)	**677,309**	648,051	5
Average silver grade (g/t)	**337**	323	4
Average gold grade (g/t)	**1.24**	0.99	25
Silver produced (koz)	**6,343**	5,613	13
Gold produced (koz)	**22.54**	15.67	44
Silver equivalent produced (koz)	**8,011**	6,772	18
Gold equivalent produced (koz)	**108.26**	91.52	18
Silver sold (koz)	**6,346**	5,653	12
Gold sold (koz)	**22.04**	15.29	44
Unit cost ($/t)	**101.1**	109.1	(7)
Total cash cost ($/oz Ag co-product)	**11.0**	11.7	(6)
All-in sustaining cost ($/oz)	**13.7**	14.3	(4)

Production

In 2016, Arcata delivered its best year since 2010 with 8.0 million silver equivalent ounces produced consisting of 6.3 million ounces of silver and 22.5 thousand ounces of gold. This represents an 18% improvement on 2015 (2015: 6.8 million ounces) with tonnage and grades strong throughout the year as well as better than expected silver recoveries.

Costs

In 2016, all-in sustaining costs fell by 4% to $13.7 per silver equivalent ounce (2015: $14.3 per ounce) substantially below the original 2016 forecast of $14.5 due to better than expected tonnage and grades resulting from the success of the Company's brownfield exploration programme.

Pallancata (Peru)

The 100% owned Pallancata silver/gold property is located in the Department of Ayacucho in southern Peru. Pallancata commenced production in 2007. Ore from Pallancata is transported 22 kilometres to the Selene plant for processing.

Pallancata summary	Year ended 31 Dec 2016	Year ended 31 Dec 2015	% change
Ore production (tonnes)	**244,765**	522,431	(53)
Average silver grade (g/t)	**381**	259	47
Average gold grade (g/t)	**1.86**	1.28	45
Silver produced (koz)	**2,620**	3,664	(28)
Gold produced (koz)	**12.37**	16.42	(25)
Silver equivalent produced (koz)	**3,536**	4,879	(28)
Gold equivalent produced (koz)	**47.78**	65.93	(28)
Silver sold (koz)	**2,660**	3,632	(27)
Gold sold (koz)	**12.41**	15.80	(21)
Unit cost ($/t)	**131.0**	98.9	32
Total cash cost ($/oz Ag co-product)	**12.4**	12.5	(1)
All-in sustaining cost ($/oz)	**16.3**	15.7	4

Production

The Pallancata mine produced 3.5 million silver equivalent ounces in 2016 (2015: 4.9 million ounces) comprising 2.6 million ounces of silver and 12.4 thousand ounces of gold. This result reflected a transitional year before the introduction of commercial production from the new Pablo vein in 2017.

During the fourth quarter, there was a reduction in the mine's output due to a road blockade by members of a local community which halted production from early November 2016. The dispute was subsequently resolved with production re-commencing on 25 January 2017.

Costs

All-in sustaining costs at Pallancata were $16.3 per silver equivalent ounce (2015: $15.7 per ounce). The moderate increase versus 2015 was due to capital invested in developing the access and infrastructure for Pablo as well as the effects of stoppage causing a significant fall in tonnage affecting unit costs. This was partially offset by increased grades and operational efficiencies. Costs are expected to fall substantially in 2017 when the Pablo vein begins production.

San Jose (Argentina)

The San Jose silver/gold mine is located in Argentina, in the province of Santa Cruz, 1,750 kilometres south-southwest of Buenos Aires. San Jose commenced production in 2007 and is a joint venture with McEwen Mining Inc. Hochschild holds a controlling interest of 51% in the mine and is the mine operator.

San Jose summary*	Year ended 31 Dec 2016	Year ended 31 Dec 2015	% change
Ore production (tonnes)	**536,024**	532,488	1
Average silver grade (g/t)	**444**	448	(1)
Average gold grade (g/t)	**6.28**	6.36	(1)
Silver produced (koz)	**6,691**	6,706	–
Gold produced (koz)	**95.01**	96.64	(2)
Silver equivalent produced (koz)	**13,721**	13,857	(1)
Gold equivalent produced (koz)	**185.42**	187.26	(1)
Silver sold (koz)	**7,081**	6,340	12
Gold sold (koz)	**99.76**	88.79	12
Unit cost ($/t)	**202.4**	210.4	(4)
Total cash cost ($/oz Ag co-product)	**9.7**	10.8	(10)
All-in sustaining cost ($/oz)	**11.5**	14.1	(18)

* The Company has a 51% interest in San Jose

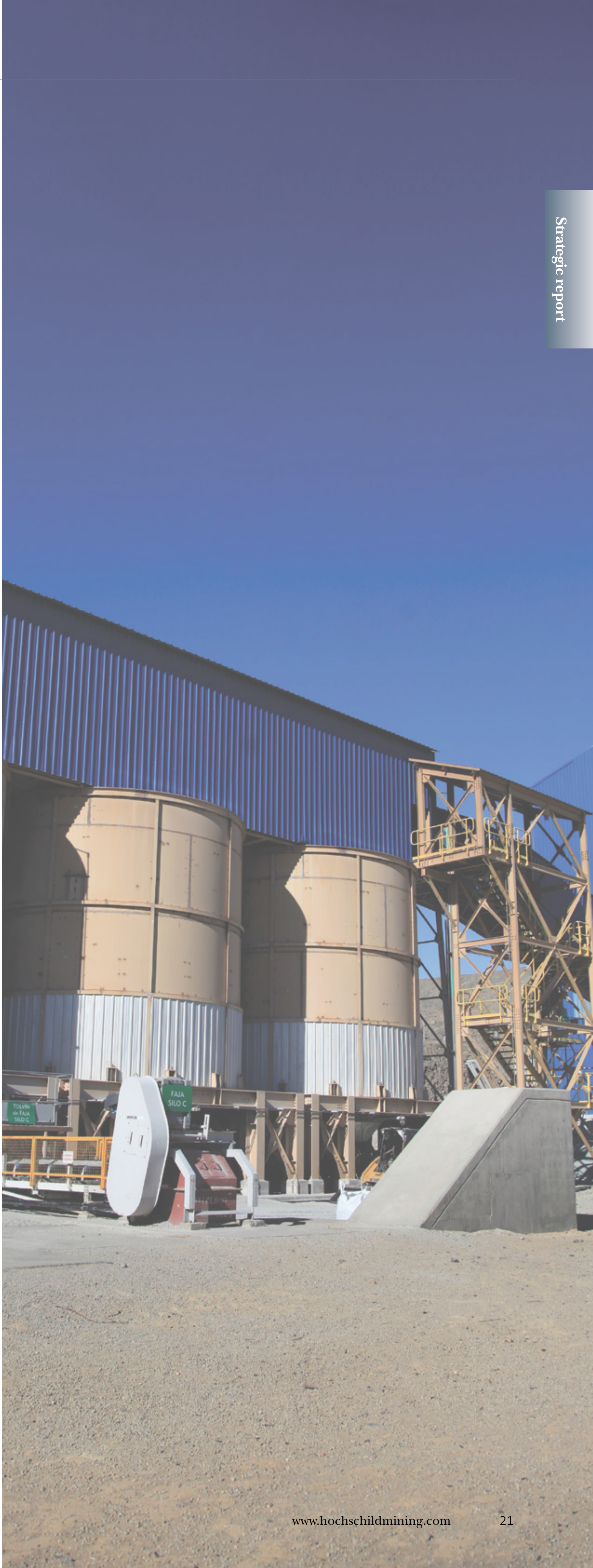
Production

San Jose has again proved to be a solid performer with production of 13.7 million silver equivalent ounces consisting of 6.7 million ounces of silver and 95 thousand ounces of gold. This was in line with the 2015 result (13.9 million ounces) with a moderate increase in tonnage offsetting slightly lower grades.

Costs

At San Jose, all-in sustaining costs were reduced by 18% to $11.5 per silver equivalent ounce (2015: $14.1 per ounce) mainly driven by the significant fiscal changes in Argentina in the first half of the year. These included the elimination of export taxes and the restoration of the Patagonian port rebate (see below).

In November 2015, the Argentinian government restored the right to receive a rebate from goods exported through Patagonian ports (previously cancelled in 2009) and was applicable to Hochschild at a rate of approximately 9% of the FOB value of its exports. However, in the fourth quarter of 2016, the benefit was once again cancelled.



Reserves and resources

Total reserves and resources for core operations remained strong, reducing slightly to 183 million and 476 million silver equivalent ounces respectively driven by:

The reduction in the silver price assumption used for cutting both reserves and resources from $20.0 per ounce as at 31 December 2015 to $16.5 per ounce as at 31 December 2016 while maintaining the gold price assumption at $1,200 per ounce. The resulting impact in reserves and resources has been a small decrease, as previously anticipated in the sensitivity table published in the 2015 Preliminary Results statement.

In addition, the Group chose to eliminate resources with a low probability of conversion into reserves at Arcata, San Jose and the existing Pallancata veins. The reduction was mostly from inferred resources with low grades and resources located far from existing mine infrastructure. At Pallancata, the adjustment affects mineral from bridges and pillars in the original Pallancata vein where extraction would impact the stability of the mine structure. Resources at Inmaculada and at the Pablo vein have not been affected.

The decrease was partially offset by the addition of resources from the Pablo vein at Pallancata which is now over 40 million ounces with silver equivalent grade improving significantly to 529 silver equivalent grams per tonne.

These adjustments do not affect the Group's mine plans, future production or cost guidance. The Group believes that it will improve conversion ratios from resources into reserves and ensure a high quality resource base.

BROWNFIELD EXECUTION PLAN

Exploration

In September 2016, the Company announced details of a new five-year brownfield exploration plan. Significant brownfield potential has been identified which is expected to extend LOM at all operations and deliver additional low cost growth.

Inmaculada

In 2016, historical drill results were reviewed by the brownfield team and targets for 2017 were defined. The 2017 programme includes approximately 50,000 metres of resource drilling in the east of the deposit at the Millet and Olinda structures which is expected to start towards the end of the second quarter, subject to obtaining the requisite permits. In addition, 7,200 metres of potential drilling is planned to start in March 2017 in the east and also at the Puquiopata area.

Arcata

At Arcata, 8,166 metres were drilled during the year to test North-South structures in the central area of the mine as well as in the Tunel 4 zone, Roxana and Macarena veins in order to extend existing structures and identify new ones. Some highlights are presented below:

Vein	Results
Ramal Marion Sur	DDH-941-GE16:1.2m @ 1.8 g/t Au & 576 g/t Ag
	DDH-943-GE16:1.2m @ 4.1 g/t Au & 2,157 g/t Ag
Tunel 4	DDH-912-GE16:1.8m @ 1.1 g/t Au & 205 g/t Ag
	DDH-939-LM16:1.3m @ 3.6 g/t Au & 2,655 g/t Ag

In 2017, almost 45,000 metres of resource drilling is planned mostly in the first half of the year with the focus on the Paralelas, Tunels 2,3 and 4 and Ramal Mario Sur veins whilst 13,000 metres of potential drilling is planned in the second half of 2017 at the Alexia, Macarena East, Tunel 2,3 and 4, Tres Reyes, Luisa and Marciano structures.

Pallancata

During 2016, drilling was carried out at the new Pablo vein in Pallancata. The results confirmed the presence of several extensional vein sets adjacent to the main Pablo structure – Pablo Pisos (now renamed). In addition, the Company has identified an area in Pablo Piso that hosts higher grade mineralisation. Total inferred resources from the Pablo and associated structures have now reached 40.4 million silver equivalent ounces which is a 78% increase on the December 2015 figure and demonstrates the significant potential already discovered in the Pablo vein system.

Drill results in the Pablo Area

Vein	Results
Pablo Piso	DLYU-A109: 0.9m @ 0.3g/t Au & 183g/t Ag
	DLPP-A07: 4.1m @ 1.4g/t Au & 483g/t Ag
	DLPP-A11: 1.2m @ 0.1g/t Au & 52g/t Ag
	DLPP-A09: 1.0m @ 0.1g/t Au & 32g/t Ag
	DLPP-A05: 6.4m @ 1.1g/t Au & 322g/t Ag
	DLPP-A10: 0.9m @ 0.3g/t Au & 125g/t Ag
	DLPP-A06: 3.7m @ 2.6g/t Au & 813g/t Ag
	DLPP-A08: 0.9m @ 1.3g/t Au & 246g/t Ag
	DLPP-A12: 1.2m @ 7.4g/t Au & 2,282g/t Ag
	DLPP-A16: 2.7m @ 1.0g/t Au & 356g/t Ag
Andres (Pablo Piso 1)	DLPP-A07: 0.7m @ 0.7g/t Au & 211g/t Ag
	DLPP-A05: 0.9m @ 0.2g/t Au & 79g/t Ag
	DLPP-A06: 0.8m @ 0.4g/t Au & 126g/t Ag
	DLPP-A04: 0.7m @ 0.1g/t Au & 44g/t Ag
	DLPP-A12: 0.9m @ 1.2g/t Au & 547g/t Ag
	DLPP-A01: 0.9m @ 1.0g/t Au & 177g/t Ag
	DLPP-A18: 1.0m @ 5.3g/t Au & 1,652g/t Ag
	DLPP-A16: 5.1m @ 1.2g/t Au & 408g/t Ag
Tomas (Pablo Piso 2)	DLEP-A04: 0.8m @ 0.3g/t Au & 71g/t Ag
	DLEP-A12: 0.8m @ 2.6g/t Au & 652g/t Ag
	DLEP-A01: 0.6m @ 0.2g/t Au & 51g/t Ag
	DLEP-A16: 0.7m @ 0.5g/t Au & 184g/t Ag
	DLPP-A15: 1.0m @ 0.4g/t Au & 111g/t Ag
	DLPP-A18: 0.6m @ 1.9g/t Au & 600g/t Ag
	DLPP-A14: 1.3m @ 0.7g/t Au & 179g/t Ag
	DLPP-A13: 0.8m @ 0.3g/t Au & 156g/t Ag
Simon (Pablo Piso 3)	DLNE-A04: 0.9m @ 1.7g/t Au & 569g/t Ag
	DLPP-A04: 0.9m @ 11.7g/t Au & 2,253g/t Ag
	DLPP-A12: 0.6m @ 1.8g/t Au & 491g/t Ag
	DLPP-A01: 0.8m @ 2.4g/t Au & 721g/t Ag
	DLPP-A15: 0.8m @ 0.7g/t Au & 172g/t Ag
	DLPP-A18: 0.6m @ 3.6g/t Au & 481g/t Ag
	DLPP-A14: 2.7m @ 0.9g/t Au & 220g/t Ag
Pedro (Pablo Piso 4)	DLPP-A01: 1.0m @ 0.6g/t Au & 207g/t Ag
	DLPP-A14: 0.7m @ 0.5g/t Au & 149g/t Ag
Juan (Pablo Piso 5)	DLPP-A01: 0.6m @ 0.2g/t Au & 65g/t Ag
	DLPP-A17: 0.7m @ 0.0g/t Au & 13g/t Ag
	DLPP-A14: 0.8m @ 0.3g/t Au & 101g/t Ag

In 2017, potential drilling will focus on the Pablo and Yanacochita-Farallon areas.

San Jose

At San Jose 1,240m was drilled in the fourth quarter mainly in the Aguas Vivas area with the programme continuing into 2017. In addition in 2017, 20,800 metres of drilling is also planned in the Platifero, Clara and Saavedra Norte structures.

Strong financial performance and cash generation

We have delivered an impressive improvement in our annual results driven by a first full year from our flagship Inmaculada mine, a strong overall cost performance and a more favourable pricing environment.

The reporting currency of Hochschild Mining plc is U.S. dollars. In discussions of financial performance the Group removes the effect of exceptional items, unless otherwise indicated, and in the income statement results are shown both pre and post such exceptional items. Exceptional items are those items, which due to their nature or the expected infrequency of the events giving rise to them, need to be disclosed separately on the face of the income statement to enable a better understanding of the financial performance of the Group and to facilitate comparison with prior years.

Revenue

Gross revenue

Gross revenue from continuing operations increased by 47% to $722.0 million in 2016 (2015: $492.5 million) driven by a significant increase in sales resulting from the first full year of production from the Company's Inmaculada mine as well as a rise in precious metal prices.[1]

Silver

Gross revenue from silver increased by 30% in 2016 to $358.7 million (2015: $275.3 million) as a result of a 22% increase in the total amount of silver ounces sold to 21,091 koz (2015:17,263 koz) driven by the first full year contribution from Inmaculada as well as increased sales from Arcata and San Jose. In addition, silver revenue also benefited from a 6% increase in the average silver price received.

Gold

Gross revenue from gold increased 67% in 2016 to $363.4 million (2015: $217.2 million) as a result of a 60% rise in the total amount of gold ounces sold in 2016 (299.0 koz) as well as a 5% increase in the average gold price received. The increase in gold sales came from the first full year of output from the predominantly gold-producing Inmaculada operation.

Gross average realised sales prices

The following table provides figures for average realised prices (which are reported before the deduction of commercial discounts and include the effects of the hedging agreements in place during the year) and ounces sold for 2016 and 2015:

Average realised prices	Year ended 31 Dec 2016	Year ended 31 Dec 2015
Silver ounces sold (koz)	**21,091**	17,263
Avg. realised silver price ($/oz)	**17.0**	16.0
Gold ounces sold (koz)	**298.96**	187.39
Avg. realised gold price ($/oz)	**1,215**	1,159

Commercial discounts

Commercial discounts refer to refinery treatment charges, refining fees and payable deductions for processing concentrates, and are deducted 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 2016, the Group recorded commercial discounts of $34.1 million (2015: $23.6 million). The increase is explained by the higher production and the decision to switch the production of Arcata back to concentrate as opposed to the previous year when most was sold as doré. The ratio of commercial discounts to gross revenue in 2016 was 5% (2015: 5%).

Net revenue

Net revenue increased by 47% to $688.2 million (2015 $469.1 million), comprising net gold revenue of $354.4 million and net silver revenue of $333.5 million. In 2016, gold accounted for 51% and silver 49% of the Company's consolidated net revenue (2015: gold 45% and silver 55%) with the increase in the gold contribution due to a full year of sales from the predominantly-gold Inmaculada mine.

Revenue by mine[2]

$000	Year ended 31 Dec 2016	Year ended 31 Dec 2015	% change
Silver revenue			
Arcata	**106,206**	93,445	14
Inmaculada	**83,642**	25,223	232
Pallancata	**44,500**	59,803	(26)
San Jose	**124,316**	96,837	28
Commercial discounts	**(25,139)**	(16,929)	48
Net silver revenue	**333,525**	258,379	29
Gold revenue			
Arcata	**25,717**	19,124	34
Inmaculada	**196,466**	77,080	155
Pallancata	**14,994**	19,929	(25)
San Jose	**126,174**	101,046	25
Commercial discounts	**(8,993)**	(6,688)	34
Net gold revenue	**354,358**	210,491	68
Other revenue	**359**	276	30
Net revenue	**688,242**	469,146	47

1 Includes revenue from services
2 Reconciliation of gross revenue by mine to Group net revenue

Revenue

$688m

(2015: $469 million)

Adjusted EBITDA

$329m

(2015: $139 million)

Profit before income tax

$108m

(2015: $256 million loss)

Adjusted basic earnings per share

$0.11

(2015: loss of $0.14)

Costs

Total cost of sales was $487.7 million in 2016 (2015: $403.7 million). The direct production cost excluding depreciation was higher at $293.8 million (2015: $265.1 million) due to the first full year of Inmaculada. Depreciation in 2016 was $185.7 million (2015: $139.5 million) with the increase due to Inmaculada's depreciation of assets. Other items, which principally includes personnel related provisions, was $1.8 million in 2016 (2015: $9.3 million). Change in inventories was $6.5 million in 2016 (2015: ($10.3 million)).

$000	Year ended 31 Dec 2016	Year ended 31 Dec 2015	% change
Direct production cost excluding depreciation	293,810	265,107	11
Depreciation in production cost	185,655	139,533	33
Other items	1,750	9,272	(81)
Change in inventories	6,487	(10,255)	163
Pre-exceptional cost of sales	487,702	403,657	21

Unit cost per tonne

The Company reported unit cost per tonne at its operations of $106.2 per tonne in 2016, a 10% decrease versus 2015 ($118.4 per tonne).

Unit cost per tonne by operation (including royalties)[3]:

Operating unit ($/tonne)	Year ended 31 Dec 2016	Year ended 31 Dec 2015	% change
Peru	83.2	90.7	(8)
Arcata	101.1	109.1	(7)
Inmaculada	64.4	63.3	2
Pallancata	131.0	98.9	32
Argentina			
San Jose	202.4	210.4	(4)
Total	106.2	118.4	(10)

Cash costs

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

Cash cost reconciliation[4]:

$000 unless otherwise indicated	Year ended 31 Dec 2016	Year ended 31 Dec 2015	% change
Group cash cost	358,800	313,939	14
(+) Cost of sales	487,702	403,657	21
(-) Depreciation and amortisation in cost of sales	(180,317)	(135,645)	33
(+) Selling expenses	14,175	21,729	(35)
(+) Commercial deductions[5]	37,240	24,198	54
Gold	11,486	6,714	71
Silver	25,754	17,484	47
Revenue	688,242	469,146	47
Gold	*354,358*	*210,491*	*68*
Silver	*333,525*	*258,379*	*29*
Others	359	276	30
Ounces sold			
Gold	298.9	187.4	59
Silver	21,091	17,263	22
Group cash cost ($/oz)			
Co product Au	618	752	(18)
Co product Ag	8.2	10.0	(18)
By-product Au	(2)	203	(101)
By-product Ag	(0.3)	5.6	(105)

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.

3 Unit cost per tonne is calculated by dividing mine and treatment production costs (excluding depreciation) by extracted and treated tonnage respectively.

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

5 Includes commercial discounts (from the sales of concentrate) and commercial discounts from the sale of doré.

All-in sustaining cost reconciliation

All-in sustaining cash costs per silver equivalent ounce

Year ended 31 Dec 2016

$000 unless otherwise indicated	Arcata	Inmaculada	Pallancata	San Jose	Main operations	Corporate & others	Total
(+) Production cost excluding depreciation	68,155	83,796	33,650	108,209	293,810	–	293,810
(+) Other items in cost of sales	462	506	241	541	1,750	–	1,750
(+) Operating and exploration capex for units	20,819	54,199	16,130	32,670	123,818	255	124,073
(+) Brownfield exploration expenses	1,305	1	733	1691	3,730	2,806	6,536
(+) Administrative expenses (excl depreciation and before exceptional items)	1,441	3,420	674	8,180	13,715	32,932	46,647
(+) Royalties and special mining tax[6]		3,243	639		3,882	3,869	7,751
Sub-total	**92,182**	**145,165**	**52,067**	**151,291**	**440,705**	**39,862**	**480,567**
Au ounces produced	22,541	162,710	12,374	95,006	292,631	–	292,631
Ag ounces produced (000s)	6,343	4,908	2,620	6,691	20,562	–	20,562
Ounces produced (Ag Eq 000s oz)	8,011	16,948	3,536	13,721	42,216	–	42,216
Sub-total ($/oz Ag Eq)	**11.5**	**8.6**	**14.7**	**11.0**	**10.4**	**–**	**11.4**
(+) Commercial deductions	15,383	1,650	5,038	15,169	37,240	–	37,240
(+) Selling expenses	1,973	1,130	721	10,351	14,175	–	14,175
(-) Export credits	–	–	–	(19,029)	(19,029)		(19,029)
Sub-total	**17,356**	**2,780**	**5,759**	**6,491**	**32,386**	**–**	**32,386**
Au ounces sold	22,043	164,754	12,407	99,761	298,965	–	298,965
Ag ounces sold (000s)	6,346	5,004	2,660	7,081	21,091	–	21,091
Ounces sold (Ag Eq 000s oz)	7,977	17,196	3,578	14,463	43,214	–	43,214
Sub-total ($/oz Ag Eq)	**2.2**	**0.2**	**1.6**	**0.4**	**0.7**	**–**	**0.7**
All-in sustaining costs ($/oz Ag Eq)	**13.7**	**8.7**	**16.3**	**11.5**	**11.2**	**–**	**12.1**

Year ended 31 Dec 2015

$000 unless otherwise indicated	Arcata	Inmaculada	Pallancata	San Jose	Main operations	Corporate & others	Total
(+) Production cost excluding depreciation	71,128	32,765	51,599	108,101	263,593	–	263,593
(+) Other items in cost of sales	2,133	1,544	1,610	5,499	10,786	–	10,786
(+) Operating and exploration capex for units	14,600	13,704	10,683	38,451	77,438	1,193	78,631
(+) Brownfield exploration expenses	62	6	2,457	1,463	3,988	1,990	5,978
(+) Administrative expenses (excl depreciation and before exceptional items)	2,641	2,515	1,796	7,095	14,047	22,569	36,616
(+) Royalties and special mining tax[11]	–	1,037	741	–	1,778	–	1,778
Sub-total	**90,564**	**51,571**	**68,886**	**160,609**	**371,630**	**25,752**	**397,382**
Au ounces produced	15,670	72,226	16,419	96,638	200,953		200,953
Ag ounces produced (000s)	5,613	1,746	3,664	6,706	17,729	–	17,729
Ounces produced (Ag Eq 000s oz)	6,772	7,090	4,879	13,857	32,598	–	32,598
Sub-total ($/oz Ag Eq)	**13.4**	**7.3**	**14.1**	**11.6**	**11.4**	**–**	**12.2**
(+) Commercial deductions	5,144	4	6,687	12,363	24,198	–	24,198
(+) Selling expenses	962	12	1,048	19,707	21,729	–	21,729
Sub-total	**6,106**	**16**	**7,735**	**32,070**	**45,927**	**–**	**45,927**
Au ounces sold	15,289	67,513	15,795	88,793	187,390	–	187,390
Ag ounces sold (000s)	5,653	1,638	3,632	6,340	17,263	–	17,263
Ounces sold (Ag Eq 000s oz)	6,784	6,634	4,801	12,910	31,129	–	31,129
Sub-total ($/oz Ag Eq)	**0.9**	**0.0**	**1.6**	**2.5**	**1.5**	**–**	**1.5**
All-in sustaining costs ($/oz Ag Eq)	**14.3**	**7.3**	**15.7**	**14.1**	**12.9**	**–**	**13.7**

6 Royalties arising from revised royalty tax schemes introduced in 2011 and included in income tax line

Administrative expenses

Administrative expenses before exceptional items increased by 26% to $48.0 million (2015: $38.1 million) primarily due to increased personnel expenses.

Exploration expenses

In 2016, exploration expenses were flat at $9.2 million (2015: $9.3 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 2016, the Company capitalised $1.3 million relating to brownfield exploration compared to $2.6 million in 2015, bringing the total investment in exploration for 2016 to $10.5 million (2015: $11.8 million).

Selling expenses

Selling expenses decreased by 35% versus 2015 to $14.2 million (2015: $21.7 million) mainly due to the elimination of export duties at San Jose. Selling expenses in 2016 consisted mainly of logistic costs for the sale of concentrate in addition to approximately 1.5 months of export duties on concentrate until its elimination on 12 February 2016. Previously, export duties in Argentina were levied at 10% of revenue for concentrate and 5% of revenue for doré.

Other income/expenses

Other income before exceptional items was $33.1 million (2015: $8.0 million). This mainly consisted of income from the Patagonian port benefit ($16.9 million) reintroduced towards the end of 2015, incremental revenue from logistic services provided to third parties and a reduction in mine closure provisions ($6.3 million).

Other expenses before exceptional items were reduced to $13.9 million (2015: $15.3 million).

Adjusted EBITDA

Adjusted EBITDA increased by 137% over the period to $329.0 million (2015: $138.8 million) driven primarily by the significant effect of a full year's contribution from the low cost Inmaculada mine as well as higher metal 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 2016	Year ended 31 Dec 2015	% change
Profit from continuing operations before exceptional items, net finance cost, foreign exchange loss and income tax	**148,188**	(10,886)	1,461
Depreciation and amortisation in cost of sales	**180,317**	135,645	33
Depreciation and amortisation in administrative expenses	**1,331**	1,534	(13)
Exploration expenses	**9,193**	9,255	(1)
Personnel and other exploration related fixed expenses	**(3,947)**	(4,301)	8
Other non cash (income)/ expenses[7]	**(6,068)**	7,590	(180)
Adjusted EBITDA	**329,014**	138,837	137
Adjusted EBITDA margin	*48%*	*30%*	

Finance income

Finance income before exceptional items of $1.1 million reduced slightly from 2015 ($1.9 million) and mainly includes interest received on deposits.

Finance costs

Finance costs before exceptional items decreased from $31.4 million in 2015 to $30.5 million in 2016, principally due to the reduction of interest resulting from the repayment of $50.0 million of the medium-term loan, $57.5 million of short-term loans and $20.0 million of the amounts owed to Graña y Montero. In 2015, interest expenses were net of amounts capitalised during the construction of Inmaculada in line with IFRS.

Foreign exchange losses

The Group recognised a foreign exchange loss of $1.8 million (2015: $5.6 million loss) as a result of exposures in currencies other than the functional currency specifically the Peruvian Nuevo Sol and Argentinian Peso.

Income tax

The Company's pre-exceptional income tax charge was $47.6 million (2015: $20.4 million). The substantial increase in the charge is explained by the Company's significant increase in profitability in the period, as well as an increase in the mining royalties paid in Peru, the level of which is based on the operating margin achieved by the Company´s Peruvian operations.

Exceptional items

Exceptional items in 2016 totalled a $6.4 million loss after tax (2015: $173.3 million loss). Exceptional items principally included: a penalty payment for changing the energy supplier at Arcata ($4.3 million) which will result in energy cost savings; a $2.7 million gain on the reversal of the mining reserve tax in Argentina (eliminated by the Argentinian Government) in addition to the reversal of the associated interest on the reserve tax ($1.0 million); costs related to the stoppage at Pallancata ($2.5 million); costs related to improvements to the Ares tailings dam ($2.2 million); write-off of a now uncontested fee payable to a local authority of $1.8 million; and a property, plant and equipment ("PP&E") write-off of $1.6 million.

These items excluded the exceptional tax effect that amounted to a $2.2 million tax charge (2015: $36.9 million tax credit).

7 Adjusted EBITDA has been presented before the effect of significant non-cash (income)/expenses related to changes in mine closure provisions and the write-off of property, plant and equipment

Cash flow and balance sheet review

Cash flow

$000	Year ended 31 Dec 2016	Year ended 31 Dec 2015	Change
Net cash generated from operating activities	316,073	133,256	182,817
Net cash used in investing activities	(127,364)	(223,319)	95,955
Cash flows (used in)/generated in financing activities	(132,165)	61,027	(193,192)
Net increase/(decrease in cash and cash equivalents) during the year	56,544	(29,036)	85,580

Operating cash flow increased from $133.3 million in 2015 to $316.1 million in 2016, mainly due to the maiden full year cash contribution from the Inmaculada mine in addition to higher prices. Net cash used in investing activities decreased to $127.4 million in 2016 from $223.3 million in 2015 mainly due to the completion of the Inmaculada mine in the middle of 2015. Finally, cash from financing activities changed to $132.2 million used in the year from $61.0 million generated in 2015, primarily due to the $107.4 million of debt repayment in 2016 versus the raising of short-term debt in Peru in 2015 ($75.0 million). As a result, total cash flows resulted in a net increase of $56.5 million from a net decrease of $29.0 million in 2015 ($85.5 million difference).

Working capital

$000	Year ended 31 Dec 2016	Year ended 31 Dec 2015
Trade and other receivables	93,837	135,014
Inventories	57,056	70,286
Other financial (liability)/assets	(1,726)	20,126
Income tax (payable)/receivable	(9,025)	17,628
Trade and other payables and provisions	(211,277)	(249,788)
Working capital	(71,135)	(6,734)

The Group's movement in the working capital position improved by $64.4 million to a $71.1 million reduction in 2016 from a $6.7 million reduction in 2015. This was primarily explained by: lower trade and other receivables ($41.2 million) mainly due to VAT recoveries of $22.0 million and a reduction in trade receivables of $25.0 million; positive movement in other financial (liability)/assets of $21.9 million from an asset position in 2015 (explained by hedging contracts), to a liability position in 2016 resulting from the embedded derivative associated with provisional pricing; and lower inventories ($13.2 million). These effects were partially offset by lower trade and other payables and provisions ($38.5 million) mainly resulting from the payment of amounts owed to Graña y Montero.

Net debt

$000 unless otherwise indicated	Year ended 31 Dec 2016	Year ended 31 Dec 2015
Cash and cash equivalents	139,979	84,017
Long-term borrowings	(291,073)	(339,778)
Short-term borrowings[8]	(36,312)	(94,760)
Net debt	(187,406)	(350,521)

The Group reported net debt position was $187.4 million as at 31 December 2016 (2015: $350.5 million). The reduction in 2016 includes the net effect of: the prepayment of the Scotiabank medium-term loan ($50 million); the repayment of short-term loans ($57.4 million) and; the operating cash generated mainly in Inmaculada.

Capital expenditure[9]

$000	Year ended 31 Dec 2016	Year ended 31 Dec 2015
Arcata	20,819	14,600
Ares	16	25
Selene	25	139
Pallancata	16,105	10,683
San Jose	35,311	38,451
Inmaculada[10]	54,199	166,336
Operations	126,475	230,234
Crespo	2,982	2,842
Volcan	691	958
Azuca	1,237	211
Other	260	3,914
Total	131,645	238,159

2016 capital expenditure of $131.6 million (2015: $238.2 million) mainly comprised of operational capex of $126.5 million (2015: $230.2 million) with the reduction due to the inclusion in 2015 of a portion of Inmaculada project capital expenditure.

8 Includes pre-shipment loans and short-term interest payables

9 Includes additions in property, plant and equipment and evaluation and exploration assets (confirmation of resources) and excludes increases in the expected closure costs of mine asset

10 Inmaculada was accounted for as a project in H1 2015 and therefore the 2015 capital expenditure figure includes project expenditure

Significant progress was made in 2016 on a number of fronts in acknowledgement of the social licence to operate that has been granted to us

Dear Shareholder

In 2016, the Group made significant progress across numerous areas in acknowledgement of the social licence to operate that has been granted to us. However, it is with great regret that we recently announced the accident at Inmaculada which resulted in two fatalities. I would like to echo the comments of the Company Chairman in conveying our sincere condolences to the families of those involved and underline the Board's collective commitment to ensuring the safety of our operations.

2016 in context

Even though 2016 saw an improvement in the trading environment for the Company, there was continued volatility in precious metal prices. Given management's focus on rebuilding the Company's financial health, there has been a continual need for the many teams at Hochschild to prioritise the resources available to them and to maximise the impact of their programmes.

Safety

The accidents earlier in the year serve as a reminder of the risks in general in the mining industry and why it is crucial that we expend time and effort in constantly monitoring our practices and providing training to those operating in and around our mines so that our collective goal of zero tolerance to accidents is always at the forefront.

In isolation, 2016 represented a third consecutive year without any fatalities. However, in light of the fatalities in early 2017, we consider it imperative that we fully understand the reasons behind the latest accident and that all necessary steps are taken so that we can continue our path in reassuring colleagues of their safety.

In terms of overall performance during the year, the Group saw increases of 19% in accident frequency and 24% in accident severity. Changes in the nature of the Group's operations did indeed take place from year to year, primarily with Inmaculada transitioning from project to core asset, however, we do not adjust our zero appetite to breaches of safety.

Our communities and the environment

In 2016, we continued to prioritise the resources committed to our communities with the ongoing focus on our three core areas: education, health and socio-economic development. Whilst the trading conditions did not allow us to launch any new programmes, we built on the significant achievements to date by increasing the reach of the medical services offered to our rural communities as well as successfully transferring our IT infrastructure project in Chalhuanca, as planned, to the regional and municipal authorities. Further details on these initiatives, as well as those of our Argentina operations can be found in this report and on our website.

With regards to our environmental performance, we have made significant progress in terms of our usage of water, with sizeable reductions in water consumption at our Peruvian operations and a notable increase in the amount of water recycled.

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, Corporate Social Responsibility Committee

Governance of Corporate Social Responsibility ("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.

For further information on how we prioritise our resources and the Committee's terms of reference, please visit www.hochschildmining.com/en/sustainability.

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 and Corporate Affairs report for sustainability issues.

The CSR Committee's work in 2016

During the year, the CSR Committee:

- approved the 2015 Sustainability Report for inclusion in the 2015 Annual Report;
- monitored the execution of the yearly plan in each of the four key areas of focus including progress updates;
- considered the priorities of the environmental team and their work plan;
- considered the status of the Group's community initiatives; and
- reviewed the environmental and community relations related risks and related work plans.

Given the exposure of the Group's strategy to Sustainability Risks (comprising Health & Safety, Community Relations and Environmental risks), the full Board received regular presentations on how such risks are managed. Furthermore, the Board received presentations from management on the blockade at Pallancata that was ongoing at the year-end but which ended early this year.

Reporting of targets and indicators

As part of the Company's ongoing strategy to make more information available online, detailed sustainability related performance indicators as well as targets for 2017 are available on the Company's website.

Safety

Given the inherently high risk profile of mining, safety is our highest priority.

2016 HIGHLIGHTS

- Continued implementation of the internally designed behaviour-based safety programme
- New Inmaculada mine achieved Level 7 certification of the DNV GL management system (2015: Level 5)

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 2016

- In relation to the Group's Safety Management System (designed by the risk management firm DNV GL), the safety team completed the necessary preparatory steps as well as the requisite training in advance of the migration to the 7th edition of the International Safety Rating System;
- The Inmaculada mine, which only commenced commercial production in the second half of 2015 succeeded in obtaining DNV Level 7 certification and is therefore on a par with the Group's other, more established operations;
- The continued implementation of a bespoke suite of behaviour-based safety procedures at the Peruvian operations.

These procedures incorporate the use of a five-step process to observe and register safety checks. Positive reinforcement is a core part of this observation, which is undertaken through awards events at the operating units to acknowledge those who have demonstrated safety excellence in their operational activities.

Fatalities in February 2017

The Group regretted to announce in February 2017 that as a result of rockfall, two contractors were fatally injured at the Inmaculada mine.

The ongoing investigations are focusing on identifying the underlying causes of the accident and will result in the taking of all necessary steps to ensure that such accidents are avoided.

How we performed against our 2016 safety objectives

Target	Status	Commentary
To fully roll out the behaviour-based safety programme at San Jose	✓	The programme, named OTO (Operational Task Observation) was successfully rolled out
To fully transition to the new edition of DNV GL's International Safety Rating System at all Operating Units	✓	Training was provided at all operating units regarding the ISRS 7th edition as well as the related audit process.
To evaluate the use of performance indicators in respect of personal safety	✓	A new Safety indicator focusing on the performance of each Mine Superintendent was introduced

Health & Hygiene

The Group's Health & Hygiene department is tasked with providing an integrated approach to employee welfare.

2016 HIGHLIGHTS

- Participation of the Corporate Health Manager in industry discussions on new laws affecting health and safety at work
- Additional monitoring and reporting of occupational health issues extended to the San Jose operation

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 is focused on ensuring 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 through 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
- Contributing to the continuous improvement in the Group's Health & Safety culture

Our achievements in 2016

In 2016, the Health team, in collaboration with other departments, including the Safety team, continued to go beyond its traditional area of prevention and sought to influence the way that employees approach their tasks.

During the year:

- senior members of the team participated in discussions with respect to new legal requirements and provided training to team members; and
- a comprehensive programme aimed at minimising, if not eradicating, exposure to harmful levels of noise was implemented during the year. This involved:
  - the procurement of specialist monitoring equipment to gauge the level of exposure;
  - the examination of over 700 workers at the Peruvian operations; and
  - the preparation of informational material highlighting the risks and encouraging the use of protective equipment which is readily available.

How we performed against our 2016 health & hygiene objectives

Target	Status	Commentary
To improve the Group's accident rating system	✓	In collaboration with the Safety department, an updated corporate policy aligning legal and technical requirements was implemented
To ensure that the Group's medical services comply with proposed new regulations on occupational health	✓	A review of all legal obligations was undertaken during the year and both Peruvian and Argentinian operations are in a good state of readiness prior to implementation.
Focus on the occupational health implications of exposure to industrial noise	✓	A comprehensive audit and follow-up action plan were undertaken during the year (see further details under 2016 Achievements above)

Our people

2016 HIGHLIGHTS

- Workforce trained: 89% (2015: 79%)
- Average number of hours of training per year per employee: 27.28 hours (2015: 33.33 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 high quality personnel. The Company's Human Resource team seeks to achieve this by providing 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

Amongst the primary responsibilities of the Human Recources team is the clear 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 undertakings to treat all employees fairly and to respect 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 the members of 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 2016

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

Developing our people

In light of the limited budgetary resources, training and development programmes were targeted on key technical areas. In Peru, managers from across the mining units participated in various leadership-based courses.

Managing our talent

The People Review process was undertaken which maps talent within the organisation and identifies key positions and succession plans.

Creating a better place to work and Enhancing the Working Environment

The Group continues to make use of an Organisational Climate Survey which has been widely acknowledged as a key tool to measure levels of satisfaction amongst employees and to identify opportunities for further development. During the year, the Company continued using the 2016 Climate Survey results to improve conditions in our mining units and administrative offices.

The Group continually reviews its offering of non-financial benefits which currently comprise flexible working hours for Head Office staff over the summer period and the holding of regular social events.

People indicators

	2016	2015	2014	2013
Gender diversity statistics[1]				
Number of employees				
Male	**3,859**	3,492	3,468	4,080
Female	**222**	237	229	276
Number of senior managers[2]				
Male	**35**	34	31	23
Female	**1**	2	2	2
Number of Board Members				
Male	**8**	8	8	8
Female	**1**	0	0	0

1 As at 31 December

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

Working with our communities

2016 HIGHLIGHTS

- Prioritising the Group's resources which have targeted high impact initiatives
- Facilitating digital inclusion among the communities that live in the areas surrounding our mine operations

For more information on our Sustainability indicators visit www.hochschildmining.com

Our view of working with our communities

Hochschild has historically fostered a culture of collaborating with local communities surrounding our projects and operations to promote sustainable development. This is a key tenet of the Group's corporate strategy that underpins our approach to mining that we succinctly describe as "Operating Responsibly".

Community relations in practice

Despite the restrictions in financial resources resulting from the trading challenges during the year, the Group continued to prioritise the ongoing implementation of its social programmes with the communities thereby minimising any direct impact. This was largely achieved through more efficient internal processes and synergies in order to maximise the resources available for allocation.

Our achievements in 2016

During the year we accomplished the goals set for our high impact initiatives, further details of which are provided below.

Education

Elementary Education

Support programmes have been implemented across various locations close to our Peruvian and Argentinian operations ranging from the provision of school meals to employment of qualified teaching staff. For the fourth consecutive year, the Company has supported approximately 340 students in 11 schools close to the new Inmaculada mine with the Maestro Lider initiative which seeks to enhance elementary literacy and numeracy.

Secondary Education

The fourth year of the Secondary Programme of Maestro Lider has also been successful, with the launch of the pre-University Academy and a vocational orientation fair. In total, around 500 students and almost 100 teachers participated.

Scholarships

Through the Group's Argentinian and Peruvian operations, Hochschild has provided scholarships so that students can benefit from further technical studies or college. In 2016, over 80 scholarships were granted.

Training for Work

From the Group's Argentinian operations, almost 40 students were sponsored on an Introduction to Mining course and almost 30 students embarked on vocational courses in mining/drilling. All students were from the local town of Perito Moreno and were subsequently employed by the Group.

Donation to UTEC

The Group facilitated a donation of US$1m to UTEC, a new university established in Lima offering a wide range of vocational training programmes.

Health

Medico de Cabecera (the Travelling Doctor programme)

This hugely successful programme, which aims to provide free access to medical care, workshops for health prevention and health education for local communities, continues to receive high levels of demand from all of our operations. In 2016, over 11,000 medical consultations were carried out and over 200 preventative campaigns run.

Socio-economic development

Digital Chalhuanca

This flagship project which, in addition to bringing wi-fi access to the community of Chalhuanca, also sought to encourage digital inclusion. In its fifth year of implementation, the Group oversaw the planned transfer of the facility to the Regional and Municipal authorities who will now look to ensure that the project continues to provide invaluable benefits to the local community while also looking to extend its reach.

Business Networks

Close to the Inmaculada mine, the Group has supported families with their agricultural and artisanal enterprises to promote financial independence and to improve nutrition.

For further information on the Chalhuanca project and other projects supported by the Group, please visit: http://www.hochschildmining.com/en/sustainability/case_studies

How we performed against our 2016 community objectives

Target	Status	Commentary
To increase the scope of opportunities for community-led commercial enterprises to provide support services for the Inmaculada mine.	✓	We have designed the necessary protocols to carry out this initiative. We are in the process of aligning local suppliers with certain requirements of the mine.
To secure the support of co-sponsors for the Group´s social programmes	✓	We successfully negotiated contributions from the State for our Business Networks project, which will be disbursed in 2017 and 2018. In addition, support from the local Municipalities was also secured.
To facilitate the use of technology by local communities close to our operations through the establishment of digital centres.	✓	Four digital centers were inaugurated in the districts of Oyolo, Anizo, San Javier de Alpabamba and San Francisco de Rivacayco, with state-of-the-art technology as well as a training plan for the digital inclusion of participants.

Managing our environmental impact

We are committed to becoming a leader in sourcing minerals with the least environmental footprint possible

2016 HIGHLIGHTS

- Launched new Corporate Performance Indicators
- Continued focus on water management and treatment across all operations

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 incorporating best management practices.

Hochschild 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. During the year, a review of a number of these plans was undertaken with the support of internationally recognised consultants.

Our achievements in 2016

- Continued resourcing of the environmental team with more than 100 people working in related operational roles and environmental management;
- New Environmental Corporate policy launched going beyond compliance and promoting an environmentally conscious culture through, among other things, the promotion of efficient use of resources
- Supported the business by securing the:
  - approval of Pallancata´s revised Environmental Impact Assessment ("EIA");
  - approval of Inmaculada's environmental permit to reflect new components and increased plant capacity; and
  - environmental permits for the Arcata, Ares and Pallancata exploration projects.

How we performed against our 2016 environmental objectives

Target	Commentary
Continue strengthening the environmental team	Team is fully staffed
Launch new Corporate environmental performance objectives	Completed.
Continue the review of the environmental management system	In progress. ISO 14001 certification will be halted for two years during this review.
Continue efforts in improving water treatment systems and water saving throughout all mining operations	In progress. In 2016 new treatment plants installed and water saving efforts implemented throughout all mining operations.
Review existing waste management system	In progress. Contract to be launched in Q1 2017.

Greenhouse gas emissions data[1] (tonnes of CO_2e)	2016[1]	2015[2]	2014	2013
Emissions from combustion of fuel and operation of facilities (tCO_2e)	**45,909**	46,790	73,244	56,234
Emissions from purchased electricity (tCO_2e)	**88,646**	78,163	69,933	72,946
Emissions intensity, per thousand ounces of total silver equivalent produced (CO_2e/k oz)[3]	**4,140**	5,531	5,533	4,890

1 Includes data for the whole year for Ares, Arcata, Selene, Pallancata, Inmaculada, San Jose and office locations
2 Restated following a review of underlying data
3 Total production includes 100% of all production, including that attributable to the joint venture partner at San Jose

Managing risk on behalf of the Board

The Audit Committee oversees the process of managing risk on behalf of the Board taking into account the Board's appetite for each specific risk

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 reviewed which maps the significant risks faced by the business 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.

2016 Risks

The key business risks affecting the Group set out in this report remain largely unchanged compared to those disclosed in the 2015 Risk Management report with the exceptions that:

- the risks associated with the Delivery of Projects are no longer considered to be significant as the Inmaculada asset transitioned to a core operation in the second half of 2015; and
- Refinancing Risk has been removed as a significant risk following the recovery in the commodities sector and the improvement in the Group's balance sheet.

The year-on-year changes in the profile of specific risks can be explained as follows:

- Operational Performance risks are considered by the Board to have reduced following the commencement of production at Inmaculada; and
- Community Relations, Safety and Legal/Regulatory risks are regarded as having heightened due to (a) the above-mentioned transition of Inmaculada since the impact of those risks could become more severe in the context of an operating asset and (b) the changing social and political environment in the countries where the Group operates.

In addition, in order to provide a more accurate view of the change in the profile of environmental-related risks, the table below distinguishes between changes in the level of (a) the environmental risks arising from operations, which are considered to have reduced in light of the infrastructure work carried out during the year; and (b) the risks arising from regulatory action which are considered to have increased as a reflection of the regulator's more stringent approach.

Financial risks

Risk	Impact	Mitigation	Commentary
Commodity price *Change in risk profile vs 2015: UNCHANGED*	Adverse movements in precious metal 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, the economics of the mineral resources and heightened personnel and sustainability related risks.	• Constant focus on maintaining a low all-in sustaining cost of production and an efficient level of administrative expense • Flexible hedging policy that allows the Company to contract hedges to mitigate the effect of price movements taking into account the Group's asset mix and forecast production See Our Market Review on pages 12 to 13 for further details	The focus on conserving capital and optimising cash flow continued in 2016 through: • controlling operating and administrative costs; • optimising sustaining capital expenditure; • reducing debt; and • reducing working capital. In addition to the above, the Inmaculada mine, which started commercial production in the second half of 2015, brought about a reduction in average production costs and diluted fixed costs. Even though no part of 2017 production has been hedged, the Group's flexible policy enables the Board to approve hedging contracts to protect cashflow as and when appropriate.

Operational risks

Risk	Impact	Mitigation	Commentary
Operational performance *Change in risk profile vs 2015: REDUCED*	Failure to meet production targets and manage the cost base could adversely impact the Group's profitability.	• Close monitoring of operational performance, costs and capital expenditure • Negotiation of long-term supply contracts where appropriate	2016 budgets across the Group continued to focus on maintaining controlled levels of administrative expenses and sustaining capital expenditure. Production goals at all operations were met or, in the case of Inmaculada, exceeded with the focus on the extraction of profitable ounces. The Group benefited from operational flexibility through a full-year's production at Inmaculada. Management closely monitors the wide range of risks that could affect operational performance to, among other things, ensure the adequacy and safety of key mining components, such as tailing dams, waste rock deposits and pipelines to service ongoing operations. Close liaison between relevant departments ensures that procurement, construction and any permitting are undertaken as appropriate.
Business Interruption *Change in risk profile vs 2015: HIGHER*	Assets used in the Group's operations may break down and cause stoppages with material effects.	• Insurance coverage to protect against major risks • Management reporting systems to support appropriate levels of inventory • Annual inspections by insurance brokers and insurers with recommendations addressed in order to mitigate operational risks	In light of the transition of Inmaculada from project to core asset and the high proportion of production sourced from that asset, the change in the risk profile vs 2015 reflects its heightened impact. Mitigating actions during the year include the following: • Insurance advisors conducted site visits and completed a full review of operational risks to ensure that adequate property damage and business interruption risk management processes and insurance policies are in place at our operations. • Management reporting systems ensured that an appropriate level of inventory of critical parts is maintained. • Adequate preventative maintenance programmes, supported by the SAP Maintenance Module, are in place at the operating units.
Exploration and Reserve & Resource Replacement *Change in risk profile vs 2015: UNCHANGED*	The Group's operating margins and future profitability depend upon its ability to find mineral resources and to replenish reserves.	• Implementing and maintaining an annual exploration drilling plan • Ongoing evaluation of acquisition and joint venture opportunities to acquire additional ounces • High-end software programmes implemented to improve the estimate of mineral resources	In 2016 all brownfield exploration goals were achieved, including the discovery of additional resources at the Pablo vein at Pallancata. The continued focus on cost control has resulted in our exploration activity being primarily focused on current operations. In 2017, exploration of new projects and appraisal of acquisition/joint venture opportunities restarted given the Group's improved financial position. As mentioned in the CEO's statement, the Company has undertaken a conservative re-evaluation of its Reserves and Resources which (a) reflects lower commodity price assumptions and (b) excludes material that has a low probability of being mined.
	Reserves stated in this Annual Report are estimates.	• Engagement of independent experts to undertake annual audit of mineral reserve and resource estimates • Adherence to the JORC code and guidelines therein	The Group has engaged P&E Consultants to undertake the annual audit of mineral reserve and resource estimates. See pages 139 to 141 for further details
Personnel: Recruitment and retention *Change in risk profile vs 2015: LOWER*	Inability to retain or attract personnel through a shortage of skilled personnel.	• 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	The Group has continued with its initiatives to improve the retention of employees. These include the use of non-financial benefits (e.g. flexible working arrangements for Head Office staff) and tailored personal development plans The improvement in the sector as a whole is the principal reason why the profile of this risk has reduced relative to 2015.
Personnel: Labour relations *Change in risk profile vs 2015: UNCHANGED*	Failure to maintain good labour relations with workers and/or unions may result in work slowdown, stoppage or strike.	• Development of a tailored labour relations strategy focusing on profit sharing, working conditions, management style, development opportunities, motivation and communication	Given the losses incurred in previous years by the Peruvian operating entity, there continues to be no statutory profit sharing for Peruvian mineworkers. Management has conducted monthly meetings with mineworkers and unions during 2016 to ensure a 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 2017 union negotiations.

Macro-economic risks

Risk	Impact	Mitigation	Commentary
Political, legal and regulatory *Change in risk profile vs 2015: HIGHER*	Changes in the legal, tax and regulatory landscape could result in significant additional expense, restrictions on or suspensions of operations and may lead to delays in the development of current operations and projects.	• Local specialist personnel continually monitor and react, as necessary, to policy changes • Active dialogue with governmental authorities • Participation in local industry organisations	As an electoral year, 2016 saw the mining industry in Peru become the subject of heightened political debate. In the period leading to the elections and during the transition to a new administration, no new governmental measures were taken and various permitting processes saw their timelines extended which continues to be the case. Even though the new government that assumed office in July 2016 is supportive of business, the risk of social conflicts has become heightened in certain parts of the country to which the authorities remain sensitive. In addition, a number of new laws were introduced during the year relating to, among other things (a) the permissible limits of chemicals in stored tailings and (b) various aspects of health and safety at mining operations. In Argentina, 2016 was marked by relative stability following the Presidential elections in October 2015 where the new government placed inward investment as a key priority. With regards to specific developments: • the Supreme Court agreed to hear the merits of the Company's claim challenging the constitutionality of a proposed Reserves tax which was subsequently withdrawn by the relevant Province; and • in late 2016, the Argentinian Government removed the benefit received by those exporting through Patagonian ports.

Sustainability risks

Risk	Impact	Mitigation	Commentary
Health and safety *Change in risk profile vs 2015: HIGHER*	Group employees working in the mines may be exposed to health and safety risks. Failure to manage these risks may result in occupational illness, accidents, a work slowdown, stoppage or strike and/or may damage the reputation of the Group and hence its ability to operate.	• Health and Safety operational policies and procedures reflect the Group's zero tolerance approach to accidents • Use of world class DNV safety management systems • Dedicated personnel to ensure the safety of employees at the operations via stringent controls, training and prevention programmes • Rolling programme of training, communication campaigns and other initiatives promoting safe working practices • Use of reporting and management information systems to monitor the incidence of accidents and enable preventative measures to be implemented	The change in risk profile vs 2015 primarily reflects: • the fact that Inmaculada was an operating asset for the whole of 2016; and • the increased use of less mechanised processes at Pallancata in light of the narrower veins being mined. In 2016, the Group achieved its on-going objective of Zero Fatalities for the third consecutive year. As reported earlier in the Chairman's statement and Sustainability Report, the Board was saddened to report the fatalities that occurred at the Inmaculada mine in the first quarter of 2017. Further details on the accident and the steps being taken to reinforce the Group's safety values can be read in the Sustainability Report on page 30

Sustainability risks continued

Risk	Impact	Mitigation	Commentary
Environmental *Change in risk profile vs 2015:* *(a) In relation to those risks arising from the Group's environmental performance/infrastructure: LOWER* *(b) In relation to those risks arising from the increased oversight of the environmental regulator: 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.	• The Group has a team responsible for environmental management • The Group has adopted a number of policies and procedures to limit and monitor its environmental impact	Environmental permitting and oversight have become more rigorous, leading to delays in project execution and increases in fines from the environmental regulator. In 2016, the Group has taken a series of measures to mitigate this risk, including: • establishing a Permitting Committee, with the participation of all relevant departments, that meets bi-weekly to assess the status of all permitting applications and ensure that the process is carried out as efficiently as possible; • the launch of new Environmental Key Performance Indicators; • implementation of state-of-the-art water quality management tool that allows for real time monitoring of all water discharges from the operations; • completing the staffing of the environmental team with professionals working in related operational and environmental management roles; • strengthening our environmental culture, improving overall housekeeping throughout our operations, reducing water consumption and solid waste generation; • continuing to improve water treatment infrastructure, at Pallancata, Inmaculada, Arcata and the closed Sipan mine; and • reviewed and updated Mine Closure Plans, in some cases with the support of internationally renowned environmental consultants
Community Relations *Change in risk profile vs 2015: 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 loss of productions, increased costs and decreased revenues and in longer lead times and additional costs for exploration and bringing assets into production and lead to an adverse impact on the Group's ability to obtain the relevant permissions for current or future projects.	• Constructive engagement with local communities • Community Relations strategy focuses on promoting education, health and nutrition, and sustainable development • Allocation of budget and personnel for the provision of community support activities • Policy to actively recruit workers from local communities	The higher risk profile vs 2015 reflects the increase in the incidence of social conflicts in the areas surrounding the Group's operations. Such conflicts have led to temporary stoppages at other mining operations such as Las Bambas and Constancia. Protests by a community close to the Pallancata mine resulted in a blockade by community members from November 2016 until mid-January 2017. Even though the mine stopped producing from 1 December, Pallancata's targeted production was not impacted. Government intervention resulted in the lifting of the blockade after an informal mediation between the Company and the relevant community representatives. Working groups with stakeholders groups near Inmaculada continue to meet periodically. In addition, the Group continues to actively engage with other local communities to fully understand their needs and to implement an action plan, to the extent possible. The risk of additional stoppages or blockades will continue to be present if the working groups do not reach long-term agreements between the parties involved. Further details on the Group's activities to mitigate sustainability risks can be found in the Sustainability report on pages 29 to 34

Viability

In accordance with provision C.2.1 of the Code, the Directors have assessed the viability of the Group taking into account the Group's current position and the potential impact of the principal risks which could threaten the business model, future performance, solvency or liquidity of the Group.

Period of Viability Statement

As per provision C2.2 the Directors have reviewed the length of time to be covered by the Viability Statement, particularly given its primary purpose of providing investors with a view of financial viability that goes beyond the period of the Going Concern statement.

It has been concluded that three years is the appropriate time horizon in light of:

i. the inherent uncertainty of longer-term forecasting in a cyclical industry which, in the case of precious metals, is largely driven by global macro-economic factors; and
ii. the large number of external variables that need to be taken into account in establishing any meaningful forecast of the Group's business.

Approach to Assessing Viability

In assessing the Group's viability, the Directors have considered the principal risks to which the Group is exposed as set out in the earlier part of this report. This includes those where either the likelihood of the risk has increased, or the impact of the risk has become more severe. In particular, the Directors have considered forecasts which reflect the impact of:

- Depressed precious metal price scenarios. This is a key input for stress-testing and involved the preparation of forecasts using (i) lowest metal prices over the past five years for both gold and silver ($1,100/Au oz and $14/Ag oz respectively); and (ii) below-spot prices of $1,100/Au oz and $16/Ag oz.

  Should prices fall further than the lowest of these scenarios, the Board would oversee the implementation of contingency actions, such as the elimination of discretionary expenditure, the reduction if not the elimination of dividend distributions and other initiatives to reduce costs across the business so as to maximise the production of profitable ounces.
- Risks that severely threaten forecast production levels. The principal risks that could jeopardise production are those arising from (a) geological risk that could result in the variability of our reserves and production volume and grades; (b) community unrest that could result in temporary stoppages; (c) environmental incidents that could also temporarily affect an operation's production schedule; and (d) delays in obtaining operational permits.

  Management prepares operational and financial forecasts based on a life of mine plan assuming only reserves and resources which have an adequate degree of certainty. For this reason, forecasts do not reflect the potential of incremental resources added as a result of exploration activity which could be easily converted to actual production given the availability of spare capacity at its plants. This state of preparedness, together with the mitigating actions described above, have been designed to control the impact of production risks or facilitate the swift recovery from the impact of those risks; and
- Plausible future contingencies for example, governmental/regulatory action such as environmental liabilities, controls against which are described in the table above.

The viability statement analysis has also taken into account other mitigating actions available to the Group upon the occurrence of one or more of the principal risks. Such actions include:

- Hedging the price at which sales contracts are settled;
- Operational strategies to anticipate, minimise and overcome production-related risks;
- The implementation of cost and capital expenditure reduction programmes;
- Working capital management; and
- Active debt financing management.

For examples of the mitigating actions taken by the Board during the year under review, please refer to the Commentary in the Risk Management section of this report.

Conclusion

While it is always possible that combinations of weak precious metal prices and adverse operational risks could threaten the solvency and liquidity of the Company over the next three years, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over three years being the period of their assessment.

The Strategic Report, as set out from the inside front cover to page 39 has been reviewed and approved by the Board of Directors and signed on its behalf by:

Ignacio Bustamante
Chief Executive Officer
7 March 2017

Eduardo Hochschild
Chairman

Experience: 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 is the Company's majority shareholder with a c.54% interest.

Other Directorships:
Commercial: Cementos Pacasmayo S.A.A. (Chairman), COMEX Peru, Banco de Crédito del Perú

Non-Profit: UTEC (Chairman), TECSUP, Sociedad Nacional de Minería y Petróleo, Conferencia Episcopal Peruana.

N

Roberto Dañino
Deputy Chairman

Experience: Roberto Dañino joined the Board in 2006 as an Executive Director and assumed his current role in 2011. Roberto served in the Peruvian Government as Prime Minister and thereafter as the Peruvian Ambassador to the United States. He previously served as General Counsel of the World Bank Group and Secretary General of ICSID having been a partner at the US law firm Wilmer, Cutler & Pickering.

Other Directorships:
Commercial: Fosfatos del Pacifico S.A. (Chairman), Goldman Sachs (Advisory Board) and Uber Technologies (Advisory Board).

C

Ignacio Bustamante
Chief Executive Officer

Experience: Ignacio Bustamante joined the Board as CEO in April 2010 having previously served as Chief Operating Officer and 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.

Other Directorships:
Commercial: Profuturo AFP.

C

Dr Graham Birch
Independent Non-Executive Director

Experience: Dr Graham Birch joined the Board in 2011. Up until 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. He previously worked at Kleinwort Benson Securities and 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.

Other Directorships:
Commercial: ETF Securities Limited.

C R

Enrico Bombieri
Senior Independent Director

Experience: Enrico Bombieri joined the Board in 2012. He previously served as Head of Investment Banking for Europe, Middle East and Africa ('EMEA') at JP Morgan and was a member of the Executive Committee, the Investment Bank's Operating Committee and the European Management Committee. Prior to joining JP Morgan, Enrico worked for Guinness Mahon in London and Lehman Brothers in New York and London.

Other Directorships: None.

N R

Jorge Born Jr.
Independent Non-Executive Director

Experience: Jorge Born Jr. joined the Board in 2006. 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 its UK operations from 1989 to 1992.

Other Directorships:
Commercial: Consult & Co. (President and CEO), Caldenes S.A., Dufry AG Zurich.
Non-Profit: Bunge and Born Charitable Foundation (President).

N

Eileen Kamerick
Independent Non-Executive Director

Experience: Eileen joined the Board on 1 November 2016 having formerly served as CFO of ConnectWise. Previously Eileen held senior executive roles in finance in various industries including healthcare consultancy Press Ganey Associates, investment bank Houlihan Lokey and BP Amoco Americas. Eileen lectures on corporate finance and governance at several US universities.

Other Directorships:
Commercial: Associated Bank Corp. (Chair of the Corporate Governance Committee and member of the Audit Committee) and certain listed closed-end funds advised by Legg Mason Partners Fund Advisors, LLC (Chair of the Audit Committee)

Non-Profit: Eckerd Alternatives for Youth.

A

Nigel Moore
Independent Non-Executive Director

Experience: Nigel Moore joined the Board in 2006. Nigel is a Chartered Accountant and 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. Nigel served as Chairman of JKX Oil & Gas plc and as Non-Executive Director of several companies including The Vitec Group plc and The TEG Group plc.

Other Directorships:
Commercial: Ascent Resources plc.

A R

Michael Rawlinson
Independent Non-Executive Director

Experience: Michael Rawlinson joined the Board in 2016. He is the Global Co-Head of Mining and Metals at Barclays investment bank and prior to 2013 worked at a number of banks as a corporate financier and research analyst. Most recently he helped found the boutique investment bank, Liberum Capital, in 2007. Prior to that Michael worked at Flemings and Cazenove.

Other Directorships: None.

A C

Sanjay Sarma
Independent Non-Executive Director

Experience: Sanjay joined the Board on 1 January 2017 and is Professor of Mechanical Engineering at Massachusetts Institute of Technology ("MIT") and the Vice President for Open Learning at MIT. Sanjay was the founder and Chief Technology Officer of OATSystems (subsequently acquired by Checkpoint Systems) and has worked at Schlumberger Oilfield Services and at the Lawrence Berkeley Laboratories. Sanjay also advises several national governments and global companies.

Other Directorships:
Commercial: Top Flight Technologies and ESSESS

Non-Profit: G1S US and edX, the entity set up by MIT and Harvard to facilitate the distribution of free online education worldwide.

A Audit committee
C CSR committee
N Nominations committee
R Remuneration committee
Chairman

Senior Management

Ramón Barúa
Chief Financial Officer

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

Isac Burstein
Vice President, Exploration & 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

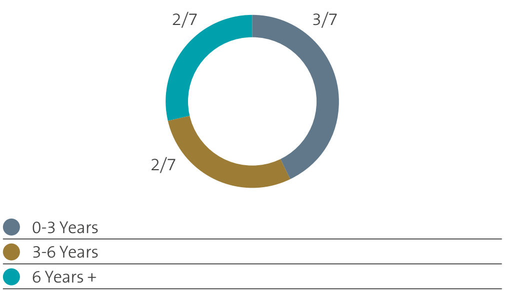
José Augusto Palma joined Hochschild in July 2006 after a 13-year legal career in the United States, where he was a partner at the law firm of Swidler Berlin, and subsequently at the World Bank. He also served two years in the Government of Peru. José has law degrees from Georgetown University and the 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

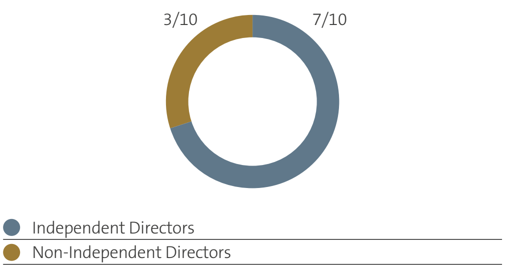
Eduardo Villar has been with the Group since 1996. Prior to his current position, he served as Human Resources Manager, Deputy HR Manager and Legal Counsel. Eduardo holds a law degree from the Universidad de Lima and an MBA from the Universidad Peruana de Ciencias Aplicadas.

Governance

TENURE OF INDEPENDENT NON-EXECUTIVE DIRECTORS



BOARD INDEPENDENCE



The Directors present their report for the year ended 31 December 2016.

Information in directors' report

The Directors' Report comprises the Corporate Governance Report from pages 44 to 53, this Report on pages 42 and 43, and the Supplementary Information on pages 54 to 56. Other information that is relevant to the Directors' Report, and which is incorporated by reference comprises:

- Greenhouse gas emissions included in the Sustainability Report on page 34; and
- Policy on Financial Risk Management in Note 36 to the Consolidated Financial Statements.

For the purposes of compliance with paragraphs 4.1.5R(2) and 4.1.8R of the Disclosure Guidance and Transparency Rules, the Strategic Report and this Directors' Report (including the other sections of the Annual report incorporated by reference) comprise the Management Report.

Dividend

The Directors declared an interim dividend of 1.38 US cents per ordinary share in the year ended 31 December 2016 and is recommending a final dividend of 1.38 cents per ordinary share subject to approval at the forthcoming Annual General Meeting ("AGM") (2015 total dividend: nil).

Dividend waiver

The trustee of the Hochschild Mining Employee Share Trust ('the Employee Trust') has waived, on an ongoing basis, 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 page 40.

Eileen Kamerick and Sanjay Sarma were appointed to the Board on 1 November 2016 and 1 January 2017 respectively and all other Directors were in office for the duration of the year under review.

With the exception of Roberto Dañino and Nigel Moore, who will be retiring at the conclusion of the forthcoming AGM, each of the Directors will be retiring and seeking re-election by shareholders at the AGM in line with 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/her 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/her 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/her.

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 US$4.389m[1] on social and community welfare activities surrounding its mining units (2015: US$3.971m).

1 Including at San Jose, the Group's joint venture in which it has a 51% interest

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 45 and, with regard to the right to appoint Directors to the Board, are set out on page 46.

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 necessary. In keeping with the approach agreed by the Board, Directors' conflicts were reviewed during the year under review.

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

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report from the Inside Front Cover to page 39. The financial position of the Group, its cash flows, liquidity position and borrowings are described in the Financial Review on pages 24 to 28. In addition, note 36 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 experience on pages 12 and 13, 2016 saw continued volatility in precious metal prices which experienced steady and significant increases by the early part of the second half of the year which subsequently trended downwards by the year-end.

The Group has reported record levels of production of 35.5 million attributable silver equivalent ounces and successfully reduced costs across its operations with Inmaculada, in particular, performing significantly better than anticipated.

As part of its risk management responsibilities, the Board continually reviews a list of contingency measures that could be implemented in the event that price conditions deteriorate.

In conclusion, having considered financial forecasts and projections which take into account (i) possible changes in commodity price scenarios; and (ii) the contingency measures that could be taken to alleviate pressure on the balance sheet in the event of a fall in prices, 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.

AGM

The eleventh AGM of the Company will be held at 3 pm on 11 May 2017 at the offices of Linklaters LLP. The shareholder circular incorporating the Notice of AGM will be sent separately to shareholders or, for those who have elected to receive electronic communications, will be available for viewing at www.hochschildmining.com

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

Auditor

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

Statement on disclosure of information to auditor

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

7 March 2017

Dear shareholder

One of my key roles as Chairman is to ensure that the Board operates effectively with the right set of skills demanded of us as Directors to ensure that we can oversee the successful implementation of the Group's strategy.

After the challenges faced by the business in the aftermath of the significant falls in silver and gold prices, the relative trading stability of 2016 provided the Board with a fuller opportunity to review its effectiveness and to implement the succession plan that had been put on hold.

As reported more fully in the Nominations Committee report below, we were delighted to be able to announce the appointments of Eileen Kamerick and Sanjay Sarma as Non-Executive Directors. These appointments were made with succession in mind since, as already announced, Roberto Dañino and Nigel Moore will be stepping down at the forthcoming Annual General Meeting. Both have served as Directors since the Company's listing in 2006 and the Board has benefited enormously from their contributions.

A key aspect of the Corporate Governance Code is the ongoing refreshing of the Board and hence, Eileen and Sanjay's appointments will bring not only added diversity to the Board, but also different perspectives given their background and professional experience; in the case of Eileen, in relation to matters of audit and risk, and in the case of Sanjay, the potential for innovation within the mining industry.

As Directors, we are rightly expected to have a deep understanding of the business and the environment in which we operate. We were able to achieve this during 2016 through various means. Given the increased proportion of gold produced by the Group, as part of the annual strategic Board session, the Directors received a presentation from a representative of the World Gold Council which provided a detailed update on the economics driving demand and the outlook for the sector. In addition, at the operational level, a site visit was organised for Board members to visit our newest operation, Inmaculada which incorporated presentations from managers in the mine and the plant. Finally, the Board is kept updated on the ongoing changing landscape of regulation and market practice that affects the Company and the Board from its advisers, both externally and internally.

The continuation of the highly valued internal Board evaluation has, yet again, produced a number of improvements in the way the Board undertakes its role. It has also sourced themes from the Directors on areas for future consideration that have been, and will be incorporated into the annual Board schedule. Further details on this process can be found on page 47.

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

Eduardo Hochschild
Chairman
7 March 2017

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') (2014 edition) in respect of the year ended 31 December 2016. A copy of the Code is available on the website of the Financial Reporting Council ('FRC') at www.frc.org.uk

Disclosures to be included in the Corporate Governance report in relation to share structure, shareholder agreements and the Company's constitutional provisions pursuant to the Disclosure Guidance and Transparency Rules are provided in the Supplementary Information section on pages 54 to 56.

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 with the exception that the Company did not fully comply with the requirement that performance-related incentive schemes should include arrangements to recover or withhold variable pay when appropriate to do so (ie clawback or malus). As stated in the Directors' Remuneration Report, the Company reviewed the use of clawback during the year which, following legal advice, would be difficult to enforce in the countries in which we operate. As previously reported, malus is incorporated in the Group's incentive schemes, pursuant to which any vested award may be reduced in the event of an unacceptable position arising in relation to safety, environment, community and legal compliance.

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

At all times during the year, the Board comprised a majority of Independent Non-Executive Directors. At the end of the year, the Board comprised the Chairman, the Chief Executive Officer and seven Non-Executive Directors, of whom six are considered, by the Board, to be of independent judgement and character.

Chairman and Chief Executive

The Board is led by the Chairman, Eduardo Hochschild who is also the majority shareholder of the Company with a 54% holding.

The Board has approved a document which sets out the division of responsibilities between the Chairman and Chief Executive Officer. This document was last reviewed and amended by the Board in 2015 in light of the change in Eduardo Hochschild's role to Non-Executive Chairman.

As Chairman, Eduardo Hochschild is responsible for leading the Board of Directors and ensuring that the Board is enabled to play a full and constructive part in the development and determination of the Group's strategy and overall commercial objectives.

Ignacio Bustamante, as the Chief Executive Officer, is responsible for the formulation of the vision and long-term corporate strategy of the Group the approval of which is a matter for the full Board.

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

In light of his majority shareholding, the Chairman is not considered to be independent. However, during the one-to-one interviews conducted with each Board member, the Directors continue to assert that no undue influence is exercised.

The reasons for this are twofold. Firstly, the composition of the Board ensures that the significant presence of Independent Directors ensures that the views of minority shareholders are well represented. Secondly, the undertakings provided in the Relationship Agreement (as described below) ensure that the Company and its subsidiaries are capable of carrying on their business independently of Eduardo Hochschild and his associates.

The Relationship Agreement was reviewed by the Board in 2014 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, incorporated revised independence provisions reflecting the language of the New Listing Rules.

Under the terms of the agreement, each of Eduardo Hochschild and Pelham Investment Corporation (being the entity through which he holds his shares in the Company) (the "Major Shareholder") undertakes 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.

Certain confirmations are required to be given by the Board under the New Listing Rules with regards to the Company's compliance with the independent provisions which can be found in the Directors' Report on page 42.

Senior Independent Director

Enrico Bombieri is the Senior Independent Director and, as such, acts as a central point of contact for the Non-Executive Directors collectively but also acts as a conduit between the Non-Executive Directors and the executive management team.

Although no such meetings were held, Mr Bombieri makes himself available to meet with major shareholders during the year if concerns have not been addressed by the executive 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 has taken into account the fact that Jorge Born and Nigel Moore (the "IPO Non-Executive Directors") were appointed to the Board in 2006 shortly before the Company's IPO and have therefore served as Directors for more than nine years. This being the case, however, the Board collectively feels that the tenure of each IPO Non-Executive Director is not considered to be of a nature to materially interfere with the exercise of his independent judgment.

As previously announced, Roberto Dañino and Nigel Moore will be retiring from the Board at the conclusion of the forthcoming Annual General Meeting.

Board meetings held in 2016

During the year, four scheduled Board meetings were held which were attended by all directors. Directors usually receive a full pack of papers for consideration at least five working days in advance of each scheduled Board meeting. In the event a Director is unable to attend a Board or Committee meeting, comments are encouraged to be fed back to the Chairman of the relevant meeting who ensures that the absent Director's 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 2016 were:

Financial

- stress-tested financial projections in support of the going concern and viability statements;
- considered recommendations of the Audit Committee to adopt the 2015 Annual Report and Accounts and the 2016 Half-Yearly Report including the resumption of the interim dividend;
- reviewing the Group's ongoing financial position and alternative debt financing options;
- appointment of RBC Europe as joint corporate broker; and
- the 2017 budget.

Strategy

- the Group's strategic plan which was supplemented by a presentation from the World Gold Council on the economic conditions affecting the demand for gold and the outlook for the metal; and
- presentation on the long-term trends impacting the markets for metals and minerals.

Business performance

- detailed updates on the operation of the Inmaculada mine and on progress, by the Engineering Procurement Construction contractor, with regards to outstanding works and other matters;
- status reports on the ongoing evaluation of the Pablo vein at Pallancata;
- consideration of unbudgeted initiatives resulting in, among other things, the acquisition of property close to the Pablo vein and the incorporation of additional resources and reserves;
- oversight of performance against the Group's long-term brownfield objectives; and
- reports on the ongoing review of the Group's land portfolio and a limited number of potential earn-in investment opportunities.

Risk

- review of the significant risks faced by the Group and the corresponding mitigation plans.

Governance

- regular updates from the Company Secretary on relevant developments in corporate governance including the regulatory framework governing listed companies. This included the oversight of revised policies and procedures to ensure the Company's compliance with the Market Abuse Regulation;
- an update on the implementation of the 2015 Board evaluation recommendations, the outcome of the 2016 Board evaluation and the form of the 2017 process;
- the annual reviews of Directors' conflicts of interest and independence of Non-Executive Directors;
- the appointments of Eileen Kamerick and Sanjay Sarma as Independent Non-Executive Directors; and
- the adoption of updated terms of reference for the Audit Committee.

Sustainability

- presentations on the social and political climate in Peru and Argentina and the potential impact on the Group;
- update on the community-led blockade which temporarily prevented access to the Pallancata mine; and
- an evaluation of the alternative courses of action with regards to the preparatory works in advance of the closing of the Ares tailings dam.

Personnel

- the results of the Organisational Climate survey measuring employee satisfaction across the Group and the resulting development opportunities identified.

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 process undertaken during the year in relation to the appointment of Eileen Kamerick is further detailed in the Nominations Committee report on page 51.

The Company has adopted the practice of seeking the annual re-election of Directors in keeping with the UK Corporate Governance Code. Biographies of the Directors can be found on page 40.

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.

2016 BOARD EVALUATION

- In keeping with past practice, the 2016 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 including those outlined below.

The Committees

- Composition and overall workings
- Specific aspects of each Committee's role and scope of responsibilities

The Board

- The composition of the Board, focusing on the skills mix after the planned retirements from the Board
- The effectiveness of the Non-Executive Directors as a collective group
- The workings of the Board
- Strategic planning and governance

Risk and Culture

- A review of the process of managing risk within the risk appetite of the Board
- Exploring views on the Group's corporate culture and the perceived alignment between the culture around the Board table with that across the organisation

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

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 2015 Board evaluation

A number of actions were taken during the year following the 2015 Board evaluation process. These included:

- re-formatting of the reports to the Corporate Social Responsibility ('CSR') Committee to facilitate a better understanding of the CSR related risks to which the Group is exposed;
- a wider benchmarking review of executive remuneration conducted by the Remuneration Committee;
- suggestions on the form and content of the annual strategic review; and
- a presentation to the Audit Committee on the Group's IT security framework.

2016 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 findings of the Chairman's performance evaluation were collated by Enrico Bombieri and put to the Non-Executive Directors before being relayed to the Chairman.

Outcome

The principal recommendations arising from the 2016 Board evaluation process can be summarised as follows:

- improved feedback between the Committees and the full Board, particularly in relation to remuneration matters;
- focus on the succession plans in place to ensure the development of talent to Vice President level;
- the use of a third-party facilitator to support the annual strategic session; and
- supplementing the monthly Board reports with additional information to keep the Directors abreast of external perspectives on the Company and the operations.

External Board evaluation

Since the process was introduced, the Directors unanimously consider that it has resulted in a number of recommendations that have improved the way the Board and the Committees function. For this reason and the focus of the management team to control costs during 2016, an externally led evaluation was not undertaken. The Board acknowledges the benefits of an external appraisal of the overall governance structure and processes and, while it is minded to continue using an internal evaluation, the format of the 2017 evaluation will be kept under review.

The Board's Committees

The Board has delegated authority to the Audit Committee, CSR Committee, Nominations Committee and Remuneration Committee. Reports from each of these committees on their activities during the year appear on the following pages. Further information on the activities of the CSR Committee and Remuneration Committee can be found in the Sustainability Report and Directors' Remuneration Report respectively.

Audit Committee

Dear Shareholder

I am pleased to introduce the report of the Audit Committee for 2016.

Areas of focus for the year

In addition to the usual matters considered by the Audit Committee which are described later in this report, in 2016 we looked at a variety of issues. For example, one of the key responsibilities of the Committee is to ensure that processes are in place to identify significant risks to the business and to oversee the programme of the necessary mitigation plans. In this regard, the Committee received a presentation in order to fully appreciate the level of exposure to any form of unauthorised access to the Group's many IT systems.

Another significant matter during the year was the tender for the Group audit engagement which the Committee decided to organise given the rotation of the signing partner at EY, which has been the Group's auditors since 2006. The process commenced with the issue of a Request For Proposal that was sent to shortlisted audit firms who were selected on set criteria which included proven expertise in the mining sector and more fundamentally, a sizeable presence in Peru where the Group is headquartered, as well as experience of auditing UK listed entities.

Presentations were then given to a Working Group comprising members of the Audit Committee, the CFO and other senior members of management. In conclusion, it was decided that Ernst & Young LLP would be retained as the Group's external auditors. The performance of EY will of course continue to be closely monitored by the Committee.

Finally, we welcomed Eileen Kamerick as an additional Committee member from 1 November 2016; she will be succeeding me as Audit Committee Chair following my retirement from the Board at the forthcoming AGM.

Nigel Moore

Committee Chairman

Members*	Maximum possible attendance	Actual attendance
Nigel Moore (Non-Executive Director and Committee Chairman)	4	4
Michael Rawlinson (Non-Executive Director)	4	4
Eileen Kamerick (Non-Executive Director)	1	1

* during the year ended 31 December 2016

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 Auditor;
- To review the effectiveness of the external audit process; and
- 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 between 1973 and 2003 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.

All Committee members who served during the year under review are considered to be independent Directors. Their biographical details can be found on page 40.

In preparation for Nigel Moore's retirement from the Board at the forthcoming AGM, Eileen Kamerick was appointed to the Board and as a member of the Committee on 1 November 2016. As part of the Board's succession plan, Eileen will succeed to the chair of the Audit Committee. Eileen was formerly a CFO of a number of US companies and has chaired and continues to chair, the Audit Committees of NYSE-listed companies. For further details, please refer to the biographical details on page 40.

Attendees

The lead partner of the external Auditor, 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 2015 Annual Report and Accounts and the 2016 Half-Yearly Report were reviewed by the Committee before recommending that they be adopted 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 of audit plans – In line with its usual practice, the Committee considered reports from the external Auditor 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 35 to 38 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 quarterly report from the Head of Internal Audit 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 – The Audit Committee continued to review and challenge the actions taken by management to promote ethical and transparent working practices.
- External audit – As described earlier in the Committee Chairman's letter, a tender for the Group's audit engagement in Q1 2016 resulted in the decision to retain Ernst & Young LLP as the Company's external Auditor. The Audit Committee oversees the relationship with the external Auditor and, as part of this responsibility, the Audit Committee reviewed the findings of the external Auditor and management letters, and reviewed and agreed audit fees. The Audit Committee evaluates the Auditor's performance each year taking into account 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 resulting in an action plan the execution of which is assessed in the following year's auditor evaluation.
- Auditor Objectivity – In light of the new Ethical Standard, the Audit Committee considered and approved a revised form of Policy on the Use of External Auditors for the Provision of Non-Audit Services (see later section for more details).
- Governance – The Audit Committee received updates from the Auditor and the Company Secretary on regulatory and other developments impacting the Committee's role. In addition, the Committee reviewed its terms of reference during the year, which were revised to reflect good market practice.
- 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 2016 resulted in:

- the tender for the Group audit engagement which resulted in the re-appointment of Ernst & Young LLP as the Group's external Auditor;
- continued focus on the Internal Audit function's testing of the control environment for any weaknesses resulting from the Cash Optimisation Plan (the Group's cost-reduction programme);
- closer oversight of the preparation of the Company's first Viability Statement; and
- a review of the Group's IT security and assessment of the risk of disruption or unauthorised access by third-parties.

During the year, the Committee members held meetings with the external Auditor without executive management to discuss matters relating to the 2015 annual audit and the 2016 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 2016 financial statements and how these issues have been addressed.

Impairments

The Audit Committee assessed management's analysis which concluded that there were no indicators of impairment (or impairment reversals) in relation to the carrying value of tangible and intangible fixed assets of the Group's cash-generating units ('CGUs').

The Audit Committee challenged management's evaluation and agreed that in the absence of any such indicators, full impairment assessments would not be required in respect of any of the Group's CGUs except for the Volcan project in Chile, which was tested for impairment as required under IFRS and concluded that no impairment or reversal of impairment would be required.

Going Concern Assessment

Due to the ongoing volatility of commodity prices, the Board and the Committee (under its delegated authority) regularly considered management forecasts on the Group's financial position and thereby its qualification as a going concern.

The Board has considered cash flow forecasts and undertaken sensitivity analysis of the key assumptions.

The Audit Committee considered the processes undertaken by the Auditor to obtain reassurance that supports the continued application of the going concern methodology which included reviewing the key assumptions.

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 43 for its confirmation to shareholders on the appropriateness of the Going Concern assumption and the Risk Management section of the Directors' approach to the longer term Viability Statement.

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 Auditor which focused on:

- corroborating management's assessments;
- 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 judgement exercised by management in assessing the amounts required to be paid by the Company to rehabilitate the Group's mines which, in 2016 were reviewed by an external consultant.

In its assessment of the analysis undertaken by management and the independent third-party, the Audit Committee took into account:

- the basis of the estimation of future rehabilitation costs;
- the discount rate applied;
- 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 is appropriate.

Related Party Transactions

The Audit Committee considered the accounting aspects of the transaction undertaken during the year by which the Group facilitated a donation of $1m to the Universidad de Ingenieria y Tecnologia ("UTEC"), an educational establishment considered to also be under the control of Eduardo Hochschild, the Company's major shareholder.

The Audit Committee assessed the work carried out by the Auditor which confirmed that all of the required disclosures are appropriate and have been included in the financial statements.

Auditor independence

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

Policy on the use of Auditor for non-audit services

Following the issue of the new consolidated Ethical Standard for Auditors by the Financial Reporting Council, the Audit Committee adopted a revised Policy on the use of the Auditor for non-audit services (the "Revised NAS Policy").

The Revised NAS Policy lists those non-audit services that the external Auditor is specifically prohibited from providing. In summary, these include (a) tax services; (b) bookkeeping; (c) payroll services; (d) designing or implementing internal control or risk management procedures with regards to financial information or related technology systems; (e) valuation services; (f) certain legal services; and (g) corporate finance type services. Certain of these services may be provided by the auditor subject to the satisfaction of certain criteria ensuring the Auditor's objectivity and the Audit Committee's approval. The Revised NAS Policy is more stringent than the preceding version since it now requires (i) the Audit Committee and Chief Financial Officer to approve all non-audit services undertaken by the external auditor and (ii) that the cost of non-audit services rendered by the external Auditor, in any financial year, cannot exceed 50% of the total audit fee for that year.

Safeguards

Additional safeguards to ensure auditor objectivity and independence include:

- six-monthly reports to the Audit Committee from the Auditor analysing the fees for non-audit services rendered; and
- an annual assessment, by the Audit Committee, of the Auditor's objectivity and independence in light of all relationships between the Company and the audit firm.

2016 Audit and non-audit fees

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

Internal control and risk management

Whilst the Board has overall responsibility for the Group's system of internal control including risk management and for reviewing its effectiveness, responsibility for the periodic review of the effectiveness of these controls has been delegated to the Audit Committee. Notwithstanding this delegation of authority, the Board continues to monitor the strategic risks to which the Company is exposed in the context of a risk appetite that is under continuous review.

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 comprises:

- reports from the Head of the Internal Audit function;
- reviews 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 satisfied that the internal controls are in place at the operational level within the Group.

Board's assessment

Risk Management

Throughout the year, the Board considered its risk appetite which was considered to be appropriate. The Board confirms that its assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity, and which are set out in the Risk Management & Viability section, was robust.

Internal Control

As detailed above, the Board, through the delegated authority granted to the Audit Committee, monitors the ongoing process by which critical risks to the business are identified, evaluated and managed. This process is consistent with the FRC's 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting' published in 2014.

The Directors confirm that, with the support of the Audit Committee, the effectiveness of the Company's system of risk management and internal controls has been reviewed during the year under review. These covered material controls, which included controls covering operational, financial and compliance matters. The controls operated effectively during the financial year although, as is the case for many large companies, additional controls were implemented or further strengthened during the year. The Audit Committee was made aware of the control changes and there was no significant impact on the financial results. The Directors confirm that no significant failings or weaknesses were identified as a result of the review of the effectiveness of the Group's system of internal control.

Nominations Committee

Dear Shareholder

One of the key responsibilities of the Nominations Committee is the implementation of a succession plan that will see a refreshing of skills around the Board table and a diversity of approaches that will enhance our collective ability to oversee the delivery of the Group's strategy.

We were therefore delighted that in preparation for Nigel Moore's retirement at the forthcoming AGM, we were able to announce the appointment of Eileen Kamerick as a Non-Executive Director who will assume the chair of the Audit Committee in May 2017. Eileen's appointment was the culmination of an extensive search process overseen by the Nominations Committee which I detail later in this report. We were also very fortunate to secure the appointment of Sanjay Sarma as an additional Non-Executive Director from 1 January 2017. As a Professor of Mechanical Engineering at MIT with a personal interest in innovation in the mining industry, Sanjay brings a new perspective to the Hochschild Board.

In addition, the Committee maintained its focus on the development of the Directors' knowledge through the provision of briefings on various topics of relevance, including the outlook for the commodity markets and changes to law and regulation affecting Directors' duties.

Eduardo Hochschild

Committee Chairman

Members	Maximum Possible Attendance	Actual Attendance
Eduardo Hochschild (Committee Chairman)	3	3
Jorge Born (Non-Executive Director)	3	3
Enrico Bombieri (Non-Executive Director)	3	3

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 2016.

The Company Secretary acts as Secretary to the Committee.

Activity during the year

The principal matters considered during the year were:

- oversight of the selection of candidates to succeed Nigel Moore in anticipation of his retirement from the Board;
- matters in connection with the appointments of Eileen Kamerick and Sanjay Sarma as Non-Executive Directors including the review of any conflicts of interest;
- the format of the 2016 Board evaluation process. As explained earlier in this report, it was decided that in light of the extensive benefits that have been brought about by past internally led-evaluations and the ongoing focus on cost-control, the Board favoured the continuation of this approach in 2016. The format of the 2017 Board evaluation will, however, be kept under review; and
- the findings of the 2016 Board evaluation process (see earlier section of the Corporate Governance report).

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 process of appointing Eileen Kamerick was undertaken by the Committee with support from Ogers Berndtson who prepared a 'long list' comprising a diverse list of potential candidates meeting prescribed criteria. A subset of this long list was drawn up and initial interviews were held by a working group established by the Committee.

The Committee subsequently discussed the results of the interviews and, following a recommendation from the working group, Committee members met with Eileen prior to recommending her appointment to the Board.

Sanjay Sarma's expertise and personal interest in mining innovation were already known to the Board and therefore, in relation to his appointment, neither search consultants nor open advertising were used.

Diversity Policy

The Board acknowledges that diversity brings new perspectives which can drive superior business performance and promote innovation. However, as has been stated in past Annual Reports, the Board is keen to commit to the overriding principle that every Board member and potential appointee must be able to demonstrate the skills and knowledge to be able to make a valued contribution to the Board. This merits-based approach will continue to apply and the Board does not intend to set diversity targets. As demonstrated by the most recent appointments, where the opportunity also arises to increase Board diversity (whether of gender, culture or professional background) this would be considered to be an additional benefit.

Corporate Social Responsibility Committee

Dear Shareholder

Despite making significant progress in safety across our operations in 2016, it was with sincere regret that we reported on the two fatalities that occurred at the Inmaculada mine in the early part of 2017. The Committee and indeed the Board as a whole are deeply committed to ensuring the safety of our colleagues and we will ensure that all necessary steps are taken on completion of the internal review.

With regards to the environment, the Group has implemented numerous initiatives to mitigate the impact of our operations. The use of a new scorecard to measure our environmental performance will be reflected in the remuneration of senior employees and is one way in which we are looking to embed an environmentally-conscious culture across the Group.

Details of the work we have done during the year with local communities in the core areas of education, health and economic development as well as the matters mentioned above can be found in the Sustainability Report on pages 29 to 34.

Roberto Dañino

Committee Chairman

Members	Maximum possible attendance	Actual attendance
Roberto Dañino (Committee Chairman)	4	4
Dr Graham Birch (Non-Executive Director)	4	4
Michael Rawlinson (Non-Executive Director)	4	4
Ignacio Bustamante (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

There were no changes to the membership of the Committee during 2016.

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 29 to 34.

Remuneration Committee

Dear Shareholder

The focus of the Remuneration Committee during 2016 was threefold: firstly, to ensure that we offer our senior executives levels of remuneration that are commensurate with those paid by our peers which prompted a wide-ranging benchmarking analysis; secondly that we seek to implement the shareholder-approved Remuneration Policy in line with good market practice; and finally, that we continue to monitor emerging practice with a view to implementing a simple remuneration structure that aligns senior executive pay with the successful achievement of the Group's objectives.

Further details on the Company's remuneration policy, the Committee's work in 2016 and how we seek to reflect the experience of our wider stakeholders in executive pay can be found in the Directors' Remuneration Report from page 57.

Enrico Bombieri

Committee Chairman

Members	Maximum possible attendance	Actual attendance
Enrico Bombieri (Non-Executive Director & Committee Chairman)	4	4
Dr Graham Birch (Non-Executive Director)	4	4
Nigel Moore (Non-Executive Director)	2	2
Sir Malcolm Field (Non-Executive Director)	2	2

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

Sir Malcolm Field ceased to be a member of the Committee following his retirement from the Board at the 2016 AGM on 20 May 2016 and Nigel Moore was appointed a member on 11 August 2016.

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 from page 57.

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 2016

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

Date	Event
January, April, July, October	Conference calls following the Quarterly Production Report
March	BMO Global Metals & Mining Conference
	2015 Annual Results presentation
	UK Roadshow
May	BoA Merrill Lynch Global Metals, Mining and Steel Conference
	Annual General Meeting
August	2016 Half-Yearly Results presentation
September	UK Roadshow
	Investor Day (London)
	Denver Gold Forum

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 Chief Executive Officer is responsible for discussing strategy with the Company's shareholders and conveying their views to the other members of the Board.

Other than through direct contact as detailed in the table above, Directors are kept informed of major shareholders' views through copies of (i) relevant analysts' and brokers' briefings, (ii) voting recommendation reports issued by institutional investor agencies, and (iii) significant correspondence from shareholders with respect to the business to be put to shareholder vote at General Meetings.

2016 AGM

Notice of the 2016 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) each of the Chairmen of the Board Committees was 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

Introduction

References in this section to 'the Articles' are to the Company's Articles of Association as at the date of this report, copies of which are available from the Registrar of Companies or on request from the Company Secretary.

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

Share capital

Issued share capital

The issued share capital of the Company as at 1 January 2016 was 505,571,505 ordinary shares of 25 pence each ('shares'). During the year a total of 1,660,805 shares were issued following the vesting of the first tranche of awards granted under the Company's Restricted Share Plan taking the issued share capital, as at 31 December 2016, to 507,232,310 shares.

The Hochschild Mining Employee Share Trust ('the Trust') is an employee share trust established to hold shares 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 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 2016, the Company had been notified of the following interests in the Company's shares in accordance with Chapter 5 of the Financial Conduct Authority's Disclosure Guidance and Transparency Rules:

	Number of ordinary shares	Percentage of voting rights (indirect)	Percentage of voting rights (direct)
Eduardo Hochschild	274,065,373[1]	–	54.03%
Vanguard Precious Metals and Mining Fund	29,550,423	–	5.83%

1 The shareholding of Mr Eduardo Hochschild is held through Pelham Investment Corporation.

The Company has been notified of the following additional interest as at 7 March 2017.

	Number of ordinary shares	Percentage of voting rights (indirect)	Percentage of voting rights (direct)
Van Eck Associates Corporation	25,505,678	–	5.03%

Current share repurchase authority

The Company obtained shareholder approval at the AGM held in May 2016 for the repurchase of up to 50,557,150 shares which represented, at that time, 10% of the Company's issued share capital ('the 2016 Authority'). Whilst no purchases have been made by the Company pursuant to the 2016 Authority, it is intended that shareholder consent will be sought on similar terms at this year's AGM when the 2016 Authority expires.

Additional share capital information

This section provides additional information as at 31 December 2016.

(a) Structure of share capital

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

Further information on the Company's share capital is provided in note 27 to the Consolidated Financial Statements.

(b) Rights and obligations attaching to shares

The rights attaching to the ordinary shares are described in full in the Articles.

In summary, on a show of hands and on a poll at a general meeting or class meeting, every member present in person or, subject to the below, by proxy has one vote for every ordinary share held. However, in the case of a vote on a show of hands, where a proxy has been appointed by more than one member, the proxy has one vote for and one vote against if the proxy has been instructed by one or more members to vote for the resolution and by one or more members to vote against the resolution.

Members are entitled to appoint a proxy to exercise all or any of their rights to attend and to speak and vote on their behalf at a general meeting or class meeting. A member that is a corporation is entitled to appoint more than one individual to act on its behalf at a general meeting or class meetings as a corporate representative.

(c) Transfer of shares

The relevant provisions of the Articles state that:

- registration of a transfer of an uncertificated share may be refused in the circumstances set out in the CREST Regulations and where, in the case of a transfer to joint holders, the number of joint holders to whom the uncertificated share is to be transferred exceeds four;
- the Directors may, in their absolute discretion, decline to register any transfer of any share which is not a fully paid share. The Directors may also decline to recognise any instrument of transfer relating to a certificated share unless the instrument of transfer:

  (i) is duly stamped (if required) and is accompanied by the relevant share certificate(s) and such other evidence of the right to transfer as the Directors may reasonably require; and (ii) is in respect of only one class of share. The Directors may, in their absolute discretion, refuse to register a transfer if it is in favour of more than four persons jointly; and
- the Directors may decline to register a transfer of any of the Company's shares by a person with a 0.25% interest, if such a person has been served with a notice under the Companies Act after failure to provide the Company with information concerning interests in those shares required to be provided under the Companies Act.

(d) Restrictions on voting

No member shall be entitled to vote at any general meeting or class meeting in respect of any shares held by him or her, if any call or other sum then payable by him or her in respect of that share remains unpaid. Currently, all issued shares are fully paid.

In addition, no member shall be entitled to vote if he or she failed to provide the Company with information concerning interests in those shares required to be provided under the Companies Act.

(e) Deadlines for voting rights

Votes are exercisable at the general meeting of the Company in respect of which the business being voted upon is being heard.

Votes may be exercised in person, by proxy or, in relation to corporate members, by a corporate representative. Under the Articles, the deadline for delivering proxy forms cannot be earlier than 48 hours (excluding non-working days) before the meeting for which the proxy is being appointed.

Shareholder agreements

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

- contains provisions restricting the Controlling Shareholders' rights to exercise their voting rights to procure an amendment to the Articles that would be inconsistent with the Relationship Agreement; and
- contains an undertaking by the Controlling Shareholders that they will, and will procure that their Associates will, abstain from voting on any resolution to approve a transaction with a related party (as defined in the 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 Compañía Minera Ares S.A.C.; or (6) the adoption of a plan relating to the liquidation or dissolution of Compañía Minera Ares S.A.C.

(b) Long-Term Incentive Plans

Awards made under the Group's Long-Term Incentive Plan, Enhanced Long-Term Incentive Plan and Restricted Share 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.

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	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 a director is interested	None
(10)(b)	Contract of significance with controlling shareholder	None
(11)	Provision of services by a controlling shareholder	Directors' Report
(12)	Shareholder waivers of dividends	Directors' Report
(13)	Shareholder waivers of future dividends	Directors' Report
(14)	Agreement with controlling shareholder	Directors' Report

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 adopted the recommendation of the UK Corporate Governance Code that all Directors should seek annual re-election by shareholders.

2014 Listing Rules

Following the implementation, in 2014, of new Listing Rules by the Financial Conduct Authority (in its capacity as the UK Listing Authority), as a company with a controlling shareholder, 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 paripassu rights for losses arising from the payment of interim dividends on other shares.

Dear Shareholders

On behalf of the Board, I am pleased to present the Directors' Remuneration Report for the year ending 31 December 2016.

This report is split into three sections: the Annual Statement, the Directors' Remuneration Policy and the Annual Report on Remuneration. The Remuneration Policy remains consistent with that approved by shareholders at the 2015 AGM, and is reproduced in summary form to provide context to the decisions taken by the Remuneration Committee during the year. The Annual Report on Remuneration will be subject to an advisory vote at the 2017 AGM.

In 2016, the Remuneration Committee focused on ensuring that Hochschild Mining's executive remuneration structure remains effective whilst avoiding unnecessary complications. This has the dual benefit of ensuring that our schemes are understood by both shareholders and participants, whilst also driving strong corporate performance and pay-performance alignment.

To this end, the Committee followed with great interest the consultation launched by the Executive Remuneration Working Group aimed at simplifying pay for senior management. In parallel, the Committee has reviewed existing practices and, where considered desirable, has adopted certain decisions to ensure that we operate our incentives in line with good market practice. Such matters include the calculation of annual bonuses with reference to the actual salary paid during the year (and not the salary at the end of the year) and the implementation of share ownership and share retention guidelines for senior employees.

Having submitted our Remuneration Policy to shareholders for approval at the 2015 Annual General Meeting, we will continue to monitor developing remuneration trends and will seek to incorporate those aspects considered to be of relevance in the policy to be published in our 2017 Remuneration Report.

I would encourage our shareholders to contact me through the Company Secretary with any feedback on any parts of our existing Remuneration Policy or any aspect of this year's Remuneration Report.

I hope you find this report to be informative.

Enrico Bombieri
Chairman, Remuneration Committee

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 and the Pensions and Lifetime Savings Association (formerly 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.

As no changes have been made to the Remuneration Policy, which shareholders approved at the 2015 AGM, the full policy is not repeated here. The Policy Table and service contracts/letters of appointment of the Board are included below for information, and the full policy can be found in the 2014 Annual Report and Accounts.

Executive director remuneration policy table

Objective	Details	Opportunity	Performance metrics
Base salary To support recruitment and retention	Salary is reviewed annually, usually in March, or following a significant change in responsibilities. Salary levels are targeted to be competitive and relevant to the global mining sector, with reference to the relative cost of living. The Committee also takes into consideration general pay levels for the wider employee population.	Any salary increases are applied in line with the outcome of the annual review. To avoid setting expectations of Directors and other employees, no maximum salary is set under the Remuneration Policy. In respect of existing Executive Directors, it is anticipated that any salary increases will be in line with the wider employee population over the term of this policy. In exceptional circumstances (including, but not limited to, a material increase in job size or complexity), the Committee has discretion to make appropriate adjustments to salary levels to ensure they remain competitive.	None
Benefits To provide benefits in line with market practice in relevant geographies	Executive Directors receive compensation for time services and profit share, both of which are provided for by Peruvian law, as well as certain allowances which may include medical insurance, the use of a car and driver,	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 is determined with reference to annual base salary (plus the annual bonus, if any) and the number of days worked during the calendar year. The value of the other benefits varies by role and individual circumstances; eligibility and costs are reviewed periodically. The Committee retains the discretion to approve a higher cost of benefits in exceptional circumstances (for example relocation) or in circumstances where factors outside the Company's control have changed materially (for example increases in insurance premiums).	None
Annual bonus To achieve alignment with the Group's strategy and commitment to operating responsibly **Maximising core assets** To optimise life-of mine and production **Exploration and project development** To develop a pipeline of high quality projects **Mergers & acquisitions** To seek early stage value accretive opportunities with strong geological potential with a clear path to control **Committed to operating responsibly** To be responsible corporate citizens	Performance measures, targets and weightings are set at the start of the year. At the end of the year, the Committee determines the extent to which targets have been achieved, taking into account the individual performance of each Executive Director. Bonus payments are normally delivered in cash. The Committee has discretion to defer all or a portion of the bonus, payable in cash or Hochschild shares, under the Deferred Bonus Plan for up to three years. Deferred bonus is subject to malus, i.e. forfeiture or reduction, in exceptional circumstances such as material misstatement or gross misconduct.	For Executive Directors, the maximum annual bonus opportunity is 150% of salary. The bonus earned is 67% of maximum for threshold level performance and 83% for target performance.	Performance is determined by the Committee on an annual basis by reference to Group financial measures, e.g. Adjusted EBITDA, as well as the achievement of personal or strategic objectives, for example production and social responsibility. The financial and strategic/personal objectives are typically weighted between 70% and 80% and 20% and 30% of maximum, respectively. The Committee retains discretion to vary the weightings +/- 20% for individual measures within the financial element, to ensure alignment with the business priorities for the year. Performance targets are generally calibrated with reference to the Company's budget for the year. Each objective in the scorecard has a 'threshold', 'target' and 'maximum' performance target, achievement of which translates into a score for each objective. The Committee uses its judgement to determine the overall scorecard outcome based on the achievement of the targets and the Committee's broad assessment of Company performance. A review of the quality of earnings is conducted by the Committee to determine whether any adjustments should be made to the reported profit for the purpose of bonus outcomes. This ensures that bonus outcomes are not impacted by unbudgeted non-recurring or one-off items, or circumstances outside of management's control such as material changes in commodity prices that could distort the overall quality of earnings. The Committee has the discretion to reduce bonus payments on the occurrence of an adverse event related to health and safety, the environment or community relations. Details of the measures, weightings and targets applicable for the financial year under review are provided in the Annual Report on Remuneration, unless they are considered to be commercially sensitive.

Executive director remuneration policy table continued

Objective	Details	Opportunity	Performance metrics
Long-Term Incentive Plan (LTIP) To directly incentivise sustained shareholder value creation through operational performance and to support the recruitment of senior positions and longer term retention	Executive Directors may be granted awards annually as determined by the Committee. The vesting of these awards is subject to the attainment of specific performance conditions. Awards are in the form of cash. Awards made under the LTIP have a performance and vesting period of at least three years. If no entitlement has been earned at the end of the relevant performance period, awards lapse. The CEO is required to invest at least 20% of vested LTIP awards into Hochschild shares until such time as he has accumulated a shareholding with a value of 200% of salary.	The maximum cash payments to participating Executive Directors in any three-year period may not be more than six times salary (or eight times salary in exceptional circumstances). The equivalents of these upper limits also apply to annual awards, that is an annual grant limit of no more than 200% of salary in normal circumstances.	Vesting of LTIP awards is subject to continued employment and the Company's performance over a three-year performance period. Vesting is based on the Company's TSR performance relative to specific sector-based comparator groups. Vesting of 70% of awards is based on the Company's TSR rank relative to a tailored comparator group. Vesting for threshold performance is 25% of maximum, with 75% for upper tercile performance and 100% for upper quintile performance. Vesting of 30% of awards is based on the Company's TSR outperformance of the FTSE350 Mining Index. Vesting for threshold performance is 25% of maximum, with 100% for stretch performance. The Committee reviews, and may adjust, the comparator groups against which performance is measured, and their weightings, from time to time to ensure they remain appropriate. More generally, the performance measures applied to LTIP awards are reviewed periodically to ensure they remain aligned with shareholder interests. The Committee can reduce or prevent vesting if 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.
Enhanced Long-Term Incentive Plan To support retention for the CEO over a longer term horizon and to achieve stronger alignment with shareholder interests through the use of conditional shares	An award in the form of conditional shares was made to the CEO in 2011 to reinforce his alignment with shareholder interests and to ensure his total remuneration package remained competitive. Awards vest based on the Company's TSR performance compared with a tailored comparator group over four, five and six years. 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.	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. No further awards are intended to be granted under this plan.	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.

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.

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.

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.

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 (subject to annual re-election)
Eduardo Hochschild[1]	30 January 2015	1 January 2019
Jorge Born Jr.	16 October 2006	16 October 2018
Nigel Moore	16 October 2006	16 October 2018[2]
Roberto Dañino[3]	11 January 2011	1 January 2020[4]
Dr Graham Birch	20 June 2011	1 July 2017
Enrico Bombieri	20 October 2012	1 November 2018
Michael Rawlinson	18 December 2015	1 January 2019
Eileen Kamerick	9 September 2016	1 November 2019
Sanjay Sarma	13 December 2016	1 January 2020

1 Mr. Hochschild, previously Executive Chairman, became Non-Executive Chairman effective 1 January 2015.
2 Mr Moore will be retiring from the Board at the forthcoming AGM on 11 May 2017.
3 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 2015, the fee was waived in light of the challenging trading conditions faced by the Company. The fee was reinstated with effect from 1 January 2016.
4 Mr Dañino will be retiring from the Board at the forthcoming AGM on 11 May 2017.

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:

Objective	Details	Opportunity	Performance metrics
To attract and retain Non-Executive Directors of the highest calibre with broad commercial and other experience relevant to the Company.	Fee levels are reviewed from time to time, with any adjustments effective from 1 March each year. The fee paid to the Chairman is determined by the Committee, and fees to Non-Executive Directors are determined by the Board. Additional fees are payable for acting as Chairman of the Audit and Remuneration Committees and as Senior Independent Director. Fee levels are reviewed by reference to FTSE- listed companies of similar size and complexity. Time commitment, level of involvement required and responsibility are taken into account when reviewing fee levels. Fees for the year ending 31 December 2016 are set out in the Annual Report on Remuneration on page 63.	Non-Executive Director fee increases are applied in line with the outcome of the fee review. Other than reinstating NED fees to their levels prior to 1 August 2013 at the discretion of the Board, it is expected that NEDs' fees will only be increased during the term of this policy in line with general market levels of NED fee inflation. In the event that there is a material misalignment with the market or a change in the complexity, responsibility or time commitment required to fulfil a Non-Executive Director role, the Board has discretion to make an appropriate adjustment to the fee level. The maximum aggregate annual fee for all Directors provided in the Company's Articles of Association is £3 million p.a.	None

Annual report on remuneration

The following section provides details of how Hochschild's Remuneration Policy was implemented during the financial year ending 31 December 2016.

Remuneration Committee membership

The Remuneration Committee is chaired by Enrico Bombieri and its other members are Graham Birch and Nigel Moore (from 11 August 2016). Sir Malcolm Field was a member of the Committee until his retirement from the Board on 20 May 2016. All of the members of the Remuneration Committee were, and continue to be, independent Non-Executive Directors. The composition of the Remuneration Committee and its terms of reference comply with the provisions of the UK Corporate Governance Code and are available for inspection on the Company's website at www.hochschildmining.com.

Members of senior management attend meetings at the invitation of the Committee. During the year, such members included the 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 four times during the year (details of members' attendance at meetings are provided in the Corporate Governance report on page 52) and undertook the items of business noted below.

March 2016

- Confirmed the lapse of 2013 LTIP awards and the second tranche of 2011 ELTIP awards;
- Reviewed remuneration policy, including consideration of the wider application of malus provisions and the introduction of clawback, and consideration of the Company's shareholding guidelines for executives;
- Considered 2015 performance evaluation of CEO and the resulting bonus. In addition, the Committee noted the performance of, and bonuses for, the Group's Vice Presidents;
- Reviewed and approved the CEO's salary for 2016;
- Considered and approved the 2015 Directors' Remuneration Report; and
- Approved the grant of 2016 LTIP awards.

May 2016

- Reviewed feedback on the 2015 Directors' Remuneration Report at the AGM;
- Considered developments in remuneration governance; and
- Reviewed senior executive remuneration benchmarking.

August 2016

- Further reviewed remuneration policy;
- Further reviewed senior executive remuneration benchmarking; and
- Considered provisional assessments in advance of the year-end with respect to the CEO's 2016 performance evaluation.

December 2016

- Approved the Company's shareholding guidelines for executives;
- Considered developments in remuneration regulation; and
- Considered provisional assessments in advance of the year-end with respect to:
  - the CEO, CFO and COO's 2016 performance evaluation;
  - 2017 bonus objectives for the CEO;
  - vesting of the first tranche of RSP awards;
  - vesting of subsisting LTIP awards; and
  - the proposed 2017 LTIP grant.

Advisers

During the year, in order to enable the Committee to reach informed decisions on executive remuneration, advice on market data and trends was obtained from independent consultants, Kepler, a brand of Mercer (which is part of the MMC group of companies). Kepler reports directly to the Committee Chairman, and is a signatory to and abides by the Code of Conduct for Remuneration Consultants (which can be found at www.remunerationconsultantsgroup.com). Other than advice on remuneration, no other services were provided by Kepler to the Company (or any other part of the MMC group of companies with the exception of unrelated insurance brokerage services). The fees paid to Kepler in respect of work carried out in 2016 (based on time and materials) totalled £33,532, 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 2016 AGM

The table below shows the results of the advisory vote on the 2015 Annual Report on Remuneration at the AGM on 20 May 2016:

	Annual Report on Remuneration	
	Total number of votes	% of votes cast
For (including discretionary)	284,334,705	65.75%
Against	148,095,988	34.25%
Total votes cast (excluding withheld votes)	434,265,280	
Votes withheld	1,834,587	

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

The current Remuneration Policy was approved by shareholders at the 2015 AGM, and received 74% support.

The Board is mindful of the shareholders who voted against the Annual Report on Remuneration, which related principally to the salary increase awarded to the CEO in November 2015, and the use of year-end salary to calculate his bonus entitlement. As set out in the 2015 report, the salary increase related to the commencement of production from Inmaculada in August 2015. The Committee believes the size of the increase is justified in the context of market pay data which was reviewed again during 2016 as part of an extensive benchmarking analysis and strong Company and individual performance. In respect of the bonus calculation, the Committee acknowledges that this approach may not be considered appropriate where salary is reviewed later in the year, and has revised the approach to align with best practice with effect from 2016.

The Committee is committed to listening to and engaging with the views of our shareholders and takes an interest in voting outcomes. The Committee will continue to be transparent in our remuneration decision-making and to engage with our shareholders on remuneration matters.

Single total figure of remuneration for executive directors (audited)

The table below sets out a single figure for the total remuneration received by Ignacio Bustamante, the only Executive Director, for the year ended 31 December 2016 and the prior year:

	2016 US$000	2015 US$000
Base salary[1]	792	584
Taxable benefits[2]	42	44
Pension	–	–
Single-year variable[3]	875	700
Multiple-year variable[4]	904	–
Restricted Share Plan[5]	779	–
Profit share[6]	–	–
Total	3,392	1,328

1 Base salary includes compensation for time services as mandated by the Peruvian Government, and tax rebates in 2016 and 2015 based on a portion of salary.

2 Taxable benefits include: use of a car and driver (2016: US$36,066; 2015: US$37,840) and medical insurance.

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

4 Zero vesting for ELTIP based on performance to 31 December 2015 and 2016, zero vesting for the LTIP to 31 December 2015 and 90.4% vesting for the LTIP to 31 December 2016.

5 The first tranche of restricted shares granted on 30 December 2014 vested on 30 December 2016, at a share price of 211.5p.

6 All-employee profit share mandated by Peruvian law which, in light of the levels of taxable profit generated at the relevant entity level, has resulted in nil payout.

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 2016 and 2015:

	Base fee US$000		Additional fees US$000		Benefits-in-kind US$000		Other US$000		Total US$000	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Eduardo Hochschild[1]	400	400	–	–	397	339	–	–	797	739
Jorge Born Jr.	68	77	–[2]	–[2]	–	–	–	–	68	77
Nigel Moore	68	77	14[3]	15[3]	–	–	–	–	82	92
Roberto Dañino	68	77	240[4]	–[4]	8[5]	7[5]	–	–	316	84
Dr Graham Birch	68	77	–	–	–	–	–	–	68	77
Enrico Bombieri	68	77	–[6]	–[6]	–	–	–	–	68	77
Eileen Kamerick	10	–	–	–	–	–	–	–	10	–
Michael Rawlinson	68	–	–	–	–	–	–	–	68	–
Former directors										
Sir Malcolm Field	28	77	–	–	–	–	–	–	28	77

1 Eduardo Hochschild was an Executive Director until 31 December 2014, and as reported last year, Eduardo Hochschild retained eligibility to receive benefits following his transition to the Non-Executive Chairman role.

2 Jorge Born originally waived his entitlement to an additional fee of £10,000 as Chairman of the Remuneration Committee in light of the challenging trading conditions faced by the Company and continues to do so.

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

4 Pursuant to a contract between Mr Dañino and the Group dated 28 December 2010, a fee of $240,000 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. The fee was waived in 2015 in light of the challenging trading conditions faced by the Company but was reinstated with effect from 1 January 2016.

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 medical insurance in 2016 and 2015.

6 Enrico Bombieri originally waived his entitlement to additional fees totalling £20,000 as Senior Independent Director and Chairman of the Remuneration Committee in light of the challenging trading conditions faced by the Company and continues to do so.

Salary and fee adjustments for the year ended 31 December 2016 (unaudited)

Following the base salary increase for the CEO effective 1 November 2015 the Committee determined that no increase would be awarded for 2016.

Executive Director	Base salary[1] from 1 March 2016 US$000	Base salary[1] from 1 November 2015 US$000	Percentage increase
Ignacio Bustamante[2]	**758**	758	0%

1 Includes compensation for time services (CTS).

2 Ignacio Bustamante's salary is denominated in US dollars.

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, Chairman of the Audit Committee and Senior Independent Director.

A summary of current fee levels is provided below:

Non-Executive Director fee	Fee from 1 Jan 2017	Fee from 1 Jan 2016	Percentage increase
Chairman fee	US$400,000	US$400,000	0%
Base fee	£50,000	£50,000	0%
Additional fees	£10,000	£10,000	0%

The Chairman of the Remuneration Committee and the Senior Independent Director have each waived their rights to their additional fees.

Incentive outcomes for the year ended 31 December 2016 (audited)

Performance-related annual bonus in respect of 2016 performance

Objectives for the 2016 bonus were set by the Committee at the beginning of the year and a provisional assessment of performance during the year was undertaken at the December Committee meeting, which was confirmed in March 2017.

Further details of the bonuses paid for 2016, including the specific performance metrics, weightings and performance against each of the metrics, are provided in the table below:

			Targets			
Objective	KPI	Target weighting	Threshold	Target	Maximum	Performance assessment
Profitable production and financial results	Production	35%		32m Oz Aq Eq		35.5m Oz Ag Eq
	EBITDA[1]	18%	US$175m	US$181m	US$191m	US$219.9m
	All-in Sustaining Cost (AISC)[1]	12%	US$13.2 Oz	US$13.0 Oz	US$12.8 Oz	US$12.4 Oz
	Sustaining capex	10%	US$115m	US$109m	US$99m	US$97.4m
Safety awareness	Frequency rate	15%	2.18	2.08	1.98	2.20
	Severity rate	10%	540	450	300	137.71

1 Adjusted as described in the final paragraph below.

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 judgement in determining the actual bonus awarded.

The Committee assessed performance against the scorecard and the CEO's performance in 2016. A number of adjustments were made in line with the Company's usual practice to maintain the quality of earnings by primarily disregarding the impact of factors outside of management's control such as the price of silver and gold (as compared to the budgeted prices) and the impact of any hedging approved by the Board. The Committee's assessment of performance resulted in the award of a bonus to the CEO of 125% of salary (83.3% of maximum).

2014 LTIP Vesting

On 12 March 2014, Ignacio Bustamante was granted an award under the LTIP with a face value of US$1,000,000. 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[1] performance vs. tailored peer group[2]	70%	Upper quintile (80th percentile): Full vesting Upper tercile (67th percentile): 75% vesting Median (50th percentile): 25% vesting Straight-line vesting between these points
Relative TSR[1] performance vs. Constituents of the FTSE350 Mining Index	30%	Median TSR +10% p.a.: Full vesting Median TSR: 25% vesting Straight-line vesting between these points

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

2 Acacia Mining, Agnico-Eagle Mines, Alamos Gold, AngloGold Ashanti, Barrick Gold, Centamin Egypt, Cia des Minas Buenaventura, Coeur Mining, Eldorado Gold, Fresnillo, Gold Fields, Goldcorp, Hecla Mining, Highland Gold, IAMGOLD, Kinross Gold, Newmont Mining, Pan American Silver, Petropavlovsk, Polymetal, Randgold Resources, and Silver Standard Resources.

The Committee has considered the extent to which the performance conditions attached to the 2014 LTIP award had been satisfied. Since the Company's TSR in the performance period between 1 January 2014 and 31 December 2016 ranked 73rd percentile versus that for the tailored peer group and outperformed the median of the constituents of the FTSE350 Mining Index by c.21%, 90.4% of this award will vest on 12 March 2017, subject to continued employment on that date.

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 1 January 2011 to 31 December 2015 in respect of 25% of the award 1 January 2011 to 31 December 2016 in respect of 50% of the award
Vesting dates (subject to performance)	28 April 2015 in respect of 90,549 shares 28 April 2016 in respect of 90,549 shares 28 April 2017 in respect of 181,098 shares
Performance conditions	Relative TSR performance Upper decile (90th percentile): Full vesting Upper quartile (75th percentile): 75% vesting Median (50th percentile): 25% vesting Straight-line vesting between these points
TSR comparator group	Acacia Mining, Agnico-Eagle Mines, Alamos Gold, AngloGold Ashanti, Barrick Gold, Centamin Egypt, Cia des Minas Buenaventura, Coeur Mining, Eldorado Gold, Fresnillo, Gold Fields, Goldcorp, Highland Gold, IAMGOLD, Kinross Gold, Newmont Mining, Pan American Silver, Petropavlovsk, Polymetal, Randgold Resources, and Silver Standard Resources

Subsequent to the year end, the Committee considered the extent to which the performance condition attached to the six-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 2016 ranked 48th percentile versus that for the tailored peer group and, as a result, shares under this tranche will not vest. Shares under all three tranches of the 2011 ELTIP have now lapsed as the respective performance conditions were not met.

Scheme interests awarded in 2016 (audited)

LTIP

On 9 March 2016, Ignacio Bustamante was granted a cash-settled award under the LTIP with a face value of US$1,400,000.

Vesting is dependent on three-year relative TSR from 1 January 2016 to 31 December 2018, 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	Award value for minimum performance
Ignacio Bustamante	09.03.16	01.01.16 – 31.12.18	US$1,400,000	US$350,000

Performance measure	Weighting	Performance targets
Relative TSR[1] performance vs. tailored peer group[2]	70%	Upper quintile (80th percentile): Full vesting Upper tercile (67th percentile): 75% vesting Median (50th percentile): 25% vesting Straight-line vesting between these points
Relative TSR[1] performance vs. constituents of the FTSE350 Mining Index	30%	Median TSR +10% p.a.: Full vesting Median TSR: 25% vesting Straight-line vesting between these points

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

2 Acacia Mining, Agnico-Eagle Mines, Alamos Gold, AngloGold Ashanti, Barrick Gold, Centamin Egypt, Cia des Minas Buenaventura, Coeur Mining, Eldorado Gold, Endeavour Silver, First Majestic Silver, Fortuna Silver Mines, Fresnillo, Gold Fields, Goldcorp, Hecla Mining, IAMGOLD, Kinross Gold, Newmont Mining, Pan American Silver, Petropavlovsk, Polymetal, Randgold Resources, Silver Standard Resources, Tahoe Resources and Volcan Compania Minera.

Exit payments made in the year (audited)

No exit payments were made to Directors in the year.

Payments to past directors (audited)

No payments were made to past Directors in the year.

Implementation of remuneration policy for 2017

2017 remuneration arrangements will be implemented in line with the approved Remuneration Policy. Further details are provided below.

Salary

The Committee has determined that Ignacio Bustamante's salary for 2017 will remain the same at US$758,333 (including CTS).

Annual bonus

The annual bonus for the 2017 financial year will operate on the same basis as in 2016 in that (a) the maximum bonus opportunity for the CEO will be 150% of salary and (b) the payment will be subject to performance against broadly the same measures as those used in 2016 with the addition of an objective on environmental performance which will be assessed using a wide ranging environmental scorecard. Further disclosure of measures and targets, where not commercially sensitive, will be provided in next year's Annual Report on Remuneration. The Remuneration Committee will continue to retain discretion as to whether any part of the bonus should be paid in shares and/or deferred for any period up to three years.

LTIP

The Committee will make awards in 2017 within the maximum limits described in the Remuneration Policy. The performance conditions will be the same as for 2016 awards The full comparator group is as follows: Acacia Mining, Agnico-Eagle Mines, Alamos Gold, AngloGold Ashanti, Barrick Gold, Centamin Egypt, Cia des Minas Buenaventura, Coeur Mining, Eldorado Gold, Endeavour Silver, First Majestic Silver, Fortuna Silver Mines, Fresnillo, Gold Fields, Goldcorp, Hecla Mining, IAMGOLD, Kinross Gold, Newmont Mining, Pan American Silver, Petropavlovsk, Polymetal, Randgold Resources, Silver Standard Resources, Tahoe Resources, and Volcan Compañía Minera.

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 US$000			Other employees[1]
	2016	2015	% change	% change
Base salary	792[2]	584[2]	36%	6.5%
Taxable benefits	42	44	-4%	n/a
Single-year variable	875[3]	700[3]	25%	34%

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

2 Includes compensation for time services as mandated by the Peruvian government, and tax rebates in 2016 and 2015 on a portion of salary.

3 The CEO's bonus is calculated with reference to base salary only ie before CTS and tax rebates.

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 2015 to the financial year ended 31 December 2016.

Distribution to shareholders US$000			Employee remuneration US$000		
2016	2015	% change	2016	2015	% change
14,000[1]	Nil	n/a	143,891	139,765	2.95%

1 Comprising the 2016 interim dividend and the proposed final dividend.

The Directors are recommending the payment of a final dividend of US$7m for the year ended 31 December 2016.

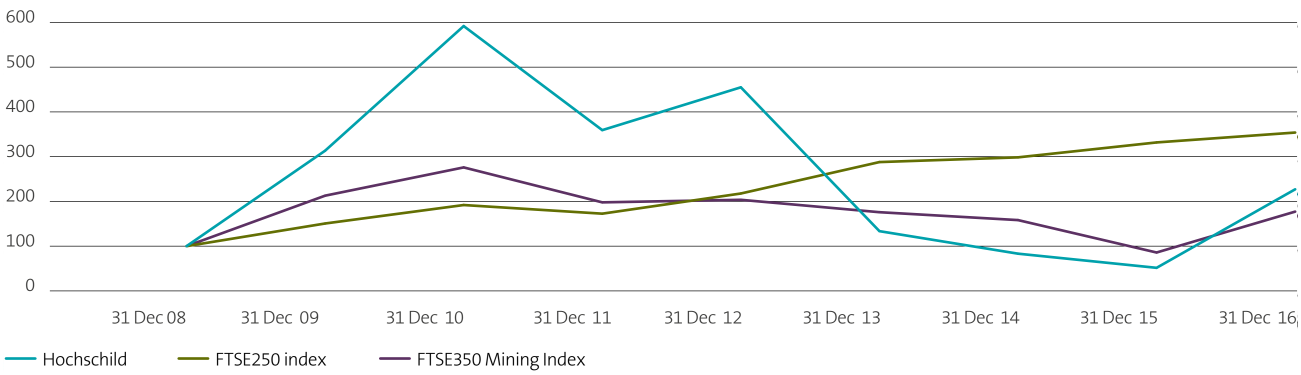
Pay for performance

The following graph shows the TSR for the Company compared to the FTSE350 Mining Index and FTSE 250 Index, assuming £100 was invested on 31 December 2008. The Board considers that the FTSE350 Mining Index is an appropriate published index as it reflects the sector that Hochschild operates in, and the FTSE 250 Index provides a view of performance against a broad equity market index of which Hochschild has been a constituent for the majority of the past eight years. The table below details the CEO's single figure remuneration and actual variable pay outcomes over the same period.

Historical TSR performance

£100 INVESTED IN HOCHSCHILD AND FTSE 350 MINING AND FTSE 250 INDICES ON 31 DECEMBER 2008

Growth in the value of a hypothetical £100 holding over eight years to 31 December 2016



	2009	2010[1]		2011	2012	2013	2014	2015	2016
CEO	Miguel Aramburú	Miguel Aramburú	Ignacio Bustamante	Ignacio Bustamante	Ignacio Bustamante	Ignacio Bustamante	Ignacio Bustamante	Ignacio Bustamante	Ignacio Bustamante
CEO single figure of remuneration ($000)	1,228	1,019	1,525	1,120	1,852	999	924	1,328	3,392
Annual bonus outcome (% of maximum)	100%	46%	100%	100%	90%	81%	67%	67%	83%
LTI vesting outcome (% of maximum)	0%	0%	47%	0%	98%	0%	0%	0%	0% (ELTIP) 90% (LTIP)

1 Miguel Aramburú resigned on 31 March 2010. Ignacio Bustamante was appointed on 1 April 2010.

Directors' interests (audited)

The interests of the Directors and their families in the ordinary shares of the Company as at 31 December 2016 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						
	Owned outright or vested at 31 Dec 2015 (or date of appointment if later)	Owned outright or vested at 31 Dec 2016 (or date of retirement if earlier)	Vested but subject to holding period	Unvested and subject to performance conditions	Shareholding requirement (% of salary)	Current shareholding (% of salary)	Requirement met?
Ignacio Bustamante	166,710	531,751	0	2,350,146	200%	198%[1]	No
Eduardo Hochschild	274,065,373	274,065,373	–	–	n/a	–	–
Jorge Born Jr.	–	–	–	–	n/a	–	–
Nigel Moore	68,750	68,750	–	–	n/a	–	–
Roberto Dañino	275,000	275,000	–	–	n/a	–	–
Dr Graham Birch	33,750	33,750	–	–	n/a	–	–
Enrico Bombieri	–	–	–	–	n/a	–	–
Eileen Kamerick	–	–	–	–	n/a	–	–
Michael Rawlinson	–	–	–	–	n/a	–	–
Former directors							
Sir Malcolm Field	19,641	19,641	–	–	n/a	–	–

1 Using the Company's closing share price and GBP/USD exchange rate as at 30 December 2016 (being the last trading day of the year) of 211.5p and £1:$1.2329 respectively.

There have been no changes to Directors' shareholdings since 31 December 2016.

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

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[1]	Exercise price at grant	Number of shares awarded[1]	Face value at grant[2]	Performance period	Vesting date
Ignacio Bustamante							
DBP[3]	20.03.14	155p	Nil	66,727	£103,294	n/a	20.03.16
DBP[4]	16.03.16	87p	Nil	80,766	£69,930	n/a	16.03.18
2014 ELTIP	20.03.14	155p	Nil	269,030	£416,456	01.01.14 – 31.12.17	20.03.18
2014 ELTIP	20.03.14	155p	Nil	269,030	£416,456	01.01.14 – 31.12.18	20.03.19
2014 ELTIP	20.03.14	155p	Nil	538,062	£832,913	01.01.14 – 31.12.19	20.03.20
2015 LTIP	18.03.15	n/a	n/a	n/a	$1m	01.01.15 – 31.12.17	18.03.18
2016 LTIP	09.03.16	n/a	n/a	n/a	$1.4m	01.01.16 – 31.12.18	09.03.19
RSP[5]	30.12.14	77p	Nil	298,314	£229,046	n/a	30.12.16
RSP	30.12.14	77p	Nil	298,314	£229,046	n/a	30.12.17
RSP	30.12.14	77p	Nil	298,314	£229,046	n/a	30.12.18
RSP	30.12.14	77p	Nil	596,630	£458,094	n/a	30.12.19

1 These figures have been updated for the October 2015 rights issue and, in the case of the share price at grant, the share price has been rounded to the nearest pence.
2 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).
3 Figures disclosed are for the 50% of the 2014 DBP award (which relates to the deferred portion of the 2013 annual bonus) which vested in March 2016.
4 50% of the 2016 DBP award (which relates to the deferred portion of the 2015 annual bonus) will vest in March 2017 and 50% in March 2018, subject to continued employment.
5 The first tranche of the 2014 RSP vested on 30 December 2016.

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 2016 (unaudited)

The table below details the fees received by Ignacio Bustamante, as the only Executive Director in office during 2016, in respect of his non-Group directorships and which are retained by him.

Name of Company	Fee received
Caral Edificaciones SAC	US$8,280
Profuturo AFP	US$28,980

Signed on behalf of the Board

Enrico Bombieri
Chairman of the Remuneration Committee
7 March 2017

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.

Our opinion on the financial statements

In our opinion:

- Hochschild Mining plc's Group financial statements and Parent Company financial statements (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 2016 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union 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

Hochschild Mining plc's financial statements comprise:

Group	Parent company
Consolidated statement of financial position as at 31 December 2016	Statement of financial position as at 31 December 2016
Consolidated income statement for the year then ended	Statement of changes in equity for the year then ended
Consolidated statement of comprehensive income for the year then ended	Statement of cash flows for the year then ended
Consolidated statement of changes in equity for the year then ended	Related notes 1 to 13 to the financial statements
Consolidated statement of cash flows for the year then ended	
Related notes 1 to 37 to the consolidated financial statements	

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.

Overview of our audit approach

Risks of material misstatement	• Recoverability of the carrying value of the Group's mining assets • Revenue recognition • Mine rehabilitation provisions
Audit scope	• We performed an audit of the complete financial information of 3 of the 18 components and performed audit procedures on specific selected accounts of 2 additional components. • The components where we performed full and specific audit procedures accounted for 99% of Adjusted EBITDA (as defined in the Financial Review on page 27 of the Annual Report) on an absolute basis, 100% of revenue and 96% of total assets.
Materiality	Overall Group materiality of US$6.3m (2015: US$2.6m) which represents approximately 2% of Adjusted EBITDA. The increase in the materiality is primarily due to the improved financial performance as a result of the overall increase in prices and additional production from Inmaculada.

Governance

Our assessment of risk of material misstatement

We identified the risks of material misstatement described below as those that had the greatest effect on our overall audit strategy, the allocation of resources in the audit and the direction of the efforts of the audit team. In addressing these risks, we have performed the procedures below which were designed in the context of the financial statements as a whole and, consequently, we do not express any opinion on these individual areas.

Details of why we identified these risks of material misstatements and our audit response are set out in the below table. This is not a complete list of all the procedures we performed in respect of these areas. The arrows in the table indicate whether we consider the financial statement risk associated with this focus area to have increased, decreased or stayed the same compared to 2015.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Recoverability of the carrying value of the Group's mining assets *Refer to the Audit Committee Report (page 48); Accounting policies (page 81); and Notes 16, 17 and 18 to the Consolidated Financial Statements.* At 31 December 2016 the carrying value of property, plant and equipment, evaluation and exploration assets and intangible assets was US$1,140.8m (2015: US$1,211.7m). IFRS requires companies to test their assets by cash generating units (CGUs) for impairment (or impairment reversals) whenever an indicator exist. An intangible asset with an indefinite useful life is tested for impairment at least annually and whenever there is an indication that the asset might be impaired. As at 31 December 2016, management assessed that there were no impairment or impairment reversal indicators present and therefore no assessment of the recoverable amount of the Group's mining assets has been performed. Given the ongoing volatility in commodity prices, we continue to consider there is a risk that the carrying values of the Group's mining assets, including property, plant and equipment, exploration and evaluation assets and intangible assets might not be recoverable or could require a reversal of impairments previously recognised.	Our approach focused on the following procedures: • Obtained an understanding of management's process around impairments and impairment reversals assessment, including the effective implementation of all relevant controls. • Audited management's assessment of whether any indicators of impairment under IAS 36 and IFRS 6 were present at 31 December 2016, including a challenge of the validity and completeness of the indicators and consulted with our valuation specialist where appropriate: • Compared and assessed the changes to the spot and analyst forecasts of future gold and silver prices as at 31 December 2016 and 31 December 2015; • Obtained relevant support of management's position on market interest rates and other macro-economic factors, in particular whether the economic changes in the Argentinian economy would suggest a potential indicator of impairment; and • Discussed with management the approved mine plans or budgets, taking into account the updated reserves and resources estimates. • Obtained the recoverable value model from management for the Volcan CGUs, which includes water permits (which are deemed to have an indefinite useful life under Chilean law): • Assessed the appropriateness of the methodology applied in preparing the model; • Tested the recoverable value model for accuracy, performed sensitivity analyses on significant inputs, and challenged the appropriateness of key assumptions as compared with third party/independent sources or other evidence; and • Compared the calculated recoverable value to the associated carrying value, assessing whether any impairment charge or reversal of previously recognised impairment charge is required; and • Considered the appropriateness, sufficiency, and clarity of the impairment-related disclosures provided in the financial statements and disclosures of sensitivities. We performed audit procedures at the Group level over this risk area covering 100% of the risk amount.	As a result of the audit procedures performed, we have concluded that management's impairment indicator analysis for the Group's CGUs has been carried out appropriately and in accordance with the requirements of IFRS. We concur with management's analysis that there are no impairment indicators nor impairment reversal indicators present at 31 December 2016 and therefore a full impairment assessment is not required. We concur with management's assessment that the carrying value of the Volcan CGU is not impaired or requires a reversal of impairment as at 31 December 2016. We concluded that the related disclosures in the Group financial statements are appropriate.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Revenue recognition *Refer to the Audit Committee Report (page 48); Accounting policies (page 81); and Note 5 to the Consolidated Financial Statements.* For the year ended 31 December 2016 the Group recognised revenue from operations of US$688.2m (2015: US$469.1m). 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, risks and rewards pass to the customer increases the risk of measurement and cut-off errors. We have also identified risks in relation to the calculation of the adjustment for provisional pricing, including the estimate of silver and gold in the concentrate sold.	Our audit focused on the following procedures: • Obtained an understanding of the key controls around the revenue recognition process to ensure that they were designed and implemented effectively, supporting the prevention, detection or correction of material errors in the reported revenue figures; • Tested the operating and effectiveness of key controls (where this was deemed a more efficient approach than substantive testing), including those controls over provisional pricing; • Read the terms and conditions of material sales contracts and ensured they have been accounted for in line with the Group's revenue recognition policy; • Performed detailed substantive testing procedures over the revenue transactions, including cut-off testing to ensure revenue is recognised in the correct period; • For open sales where provisional pricing applies, we compared the fair value price assumption to market forward rates and recalculated the provisional price adjustment to ensure that this item was properly measured. Also we performed a subsequent review for the sales closed near the date of reporting to check that the final amounts issued on sale settlement are materially consistent with the estimation made at year-end; • For the silver and gold price hedging arrangements entered during the year, we engaged an EY internal specialist to audit management's hedging documentation, forming an independent view that the application of hedge accounting was appropriate. We also recalculated the resulting realised losses recognised within revenue; • Tested reconciliation of year-end inventory (additional cut-off procedures) by agreeing the movements of production and sales transactions to the respective reports; and • Reviewed the financial statements to assess whether all required disclosures in respect of revenue and the provisional pricing have been included in the Group financial statements. We performed audit procedures in two components under full scope audit, covering 100% of this risk amount.	As a result of the procedures performed, we have been able to conclude that the Group has appropriately accounted for the revenue transactions in accordance with IFRS, and the calculation of the provisional pricing adjustment and the values of the realised loss on the hedging arrangements have been performed in accordance with the requirements of IFRS and the Group's accounting policies. We noted that in all cases management's assumptions and estimates were reasonable.
Mine rehabilitation provisions *Refer to the Audit Committee Report (page 48); Accounting policies (page 81); and Notes 26 to the Consolidated Financial Statements* At 31 December 2016 management has recorded a mine rehabilitation provision of US$102.4m (2015: US$120.1m). Management is required to provide for the costs of environmental rehabilitation and site restoration in accordance with IAS 37 'Provisions, contingent liabilities and contingent assets'. Given the high level of judgement and estimation applied in assessing the method, timing and quantum of the cash flows required to rehabilitate mines, this is an area of audit focus. We noted that the provision has decreased and therefore we challenged management's measurement.	Our approach consisted of the following procedures: • Obtained an understanding of management's process to calculate the future restoration costs; • Obtained and read copies of the mine closure reports issued by the external specialists engaged by the Group to update the mine closure plans, and held discussions directly with the specialists, to understand their work and assess the sufficiency of the Group's restoration provisions; • Reviewed any significant changes in estimates or new restoration costs and challenged the rationale behind the updates; • Assessed the objectiveness and completeness of the external and internal specialists used by management; • Audited the significant changes in estimates and challenged the reasoning behind these. For this purpose we held discussions with management and the third-party specialist as well as performed comparison to prior year figures and enquired about significant variances; • Performed an overall recalculation of the provision, including challenging the discount rate applied; and • Assessed the accounting for the changes to these provisions, and ensured that these changes and the provisions were appropriately reflected and disclosed in the Group financial statements. We performed audit procedures in two components under full scope audit, covering 100% of this risk amount.	As a result of the procedures performed we concluded that the provisions for mine rehabilitation activities have been recognised appropriately in accordance with IFRS, and that all required disclosures have been included in the Group financial statements. Based on the information available, we consider that the judgements and assumptions made by management and the external specialists appear to be reasonable.

As part of our audit, 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. The above is not a complete list of all risks identified by our audit.

Our audit approach and assessment of risks of material misstatements change in response to changes in circumstances affecting the Hochschild Mining plc business and impacting the Group financial statements. Since the 2015 audit, we have made the following change to our risks of material misstatements:

- The risk relating to the recoverability of the carrying value of the Group's mining assets has been reduced relative to the prior year as no impairment assessment of the recoverable value of the Group's mining assets was performed (excluding intangible assets with indefinite useful life), as there were no impairment or impairment reversal indicators present as at 31 December 2016.
- As at 31 December 3016, the mine rehabilitation provision decreased by US$17.0m mainly as a result of the review performed by external specialists. We now consider mine rehabilitation provision to be a risk of material misstatement given it had the greatest effect on the allocation of resources in the audit and directing the efforts of the engagement team.
- We no longer consider 'Going concern' to be a risk of material misstatement on the basis of the higher level of operating cash inflows and improved net cash positions of the Group, as compared to the prior year.
- We no longer consider 'Tax contingencies' to be a risk of material misstatement as there have been no significant changes from prior year in terms of timing and potential impact that could have a significant effect on the risk arising from tax exposures. Consequently, this issue no longer has the greatest effect on the allocation of resources in the audit.

The scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, the organisation of the group and effectiveness of group-wide controls, the industry in which the Group operates, changes in the business environment and other factors, such the risks of material misstatement, when assessing the level of work to be performed at each entity.

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the Group financial statements, of the 18 reporting components of the Group, we selected three components covering entities within the UK, Peru and Argentina, which represent the principal business units within the Group. On these components we performed an audit of the complete financial information ("full scope components") which were selected based on their size or risk characteristics.

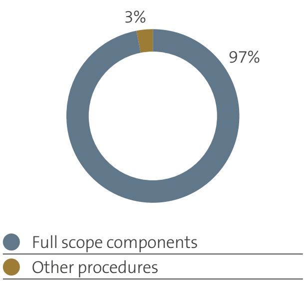
In addition to this, at the Group level we performed audit procedures on specific accounts on two components that we considered had the potential for the greatest impact on the significant accounts in the Group financial statements either because of the size of these accounts or their risk profile ("specific scope components").

The reporting full scope and specific scope components where we performed audit procedures accounted for 97% (2015: 97%) of the Group's Adjusted EBITDA (on an absolute basis), 100% (2015: 100%) of the Group's revenue and 96% (2015: 97%) of the Group's total assets.

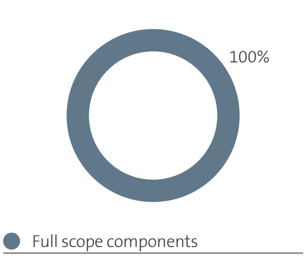
The remaining components represent 3% of the Group's Adjusted EBITDA and none is individually greater than 1% of the Group's Adjusted EBITDA. For these components, we performed other procedures, including analytical review and testing of consolidation journals to respond to any potential risks of material misstatement to the Group financial statements.

The charts below illustrate the coverage obtained from the work performed by our audit teams:

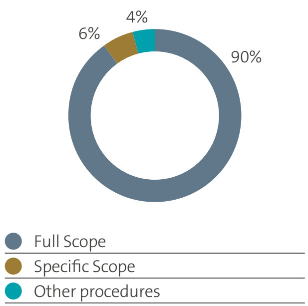
ADJUSTED EBITDA



REVENUE



TOTAL ASSETS



Involvement with component teams

In establishing our overall approach to the Group audit, we determined the type of work that needed to be undertaken at each of the components by us, as the primary audit engagement team, or by component auditors from other EY global network firms operating under our instruction. Of the three full scope components, audit procedures were performed on two directly by the Peruvian and Argentinian EY member firms, while the third component was audited by the Group team.

For the components, where the work was performed by component auditors, we determined the appropriate level of involvement to enable us to determine that sufficient audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole.

The Group audit team continued to follow a programme of planned visits that is designed to ensure that the Senior Statutory Auditor visits each of the primary operating locations where the Group audit scope was focused. The primary audit team and Senior Statutory Auditor visit the Peru operating location twice every year, and the Argentina operating location is visited at least once every two years. During the current year's audit cycle, visits were undertaken to the component team in Peru. The last visit to the Argentina operating location was in February 2015 and next visit is expected to take place in 2017. For all locations subject to a full audit, in addition to any location visits, the primary team interacted regularly with the component teams during various stages of the audit and was responsible for the scope and direction of the audit process. The primary team also participated in the component teams' planning, discussed the audit approach with the component teams and any issues arising from their work, reviewed key audit working papers and attended all closing meetings either in person or by call. The Group audit team tested the consolidation process and carried out analytical procedures to confirm the 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 balances. This, together with the additional procedures performed at Group level, gave us appropriate evidence for our opinion on the Group financial statements.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality	Performance materiality	Reporting threshold
US$6.3m	US$4.7m	US$315k

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be US$6.3 million (2015: US$2.6 million), which is approximately 2% (2015: 2%) of Adjusted EBITDA. We consider that Adjusted EBITDA provides us with an earnings-based measure that is significant to users of the financial statements on which we could set our materiality. This was deemed to be a critical measure for users of the financial statements, given the focus on this metric by the Group's shareholders, investors and external lenders, specifically as an Adjusted EBITDA measure is used to assess the Group's compliance with key restrictive covenants on the Group's borrowings.

Our materiality amount provides a basis for determining the nature and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature and extent of further audit procedures. Materiality is assessed on both quantitative and qualitative grounds.

Starting basis	• Profit from continuing operations before exceptional items, net finance cost, foreign exchange loss and income tax
Adjustments	• Add: Depreciation and amortisation in cost of sales and in administrative expenses • Add: Exploration expenses other than personnel and other exploration related fixed expenses • Add: Other non-cash expenses
Materiality	• Adjusted EBITDA - US$329.0m • Materiality: 2% of Adjusted EBITDA

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment and the number and monetary amounts of individual uncorrected misstatements identified in prior periods as well as the nature of the misstatements, our judgement was that performance materiality for the Group was 75% (2015: 75%) of our planning materiality, namely US$4.7m (2015: US$2.0m). We have set performance materiality at this percentage due to our understanding of the Group's control environment and that there have been no significant events that would alter our expectation that there is a low likelihood of misstatements that would be material individually or in aggregate to the financial statements.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was US$3.8m to US$3.0m (2015: US$2.0m to US$1.1m).

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of US$315k (2015: US$130k), which is set at 5% of planning materiality, 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 light of other relevant qualitative considerations in forming our opinion.

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.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 68, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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.

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
- based on the work undertaken in the course of the audit:
  - 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; and
  - the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

ISAs (UK and Ireland) reporting	We are required to report to you if, in our opinion, financial and non-financial 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 • otherwise misleading. In particular, we are required to report whether we have identified any inconsistencies between our knowledge acquired in the course of performing the audit and the Directors' statement that they consider the Annual Report and accounts taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the entity's performance, business model and strategy; and whether the Annual Report appropriately addresses those matters that we communicated to the Audit Committee that we consider should have been disclosed.	We have no exceptions to report.
Companies Act 2006 reporting	In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have identified no material misstatements in the Strategic Report or Directors' Report. 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.	We have no exceptions to report.
Listing Rules review requirements	We are required to review: • the directors' statement in relation to going concern, set out on page 43, and longer-term viability, set out on page 39; and • the part of the Corporate Governance Statement relating to the Company's compliance with the ten provisions of the UK Corporate Governance Code specified for our review.	We have no exceptions to report.

Statement on the Directors' assessment of the principal risks that would threaten the solvency or liquidity of the entity

ISAs (UK and Ireland) reporting	We are required to give a statement as to whether we have anything material to add or to draw attention to in relation to: • the Directors' confirmation in the Annual Report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity; • the disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated; • the Directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements; and • the Directors' explanation in the Annual Report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.	We have nothing material to add or to draw attention to.

Mirco Bardella (Senior statutory auditor)
For and on behalf of Ernst & Young LLP, Statutory Auditor
London
7 March 2017

Notes:
1 The maintenance and integrity of the Hochschild Mining plc web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
2 Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Consolidated income statement

For the year ended 31 December 2016

	Notes	Year ended 31 December 2016 Before exceptional items US$000	Year ended 31 December 2016 Exceptional items (note 11) US$000	Year ended 31 December 2016 Total US$000	Year ended 31 December 2015 Before exceptional items US$000	Year ended 31 December 2015 Exceptional items (note 11) US$000	Year ended 31 December 2015 Total US$000
Continuing operations							
Revenue	3,5	688,242	–	688,242	469,146	–	469,146
Cost of sales	6	(487,702)	–	(487,702)	(403,657)	(1,514)	(405,171)
Gross profit		200,540	–	200,540	65,489	(1,514)	63,975
Administrative expenses	7	(47,979)	–	(47,979)	(38,148)	–	(38,148)
Exploration expenses	8	(9,193)	–	(9,193)	(9,255)	–	(9,255)
Selling expenses	9	(14,175)	–	(14,175)	(21,729)	–	(21,729)
Other income	12	33,131	2,667	35,798	8,021	–	8,021
Other expenses	12	(13,858)	(10,675)	(24,533)	(15,264)	–	(15,264)
Impairment and write-off of non-current assets	11	(278)	(1,634)	(1,912)	–	(207,146)	(207,146)
Profit/(loss) from continuing operations before net finance income/(cost), foreign exchange loss and income tax		148,188	(9,642)	138,546	(10,886)	(208,660)	(219,546)
Finance income	13	1,100	974	2,074	1,898	–	1,898
Finance costs	13	(30,541)	–	(30,541)	(31,414)	(1,486)	(32,900)
Foreign exchange loss		(1,800)	–	(1,800)	(5,627)	–	(5,627)
Profit/(loss) from continuing operations before income tax		116,947	(8,668)	108,279	(46,029)	(210,146)	(256,175)
Income tax (expense)/benefit	14	(47,641)	2,224	(45,417)	(20,370)	36,888	16,518
Profit/(loss) for the year from continuing operations		69,306	(6,444)	62,862	(66,399)	(173,258)	(239,657)
Attributable to:							
Equity shareholders of the Company		53,154	(7,604)	45,550	(61,852)	(172,758)	(234,610)
Non-controlling interests		16,152	1,160	17,312	(4,547)	(500)	(5,047)
		69,306	(6,444)	62,862	(66,399)	(173,258)	(239,657)
Basic earnings/(loss) per ordinary share from continuing operations for the year (expressed in US dollars per share)	15	0.11	(0.02)	0.09	(0.14)	(0.38)	(0.52)
Diluted earnings/(loss) per ordinary share from continuing operations for the year (expressed in US dollars per share)	15	0.10	(0.01)	0.09	(0.14)	(0.38)	(0.52)

Consolidated statement of comprehensive income

For the year ended 31 December 2016

	Notes	Year ended 31 December 2016 US$000	Year ended 31 December 2015 US$000
Profit/(loss) for the year		62,862	(239,657)
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translating foreign operations		(249)	(597)
Change in fair value of available-for-sale financial assets	19	774	(86)
Recycling of the loss on available-for-sale financial assets		(66)	104
Change in fair value of cash flow hedges		(39,989)	35,887
Recycling of the loss/(gain) on cash flow hedges		18,722	(18,962)
Deferred income tax relating to components of other comprehensive income	14	5,955	(4,739)
Other comprehensive (loss)/gain for the year, net of tax		(14,853)	11,607
Total comprehensive income/(expense) for the year		48,009	(228,050)
Total comprehensive income/(expense) attributable to:			
Equity shareholders of the Company		30,697	(223,003)
Non-controlling interests		17,312	(5,047)
		48,009	(228,050)

Consolidated statement of financial position

As at 31 December 2016

	Notes	As at 31 December 2016 US$000	As at 31 December 2015 US$000
ASSETS			
Non-current assets			
Property, plant and equipment	16	**975,483**	1,045,516
Evaluation and exploration assets	17	**138,985**	138,171
Intangible assets	18	**26,379**	27,981
Available-for-sale financial assets	19	**991**	366
Trade and other receivables	20	**25,717**	10,187
Income tax receivable		**–**	47
Deferred income tax assets	28	**1,027**	–
		1,168,582	1,222,268
Current assets			
Inventories	21	**57,056**	70,286
Trade and other receivables	20	**68,120**	124,827
Income tax receivable		**20,988**	20,384
Other financial assets	36(e)	**–**	21,267
Cash and cash equivalents	22	**139,979**	84,017
		286,143	320,781
Total assets		**1,454,725**	1,543,049
EQUITY AND LIABILITIES			
Capital and reserves attributable to shareholders of the Parent			
Equity share capital	27	**224,315**	223,805
Share premium	27	**438,041**	438,041
Treasury shares	27	**(426)**	(898)
Other reserves	27	**(217,288)**	(203,649)
Retained earnings		**258,269**	218,093
		702,911	675,392
Non-controlling interests		**90,442**	90,113
Total equity		**793,353**	765,505
Non-current liabilities			
Trade and other payables	24	**1,266**	20,379
Borrowings	25	**291,073**	339,778
Provisions	26	**106,121**	121,402
Deferred income	23	**25,000**	25,000
Deferred income tax liabilities	28	**65,971**	64,274
		489,431	570,833
Current liabilities			
Trade and other payables	24	**98,484**	101,892
Other financial liabilities	36(e)	**1,726**	1,141
Borrowings	25	**36,312**	94,760
Provisions	26	**5,406**	6,115
Income tax payable		**30,013**	2,803
		171,941	206,711
Total liabilities		**661,372**	777,544
Total equity and liabilities		**1,454,725**	1,543,049

These financial statements were approved by the Board of Directors on 7 March 2017 and signed on its behalf by:

Ignacio Bustamante

Chief Executive Officer

7 March 2017

Consolidated statement of cash flows

For the year ended 31 December 2016

	Notes	Year ended 31 December 2016 US$000	2015 US$000
Cash flows from operating activities			
Cash generated from operations	32	345,856	166,234
Interest received		860	726
Interest paid		(27,074)	(36,445)
Payment of mine closure costs	26	(3,355)	(2,538)
Income tax (paid)/received, net		(214)	5,279
Net cash generated from operating activities		316,073	133,256
Cash flows from investing activities			
Purchase of property, plant and equipment		(126,495)	(216,188)
Purchase of evaluation and exploration assets	17	(3,478)	(6,861)
Purchase of intangibles	18	(14)	(612)
Net proceeds from sale of subsidiary	4	807	–
Proceeds from sale of available-for-sale financial assets	19	149	3
Proceeds from sale of other assets	12	1,550	–
Proceeds from sale of property, plant and equipment		117	339
Net cash used in investing activities		(127,364)	(223,319)
Cash flows from financing activities			
Proceeds of borrowings		70,000	175,948
Repayment of borrowings		(177,431)	(209,173)
Dividends paid to non-controlling interests	29	(17,736)	(964)
Dividends paid	29	(6,998)	–
Proceeds from issue of ordinary shares		–	95,216
Cash flows (used in)/generated from financing activities		(132,165)	61,027
Net increase/(decrease) in cash and cash equivalents during the year		56,544	(29,036)
Exchange difference		(582)	(2,946)
Cash and cash equivalents at beginning of year		84,017	115,999
Cash and cash equivalents at end of year	22	139,979	84,017

Consolidated statement of changes in equity

For the year ended 31 December 2016

	Notes	Equity share capital US$000	Share premium US$000	Treasury shares US$000	Other reserves: Unrealised gain on available-for-sale financial assets US$000	Other reserves: Unrealised gain/(loss) on hedges US$000	Other reserves: Cumulative translation adjustment US$000	Other reserves: Merger reserve US$000	Other reserves: Share-based payment reserve US$000	Other reserves: Total other reserves US$000	Retained earnings US$000	Capital and reserves attributable to shareholders of the Parent US$000	Non-controlling interests US$000	Total equity US$000
Balance at 1 January 2015		170,389	396,021	(898)	14	3,126	(13,005)	(210,046)	2,576	(217,335)	451,047	799,224	95,160	894,384
Other comprehensive income/(expense)		–	–	–	18	12,186	(597)	–	–	11,607	–	11,607	–	11,607
Loss for the year		–	–	–	–	–	–	–	–	–	(234,610)	(234,610)	(5,047)	(239,657)
Total comprehensive income/(expense) for the year		–	–	–	18	12,186	(597)	–	–	11,607	(234,610)	(223,003)	(5,047)	(228,050)
Exercise of share options	27(a)	220	–	–	–	–	–	–	(1,560)	(1,560)	1,340	–	–	–
Issuance of shares	27(a)	53,196	46,812	–	–	–	–	–	–	–	–	100,008	–	100,008
Transaction costs related to issuance of shares	27(a)	–	(4,792)	–	–	–	–	–	–	–	–	(4,792)	–	(4,792)
Share -based payments	27(c)	–	–	–	–	–	–	–	3,639	3,639	316	3,955	–	3,955
Balance at 31 December 2015		223,805	438,041	(898)	32	15,312	(13,602)	(210,046)	4,655	(203,649)	218,093	675,392	90,113	765,505
Other comprehensive income/(expense)		–	–	–	708	(15,312)	(249)	–	–	(14,853)	–	(14,853)	–	(14,853)
Profit for the year		–	–	–	–	–	–	–	–	–	45,550	45,550	17,312	62,862
Total comprehensive income/(expense) for the year		–	–	–	708	(15,312)	(249)	–	–	(14,853)	45,550	30,697	17,312	48,009
Exercise of share options	27(a)	510	–	472	–	–	–	–	(2,223)	(2,223)	1,241	–	–	–
Dividends	29	–	–	–	–	–	–	–	–	–	(6,998)	(6,998)	–	(6,998)
Dividends to non-controlling interests	29	–	–	–	–	–	–	–	–	–	–	–	(16,983)	(16,983)
Share-based payments	27(c)	–	–		–	–	–	–	3,437	3,437	383	3,820	–	3,820
Balance at 31 December 2016		224,315	438,041	(426)	740	–	(13,851)	(210,046)	5,869	(217,288)	258,269	702,911	90,442	793,353

Financial statements

Notes to the consolidated financial statements

1 Corporate information

Hochschild Mining plc (hereinafter 'the Company') is a public limited company incorporated on 11 April 2006 under the Companies Act 1985 as a Limited Company and registered in England and Wales with registered number 05777693. The Company's registered office is located at 17 Cavendish Square, London W1G 0PH, 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 (Arcata, Pallancata and Inmaculada) 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.

These consolidated financial statements were approved for issue by the Board of Directors on 7 March 2017.

The Group´s subsidiaries are as follows:

Company	Principal activity	Country of incorporation	Equity interest at 31 December 2016 %	2015 %
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.[1]	Production of gold and silver	Argentina	51	51
Minera Hochschild Chile S.C.M.	Exploration office	Chile	100	100
Andina Minerals Chile Ltd.	Exploration office	Chile	100	100
Sociedad Contractual Minera Victoria[2]	Exploration office	Chile	–	100
Southwest Minerals (Yunnan) Inc.	Exploration office	China	100	100
Hochschild Mining Holdings Limited	Holding company	England and Wales	100	100
Hochschild Mining Ares (UK) Limited	Administrative office	England and Wales	100	100
Southwest Mining Inc.	Exploration office	Mauritius	100	100
Southwest Minerals Inc.	Exploration office	Mauritius	100	100
HMX, S.A. de C.V.[3]	Service company	Mexico	–	100
Minera Hochschild Mexico, S.A. de C.V.	Exploration office	Mexico	100	100
Hochschild Mining (Peru) S.A.	Holding company	Peru	100	100
Compañía Minera Ares S.A.C.	Production of gold and silver	Peru	100	100
Compañía Minera Arcata S.A.	Production of gold and silver	Peru	99.1	99.1
Empresa de Transmisión Callalli S.A.C.[4]	Power transmission	Peru	–	100
Asociación Sumac Tarpuy[5]	Not-for-profit	Peru	–	–
Empresa de Transmisión Aymaraes S.A.C.[4]	Power transmission	Peru	100	50
Minera Antay S.A.C.	Exploration office	Peru	100	100
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 2016 and 2015 is as follows:

	As at 31 December 2016 US$000	2015 US$000
Non-current assets	216,124	225,422
Current assets	107,196	90,552
Non-current liabilities	(83,823)	(90,518)
Current liabilities	(57,837)	(44,397)
Equity	(181,660)	(181,059)
Revenue	235,961	186,097
Profit/(loss) for the year and total comprehensive income	35,262	(10,290)
Net cash generated from operating activities	102,923	32,387
Net cash used in investing activities	(35,221)	(33,966)
Cash flow used in financing activities	(44,655)	(893)

2016 and 2015: Profit 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.

2 On 31 August 2016, Sociedad Contractual Minera Victoria was liquidated.

3 On 22 February 2016, HMX S.A. de C.V. was sold to a third party (see note 4).

4 On 1 June 2016, Empresa de Transmisión Aymaraes S.A.C. ("Aymaraes") absorbed Empresa de Transmisión Callalli S.A.C. Although the Group's interest in this company did not exceed 50% in 2015, it was considered as a subsidiary in accordance with IFRS 10, as the Group had 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.

5 Asociación Sumac Tarpuy ("Sumac Tarpuy") is an unincorporated entity, which received donations from Compañía Minera Ares S.A.C. ('Ares'), and spent this money at the direction of Ares on community and social welfare activities located close to its mine units. Accordingly, the Group consolidated this entity. On 17 May 2016 Ares transferred all its rights over Sumac Tarpuy to Inversiones ASPI S.A. (see note 4).

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 2016 and 2015 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 standard.

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

The financial statements have been prepared on the going concern basis. Details of the factors which have been taken into account in assessing the Group's going concern status are set out within the Directors' report.

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 2015. Amendments to standards and interpretations which came into force during the year did not have a significant impact on the Group's financial statements.

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 2017 or later periods but which the Group has not previously adopted. Those that are applicable to the Group are as follows:

- IFRS 15 Revenue from Contracts with Customers, applicable for annual periods beginning on or after 1 January 2018.

  This standard outlines the principles an entity must apply to measure and recognise revenue. The Group is planning to apply the standard when it becomes mandatory, analysing all the variables during the first quarter of 2017, including the method of implementation and the restatement of the previous year financial information. IFRS 15 is not expected to have a significant effect on the financial statements.
- IFRS 9 Financial Instruments, applicable for annual periods beginning on or after 1 January 2018.

  IFRS 9 is the replacement of IAS 39 Financial Instruments: Recognition and Measurement. The standard includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting. IFRS 9 should be applied retrospectively in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, subject to certain exemptions and exceptions. The Group do not anticipate a significant effect over the financial statements.
- IFRS 16 Leases, applicable for annual periods beginning on or after 1 January 2019.
- IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.The Group is analysing the adoption of this new standard and expected not to have a significant impact on the Group´s financial position or performance.
- IAS 7 Statement of cash flows, applicable for annual periods beginning on or after 1 January 2017.

  The amendments require entities to provide disclosures about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The adoption of these amendments would not have impact on the Group´s financial position or performance.
- IAS 12 Income Taxes, applicable for annual periods beginning on or after 1 January 2017.

  The amendments clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value. Entities are required to apply the amendments retrospectively. The adoption of these rules would not have impact on the Group´s financial position or performance.

Notes to the consolidated financial statements continued

2 Significant accounting policies continued

- IFRS 2 Classification and Measurement of Share-based Payment Transactions - Amendments to IFRS 2, applicable for annual periods beginning on or after 1 January 2018.

The amendments are related to the classification and measurement of share-based payment transactions and it does not require to restate prior periods. The adoption of these amendments would not have impact on the Group´s financial position or performance.

The Group is analysing the effect of the standards and plans to adopt the new standards on the required effective date.

(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.

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 and resources 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 and resources 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 and resources. Changes are accounted for prospectively.

- Determination of ore reserves and resources – note 2(g).

  There are numerous uncertainties inherent in estimating ore reserves and resources. 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 resources and may, ultimately, result in the reserves and resources being restated.

- Review of non-financial asset carrying values and impairment charges or reversals – 2(i), 16, 17 and 18.

  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, evaluation and exploration assets, and intangibles.

- Estimation of the amount and timing of mine closure costs – notes 2(m) and 26.

  The Group assesses its mine closure cost provision annually. Significant estimates and assumptions are made in determining the provision for mine closure cost as there are numerous factors that will affect the ultimate liability payable. These factors include estimates of the extent and costs of rehabilitation activities, technological changes, regulatory changes, cost increases, mine life and changes in discount rates. Those uncertainties may result in future actual expenditure differing from the amounts currently provided. The provision at the balance sheet date represents management's best estimate of the present value of the future closure costs required.

- Significant estimates and assumptions for cash-settled transactions – notes 26(3).

  The Group initially measures the cost of cash-settled transactions with employees using the Monte Carlo model to determine the fair value of the liability incurred. The liability needs to be remeasured at the end of each reporting period up to the date of settlement, with any changes in fair value recognised in the profit or loss. This requires a reassessment of the estimates used at the end of each reporting period, including the anticipated potential changes to the Total Shareholder Return ('TSR') performance, the number of participants in the plan, and levels of interest rates. The assumptions and models used for estimating fair value are discussed in note 26(3).

- Significant estimates and assumptions for assets classified as held for sale- note 23.

  To determine whether an asset should be classified as an asset held for sale in accordance with IFRS 5, consideration should be given as to whether the sale 'highly probable'. The three main criteria are: There is a plan in place to sell the asset, the sale is due to complete within 12 months of the year end; and that it is unlikely that significant changes to the plan will be made or the sale withdrawn. As disclosed in note 23, despite the final payment date for the sale of San Felipe property being within twelve months, all the three criteria to be considered "highly probable" (as defined by IFRS 5) have not been met and therefore the property has not been classified as an assets held for sale.

Critical judgements:

- Production start date.

The Group assesses the stage of each mine under development/construction to determine when a mine moves into the production phase, this being when the mine is substantially complete and ready for its intended use.

The criteria used to assess the start date are determined based on the unique nature of each mine development/construction project, such as the complexity of the project and its location. The Group considers various relevant criteria to assess when the production phase is considered to have commenced. At this point, all related amounts are reclassified from 'Construction in progress' to the corresponding type of 'Property, plant and equipment.' Some of the criteria used to identify the production start date include, but are not limited to:

- Level of capital expenditure incurred compared with the original construction cost estimate
- Completion of a reasonable period of testing of the mine plant and equipment
- Ability to produce product in saleable form (within specifications)
- Ability to sustain ongoing production of product

When a mine development project moves into the production phase, the capitalisation of certain mine development costs ceases and costs are either regarded as forming part of the cost of inventory or expensed, except for costs that qualify for capitalisation relating to mining asset additions or improvements, underground mine development or mineable reserve development. It is also at this point that depreciation/amortisation commences.

Based on the above criteria in determining when Inmaculada moved into the production phase, it was determined by management that the start date was 1 August 2015.

- 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(r), 14, 28 and 34.

  Judgement is required in determining whether deferred tax assets are recognised in 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.

Judgement is also required when determining the provision for taxes as the tax treatment of some transactions cannot be finally determined until a formal resolution has been reached with the tax authorities. Provisions are also made for uncertain exposures which can have an impact on both deferred and current tax. Tax benefits are not recognised unless it is probable that the benefit will be obtained and tax provisions are made if it is possible that a liability will arise. The final resolution of these transactions may give rise to material adjustments to the income statement and/or cashflow in future periods. The Group reviews each significant tax liability or benefit each period to assess the appropriate accounting treatment.

- Recognition of evaluation and exploration assets and transfer to development costs – notes 2(f), 16 and 17.

  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; 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.

- Recoverable values of mining assets – notes 16, 17 and 18.

  The values of the Group's mining assets are sensitive to a range of characteristics unique to each mine unit. Key sources of estimation for all assets include uncertainty around ore reserve estimates and cash flow projections. In performing impairment reviews, the Group assesses the recoverable amount of its operating assets principally with reference to fair value less costs of disposal, assessed using discounted cash flow models. There is judgement involved in determining the assumptions that are considered to be reasonable and consistent with those that would be applied by market participants. Key judgements include the estimation of future gold and silver prices, mine production projections and the application of discount rates which reflect the macro-economic risk in Peru and Argentina as applicable.

2 Significant accounting policies continued

(c) Basis of consolidation

The consolidated financial statements set out the Group's financial position, performance and cash flows as at 31 December 2016 and 31 December 2015 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 results 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.

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.

An NCI represents 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.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for the NCI, and any previously interest held, over the net identifiable assets acquired and the liabilities assumed. 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.

(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.

(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 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 net 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. 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. In addition, the revenue generated by the sale of the inventory produced during the pre-operating stage is recognised as a deduction of the costs capitalised for this project.

Construction in progress and capital advances

Assets in the course of construction are capitalised as a separate component of property, plant and equipment. Once the asset moves into the production phase, 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.

(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.

2 Significant accounting policies continued

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) Intangible assets

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

Legal rights

Legal rights correspond to expenditures required to give the Group the right to use a property for the surface exploration work, development and production. This is an asset with a finite useful life equal to that of the mine to which it relates and that is amortised applying the units of production method for that mine.

Other intangible assets

Other intangible assets are primarily computer software which are capitalised at cost and are amortised on a straight-line basis over their useful life of three years.

(i) 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 and evaluation and exploration assets.

If the carrying amount of an asset or its cash-generating unit (CGU) exceeds the recoverable amount, an impairment 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 (VIU) and fair value less costs of disposal (FVLCD) to sell. FVLCD is based on an estimate of the amount that the Group may obtain in a sale transaction on an arm's length basis. VIU is based on estimated future cash flows 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.

The recoverable values of the CGU are determined using a 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.

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.

(j) 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.

(k) 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.

(l) 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.

(m) Provisions

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

Mine closure cost

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

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 related mine assets net of mine closure cost provisions exceed the recoverable value, that portion of the increase is charged directly to the income statement. Similarly, reductions to the estimated costs exceeding the carrying value of the mine asset, that portion of the decrease is credited directly to the income statement. For closed sites, changes to estimated costs are recognised immediately in the income statement.

Workers' profit sharing and other employee benefits

In accordance with Peruvian legislation, companies in Peru must provide for workers' profit sharing equivalent to 8% of taxable income of each year. 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.

(n) 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 personnel expenses. 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 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.

2 Significant accounting policies continued

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).

(o) Contingencies

Contingent liabilities are not recognised in the financial statements and are disclosed in notes to the financial statements 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.

(p) Revenue recognition

The Group is involved in the production and sale of gold and silver from doré and concentrate containing both gold and silver. Doré 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 gold and silver from doré and concentrate is recognised in the income statement when all significant risks and rewards of ownership are transferred to the customer, usually when title has passed to the customer. Revenue excludes any applicable sales taxes.

The revenue is subject to adjustment based on inspection of the product by the customer. Revenue is initially recognised on a provisional basis using the Group's best estimate of contained gold and silver. Any subsequent adjustments to the initial estimate of metal content are recorded in revenue once they have been determined.

In addition, certain sales are 'provisionally priced' where the selling price is subject to final adjustment at the end of a period, normally ranging from 15 to 90 days after the start of the delivery process to the customer, based on the market price at the relevant quotation point stipulated in the contract. Revenue is initially recognised when the conditions set out above have been met, using market prices at that date. The price exposure is considered to be an embedded derivative and hence separated from the sales contract at each reporting date. The provisionally priced metal is revalued based on the forward selling price for the quotational period stipulated in the contract until the quotational period ends. The selling price of gold and silver can be measured reliably as these metals are actively traded on international exchanges. The revaluation of provisionally priced contracts is recorded as an adjustment to revenue.

Income from services provided to related parties (note 30) is recognised in revenue when services are provided.

Deferred revenue results when cash is received in advance of revenue being earned. Deferred revenue is recorded as a liability until it is earned. Once earned, the liability is reduced and revenue is recorded. The Group analyses when revenue is earned or deferred.

(q) Finance income and costs

Finance income and costs comprise interest expense on borrowings, the accumulation of interest on provisions, interest income on funds invested, unwind of discount, 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.

(r) 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.

(s) Uncertain tax positions

An estimated tax liability is recognised when the Group has a present obligation as a result of a past event, it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation. The provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account risks and uncertainties surrounding the obligation. Separate provisions for interest and penalties are also recorded if appropriate.

Movements in interest and penalty amounts in respect of tax provisions are not included in the tax charge, but are disclosed in the income statement. Tax provisions are based on management's interpretation of country specific tax law and the likelihood of settlement. This involves a significant amount of judgement as tax legislation can be complex and open to different interpretation. Management uses in-house tax experts, professional firms and previous experience when assessing tax risks. Where actual tax liabilities differ from the provisions, adjustments are made which can have a material impact on the Group's profits for the year. Refer to note 34(b) for specific tax contingencies.

(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(y)), as appropriate. The Group determines the classification of its financial assets and liabilities at initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end. When financial assets and liabilities are recognised initially, they are measured at fair value, being the transaction price plus, in the case of financial assets not at fair value through profit or loss and borrowings, directly attributable transaction costs. The Group considers whether a contract contains an embedded derivative when the entity first becomes a party to it. The embedded derivatives are separated from the host contract if it is not measured at fair value through profit or loss and when the economic characteristics and risks are not closely related to those of the host contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required. All regular way purchases and sales of financial assets are recognised on the trade date, being the date that the Group commits to purchase or sell the asset. Regular way transactions require delivery and receipt of assets within the timeframe generally established by regulation or convention in the marketplace. The subsequent measurement of financial assets depends on their classification, as follows:

Financial assets at fair value through profit and loss

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

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, do not qualify as trading assets and have not been designated as either fair value through profit and loss or available-for-sale. Such assets are carried at amortised cost using the effective interest method if the time value of money is significant. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as such or are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit and loss. After initial recognition, available-for-sale financial assets are measured at fair value with unrealised gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the income statement.

Loans and borrowings

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

2 Significant accounting policies continued

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.

Available-for-sale financial assets

For available-for-sale (AFS) 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.

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

Dividends on the Company's ordinary shares are recognised when they have been appropriately authorised and are no longer at the Company's discretion. Accordingly, interim dividends are recognised when they are paid and final dividends are recognised when they are declared following approval by shareholders at the Company's Annual General Meeting.

(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 or write offs of assets, assets held for sale, property, plant and equipment and evaluation and exploration assets;
- gains or losses arising on the disposal of subsidiaries, investments or property, plant and equipment;
- fair value gains or losses arising on financial instruments not held in the normal course of trading;
- any gain or loss resulting from restructuring within the Group;
- taxes and interests owed by the Group following a change in circumstances surrounding tax disputes, resulting in the exposure being assessed as probable;
- the impact of infrequent labour action related to work stoppages in mine units;
- the penalties generated by the early termination of agreements with providers of the Group;
- the reversal of an accumulation of prior year's tax expenses that resulted from an agreement with the government; and
- the related tax impact of the above items.

(y) Hedging

The Group uses commodity swaps and zero cost collar contracts 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 these forward contracts is determined by reference to market values for similar instruments.

These forward contracts 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 transaction.

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

Where the commodity forward contracts 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. In the case of zero cost collar contracts, the time value has to be accounted for at fair value through profit or loss, in consequence the change in the time value will be recognised 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.

(z) 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 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.

2 Significant accounting policies continued

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 categorised within the fair value hierarchy, as described in note 36 (e).

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.

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 similar 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 units – Arcata and San Jose, which generate revenue from the sale of gold, silver, doré and concentrate.
- Operating unit – Pallancata, which generates revenue from the sale of concentrate.
- Operating unit – Inmaculada, which generates revenue from the sale of gold, silver and doré.
- 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, absorbed by Empresa de Transmisión Aymaraes S.A.C. on 1 June 2016), Empresa de Transmisión Aymaraes S.A.C. (a power transmission company), Ares unit, 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.

(a) Reportable segment information

	Arcata US$000	Pallancata US$000	San Jose US$000	Inmaculada US$000	Exploration US$000	Other[1] US$000	Adjustment and eliminations US$000	Total US$000
Year ended 31 December 2016								
Revenue from external customers	117,358	54,456	235,961	280,108	–	359	–	688,242
Inter segment revenue	–	–	–	–	–	2,062	(2,062)	–
Total revenue	117,358	54,456	235,961	280,108	–	2,421	(2,062)	688,242
Segment profit/(loss)	22,924	11,284	57,259	97,595	(9,155)	(2,273)	(462)	177,172
Others[2]								(68,893)
Profit from continuing operations before income tax								108,279
Other segment information								
Depreciation[3]	(22,196)	(10,606)	(53,012)	(98,243)	(1,834)	(4,877)	–	(190,768)
Amortisation	–	–	(1,060)	–	(462)	(138)	–	(1,660)
Impairment and write-off of assets	(87)	(885)	(278)	(414)	(2)	(246)	–	(1,912)
Assets								
Capital expenditure	20,819	16,105	35,311	54,199	4,910	301	–	131,645
Current assets	6,721	7,017	53,299	22,899	30	3,911	–	93,877
Other non-current assets	48,843	55,380	196,056	589,666	185,825	65,077	–	1,140,847
Total segment assets	55,564	62,397	249,355	612,565	185,855	68,988	–	1,234,724
Not reportable assets[4]	–	–	–	–	–	220,001	–	220,001
Total assets	55,564	62,397	249,355	612,565	185,855	288,989	–	1,454,725

1 'Other' revenue relates to revenues earned by Empresa de Transmisión Callalli S.A.C. and Empresa de Transmisión Aymaraes S.A.C.

2 Comprised of administrative expenses of US$47,979,000, other income of US$35,798,000, other expenses of US$24,533,000, impairment and write-off of assets of US$1,912,000, finance income of US$2,074,000, finance expense of US$30,541,000, and foreign exchange loss of US$1,800,000.

3 Includes depreciation capitalised in the Crespo project (US$2,215,000), San Jose unit (US$2,640,000), Arcata unit (US$117,000) and the Pallancata unit (US$3,000).

4 Not reportable assets are comprised of available-for-sale financial assets of US$991,000, other receivables of US$57,016,000, income tax receivable of US$20,988,000, deferred income tax asset of US$1,027,000 and cash and cash equivalents of US$139,979,000.

Notes to the consolidated financial statements continued

3 Segment reporting continued

(a) Reportable segment information

	Arcata US$000	Pallancata US$000	San Jose US$000	Inmaculada US$000	Exploration US$000	Other[1] US$000	Adjustment and eliminations US$000	Total US$000
Year ended 31 December 2015								
Revenue from external customers	107,425	73,045	186,097	102,303	–	276	–	469,146
Inter segment revenue	–	–	–	–	–	2,437	(2,437)	–
Total revenue	107,425	73,045	186,097	102,303	–	2,713	(2,437)	469,146
Segment profit/(loss)	(1,340)	(17,002)	13,297	49,759	(10,710)	384	(1,397)	32,991
Others[2]								(289,166)
Loss from continuing operations before income tax								(256,175)
Other segment information								
Depreciation[3]	(33,506)	(35,415)	(45,286)	(32,093)	(1,496)	(2,816)	–	(150,612)
Amortisation	–	–	(1,013)	–	(457)	(34)	–	(1,504)
Impairment and write-off of assets, net	(72,718)	(39,245)	(57)	–	(95,113)	(13)	–	(207,146)
Assets								
Capital expenditure	14,600	10,683	38,451	166,336	4,011	4,078	–	238,159
Current assets	17,456	13,818	63,941	31,958	30	5,435	–	132,638
Other non-current assets	53,458	50,591	220,307	633,169	181,662	72,481	–	1,211,668
Total segment assets	70,914	64,409	284,248	665,127	181,692	77,916	–	1,344,306
Not reportable assets[4]	–	–	–	–	–	198,743	–	198,743
Total assets	70,914	64,409	284,248	665,127	181,692	276,659	–	1,543,049

1 'Other' revenue relates to revenues earned by Empresa de Transmisión Callalli S.A.C. and Empresa de Transmisión Aymaraes S.A.C.

2 Comprised of administrative expenses of US$38,148,000, other income of US$8,021,000, other expenses of US$15,264,000, impairment and write-off of assets of US$207,146,000, finance income of US$1,898,000, finance expense of US$32,900,000, and foreign exchange loss of US$5,627,000.

3 Includes US$1,793,000 and US$6,077,000 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$366,000, other receivables of US$72,662,000, income tax receivable of US$20,431,000, other financial assets of US$21,267,000 and cash and cash equivalents of US$84,017,000.

(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 2016 US$000	Year ended 31 December 2015 US$000
External customer		
USA	225,073	229,229
Peru	78,248	63,328
Canada	181,569	58,154
Germany	4,506	7,428
Switzerland	89,838	12,174
United Kingdom[1]	(1,689)	17,273
Korea	92,769	81,580
Bulgaria	16,334	–
Japan	1,594	(20)
Total	688,242	469,146
Inter-segment		
Peru	2,062	2,437
Total	690,304	471,583

1 Corresponds to the realised loss on the silver zero cost collar contract with JP Morgan Chase Bank, National Association, London Branch, settled on 30 December 2016 (2015: Corresponds to the realised gain on the gold and silver swap contracts with JP Morgan Chase Bank, National Association, London Branch, settled on 30 and 31 December 2015 respectively) (refer to note 5).

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 2016			Year ended 31 December 2015		
	US$000	% Revenue	Segment	US$000	% Revenue	Segment
Asahi Refining Canada Ltd.	160,312	23%	Arcata and Inmaculada	34,362	7%	Arcata and Inmaculada
Republic Metals Corporation	103,405	15%	Arcata, Inmaculada and San Jose	106,339	23%	Arcata, Inmaculada and San Jose
Aurамet Trading LLC.	97,616	14%	Arcata and Inmaculada	14,781	3%	Arcata and Inmaculada
LS Nikko	92,769	14%	Pallancata and San Jose	81,580	17%	Pallancata and San Jose

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 2016 US$000	As at 31 December 2015 US$000
Peru	850,605	897,824
Argentina	196,056	220,307
Mexico	30,990	31,005
Chile	63,196	62,532
Total non-current segment assets	1,140,847	1,211,668
Available-for-sale financial assets	991	366
Trade and other receivables	25,717	10,187
Income tax receivable	–	47
Deferred income tax assets	1,027	–
Total non-current assets	1,168,582	1,222,268

Notes to the consolidated financial statements continued

4 Disposals of subsidiaries

HMX S.A. de C.V.

On 22 February 2016 the Group sold its Mexican subsidiary HMX S.A. de C.V. to Sergio Salinas and Servicios de Integración Fiscal S.A. de C.V., for nil consideration. The carrying value of the net assets disposed was US$60,000 and the transaction resulted in a loss of US$60,000.

Asociación Sumac Tarpuy

On 17 May 2016 the Group transferred all its rights over its non-for-profit subsidiary Asociación Sumac Tarpuy to Inversiones ASPI S.A. (“ASPI”), recognising a gain on disposal of US$811,000. The gain on disposal was determined as follows:

	US$000
Cash consideration	1,100
Assets and liabilities disposed:	
Cash and cash equivalents	293
Other payables	(4)
Net assets and liabilities disposed	289
Gain on disposal	**811**

	US$000
Net cash inflow arising on disposal	
Consideration received in cash and cash equivalents	1,100
Less: cash and cash equivalents disposed of:	(293)
	807

5 Revenue

	Year ended 31 December	
	2016 US$000	2015 US$000
Gold (from doré bars)	**263,010**	142,077
Silver (from doré bars)	**177,450**	142,397
Gold (from concentrate)	**91,348**	68,414
Silver (from concentrate)	**156,075**	115,982
Services	**359**	276
Total	**688,242**	469,146

Included within revenue is a loss of US$6,667,000 relating to provisional pricing adjustments representing the change in the fair value of embedded derivatives (2015: loss of US$7,275,000) arising on sales of concentrates and doré (refer to note 2(p) and footnote 1 of note 36(e)).

The realised loss on gold and silver swaps and zero cost collar contracts in the period recognised within revenue was US$18,722,000 (gold: US$10,030,000, silver: US$8,692,000) (2015: gain of US$18,962,000, gold: US$7,012,000, silver: US$11,950,000).

Other sources of revenue are disclosed at note 13.

6 Cost of sales

Included in cost of sales are:

	Year ended 31 December	
	2016 US$000	2015 US$000
Depreciation and amortisation in production costs[1]	**185,655**	139,533
Personnel expenses (notes 10 and 11)	**103,130**	107,823
Mining royalty (note 35)	**7,506**	5,968
Change in products in process and finished goods	**6,487**	(10,255)

1 The depreciation and amortisation in cost of sales and inventory is US$180,317,000 (2015: US$135,645,000) and US$5,338,000 (2015: US$3,888,000) respectively.

7 Administrative expenses

	Year ended 31 December	
	2016 US$000	2015 US$000
Personnel expenses (note 10)	33,028	22,427
Professional fees	3,075	3,095
Social and community welfare expenses[1]	384	597
Lease rentals	1,455	1,415
Travel expenses	598	576
Communications	438	560
Indirect taxes	2,057	2,147
Depreciation and amortisation	1,798	1,534
Technology and systems	678	745
Security	656	790
Supplies	109	134
Other[2]	3,703	4,128
Total	47,979	38,148

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

2 Predominantly related to third party services of US$972,000 (2015: US$962,000), technical services of US$533,000 (2015: US$423,000), repair and maintenance of US$492,000 (2015: US$527,000 and impairment of receivables of US$312,000 (2015: US$209,000).

8 Exploration expenses

	Year ended 31 December	
	2016 US$000	2015 US$000
Mine site exploration[1]		
Arcata	1,305	62
Ares	297	50
Inmaculada	1	6
Pallancata	733	2,457
San Jose	1,691	1,463
	4,027	4,038
Prospects[2]		
Peru	316	303
Argentina	11	43
Chile	26	71
	353	417
Generative[3]		
Peru	866	499
	866	499
Personnel (note 10)	3,476	2,967
Others	471	1,334
Total	9,193	9,255

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 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.

Notes to the consolidated financial statements continued

8 Exploration expenses continued

The Group determines the cash flows which relate to the exploration activities of the 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 outflows on exploration activities were US$1,168,000 in 2016 (2015: US$1,190,000).

9 Selling expenses

	Year ended 31 December	
	2016 US$000	2015 US$000
Transportation of doré, concentrate and maritime freight	5,410	3,548
Sales commissions	84	200
Personnel expenses (note 10)	254	254
Warehouse services	1,861	1,610
Taxes[1]	1,495	12,994
Other	5,071	3,123
Total	14,175	21,729

1 The export taxes over doré and concentrates in Argentina were reduced to zero percent on 18 December 2015 and 12 February 2016 respectively.

10 Personnel expenses[1]

	Year ended 31 December	
	2016 US$000	2015 US$000
Salaries and wages	98,741	103,433
Workers' profit sharing[2]	–	–
Other legal contributions	20,552	20,735
Statutory holiday payments	6,361	6,534
Long-Term Incentive Plan	10,528	1,013
Restricted share plan	3,181	2,843
Termination benefits	2,577	3,623
Other	1,951	1,584
Total	143,891	139,765

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$103,130,000 (2015: US$107,823,000), US$33,028,000 (2015: US$22,427,000), US$3,476,000 (2015: US$2,967,000), US$254,000 (2015: US$254,000), US$2,406,000 (2015: US$1,218,000) and US$1,597,000 (2015: US$5,076,000) respectively.

2 As there is a taxable loss in Compañía Minera Ares S.A.C., and worker´s profit sharing is calculated over the taxable income of each year of companies in Peru, there is no provision during 2016 and 2015 periods (refer note 2(m)).

Average number of employees for 2016 and 2015 were as follows:

	Year ended 31 December	
	2016	2015
Peru	2,825	2,575
Argentina	1,125	1,129
Chile	3	3
United Kingdom	11	10
Total	3,964	3,717

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. Unless stated, exceptional items do not correspond to a reporting segment of the Group.

	Year ended 31 December 2016 US$000	Year ended 31 December 2015 US$000
Cost of sales		
Termination benefits[1]	–	(1,514)
Total	–	(1,514)
Other income		
Reversal of reserves tax[2]	2,667	–
Total	2,667	–
Other expenses		–
Work stoppage at Pallancata mine unit[3]	(2,474)	–
Penalty for termination of agreement[4]	(4,254)	–
Damage of tailings dump in Ares mine unit[5]	(2,150)	–
Provision for impairment of other receivables[6]	(1,797)	–
Total	(10,675)	–
Impairment and write-off of non-current assets		
Impairment and write-off of non-current assets[7]	(1,634)	(207,146)
Total	(1,634)	(207,146)
Finance income		
Reversal of interests on reserves tax[2]	974	–
Total	974	–
Finance costs		
Interest on disputed tax charges[8]	–	(1,486)
Total	–	(1,486)
Income tax benefit[9]	2,224	36,888
Total	2,224	36,888

1 Termination benefits in 2015 paid to workers following the cashflow optimisation programme approved by management, amounting to US$1,514,000, corresponding to the San José reporting segment.

2 Corresponds to the reversal of the reserves tax liability recorded in previous periods and their associated interests as a result of the settlement agreed between Minera Santa Cruz S.A.C. and the Fiscal Authority in Argentina.

3 From 16 November 2016 until the end of the year, due to actions by the communities surrounding the Pallancata mine unit, the extracting and treatment operations were temporarily suspended. At 31 December 2016 the fixed indirect costs related to abnormal decrease in production from the work stoppage amounted to US$2,474,000, corresponding to the Pallancata reporting segment.

4 Penalty for early termination of the energy supply contract between Compañia Minera Ares S.A.C. and SDF Energia.

5 A section of the Ares tailings dam lateral walls showed unusual decay. A comprehensive study was conducted to determine long-term stability and the conclusion was that certain areas needed to be repaired. This failure was not anticipated and required works aimed at repairing and reinforcing the walls and ensure the long-term sustainability of the dam had to be conducted. The expenditure incurred was not part of our mine closure provision and reflects an unexpected, one-off event.

6 Provision for impairment of the account receivable with a third party due to the uncertainty surrounding the outcome of the legal dispute and hence its recoverability.

7 As at 31 December 2016 corresponds to the write-off of non-current assets of Compañia Minera Ares S.A.C. of US$1,634,000 arising from events falling outside the entity's ordinary activities. The charge was generated by the change of the exploitation method in the Pallancata mine unit, from mechanised to conventional. As at 31 December 2015 corresponds to the impairment of the Pallancata mine unit of US$39,026,000, the Arcata mine unit of US$72,424,000, the Crespo project of US$14,350,000, the Azuca project of US$12,766,000, the Volcan project of US$57,070,000 and the San Felipe project of US$10,927,000, and to the write-off of non-current assets of US$583,000.

8 Interest on overdue tax charges owed by the Group following a change in circumstances surrounding a tax dispute with the Peruvian tax authority, resulting in the exposure now being assessed as 'probable', rather than 'possible'.

9 Mainly corresponds to the current tax credit arising from the costs of the work stoppage at Pallancata mine unit, the penalty for early termination of agreement in Compañia Minera Ares S.A.C., the costs incurred due to the damage to the tailings dump in the Ares mine unit and the reversal of reserves tax in Argentina (US$1,212,000) and the deferred tax credit arising from the write-off of non-current assets and the account receivable (US$1,012,000). For the period ended December 2015, primarily related to the deferred tax benefit arising from the impairment recorded.

Notes to the consolidated financial statements continued

12 Other income and other expenses before exceptional items

	Year ended 31 December 2016 Before exceptional items US$000	Year ended 31 December 2015 Before exceptional items US$000
Other income		
Decrease in provision for mine closure (note 26(3))	6,346	–
Export credits	19,029	2,743
Lease rentals	391	443
Gain on sale of other assets[1]	1,550	–
Gain on sale of subsidiaries (refer to note 4)	751	–
Logistic services	4,288	3,699
Other	776	1,136
Total	33,131	8,021
Other expenses		
Increase in provision for mine closure (note 26(3))	–	(7,590)
Tax on mining reserves in Argentina (note 35)	–	(441)
Provision of obsolescence of supplies	(2,162)	(1,046)
Contingencies	(570)	(108)
Donations (refer to note 30)	(1,000)	–
Write off of value added tax	(1,208)	(795)
Corporate social responsibility contribution in Argentina[2]	(3,146)	–
Other[3]	(5,772)	(5,284)
Total	(13,858)	(15,264)

1 Corresponds to a gain in Compañía Minera Arcata S.A. generated by the sale of a royalty purchase agreement signed with Minera Bateas S.A.C. to Lemuria Royalties Corp.
2 Relates to a new contribution in Argentina to the Santa Cruz province, effective since January 2016 and calculated as a proportion of sales.
3 Mainly corresponds to the expenses in Ares mine unit of US$1,910,000 (2015: US$2,308,000), concessions of US$1,210,000 (2015: US$447,000) and rentals of US$440,000 (2015: US$333,000)

13 Finance income and finance costs before exceptional items

	Year ended 31 December 2016 Before exceptional items US$000	Year ended 31 December 2015 Before exceptional items US$000
Finance income		
Interest on deposits and liquidity funds	1,011	648
Interest income	1,011	648
Gain on repurchase of bonds	–	856
Other	89	394
Total	1,100	1,898
Finance costs		
Interest on secured bank loans (note 25)	(2,602)	(5,842)
Other interest	(1,106)	(1,657)
Interest on bond (note 25)	(23,925)	(22,096)
Interest expense	(27,633)	(29,595)
Unwind of discount on mine rehabilitation	(46)	(69)
Loss on discount of other receivables	(2,257)	(436)
Loss from changes in the fair value of financial instruments	–	(116)
Other	(605)	(1,198)
Total	(30,541)	(31,414)

14 Income tax expense

	Year ended 31 December 2016			Year ended 31 December 2015		
	Before exceptional items US$000	Exceptional items US$000	Total US$000	Before exceptional items US$000	Exceptional items US$000	Total US$000
Current corporate income tax from continuing operations						
Current corporate income tax charge	31,701	(1,212)	30,489	5,200	(259)	4,941
Current mining royalty charge (note 35)	3,882	–	3,882	1,778	–	1,778
Current special mining tax charge (note 35)	3,869	–	3,869	755	–	755
Withholding taxes	552	–	552	(142)	–	(142)
	40,004	(1,212)	38,792	7,591	(259)	7,332
Deferred taxation						
Origination and reversal of temporary differences from continuing operations (note 28)	6,364	(961)	5,403	12,637	(36,629)	(23,992)
Effect of change in tax rate[1]	1,273	(51)	1,222	142	–	142
	7,637	(1,012)	6,625	12,779	(36,629)	(23,850)
Total taxation charge/(credit) in the income statement	47,641	(2,224)	45,417	20,370	(36,888)	(16,518)

1 In December 2016, the Peruvian government approved an increase of the statutory income tax rate, from its current level of 28% to 29.5% with effect from the 1 January 2017.

The weighted average statutory income tax rate was 30.1% for 2016 and 25.4% for 2015. This is calculated as the average of the statutory tax rates applicable in the countries in which the Group operates, weighted by the profit/(loss) before tax of the Group companies in their respective countries as included in the consolidated financial statements.

The change in the weighted average statutory income tax rate is due to a change in the weighting of profit/(loss) before tax in the various jurisdictions in which the Group operates.

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

	As at 31 December	
	2016 US$000	2015 US$000
Deferred taxation:		
Deferred income tax relating to fair value (losses)/ gains on cash flow hedges	(5,955)	4,739
Total tax (credit)/charge in the statement of other comprehensive income	(5,955)	4,739

Notes to the consolidated financial statements continued

14 Income tax expense continued

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	
	2016 US$000	2015 US$000
Profit/(loss) from continuing operations before income tax	108,279	(256,175)
At average statutory income tax rate of 30.1% (2015: 25.4%)	32,570	(65,017)
Expenses not deductible for tax purposes	1,051	1,040
Deferred tax recognised on special investment regime	(1,715)	(691)
Movement in unrecognised deferred tax[1]	2,705	16,565
Change in statutory income tax rate[2]	1,222	142
Withholding tax	552	(142)
Special mining tax and mining royalty[3]	7,751	2,533
Derecognition of deferred tax asset	316	1,251
Foreign exchange rate effect[4]	2,383	24,964
Other	(1,418)	2,837
At average effective income tax rate of 41.9% (2015: 6.4%)	45,417	(16,518)
Taxation charge/(credit) attributable to continuing operations	45,417	(16,518)
Total taxation charge/(credit) in the income statement	45,417	(16,518)

1 Includes the income tax credit on mine closure provision of US$1,925,000 (2015: includes the effect of the impairment of Volcan and San Felipe projects of US$11,414,000 and US$3,278,000 respectively).

2 In December 2016, the Peruvian Government approved an increase in the statutory income tax rate, from its current level of 28% to 29.5% with effect from 1 January 2017.

3 Corresponds to the impact of a mining royalty and special mining tax in Peru (note 35).

4 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 a result of the rights issue being at a discounted price, the number of ordinary shares outstanding has increased due to the bonus element resulting in the calculation of basic and diluted earnings per share for all periods presented having been adjusted retrospectively.

As at 31 December 2016 and 2015, EPS has been calculated as follows:

	As at 31 December	
	2016	2015
Basic earnings/(loss) per share from continuing operations		
Before exceptional items (US$)	0.11	(0.14)
Exceptional items (US$)	(0.02)	(0.38)
Total for the year and from continuing operations (US$)	0.09	(0.52)
Diluted earnings/(loss) per share from continuing operations		
Before exceptional items (US$)	0.10	(0.14)
Exceptional items (US$)	(0.01)	(0.38)
Total for the year and from continuing operations (US$)	0.09	(0.52)

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

	As at 31 December	
	2016	2015
Profit/(loss) attributable to equity holders of the parent – continuing operations (US$000)	45,550	(234,610)
Exceptional items after tax – attributable to equity holders of the parent (US$000)	7,604	172,758
Profit/(loss) from continuing operations before exceptional items attributable to equity holders of the parent (US$000)	53,154	(61,852)
Profit/(loss) from continuing operations before exceptional items attributable to equity holders of the parent for the purpose of diluted earnings per share (US$000)	53,154	(61,852)

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

	As at 31 December	
	2016	2015
Basic weighted average number of ordinary shares in issue (thousands)	505,521	449,511
Effect of dilutive potential ordinary shares related to contingently issuable shares (thousands)[1]	9,435	–
Weighted average number of ordinary shares in issue for the purpose of diluted earnings per share (thousands)	514,956	449,511

1 The potential ordinary shares related to 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 2015 as they had an antidilutive effect.

16 Property, plant and equipment

	Mining properties and development costs[1] US$000	Land and buildings US$000	Plant and equipment US$000	Vehicles US$000	Mine closure asset US$000	Construction in progress and capital advances US$000	Total US$000
Year ended 31 December 2016							
Cost							
At 1 January 2016	1,097,107	472,093	480,747	6,151	103,386	62,392	2,221,876
Additions	80,565	6,695	15,379	–	–	25,514	128,153
Change in discount rate	–	–	–	–	(2,367)	–	(2,367)
Change in mine closure estimate	–	–	–	–	(5,629)	–	(5,629)
Disposals	–	–	(3,420)	(298)	–	(56)	(3,774)
Write-offs	–	–	(8,500)	(85)	–	–	(8,585)
Transfer to intangibles	–	–	–	–	–	(44)	(44)
Transfers and other movements[2]	3,232	9,698	52,723	442	–	(62,863)	3,232
At 31 December 2016	1,180,904	488,486	536,929	6,210	95,390	24,943	2,332,862
Accumulated depreciation and impairment							
At 1 January 2016	678,547	179,036	253,388	4,447	59,790	1,152	1,176,360
Depreciation for the year	112,526	39,243	33,921	462	4,616	–	190,768
Disposals	–	–	(3,361)	(283)	–	–	(3,644)
Write-offs	–	–	(6,591)	(82)	–	–	(6,673)
Transfers and other movements[2]	568	(156)	335	10	74	(263)	568
At 31 December 2016	791,641	218,123	277,692	4,554	64,480	889	1,357,379
Net book amount at 31 December 2016	389,263	270,363	259,237	1,656	30,910	24,054	975,483

There were borrowing costs capitalised in property, plant and equipment amounting to US$825,000 (2015: US$8,252,000). The capitalisation rate used was 7.23% (2015: 6.79%).

1 Mining properties and development costs related to Crespo project (2016: US$27,321,000, 2015: US$24,797,000) are not currently being depreciated.

2 Net of transfers and other movements of US$2,664,000 were transferred from evaluation and exploration assets (note 17).

Notes to the consolidated financial statements continued

16 Property, plant and equipment continued

At the end of 2015, given the continued challenging environment for the mining sector, the Group carried out an impairment review of all of its operating mines (Arcata, Pallancata, Inmaculada and San Jose), and its growth projects (Crespo, Azuca, San Felipe and Volcan). As a result of this review the Group recognised an impairment charge in the Pallancata mine unit of US$39,026,000, the Arcata mine unit of US$72,424,000, the Crespo project of US$14,350,000, the Azuca project of US$12,766,000, San Felipe project of US$10,927,000 and the Volcan project of US$57,070,000. The impairment recognised in property plant and equipment was US$118,653,000, in evaluation and exploration assets was US$74,550,000 and in intangibles was US$13,360,000 (refer to note 17 and 18).

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 FVLCD, and the associated recoverable values calculated are presented below.

Gold and silver prices

US$ per oz.	2016	2017	2018	2019	Long-term
Gold	1,175	1,200	1,213	1,240	1,224
Silver	16	17	18	19	18

Other key assumptions

	Arcata	Pallancata	San Jose	Inmaculada	Crespo	Azuca	San Felipe	Volcan
Discount rate (post tax)	6.3%	6.3%	9.7%	6.3%	7.8%	n/a	n/a	n/a
Value per in-situ ounce (per tonne in the case of San Felipe) (US$)	n/a	n/a	n/a	n/a	n/a	0.25	16.21	6.55

1 With respect to the Azuca, Volcan and San Felipe 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, Volcan which includes the water permits held by the Group, and San Felipe CGUs. The enterprise value used in the calculation performed at 31 December 2015 was US$6.55 per gold equivalent ounce of resources (Volcan), US$0.25 per silver equivalent ounce of resources (Azuca) and US$16.21 per zinc equivalent tonne of resources (San Felipe).
The enterprise value figures are based on observable external market information.

Current carrying value of CGU, net of deferred tax (US$000)	Arcata	Pallancata	San Jose	Inmaculada	Crespo	Azuca	San Felipe	Volcan
31 December 2015	42,956	49,331	160,055	587,208	46,275	26,102	4,218	62,512

Crespo, Azuca and San Felipe projects correspond to the exploration segment.

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:

Approximate impairment resulting from the following changes (US$000)	Arcata	Pallancata	San Jose	Inmaculada	Crespo	Azuca	San Felipe	Volcan
Prices (10% decrease)	(42,956)	(14,892)	(89,961)	(86,439)	(16,308)	n/a	n/a	n/a
Post tax discount rate (3% increase)	(5,354)	(3,525)	(28,570)	(50,812)	(12,348)	n/a	n/a	n/a
Production costs (10% increase)	(42,956)	(8,082)	(48,914)	(20,495)	(7,397)	n/a	n/a	n/a
Value per in-situ ounce (per tonne in the case of San Felipe) (10% decrease)	n/a	n/a	n/a	n/a	n/a	(2,610)	(422)	(6,251)

	Mining properties and development costs US$000	Land and buildings US$000	Plant and equipment US$000	Vehicles US$000	Mine closure asset US$000	Construction in progress and capital advances US$000	Total US$000
Year ended 31 December 2015							
Cost							
At 1 January 2015	999,777	257,171	389,042	6,030	96,213	237,308	1,985,541
Additions	91,862	632	31,455	–	–	106,737	230,686
Change in discount rate	–	–	–	–	(755)	–	(755)
Change in mine closure estimate	–	–	–	–	7,928	–	7,928
Disposals	–	(195)	(952)	(196)	–	–	(1,343)
Write-offs			(2,382)	(118)		(5)	(2,505)
Transfer from intangibles	582	–	–	–	–	–	582
Transfers and other movements[1]	4,886	214,485	63,584	435	–	(281,648)	1,742
At 31 December 2015	**1,097,107**	**472,093**	**480,747**	**6,151**	**103,386**	**62,392**	**2,221,876**
Accumulated depreciation and impairment							
At 1 January 2015	526,824	134,638	193,210	3,663	49,486	1,410	909,231
Depreciation for the year	91,129	23,333	32,053	913	3,184	–	150,612
Disposals	–	(179)	(223)	(124)	–	–	(526)
Impairment	60,259	20,752	30,451	71	7,120	–	118,653
Write-offs	–	–	(1,839)	(83)	–	–	(1,922)
Transfers and other movements[1]	335	492	(264)	7	–	(258)	312
At 31 December 2015	**678,547**	**179,036**	**253,388**	**4,447**	**59,790**	**1,152**	**1,176,360**
Net book amount at 31 December 2015	**418,560**	**293,057**	**227,359**	**1,704**	**43,596**	**61,240**	**1,045,516**

1 Net of transfers and other movements of US$1,430,000 were transferred from evaluation and exploration assets.

17 Evaluation and exploration assets

	Azuca US$000	Crespo US$000	San Felipe US$000	Volcan US$000	Others US$000	Total US$000
Cost						
Balance at 1 January 2015	79,954	25,556	55,950	92,035	9,244	262,739
Additions	211	224	–	958	5,468	6,861
Transfers to property, plant and equipment	–	–	–	–	(1,742)	(1,742)
Balance at 31 December 2015	**80,165**	**25,780**	**55,950**	**92,993**	**12,970**	**267,858**
Additions	1,237	251	–	691	1,299	3,478
Transfers to property plant and equipment	–	–	–	–	(3,232)	(3,232)
Balance at 31 December 2016	**81,402**	**26,031**	**55,950**	**93,684**	**11,037**	**268,104**
Accumulated impairment						
Balance at 1 January 2015	33,292	5,510	14,907	–	1,740	55,449
Impairment[1]	12,584	4,368	10,927	44,381	2,290	74,550
Transfers to property, plant and equipment	–	–	–	–	(312)	(312)
Balance at 31 December 2015	45,876	9,878	25,834	44,381	3,718	129,687
Transfers to property, plant and equipment	–	–	–	–	(568)	(568)
Balance at 31 December 2016	**45,876**	**9,878**	**25,834**	**44,381**	**3,150**	**129,119**
Net book value as at 31 December 2015	34,289	15,902	30,116	48,612	9,252	138,171
Net book value as at 31 December 2016	**35,526**	**16,153**	**30,116**	**49,303**	**7,887**	**138,985**

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

1 In 2015 the Group recognised an impairment charge of US$74,550,000, mainly related to the Volcan project (refer to note 16). The FVLCD calculation is detailed in note 16.

Notes to the consolidated financial statements continued

18 Intangible assets

	Transmission line[1] US$000	Water permits[2] US$000	Software licences US$000	Legal rights[3] US$000	Total US$000
Cost					
Balance at 1 January 2015	22,157	26,583	1,773	6,681	57,194
Additions	–	–	25	587	612
Transfer	–	–	–	(582)	(582)
Balance at 31 December 2015	22,157	26,583	1,798	6,686	57,224
Additions	–	–	14	–	14
Transfer	–	–	44	–	44
Balance at 31 December 2016	**22,157**	**26,583**	**1,856**	**6,686**	**57,282**
Accumulated amortisation and impairment					
Balance at 1 January 2015	11,124	–	1,248	2,007	14,379
Amortisation for the year[4]	946	–	67	491	1,504
Impairment[5]	–	12,686	–	674	13,360
Balance at 31 December 2015	12,070	12,686	1,315	3,172	29,243
Amortisation for the year[4]	1,004	–	56	600	1,660
Balance at 31 December 2016	**13,074**	**12,686**	**1,371**	**3,772**	**30,903**
Net book value as at 31 December 2015	10,087	13,897	483	3,514	27,981
Net book value as at 31 December 2016	**9,083**	**13,897**	**485**	**2,914**	**26,379**

1 The transmission line is amortised using the units of production method. At 31 December 2016 the remaining amortisation period is approximately nine years.

2 Corresponds to the acquisition of water permits of Andina Minerals Group ("Andina"). They have an indefinite life according to Chilean law. 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 2016 was US$6.90 (2015: US$6.55) per gold equivalent ounce of resources. The enterprise value figures are based on observable external market information.

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 2016 the remaining amortisation period is from 8 to 20 years.

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

5 Corresponds to the impairment of the Crespo and Volcan projects (refer to note 16).

The carrying amount of the Volcan CGU, which includes the water permits, is reviewed annually to determine whether it is in excess of its recoverable amount.

Key assumptions

	2016	2015
Risk adjusted value per in-situ (gold equivalent ounce) US$	**6.90**	6.55

US$000	2016	2015
Current carrying value Volcan CGU	**63,187**	62,512

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 to exceed its recoverable amount.

The estimated recoverable amount is not materially greater than its carrying value; consequently, a change in the value in situ assumption could cause an impairment loss or reversal of impairment to be recognised in 2016:

Approximate impairment resulting from the following changes (US$000)	2016	2015
Value per in-situ ounce (10% decrease)	**(3,896)**	(6,251)

19 Available-for-sale financial assets

	Year ended 31 December 2016 US$000	2015 US$000
Beginning balance	366	455
Fair value change recorded in equity	774	(86)
Disposals	(149)	(3)
Ending balance	991	366

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

The carrying value of available for sale financial assets relate only to listed shares. All unlisted investments (Pembrook Mining Corp. and ECI Exploration and Mining Inc.) are recognised at cost less any recognised impairment loss as there is no active market for these investments. These investments are fully impaired as at 31 December 2015 and 2016.

20 Trade and other receivables

	As at 31 December 2016 Non-current US$000	2016 Current US$000	2015 Non-current US$000	2015 Current US$000
Trade receivables (note 36(c))	–	36,821	–	62,352
Advances to suppliers	–	2,458	–	6,567
Duties recoverable from exports of Minera Santa Cruz[1]	19,065	–	4,698	–
Receivables from related parties (note 30(a))	–	71	–	11
Loans to employees	856	230	991	149
Interest receivable	–	151	–	36
Receivable from Kaupthing, Singer and Friedlander Bank	–	198	–	252
Other[2]	2,188	10,205	1,567	13,518
Provision for impairment[3]	–	(6,342)	–	(5,327)
Assets classified as receivables	22,109	43,792	7,256	77,558
Prepaid expenses	44	2,590	60	1,157
Value Added Tax (VAT)[4]	3,564	21,738	2,871	46,112
Total	25,717	68,120	10,187	124,827

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

1 Relates to export benefits through Port Patagonico and silver refunds in Minera Santa Cruz, discounted over 24 months (2015: 24 months) at a rate of 6.39% (2015: 5.72%) for dollar denominated amounts and 23.31% (2015: 28.90%) for Argentinian pesos. The loss on discount is recognised within finance costs.

2 Mainly corresponds to account receivables from contractors for the sale of supplies of US$3,968,000 (2015: US$4,791,000), and other tax claims of US$5,333,000 (2015: US$2,840,000).

3 Includes the provision for impairment of trade receivable from a customer in Peru of US$1,043,000 (2015: US$1,108,000), the impairment of deposits in Kaupthing, Singer and Friedlander of US$198,000 (2014: US$252,000), the impairment of the account receivable from a third party of US$1,797,000 and other receivables of US$3,304,000 (2014: US$3,967,000) that mainly relates to an exploration project that would be recovered through an ownership interest if it succeeds.

4 Primarily relates to US$16,030,000 (2015: US$13,078,000) of VAT receivable related to the San Jose project that will be recovered through future sales of gold and silver and also through the sale of these credits to third parties by Minera Santa Cruz S.A. It also includes the VAT of Compañía Minera Ares S.A.C. of US$4,776,000 (2015: US$32,086,000) and Empresa de Transmisión Aymaraes S.A.C. of US$3,665,000 (2015: US$2,909,000). The VAT is valued at its recoverable amount.

Movements in the provision for impairment of receivables:

	Individually impaired US$000
At 1 January 2015	5,136
Provided for during the year	446
Released during the year	(255)
At 31 December 2015	5,327
Provided for during the year	2,061
Released during the year	(1,046)
At 31 December 2016	6,342

As at 31 December 2016 and 2015, none of the financial assets classified as receivables (net of impairment) was past due.

Notes to the consolidated financial statements continued

21 Inventories

	As at 31 December	
	2016 US$000	2015 US$000
Finished goods valued at cost	3,515	14,120
Finished goods at net realisable value	–	1,856
Products in process valued at cost	20,727	13,632
Products in process at net realisable value	–	1,121
Raw materials	33	–
Supplies and spare parts	40,241	44,855
	64,516	75,584
Provision for obsolescence of supplies	(7,460)	(5,298)
Total	57,056	70,286

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

Products in process include stockpile and precipitates.

The Group either sells doré 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 doré bars are classified as products in process. The amount of doré on hand at 31 December 2016 included in products in process is US$nil (2015: US$3,827,000).

Concentrate is sold to smelters, but in addition could be used as a product in process to produce doré.

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$86,754,000 (2015: US$78,525,000).

Movements in the provision for obsolescence comprise an increase in the provision of US$2,162,000 (2015: US$1,046,000) and the reversal of US$nil relating to the sale of supplies and spare parts, that had been provided for (2015: US$nil).

22 Cash and cash equivalents

	As at 31 December	
	2016 US$000	2015 US$000
Cash at bank	353	368
Liquidity funds[1]	203	337
Current demand deposit accounts[2]	68,643	47,717
Time deposits[3]	70,780	35,595
Cash and cash equivalents considered for the statement of cash flows[4]	139,979	84,017

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 16 days as at 31 December 2016 (2015: average of 14 days).
2 Relates to bank accounts which are freely available and bear interest.
3 These deposits have an average maturity of three days (2015: Average of two days) (refer to note 36(g)).
4 As at 31 December 2015 funds deposited in Argentinian institutions were effectively restricted for transfer to other countries and were invested locally. Included within cash and cash equivalents at 31 December 2015 was US$11,696,000, which was not readily available for use in subsidiaries outside of Argentina.

23 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	
	2016 US$000	2015 US$000
San Felipe contract	25,000	25,000

These payments reduce the total consideration IMSC will be required to pay upon exercise of the option by 1 December 2017, and constitute an advance of the final purchase price, rather than an option premium and, as such, they were recorded as deferred income. On 30 November 2016, IMSC renegotiated terms of the agreement, extending the validity of the agreement to 1 December 2017.

24 Trade and other payables

	As at 31 December			
	2016		2015	
	Non-current US$000	Current US$000	Non-current US$000	Current US$000
Trade payables[1]	–	55,381	–	58,655
Salaries and wages payable[2]	–	28,500	–	20,278
Dividends payable	–	75	–	826
Taxes and contributions	43	4,962	57	9,605
Guarantee deposits	–	5,073	–	7,163
Mining royalty (note 35)	–	679	–	796
Accounts payable to related parties (note 30)	–	94	–	40
Account payable to Graña & Montero[3]	–	–	20,322	–
Other	1,223	3,720	–	4,529
Total	1,266	98,484	20,379	101,892

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 relates to remuneration payable. There were Board members' remuneration payables of US$2,000 (2015: US$nil) and long-term incentive plan payable of US$6,279,000 (2015: US$nil) at 31 December 2016.

3 Related to the construction of Inmaculada mine unit. Included the principal of US$20,000,000 plus interest calculated at a 5% interest rate. The payment of the amount owing was to be made in four instalments every six months starting in September 2017. This amount, together with the related interest of US$1,080,000, was fully repaid on 29 September 2016.

25 Borrowings

	As at 31 December					
	2016			2015		
	Effective interest rate	Non-current US$000	Current US$000	Effective interest rate	Non-current US$000	Current US$000
Bond payable (a)	8.56%	291,073	8,778	8.56%	290,230	8,777
Secured bank loans (b)						
• Pre-shipment loans in Minera Santa Cruz (note 21)	2.70% to 3.00%	–	2,524	29.64%	–	10,554
• Medium-term bank loan	–	–	–	3.82%	49,548	229
• Short-term bank loans	0.65%	–	25,010	0.70% to 1.35%	–	75,200
Total		291,073	36,312		339,778	94,760

(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 is paid semi-annually, until maturity in 23 January 2021. During November and December 2015, the Group repurchased bonds amounting to US$55,225,000 for US$54,369,000, giving rise to a gain on repurchase of US$856,000 (see note 13). The balance at 31 December 2016 comprises the carrying value, including accrued interest payable, of US$299,851,000 (2015: US$299,007,000) determined in accordance with the effective interest method.

The following options could be taken before the maturity:

- Optional Redemption with Make-Whole Premium: At any time prior to 23 January 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 if 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.
- Change of Control Offer: 101% of principal amount plus accrued and unpaid interest.

Notes to the consolidated financial statements continued

25 Borrowings continued

(b) Secured bank loans

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. On November 2015, the Group paid US$50,000,000 of principal and modified the schedule of repayments, starting on 30 March 2018 until maturity on 30 December 2019. On July 2016, the Group paid the remaining principal amount of US$50,000,000. The carrying value including accrued interest payable at 31 December 2016 of US$nil (2015: US$49,777,000) was determined in accordance with the effective interest method.

Short-term bank loans

Two credit agreements signed by Compañía Minera Ares S.A.C. with BBVA Continental. The loans have an interest rate of 0.65% (2015: from 0.70% to 1.35%). The carrying value including accrued interest payable at 31 December 2016 is US$25,010,000 (2015: US$75,200,000). The due date of both loans is 7 February 2017.

The movement of short-term bank loans during the 2016 period is as follows:

	As at 1 January 2016 US$000	Additions US$000	Repayments US$000	As at 31 December 2016 US$000
Short-term bank loans	75,000	55,000	(105,000)	25,000
Accrued interests	200	608	(798)	10
Total	**75,200**	**55,608**	**(105,798)**	**25,010**

The maturity of non-current borrowings is as follows:

	As at 31 December	
	2016 US$000	2015 US$000
Between 1 and 2 years	–	–
Between 2 and 5 years	**291,073**	49,548
Over 5 years	–	290,230
Total	**291,073**	339,778

The carrying amount of current borrowings differs in their fair value only with respect to differences arising under the effective interest rate calculations described above. The carrying amount and fair value of the non-current borrowings are as follows:

	Carrying amount as at 31 December		Fair value as at 31 December	
	2016 US$000	2015 US$000	**2016 US$000**	2015 US$000
Secured bank loans	–	49,548	–	48,223
Bond payable	**291,073**	290,230	**318,062**	274,878
Total	**291,073**	339,778	**318,062**	323,101

The fair value of secured bank loans as at 31 December 2015 was determined by discounting the remaining principal and interest payments at the three month U.S. LIBOR rate plus 2.6%. 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.

26 Provisions

	Provision for mine closure[1] US$000	Long-Term Incentive Plan[2] US$000	Other US$000	Total US$000
At 1 January 2015	107,787	594	6,240	114,621
Additions	–	544	108	652
Accretion	69	–	–	69
Change in discount rate	(755)	–	–	(755)
Change in estimates	15,517[3]	(175)	–	15,342
Foreign exchange effect	–	–	126	126
Payments	(2,538)	–	–	(2,538)
At 31 December 2015	120,080	963	6,474	127,517
Less current portion	2,000	–	4,115	6,115
Non-current portion	118,080	963	2,359	121,402
At 1 January 2016	120,080	963	6,474	127,517
Additions	–	9,965	570	10,535
Accretion	46	–	–	46
Change in discount rate	(2,367)	–	–	(2,367)
Change in estimates	(11,975)[3]	–	–	(11,975)
Foreign exchange effect	–	–	(547)	(547)
Transfer to trade and other payables	–	(6,279)	(2,048)	(8,327)
Payments	(3,355)	–	–	(3,355)
At 31 December 2016	**102,429**	**4,649**	**4,449**	**111,527**
Less: current portion	3,580	–	1,826	5,406
Non-current portion	**98,849**	**4,649**	**2,623**	**106,121**

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 2016 and 2015 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 0.25% (2015: 0.07%). Expected cash flows will be over a period from two to nine years.

2 Corresponds to the provision related to awards granted under the Long-Term Incentive Plan ('LTIP') to designated personnel of the Group. Includes the following benefits: (i) 2016 awards, granted in March 2016, payable in March 2019 (ii) 2015 awards, granted in March 2015, payable in March 2018. 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 percentage of the award granted is determined 70% by the Company's TSR ranking relative to a tailored peer group of mining companies, and 30% by the Company's TSR ranking relative to a peer group of FTSE 350 companies. The liability for the LTIP is measured, initially and at the end of each reporting period until settled, at the fair value of the awards, by applying the Monte Carlo pricing model, taking into account the terms and conditions on which the awards were granted, and the extent to which the employees have rendered services to date. Changes to the provision of US$9,965,000 (2015: US$369,000) have been recorded as administrative expenses US$9,298,000 (2015: US$372,000) and exploration expenses US$667,000 (2014: US$-3,000 credit).

The following tables list the inputs to the Monte Carlo model used for the LTIPs for the years ended 31 December 2014, 2015 and 2016, respectively:

	LTIP 2014		LTIP 2015		LTIP 2016	
For the period ended	**31 December 2016 US$000**	31 December 2015 US$000	**31 December 2016 US$000**	31 December 2015 US$000	**31 December 2016 US$000**	31 December 2015 US$000
Dividend yield (%)	**–**	0.00	**0.49**	0.00	**0.49**	–
Expected volatility (%)	**–**	3.47	**3.89**	3.47	**3.89**	–
Risk–free interest rate (%)	**–**	0.38	**0.12**	0.74	**0.12**	–
Expected life (years)	**–**	1	**1**	2	**2**	–
Weighted average share price (pence £)	**–**	146.03	**100.68**	100.68	**63.49**	–

The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the awards and is indicative of future trends, which may not necessarily be the actual outcome.

3 Based on the 2016 internal and external review of mine rehabilitation estimates, the provision for mine closure decreased by US$11,975,000. The net decrease mainly corresponds to the Arcata mine unit of US$6,648,000, the Ares mine unit of US$1,622,000, the Selene mine unit of US$698,000, the Pallancata mine unit of US$447,000, and the San José mine unit of US$4,166,000, net of the increase in Inmaculada mine unit of US$1,651,000. US$2,320,000 related to mines already closed and US$4,026,000 related to the Arcata mine unit which reduction of the estimated costs exceeded the carrying value of the mine asset. Therefore, both effects have been recognised as a credit directly in the income statement. In 2015, the internal review of mine rehabilitation budgets determined a recognition of an increase of US$15,517,000. The net increase mainly corresponds to the Arcata mine unit of US$1,746,000, the Inmaculada mine unit of US$1,133,000, the Selene mine unit of US$922,000, the Crespo project of US$116,000, the San José mine unit of US$5,071,000, and the Sipan mine unit of US$6,750,000 net of the decrease in Pallancata mine unit of US$171,000 of which US$7,590,000 related to mines already closed has been recognised directly in the income statement.

Notes to the consolidated financial statements continued

27 Equity

(a) Share capital and share premium

Issued share capital

The issued share capital of the Company as at 31 December 2016 is as follows:

	Issued	
Class of shares	Number	Amount
Ordinary shares	**507,232,310**	**£126,808,078**

The issued share capital of the Company as at 31 December 2015 is as follows:

	Issued	
Class of shares	Number	Amount
Ordinary shares	505,571,505	£126,392,876

At 31 December 2016 and 2015, all issued shares with a par value of 25 pence each were fully paid (2016: weighted average of US$0.442 per share, 2015: weighted average of US$0.443 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 20 March 2015 the Group issued 587,015 ordinary shares under the Deferred Bonus Plan, to certain employees of the Group.

On 20 October 2015 a rights issue was completed and 137,883,138 shares with an aggregate nominal value of US$53,195,659 were issued for a cash consideration of US$100,007,840 (137,883,138 shares at GBP 0.47 per share, amounting to GBP 64,805,075) net of transaction costs of US$4,792,135.

On 30 December 2016 the Group issued 1,660,805 ordinary shares under the Restricted Share Plan, to certain employees of the Group.

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 2015	367,101,352	170,389	396,021
Shares issued according the Deferred Bonus Plan benefit on 20 March 2015	587,015	220	–
Shares issued and paid pursuant to the rights issue on 20 October 2015	137,883,138	53,196	42,020
Shares issued as at 31 December 2015	505,571,505	223,805	438,041
Shares issued according the Restricted Share Plan benefit on 30 December 2016	1,660,805	510	–
Shares issued as at 31 December 2016	**507,232,310**	**224,315**	**438,041**

(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(n)). 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 2015 and 2016. On 20 March 2016, 66,727 Treasury shares with a value of US$472,000 (being the cost incurred to acquire the shares) were transferred to the CEO of the Group with respect to the Deferred Bonus Plan benefit. Treasury shares at 31 December 2016 is 60,042 (2015: 126,769) ordinary shares with a value of US$426,000 (2015: US$898,000).

(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 which 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(y)).

Cumulative translation adjustment

The cumulative translation adjustment account is used to record exchange differences arising from the translation of the financial statements of subsidiaries and associates with a functional currency different to the reporting currency of the Group.

Merger reserve

The merger reserve represents the difference between the value of the net assets of the Cayman Holding Companies (Ardsley, Garrison, Larchmont and Hochschild Mining (Peru)) acquired under the Share Exchange Agreement and the nominal value of the shares issued in consideration of such acquisition.

Share-based payment reserve

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.

(i) Restricted Share Plan ('RSP')

At the beginning of 2015, the Group introduced the RSP, which is a new one-off share-based long-term incentive plan for some executives and key employees who play a fundamental role in the performance of the business.

On 30 December 2014 and 16 February 2015, 1,319,392 and 6,026,089 share options with a fair value of 86.8p (US$1.35) and 92.3p (US$1.42) per share were granted to the CEO and certain key employees, respectively under the RSP of the Group. Following the rights issue in October 2015, the number of share options were adjusted to 1,491,572 and 6,812,485 with a fair value of 76.7p (US$1.19) and 81.6p (US$1.25) per share respectively.

The vesting of the options is subject to the satisfaction of certain performance as well as service conditions classified as non-market conditions. The options vest over a five-year period in tranches of 20% of the shares after each of 2, 3 and 4 years and the balance after 5 years.

If the service conditions are not met, the options lapse. As the performance conditions are non-market-based they are not reflected in the fair value of the award at grant date, and therefore the Company will assess the likelihood of these conditions being met with a relevant adjustment to the cumulative charge as required at each financial year end.

The fair value of the option was determined with respect to the market price of the shares on the grant date. The awards do not entitle the recipients to dividends or payment in lieu of dividends during the vesting period.

The carrying amount of the share based payment reserve relating to the RSP at 31 December 2016 is US$3,958,000 (2015: US$2,843,000) with the amount recognised in the consolidated income statement of US$3,181,000 (2015: US$2,843,000).

On 30 December 2016 the Group issued 1,660,805 ordinary shares under the Restricted Share Plan, to certain employees of the Group, including the CEO.

(ii) Deferred Bonus Plan ('DBP')

At the beginning of 2014, the Group introduced the DBP, as a mechanism to pay the annual bonuses to the employees. Before the approval of DBP the annual bonuses were paid entirely in cash. Under the DBP rules a part of the annual bonuses could be deferred into shares for one or two years. A Deferred Bonus award granted under the Plan, and the terms of that Deferred Bonus award, must be approved in advance by the Directors.

The fair value of the awards was determined with respect to the market price of the shares on the grant date. The awards do not entitle the recipients to dividends or payment in lieu of dividends during the vesting period. The carrying amount of the share based payment reserve relating to the DBP at 31 December 2016 is US$57,000 (2015: US$138,000) with the amount recognised in the consolidated income statement of US$76,000 (2015: US$469,000).

On 20 March 2016, 66,727 Treasury shares were transferred to the CEO of the Group with respect to the DBP. On 20 March 2015 the Group issued 587,015 ordinary shares under the DBP, to certain employees of the Group, including the CEO.

(iii) Enhanced Long-Term Incentive Plan ('ELTIP')

In April 2011 and March 2014, the CEO was granted awards 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 and numbers of awards granted are included in the Directors Remuneration Report.

The fair value of the option was determined using the Monte Carlo model. The carrying amount of the share based payment reserve relating to the ELTIP at 31 December 2016 is US$1,854,000 (2015: US$1,674,000). The amount recognised in the consolidated income statement amounts to US$180,000 (2015: US$327,000) which is net of a reversal of US$$383,000 (2015: US$316,000) relating to options that lapsed during the year.

Notes to the consolidated financial statements continued

28 Deferred income tax

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

	As at 31 December 2016 US$000	2015 US$000
Beginning of the year	(64,274)	(83,385)
Income statement (credit)/charge (note 14)	(6,625)	23,850
Deferred income tax arising on net unrealised gains on cash flow hedges recognised in equity (note 14)	5,955	(4,739)
End of the year	(64,944)	(64,274)

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to the same fiscal authority.

The movement in deferred income tax assets and liabilities before offset during the year is as follows:

	Differences in cost of PP&E US$000	Mine development US$000	Financial instruments US$000	Others US$000	Total US$000
Deferred income tax liabilities					
At 1 January 2015	41,917	79,981	3,325	2,174	127,397
Income statement (credit)/charge	6,050	(19,874)	–	2,588	(11,236)
Deferred income tax arising on net unrealised gains on cash flow hedges recognised in equity	–	–	4,739	–	4,739
At 31 December 2015	47,967	60,107	8,064	4,762	120,900
Income statement (credit)/charge	(6,319)	8,235	–	(1,938)	(22)
Deferred income tax arising on net unrealised gains on cash flow hedges recognised in equity	–	–	(5,955)	–	(5,955)
Transfer	–	–	(2,109)	–	(2,109)
At 31 December 2016	41,648	68,342	–	2,824	112,814

28 Deferred income tax continued

	Differences in cost of PP&E US$000	Provision for mine closure US$000	Tax losses US$000	Mine development US$000	Financial instruments US$000	Others US$000	Total US$000
Deferred income tax assets							
At 1 January 2015	9,547	14,535	8,551	697	2,262	8,420	44,012
Income statement credit/(charge)	(1,685)	8,318	8,263	257	(9)	(2,530)	12,614
At 31 December 2015	7,862	22,853	16,814	954	2,253	5,890	56,626
Income statement credit/(charge)	8,463	(3,319)	(15,868)	(42)	160	3,959	(6,647)
Transfer	–	–	–	–	(2,109)	–	(2,109)
At 31 December 2016	**16,325**	**19,534**	**946**	**912**	**304**	**9,849**	**47,870**

The amounts after offset, as presented on the face of the Statement of Financial Position, are as follows:

	As at 31 December	
	2016 US$000	2015 US$000
Deferred income tax assets	**1,027**	–
Deferred income tax liabilities	**(65,971)**	(64,274)

Tax losses expire in the following years:

	As at 31 December	
	2016 US$000	2015 US$000
Unrecognised		
Expire in one year	**2,268**	1,075
Expire in two years	**3,231**	2,733
Expire in three years	**4,594**	3,903
Expire in four years	**2,295**	3,978
Expire after four years	**111,630**	109,315
	124,018	121,004

Other unrecognised deferred income tax assets comprise (gross amounts):

	As at 31 December	
	2016 US$000	2015 US$000
Provision for mine closure[1]	**54,197**	66,577
Impairments of assets[2]	**14,692**	14,692

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

2 Related to the impairment of San Felipe and Volcan project (note 17).

Unrecognised deferred tax liability on retained earnings

At 31 December 2016, there was no recognised deferred tax liability (2015: 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

29 Dividends

	2016 US$000	2015 US$000
Dividends paid and proposed during the year		
Equity dividends on ordinary shares:		
Final dividend for 2015: nil US cent per share (2014: nil US cent per share)	–	–
Interim dividend for 2016: 1.38 US cent per share (2015: nil US cent per share)	6,998	–
Total dividends paid on ordinary shares	6,998	–
Proposed dividends on ordinary shares:		
Final dividend for 2016: 1.38 US cent per share (2015: nil US cent per share)	7,000	–
Dividends paid to non-controlling interests: 10.05 US cent per share (2015: nil US cent per share)	16,983	–
Dividends paid to non-controlling interest related to 2014 and previous periods	753	964
Total dividends paid to non-controlling interests	17,736	964

Dividends per share

The interim dividends paid in September 2016 were US$6,998,398 (1.38 US cent per share). A proposed dividend in respect of the year ending 31 December 2016 of 1.38 US cent per share, amounting to a total dividend of US$7,000,000, is subject to approval at the Annual General Meeting on 11 May 2017 and is not recognised as a liability as at 31 December 2016.

30 Related-party balances and transactions

(a) Related-party accounts receivable and payable

The Group had the following related-party balances and transactions during the years ended 31 December 2016 and 2015. The related parties are companies owned or controlled by the main shareholder of the parent company or associates.

	Accounts receivable as at 31 December		Accounts payable as at 31 December	
	2016 US$000	2015 US$000	2016 US$000	2015 US$000
Current related party balances				
Cementos Pacasmayo S.A.A.[1]	71	11	94	40
Total	71	11	94	40

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 2016 and 2015, all 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	
	2016 US$000	2015 US$000
Income		
Gain on sale of Asociacion Sumac Tarpuy to Inversiones ASPI S.A.	811	–
Expenses		
Donation to the Universidad de Ingenieria y Tecnologia "UTEC"	(1,000)	–
Expense recognised for the rental paid to Cementos Pacasmayo S.A.A.	(200)	(285)

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

(b) Compensation of key management personnel of the Group

	As at 31 December	
Compensation of key management personnel (including Directors)	2016 US$000	2015 US$000
Short-term employee benefits	5,459	5,613
Long-Term Incentive Plan, Deferred Bonus Plan and Restricted Share Plan	6,622	2,641
Total compensation paid to key management personnel	12,081	8,254

This amount includes the remuneration paid to the Directors of the Parent Company of the Group of US$5,487,769 (2015: US$4,155,759).

(c) Participation in rights issue by Pelham Investment Corporation ("Pelham") and Inversiones ASPI SA ("ASPI")

As at the record date of the Rights Issue, Eduardo Hochschild held his investment in the Company through Pelham. Following receipt of its entitlement under the Rights Issue, Pelham transferred, for nil consideration, its Nil Paid Rights in respect of 74,745,101 new ordinary shares to ASPI an entity that is also under the control of Eduardo Hochschild. Under the terms of an irrevocable undertaking signed between Pelham, ASPI and the Company, it was agreed that:

(i) ASPI would, among other things, subscribe for at least 68,887,508 new ordinary shares at an issue price of 47 pence per new ordinary share (the "Subscription Commitment"); and

(ii) the Company would, among other things, pay ASPI a fee of 1% of the Subscription Commitment of approximately US$500,000.

31 Auditor's remuneration

The auditor's remuneration for services provided to the Group during the years ended 31 December 2016 and 2015 is as follows:

	Amounts paid to Ernst & Young in the year ended 31 December	
	2016 US$000	2015 US$000
Audit fees pursuant to legislation[1]	597	788
Audit-related assurance services	53	75
Taxation compliance services	–	41
Taxation advisory services	63	55
Services relating to corporate finance transactions	–	398
Total	713	1,357

1 The total audit fee in respect of local statutory audits of subsidiaries is US$358,000 (2015: US$458,000).

In 2016 and 2015, all fees are included in administrative expenses, with the exception of 2015 fees related to the issuance of shares by the Group (US$398,000 which excludes 20% of value added taxes).

32 Notes to the statement of cash flows

	As at 31 December	
	2016 US$000	2015 US$000
Reconciliation of loss for the year to net cash generated from operating activities		
Profit/(loss) for the year	62,862	(239,657)
Adjustments to reconcile Group loss to net cash inflows from operating activities		
Depreciation (note 3(a))	185,793	142,742
Amortisation of intangibles (note 18)	1,660	1,504
Write-off of assets	1,912	583
Impairment of assets	–	206,563
Impairment of available-for-sale financial assets	–	105
Gain on sale of available-for-sale financial assets	(66)	–
Gain on sale of property, plant and equipment	(48)	(245)
Provision for obsolescence of supplies	2,162	1,046
Gain on sale of subsidiary	(751)	–
(Decrease)/increase of provision for mine closure	(6,346)	7,590
Finance income	(2,008)	(1,898)
Finance costs	30,541	32,795
Income tax expense/(benefit)	45,417	(16,518)
Other	5,483	11,031
Increase/(decrease) of cash flows from operations due to changes in assets and liabilities		
Trade and other receivables	27,949	26,155
Income tax receivable	(423)	–
Other financial assets and liabilities	585	(393)
Inventories	11,068	(12,915)
Trade and other payables	(21,595)	7,140
Provisions	1,661	606
Cash generated from operations	345,856	166,234

33 Commitments

(a) Mining rights purchase options

During the ordinary course of business, the Group enters into agreements to carry out exploration under concessions held by third parties. Generally, under the terms of these agreements, the Group has the option to acquire the concession or invest in the entity holding the concession. In order to exercise these options the Group must satisfy certain financial and other obligations during the term of the agreement. The options lapse in the event that the Group does not meet its financial obligations. At any point in time, the Group may cancel the agreements without penalty, except where specified below.

The Group continually reviews its requirements under the agreements and determines, on an annual basis, whether to proceed with its financial commitment. Based on management's current intention regarding these projects, the commitments at the statement of financial position date are as follows:

	As at 31 December	
	2016 US$000	2015 US$000
Commitment for the subsequent 12 months	350	550
More than one year	4,500	6,450

(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 2016 and 2015 is included in production costs (2016: US$12,265,000, 2015: US$9,692,000), administrative expenses (2016: US$1,455,000, 2015: US$1,415,000), exploration expenses (2016: US$321,000, 2015: US$266,000) and selling expenses (2016: US$3,000, 2015: US$1,000).

As at 31 December 2016 and 2015, the future aggregate minimum lease payments under the operating lease agreements are as follows:

	For the year ended 31 December	
	2016 US$000	2015 US$000
Not later than one year	3,802	3,615
Later than one year and not later than five years	1,931	3,433

(c) Capital commitments

	For the year ended 31 December	
	2016 US$000	2015 US$000
Peru	14,296	7,684
Argentina	3,682	4,509
	17,978	12,193

34 Contingencies

As at 31 December 2016 the Group is subject to various claims which arise in the ordinary course of business. No provision has been made in the financial statements and none of these claims are currently expected to result in any material loss to the Group.

(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 2016, the Group had exposures totalling US$43,931,000 (2015: US$34,969,000) which are assessed as 'possible', rather than 'probable'. No amounts have been provided in respect of these items. This predominantly relates to potential tax penalties and related interest on intercompany loans.

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) Guarantees

The Group is required to provide guarantees in Peru in respect of environmental restoration and decommissioning obligations. The Group has provided for the estimated cost of these activities (see note 26).

35 Mining royalties

Peru

In accordance with Peruvian legislation, owners of mining concessions must pay a mining royalty for the exploitation of metallic and non-metallic resources. Mining royalties have been calculated with rates ranging from 1% to 3% of the value of mineral concentrate or equivalent sold, based on quoted market prices.

In October 2011 changes came into effect for mining companies, with the following features:

(a) Introduction of a Special Mining Tax ('SMT'), levied on mining companies at the stage of exploiting mineral resources. The additional tax is calculated by applying a progressive scale of rates ranging from 2% to 8.4% of the quarterly operating profit.

(b) Modification of the mining royalty calculation, which consists of applying a progressive scale of rates ranging from 1% to 12%, of the quarterly operating profit. The former royalty was calculated on the basis of monthly sales value of mineral concentrates.

The SMT and modified mining royalty are accounted for as an income tax in accordance with IAS 12 "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 left 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 2016, the amount payable as under the former mining royalty (for the Arcata mining unit), the new mining royalty (for the Ares, Pallancata and Inmaculada mining units), and the SMT amounted to US$170,000 (2015: US$272,000), US$769,000 (2015: US$1,080,000), and US$737,000 (2015: US$745,000) 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$1,759,000 (2015: US$1,205,000) representing the former mining royalty, classified as cost of sales, US$3,882,000 (2015: US$1,778,000) of new mining royalty and US$3,869,000 (2015: US$755,000) 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 collect 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 doré 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 doré 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. As at 31 December 2016, the amount payable as mining royalties amounted to US$509,000 (2015: US$524,000). The amount recorded in the income statement as cost of sales was US$5,747,000 (2015: US$4,763,000).

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 were required to 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 applicable regulations, the tax applied only on "proved reserves" and certain deductions (related to the production cost) applied to Minera Santa Cruz S.A. (a subsidiary of Hochschild Mining plc). On 20 December 2013, Minera Santa Cruz S.A. filed before the Argentinian Supreme Court a legal claim against the tax on mining reserves. Such legal claim challenged the legality of the tax on mining reserves arguing its unconstitutionality on the grounds that it violated the Federal Mining Policy created by national law No. 24.196. Additionally, on 2 November 2015, Minera Santa Cruz S.A. filed a precautionary measure under which it requested the Argentinian Supreme Court to order the Province of Santa Cruz not to claim from Minera Santa Cruz S.A. the payment of any amount related to the tax on mining reserves until a final decision on the constitutionality of the tax is rendered. The precautionary measure was granted on 9 December 2015, with no tax was paid during 2015. The tax on mining reserves was eliminated on 30 December 2015. On 1 March 2016 Minera Santa Cruz S.A. and the Province of Santa Cruz entered into an agreement under which each party agreed not to make to the other party any claim related to the tax on mining reserves. Consequently, the amount payable as at 31 December 2015 as tax on mining reserves of US$4,054,000, which was presented as 'Trade and other payables', have been written back and credited to the income statement within other income (US$2,667,000) and financial income (US$974,000) (see footnote 2 of note 11). The expense recognised as other expenses in the year ended 31 December 2015 with respect to this tax amounted to US$441,000 (note 12).

Notes to the consolidated financial statements continued

36 Financial risk management

The Group is exposed to a variety of risks and uncertainties which may have a financial impact on the Group and which also impact the achievement of social, economic and environmental objectives. These risks include strategic, commercial, operational and financial risks and are further categorised into risk areas to facilitate consolidated risk reporting across the Group.

The Group has made significant developments in the management of the Group's risk environment which seeks to identify and, where appropriate, implement the controls to mitigate the impact of the Group's significant risks. This effort is supported by a Risk Committee with the participation of the CEO, the Vice Presidents, and the head of the internal audit function. The Risk Committee is responsible for implementing the Group's policy on risk management and internal control in support of the Company's business objectives, and monitoring the effectiveness of risk management within the organisation.

(a) Commodity price risk

Silver and gold prices have a material impact on the Group's results of operations. Prices are significantly affected by changes in global economic conditions and related industry cycles. Generally, producers of silver and gold are unable to influence prices directly; 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 years ended 31 December 2016 and 2015 the (loss)/gain recognised in the income statement for the commodity swaps contracts signed during the year is as follows:

Year	Oz Ag	Oz Au	Average price per oz Ag US$	Average price per oz Au US$	Effect on income statement US$000
2016	**8,999,997**	**115,000**	**From 14 to 17.60**	**1,181**	**(18,722)**
2015	6,000,000	76,000	17.75	1,229	18,962

The fair value of unsettled commodity forward contracts as at 31 December is as follows:

Year	Oz Ag	Oz Au	Average price per oz Ag US$	Average price per oz Au US$	Effect on equity US$000
2016	**–**	**–**	**–**	**–**	**–**
2015	6,000,000	100,000	15.94	1,151	21,267

At 31 December 2016 the Group is not exposed to commodity price risk on commodity forward contracts. At 31 December 2015, a 10% favourable or adverse change in the price of gold and silver would have an impact on amounts recognised in the comprehensive income of approximately +/-US$10,561,000 and +/-US$8,265,000 respectively.

The Group has embedded derivatives arising from the sale of concentrate and doré which were provisionally priced at the time the sale was recorded (refer to notes 5 and 36(e)). For these derivatives, the sensitivity of the fair value to an immediate 10% favourable or adverse change in the price of gold and silver (assuming all other variables remain constant), is as follows:

Year	Increase/ decrease in price of ounces of:	Effect on profit before tax US$000
2016	**Gold +/-10%**	**+/-647**
	Silver+/-10%	**+/-495**
2015	Gold +/-10%	+/-216
	Silver+/-10%	+/-511

(b) Foreign currency risk

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

The following table demonstrates the sensitivity of financial assets and liabilities, at the reporting date, denominated in their respective currencies, to a reasonably possible change in the US dollar exchange rate, with all other variables held constant, of the Group's profit before tax and the Group's equity.

Year	Increase/ decrease in US$/other currencies' rate	Effect on profit before tax US$000	Effect on equity US$000
2016			
Pounds sterling	**+/-10%**	**+/-45**	**+/-95**
Argentinian pesos	**+/-10%**	**-/+263**	**–**
Mexican pesos	**+/-10%**	**-/+1,857**	**–**
Peruvian nuevos soles	**+/-10%**	**+/-834**	**–**
Canadian dollars	**+/-10%**	**+/-9**	**+/-3**
Chilean pesos	**+/-10%**	**-/+55**	**–**
2015			
Pounds sterling	+/-10%	+/-52	+/-25
Argentinian pesos	+/-10%	-/+970	–
Mexican pesos	+/-10%	-/+467	–
Peruvian nuevos soles	+/-10%	+/-2,808	–
Canadian dollars	+/-10%	+/-35	–
Chilean pesos	+/-10%	-/+153	–

(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 2016 and 31 December 2015:

Summary commercial partners	**As at 31 December 2016 US$000**	**% collected as at 6 March 2017**	As at 31 December 2015 US$000	% collected as at 7 March 2016
Trade receivables	**36,821**	**76%**	62,352	64%

Cash and cash equivalents - Credit rating[1]	**As at 31 December 2016 US$000**	As at 31 December 2015 US$000
A*+	**–**	40,175
A+	**64,017**	36
A-	**8,877**	32,846
BBB+	**65,023**	4,059
BBB	**1,549**	5,158
BBB-	**–**	15
NA	**513**	1,728
Total	**139,979**	84,017

1 The long-term credit rating as at 31 January 2017 (2015: 3 March 2016).

36 Financial risk management continued

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 the 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 20, 22 and 36(e).

(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 amount held of investments at year end (note 19) is not significant and the sensitivity to reasonable movements in the share price of available-for-sale financial assets is immaterial.

(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 2016 and 2015, the Group held the following financial instruments measured at fair value:

Assets measured at fair value	31 December 2016 US$000	Level 1 US$000	Level 2 US$000	Level 3 US$000
Equity shares (note 19)	991	991	–	–
Liabilities measured at fair value				
Embedded derivatives[1]	(1,726)	–	–	(1,726)

Assets measured at fair value	31 December 2015 US$000	Level 1 US$000	Level 2 US$000	Level 3 US$000
Equity shares (note 19)	366	366	–	–
Commodity swaps and zero cost collar agreements (note 36(a))	21,267	–	21,267	–
Liabilities measured at fair value				
Embedded derivatives[1]	(1,141)	–	–	(1,141)

1 Sales of concentrate and certain gold and silver volumes are provisionally priced at the time the sale is recorded. The price is then adjusted after an agreed period of time (usually linked to the length of time it takes for the smelter to refine and sell the concentrate or for the refiner to process the doré into gold and silver), with the Group either paying or receiving the difference between the provisional price and the final price. This price exposure is considered to be an embedded derivative in accordance with IAS 39 'Financial Instruments: Recognition and Measurement'. The gain or loss that arises on the fair value of the embedded derivative is recorded in 'Revenue' (note 5).

During the period ending 31 December 2016 and 2015, there were no transfers between these levels.

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

	Embedded derivatives liabilities US$000
Balance at 1 January 2015	(1,533)
Gain from the period recognised in revenue	392
Balance at 31 December 2015	(1,141)
Gain from the period recognised in revenue	(585)
Balance at 31 December 2016	**(1,726)**

(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 1 year US$000	Between 1 and 2 years US$000	Between 2 and 5 years US$000	Over 5 years US$000	Total US$000
At 31 December 2016					
Trade and other payables	90,373	340	1,020	227	**91,960**
Embedded derivative liability	1,726	–	–	–	**1,726**
Borrowings	50,408	22,845	351,888	–	**425,141**
Total	**142,507**	**23,185**	**352,908**	**227**	**518,827**
At 31 December 2015					
Trade and other payables	85,124	–	23,250	–	108,374
Embedded derivative liability	1,141	–	–	–	1,141
Borrowings	111,811	24,476	120,369	306,198	562,854
Total	198,076	24,476	143,619	306,198	672,369

(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.

Notes to the consolidated financial statements continued

36 Financial risk management continued

	As at 31 December 2016				
	Within 1 year US$000	Between 1 and 2 years US$000	Between 2 and 5 years US$000	Over 5 years US$000	Total US$000
Fixed rate					
Assets	71,133	–	–	–	71,133
Liabilities	(36,312)	–	(291,073)	–	(327,385)
Floating rate					
Assets	203	–	–	–	203

	As at 31 December 2015				
	Within 1 year US$000	Between 1 and 2 years US$000	Between 2 and 5 years US$000	Over 5 years US$000	Total US$000
Fixed rate					
Assets	35,963	–	–	–	35,963
Liabilities	(94,531)	–	(20,322)	(290,230)	(405,083)
Floating rate					
Assets	337	–	–	–	337
Liabilities	(229)	–	(49,548)	–	(49,777)

Interest on financial instruments classified as floating rate is re-priced at intervals of less than one year. Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument. The other financial instruments of the Group that are not included in the above tables are non-interest bearing and are therefore not subject to interest rate risk.

The sensitivity to a reasonable movement in the interest rate, with all other variables held constant, of the financial instruments with a floating rate, determined as a +/-50bps change in interest rates has a +/-6,000 effect on profit before tax (2015: +/-477,000). The Group is exposed to fluctuations in market interest rates.

This assumes that the amount remains unchanged from that in place at 31 December 2016 and 2015 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.

(h) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders, benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital. Management considers as part of its capital, the financial sources of funding from shareholders and third parties (notes 25 and 27).

In 2015 the Group collected capital of US$95,216,000 following a rights issue and US$175,948,000 due to proceeds of borrowings while $209,173,000 of debt was repaid.

In 2016 the Group collected US$70,000,000 due to proceeds of borrowings while US$177,431,000 of debt was repaid.

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.

37 Subsequent events

(a) On 7 February 2017, US$25,000,000 of short-term debt was repaid.

(b) The Group received a letter of intent dated 26 January 2017 outlining a proposed transaction between Americas Silver Corporation and Santacruz Mining Ltd (IMSC). Following this letter, the Group signed the following agreements which supersede all previous contracts:

On 20 February 2017, the Group and IMSC signed a new agreement pursuant to which IMSC will acquire properties comprising the El Gachi project (part of San Felipe) for a total consideration of US$500,000 which is due on 31 March 2017.

On 28 February 2017, the Group signed a new option agreement with IMSC for the remaining San Felipe properties amounting to US$10,000,000. An initial payment of US$2,000,000 was due to the Group on 7 March 2017. The IMSC option expires on 1 December 2017.

On 2 March 2017 it was announced that IMSC had entered into an agreement with Americas Silver Corporation to assign 100% of its interest in the San Felipe Project.

Parent company statement of financial position

As at 31 December 2016

	Notes	As at 31 December 2016 US$000	2015 US$000
ASSETS			
Non-current assets			
Investments in subsidiaries	5	1,844,725	642,121
		1,844,725	642,121
Current assets			
Other receivables	6	8,824	6,043
Cash and cash equivalents	7	10,402	21,885
		19,226	27,928
Total assets		1,863,951	670,049
EQUITY AND LIABILITIES			
Equity share capital	8	224,315	223,805
Share premium	8	458,267	458,267
Treasury shares	8	(426)	(898)
Other reserves		5,869	4,655
Retained earnings		949,863	(244,605)
Total equity		1,637,888	441,224
Non-current liabilities			
Trade and other payables	9	5,194	7,545
Provisions	10	419	82
		5,613	7,627
Current liabilities			
Trade and other payables	9	220,450	221,198
		220,450	221,198
Total liabilities		226,063	228,825
Total equity and liabilities		1,863,951	670,049

The financial statements were approved by the Board of Directors on 7 March 2017 and signed on its behalf by:

Ignacio Bustamante
Chief Executive Officer
7 March 2017

Parent company statement of cash flows

For the year ended 31 December 2016

	Notes	Year ended 31 December 2016 US$000	2015 US$000
Reconciliation of loss for the year to net cash used in operating activities			
Profit/(loss) for the year		1,199,842	(269,954)
Adjustments to reconcile Company profit/(loss) to net cash outflows from operating activities			
(Reversal)/impairment on investment in subsidiary	5	(1,202,604)	268,895
Share-based payments		563	–
Finance income		(2,696)	(4,933)
Finance costs		16	41
Income tax		1	–
(Decrease)/increase of cash flows from operations due to changes in assets and liabilities			
Other receivables		476	(1,791)
Trade and other payables		(541)	489
Provision for Long-Term Incentive Plan		337	37
Cash generated from/(used in) operating activities		(4,606)	(7,216)
Interest received		121	9
Net cash used in operating activities		(4,485)	(7,207)
Cash flows from investing activities			
Loans to subsidiaries		–	6
Net cash generated from investing activities		–	6
Cash flows from financing activities			
Dividends paid		(6,998)	–
Repayment of borrowings		–	(71,299)
Proceeds from issue of ordinary shares		–	95,216
Cash flows (used in)/generated from financing activities		(6,998)	23,917
Net (decrease)/increase in cash and cash equivalents during the year		(11,483)	16,716
Exchange difference		(44)	209
Other		44	1,667
Cash and cash equivalents at beginning of year		21,885	3,293
Cash and cash equivalents at end of year	7	10,402	21,885

Parent company statement of changes in equity

For the year ended 31 December 2016

					Other reserves			
	Notes	Equity share capital US$000	Share premium US$000	Treasury Shares US$000	Share-based payment reserve US$000	Total other reserves US$000	Retained earnings US$000	Total equity US$000
Balance at 1 January 2015		170,389	416,247	(898)	2,576	2,576	23,693	612,007
Other comprehensive income		–	–	–	–	–	–	–
Loss for the year		–	–	–	–	–	(269,954)	(269,954)
Total comprehensive loss for the year		–	–	–	–	–	(269,954)	(269,954)
Exercise of share options	8	220	–	–	(1,560)	(1,560)	1,340	–
Issuance of shares	8	53,196	46,812	–	–	–	–	100,008
Transaction costs related to issuance of shares		–	(4,792)	–	–	–	–	(4,792)
Share-based payments		–	–	–	3,639	3,639	316	3,955
Balance at 31 December 2015		**223,805**	**458,267**	**(898)**	**4,655**	**4,655**	**(244,605)**	**441,224**
Other comprehensive income		–	–	–	–	–	–	–
Profit for the year		–	–	–	–	–	1,199,842	1,199,842
Total comprehensive profit for the year		–	–	–	–	–	1,199,842	1,199,842
Exercise of share options	8	510	–	472	(2,223)	(2,223)	1,241	–
Dividends	2	–	–	–	–	–	(6,998)	(6,998)
Share-based payments	2	–	–	–	3,437	3,437	383	3,820
Balance at 31 December 2016		**224,315**	**458,267**	**(426)**	**5,869**	**5,869**	**949,863**	**1,637,888**

Notes to the parent company financial statements

For the year ended 31 December 2016

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 17 Cavendish Square, London W1G 0PH, 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 of 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 2016 and 31 December 2015. 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 in the preparation of the financial statements are consistent with those applied in the preparation of the consolidated financial statements for the year ended 31 December 2015. Amendments to standards and interpretations which came into force during the year did not have a significant impact on the financial statements. The accounting policies adopted are consistent with those of the previous financial year.

(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) 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.

(g) Dividends receivable

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

(h) 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.

(i) 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.

(j) 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.

(k) 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.

Notes to the parent company financial statements continued

For the year ended 31 December 2016

2 Significant accounting policies continued

(l) 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.

At the beginning of 2015, the Company granted a new benefit for some key employees of the Group, the Restricted Share Plan.

(m) Finance income and costs

Finance income and costs mainly comprise interest income on funds invested, interest expense on borrowings, foreign exchange gains and losses, gains and losses from the change in fair value of derivative instruments and gains and losses on the disposal of available-for-sale investments. Interest income and costs are recognised as they accrue, taking into account the effective yield on the asset and liability, respectively.

(n) Income tax

Income tax for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items charged or credited directly to equity, in which case it is recognised in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted at the 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;
- 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.

(o) Financial instruments

Financial assets and liabilities are recognised when the Company becomes party to the contracts that give rise to them and are classified as loans or borrowings, receivables, payables, financial instruments at fair value through profit and loss or as available-for sale financial assets, as appropriate. The Company determines the classification of its financial assets and liabilities at initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year end. When financial assets and liabilities are recognised initially, they are measured at fair value, being the transaction price plus, in the case of financial assets not at fair value through profit or loss and borrowings, directly attributable transaction costs. The Company considers whether a contract contains an embedded derivative when the entity first becomes a party to it. The embedded derivatives are separated from the host contract if it is not measured at fair value through profit or loss and when the economic characteristics and risks are not closely related to those of the host contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

All regular way purchases and sales of financial assets are recognised on the trade date, being the date that the Company commits to purchase or sell the asset. Regular way transactions require delivery and receipt of assets within the timeframe generally established by regulation or convention in the marketplace.

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(t)).

(p) Dividends distribution

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

3 Profit and loss account

The Company made a profit attributable to equity shareholders of US$1,199,842,000 (2015: loss of US$269,954,000).

4 Property, plant and equipment

The ending balance at 31 December 2016 is US$nil (31 December 2015: US$nil), related to cost of equipment of US$265,000 net to accumulated depreciation of US$265,000.

There were no additions during 2015 and 2016.

Notes to the parent company financial statements continued

For the year ended 31 December 2016

5 Investments in subsidiaries

	Total US$000
Year ended 31 December 2015	
Cost	
At 1 January 2015	2,336,010
At 31 December 2015	2,336,010
Accumulated impairment	
At 1 January 2015	(1,424,994)
Impairment loss	(268,895)
At 31 December 2015	(1,693,889)
Net book value at 31 December 2015	642,121
Year ended 31 December 2016	
Cost	
At 1 January 2016	2,336,010
At 31 December 2016	2,336,010
Accumulated impairment	
At 1 January 2016	(1,693,889)
Reversal of impairment	1,202,604
At 31 December 2016	(491,285)
Net book value at 31 December 2016	**1,844,725**

The Company tested its investment in subsidiary for impairment in light of increases in the prices of gold and silver, as well as increases in the Company's publically listed share price. As a result of this test, the Company recognised an impairment reversal of the investment in Hochschild Mining Holdings Ltd. of US$1,202,604,000 (2015: Impairment of US$268,895,000).

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 2016 and 2015 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:

	As at 31 December 2016			As at 31 December 2015		
Name	Country of incorporation	Equity interest %	Carrying value US$000	Country of incorporation	Equity interest %	Carrying value US$000
Hochschild Mining Holdings Limited	England and Wales	100%	1,844,725	England and Wales	100%	642,121
Total			1,844,725			642,121

The list of indirectly held subsidiaries of the Group is presented in note 1 (Corporate information) of the notes to the consolidated financial statements.

6 Other receivables

	Year ended 31 December 2016 US$000	2015 US$000
Amounts receivable from subsidiaries (note 11)	8,779	5,566
Prepayments	11	477
Receivable from Kaupthing, Singer and Friedlander	198	252
Interests receivable	17	–
Other receivable	17	–
	9,022	6,295
Provision for impairment[1]	(198)	(252)
Total	8,824	6,043
Less current balance	(8,824)	(6,043)
Non-current balance	–	–

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$198,000 accrued in 2008 and partially recovered in 2016 (2015: US$252,000).

Movements in the provision for impairment of receivables:

	Total US$000
At 1 January 2015	264
Amounts recovered	(12)
At 31 December 2015	252
Amounts recovered	(54)
At 31 December 2016	198

As at 31 December 2016 and 2015, none of the financial assets classified as receivables (net of impairment) were past due.

7 Cash and cash equivalents

	Year ended 31 December 2016 US$000	2015 US$000
Bank current account[1]	440	635
Time deposits[2]	9,962	21,250
Cash and cash equivalents considered for the cash flow statement	10,402	21,885

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

2 These deposits have an average maturity of 3 days (2015: 2 days).

8 Equity

(a) Share capital and share premium

Issued share capital

The issued share capital of the Company as at 31 December 2016 is as follows:

Class of shares	Issued Number	Amount
Ordinary shares	507,232,310	£126,808,078

The issued share capital of the Company as at 31 December 2015 is as follows:

Class of shares	Issued Number	Amount
Ordinary shares	505,571,505	£126,392,876

At 31 December 2016 and 2015, all issued shares with a par value of 25 pence each were fully paid (2016: weighted average of US$0.442 per share, 2015: weighted average of US$0.443 per share).

Notes to the parent company financial statements continued

For the year ended 31 December 2016

8 Equity continued

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 20 March 2015 the Group issued 587,015 ordinary shares under the Deferred Bonus Plan, a benefit to the certain employees of the Group.

On 20 October 2015 a rights issue was completed and 137,883,138 shares with an aggregate nominal value of US$53,195,659 were issued for a cash consideration of US$100,007,840 (137,883,138 shares at GBP 0.47 per share, amounting to GBP 64,805,075) net of transaction costs of US$4,792,135.

On 30 December 2016 the Group issued 1,660,805 ordinary shares under the Restricted Share Plan, to certain employees of the Group.

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 2015	367,101,352	170,389	416,247
Shares issued according the Deferred Bonus Plan benefit on 20 March 2015	587,015	220	–
Shares issued and paid pursuant to the rights issue on 20 October 2015	137,883,138	53,196	42,020
Shares issued as at 31 December 2015	505,571,505	223,805	458,267
Shares issued according the Restricted Share Plan benefit on 30 December 2016	1,660,805	510	–
Shares issued as at 31 December 2016	507,232,310	224,315	458,267

(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(n)). 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 during 2015 and 2016. On 20 March 2016, 66,727 Treasury shares with a value of US$472,000 (being the cost incurred to acquire the shares) were transferred to the CEO of the Group with respect to the Deferred Bonus Plan benefit. Treasury shares at 31 December 2016 is 60,042 (2015: 126,769) ordinary shares with a value of US$426,000 (2015: US$898,000).

(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).

Share-based payment reserve

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.

Refer to note 27(c) to the consolidated financial statements for details of the share-based payment reserve at 31 December 2016 and 2015.

9 Trade and other payables

	As at 31 December			
	2016		2015	
	Non-current US$000	Current US$000	Non-current US$000	Current US$000
Trade payables	–	297	–	1,008
Payables to subsidiaries (note 11)	–	217,235	–	217,571
Remuneration payable	–	747	–	325
Taxes and contributions	–	476	–	375
Financial guarantees[1]	5,194	1,695	7,545	1,919
Total	5,194	220,450	7,545	221,198

1 The Company has provided financial guarantees to certain banks over the medium-term bank loan and bond payable entered into by its subsidiary Compañia 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 Compañia 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 Provisions

	As at 31 December	
	2016 US$000	2015 US$000
Beginning balance	82	45
Increase in provision, net	337	37
At 31 December	419	82
Less: current portion	–	–
Non-current portion	419	82

1 Corresponds to the provision related to cash-settled share-based payment awards granted under the Long-Term Incentive Plan ('LTIP)' to designated personnel of the Company. Includes the following benefits: (i) Long-Term Incentive Plan awards, granted in March 2016, payable in March 2019, (ii) Long-Term Incentive Plan awards, granted in March 2015, payable in March 2018. 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. Refer to footnote 2 of note 26 to the consolidated financial statements for details of the LTIP awards and assumptions used for the valuation as at 31 December 2016 and 2015.

11 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 2016 and 31 December 2015.

	As at 31 December 2016		As at 31 December 2015	
	Accounts receivable US$000	Accounts payable US$000	Accounts receivable US$000	Accounts payable US$000
Subsidiaries				
Compañía Minera Ares S.A.C.[1]	7,773	279	4,701	253
Hochschild Mining Holdings Ltd.[2]	487	216,932	488	217,294
Other subsidiaries	519	24	377	24
Total	8,779	217,235	5,566	217,571

1 The account receivable mainly relates to the Deferred Bonus Plan and Restricted Share Plan provision that are 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 2016 of US$279,000 (2015: US$253,000). The Company has also provided certain financial guarantees on behalf of Compañía Minera Ares S.A.C. (notes 5 and 9).

2 Relates to 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.

Notes to the parent company financial statements continued

For the year ended 31 December 2016

11 Related-party balances and transactions continued

(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$1,420,504 (2015: US$1,518,262).

Compensation of key management personnel (including Directors)	As at 31 December 2016 US$000	 2015 US$000
Short-term employee benefits	857	875
Long-Term Incentive Plan	563	643
Total compensation	**1,420**	1,518

12 Dividends paid and proposed

Dividends per share

The interim dividends declared in August 2016 were US$6,998,398 (1.38 US cent per share). A final dividend in respect of the year ending 31 December 2016 of 1.38 US cent per share, amounting to a total dividend of US$7,000,000 is to be proposed at the Annual General Meeting on 11 May 2017. These financial statements do not reflect this dividend payable. The Directors of the Company did not recommend the payment of a dividend in respect of the year ended 31 December 2015.

13 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/ decrease in US$/other currencies rate	Effect on profit before tax US$000	Effect on equity US$000
2016			
Pound sterling	+/-10%	+/-35	–
2015			
Pound sterling	+/-10%	-/+39	–

(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);
- maintaining excess cash abroad in hard currency.

Credit risk concentrations exist when changes in economic, industrial or geographic factors take place, affecting in the same manner the Company's counterparties whose added risk exposure is significant to the Company's total credit exposure. Receivable balances are monitored on an ongoing basis with the result that the Company's exposure to bad debts is not significant. The maximum exposure is the carrying amount as disclosed in note 6.

(c) Liquidity risk

Liquidity risk arises from the Company's inability to obtain the funds it requires to comply with its commitments, including the inability to sell a financial asset quickly enough and at a price close to its fair value. Management constantly monitors the Company's level of short- and medium-term liquidity and their access to credit lines on reasonable terms in order to ensure appropriate financing is available for its operations.

The Company is funded by Hochschild Mining Holdings Ltd through loans in order to meet its obligations. Liquidity is supported by the balance of cash and cash equivalent held by the Company and Hochschild Mining Holdings Ltd at 31 December 2016 of US$10,402,000 (2015: US$21,885,000) and US$17,218,000 (2015: US$335,000) 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 1 year US$000	Between 1 and 2 years US$000	Between 2 and 5 years US$000	Over 5 years US$000	Total US$000
At 31 December 2016					
Trade and other payables	**218,279**	**–**	**–**	**–**	**218,279**
At 31 December 2015					
Trade and other payables	218,904	–	–	–	218,904

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 1 year US$000	Between 1 and 2 years US$000	Between 2 and 5 years US$000	Over 5 years US$000	Total US$000
At 31 December 2016					
Financial guarantees[1]	**294,775**	**–**	**–**	**–**	**294,775**
At 31 December 2015					
Financial guarantees[1]	344,775	–	–	–	344,775

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 and 9). 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

(Segment report reconciliation) as at 31 December 2015

Company (US$000)	Arcata	Pallancata	Inmaculada	San Jose	Consolidation adjustment and others	Total/HOC
Revenue	117,358	54,456	280,108	235,961	359	688,242
Cost of sales (Pre consolidation)	(92,461)	(42,451)	(181,383)	(168,351)	(3,056)	(487,702)
Consolidation adjustment	(132)	600	2,499	89	3,056	–
Cost of sales (Post consolidation)	(92,329)	(43,051)	(183,882)	(168,440)	–	(487,702)
Production cost excluding depreciation	(68,155)	(33,650)	(83,796)	(108,209)	–	(293,810)
Depreciation in production cost	(22,083)	(10,989)	(101,207)	(51,376)	–	(185,655)
Other items	(462)	(241)	(506)	(541)	–	(1,750)
Change in inventories	(1,629)	1,829	1,627	(8,314)	–	(6,487)
Gross profit	24,897	12,005	98,725	67,610	(2,697)	200,540
Administrative expenses	–	–	–	–	(47,979)	(47,979)
Exploration expenses	–	–	–	–	(9,193)	(9,193)
Selling expenses	(1,973)	(721)	(1,130)	(10,351)	–	(14,175)
Other income/expenses	–	–	–	–	11,265	11,265
Operating profit before impairment	22,924	11,284	97,595	57,259	(48,604)	140,458
Impairment and write-off of assets	–	–	–	–	(1,912)	(1,912)
Finance income	–	–	–	–	2,074	2,074
Finance costs	–	–	–	–	(30,541)	(30,541)
FX loss	–	–	–	–	(1,800)	(1,800)
Profit/(loss) from continuing operations before income tax	22,924	11,284	97,595	57,259	(80,783)	108,279
Income tax	–	–	–	–	(45,417)	(45,417)
Profit/(loss) for the year from continuing operations	22,924	11,284	97,595	57,259	(126,200)	62,862

1 On a post exceptional basis.

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 139 to 141 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 elapsed 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 2016, 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$16.5 per ounce.

ATTRIBUTABLE METAL RESERVES AS AT 31 DECEMBER 2016

Reserve category	Proved and probable (t)	Ag (g/t)	Au (g/t)	Ag (moz)	Au (koz)	Ag Eq (moz)
OPERATIONS[1]						
Arcata						
Proved	479,515	371	1.1	5.7	17.3	7.0
Probable	811,996	327	1.1	8.5	29.7	10.7
Total	1,291,511	343	1.1	14.3	47.0	17.7
Inmaculada						
Proved	3,254,366	144	3.9	15.1	412.7	45.7
Probable	2,568,907	182	4.7	15.0	388.9	43.8
Total	5,823,274	161	4.3	30.1	801.6	89.4
Pallancata						
Proved	632,793	477	2.0	9.7	40.8	12.7
Probable	371,752	331	1.4	4.0	17.2	5.2
Total	1,004,545	423	1.8	13.7	58.0	18.0
San Jose						
Proved	593,089	502	7.3	9.6	139.9	19.9
Probable	333,455	401	6.6	4.3	70.4	9.5
Total	926,544	465	7.1	13.9	210.4	29.4
Proved	**4,959,763**	**252**	**3.8**	**40.1**	**610.7**	**85.3**
Probable	**4,086,111**	**242**	**3.9**	**31.8**	**506.2**	**69.2**
TOTAL	**9,045,874**	**247**	**3.8**	**71.9**	**1,116.9**	**154.5**

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 Operations were audited by P&E Consulting.

Further information

ATTRIBUTABLE METAL RESOURCES AS AT 31 DECEMBER 2016[1]

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)
OPERATIONS													
Arcata													
Measured	1,109,214	414	1.25	–	–	–	506	14.8	44.7	18.1	–	–	–
Indicated	1,942,187	385	1.29	–	–	–	481	24.0	80.7	30.0	–	–	–
Total	3,051,401	395	1.28	–	–	–	490	38.8	125.4	48.1	–	–	–
Inferred	4,030,857	341	1.25	–	–	–	433	44.1	162.1	56.1	–	–	–
Inmaculada													
Measured	2,977,597	178	4.83	–	–	–	535	17.0	462.7	51.2	–	–	–
Indicated	2,635,187	219	5.58	–	–	–	632	18.6	473.0	53.6	–	–	–
Total	5,612,784	197	5.19	–	–	–	581	35.6	935.7	104.8	–	–	–
Inferred	3,165,478	133	3.37	–	–	–	383	13.6	343.3	39.0	–	–	–
Pallancata													
Measured	1,052,621	453	1.92	–	–	–	596	15.3	65.1	20.2	–	–	–
Indicated	693,465	332	1.45	–	–	–	439	7.4	32.4	9.8	–	–	–
Total	1,746,086	405	1.74	–	–	–	534	22.7	97.5	30.0	–	–	–
Inferred	3,637,800	357	1.37	–	–	–	459	41.8	160.7	53.7	–	–	–
San Jose													
Measured	840,329	564	8.20	–	–	–	1,171	15.2	221.6	31.6	–	–	–
Indicated	964,641	404	6.26	–	–	–	867	12.5	194.1	26.9	–	–	–
Total	1,804,970	479	7.16	–	–	–	1,009	27.8	415.7	58.5	–	–	–
Inferred	529,566	404	6.40	–	–	–	878	6.9	109.0	14.9	–	–	–
GROWTH PROJECTS													
Crespo													
Measured	5,211,058	47	0.47	–	–	–	82	7.9	78.6	13.7	–	–	–
Indicated	17,298,228	38	0.40	–	–	–	67	21.0	222.5	37.4	–	–	–
Total	22,509,286	40	0.42	–	–	–	71	28.8	301.0	51.1	–	–	–
Inferred	775,429	46	0.57	–	–	–	88	1.1	14.2	2.2	–	–	–
Azuca													
Measured	190,602	244	0.77	–	–	–	301	1.5	4.7	1.8	–	–	–
Indicated	6,858,594	187	0.77	–	–	–	243	41.2	168.8	53.7	–	–	–
Total	7,049,197	188	0.77	–	–	–	245	42.7	173.5	55.5	–	–	–
Inferred	6,946,341	170	0.89	–	–	–	236	37.9	199.5	52.7	–	–	–
Volcan													
Measured	105,918,000	–	0.738	–	–	–	55	–	2,513.1	186.0	–	–	–
Indicated	283,763,000	–	0.698	–	–	–	52	–	6,368.0	471.2	–	–	–
Total	389,681,000	–	0.709	–	–	–	52	–	8,882.7	657.3	–	–	–
Inferred	41,553,000	–	0.502	–	–	–	37	–	670.7	49.6	–	–	–
OTHER PROJECTS[2]													
Measured	1,393,716	69	0.02	7.12	3.10	0.39	315	3.1	0.9	14.1	99.3	43.1	5.5
Indicated	1,354,261	82	0.06	6.14	2.73	0.31	295	3.6	2.4	12.9	83.2	37.0	4.2
Total	2,747,977	76	0.04	6.64	2.92	0.35	305	6.7	3.3	27.0	182.4	80.1	9.7
Inferred	13,445,001	8	0.30	0.58	0.21	1.22	160	3.4	128.6	69.0	77.8	28.5	163.6
GRAND TOTAL													
Measured	**118,693,138**	**20**	**0.89**	**0.08**	**0.04**	**0.00**	**88**	**74.8**	**3,391.5**	**336.8**	**99.3**	**43.1**	**5.5**
Indicated	**315,509,563**	**13**	**0.74**	**0.03**	**0.01**	**0.00**	**69**	**128.3**	**7,541.9**	**695.5**	**83.2**	**37.0**	**4.2**
Total	**434,202,700**	**15**	**0.78**	**0.04**	**0.02**	**0.00**	**74**	**203.1**	**10,934.9**	**1,032.3**	**182.4**	**80.1**	**9.7**
Inferred	**74,083,472**	**62**	**0.75**	**0.10**	**0.04**	**0.22**	**142**	**148.9**	**1,788.0**	**337.3**	**77.8**	**28.5**	**163.6**

1 Prices used for resources calculation: Au: $1,200/oz and Ag: $16.5/oz.

2 Includes the Jasperoide copper project and the San Felipe zinc/silver project. The silver equivalent grade (147 g/t Ag Eq) has been calculated applying the following ratios, Cu/Ag=96.38 and Au/Ag=60.

CHANGE IN ATTRIBUTABLE RESERVES AND RESOURCES

Ag equivalent content (million ounces)	Category	Percentage attributable December 2016	December 2015 Att.[1]	December 2016 Att.[1]	Net difference	% change
Arcata	Resource	100%	122.3	104.2	(18.1)	(14.8%)
	Reserve		20.1	17.7	(2.3)	(11.5%)
Inmaculada	Resource	100%	159.1	143.8	(15.3)	(9.6%)
	Reserve		104.2	89.4	(14.8)	(14.2%)
Pallancata	Resource	100%	102.3	83.6	(18.7)	(18.3%)
	Reserve		14.9	18.0	3.1	20.9%
San Jose	Resource	51%	92.8	73.5	(19.4)	(20.9%)
	Reserve		31.2	29.4	(1.8)	(5.7%)
Crespo	Resource	100%	53.3	53.3	–	–
	Reserve		–	–	–	–
Azuca	Resource	100%	108.2	108.2	–	–
	Reserve		–	–	–	–
Volcan	Resource	100%	706.9	706.9	–	–
	Reserve		–	–	–	–
	Reserve		–	–	–	–
Other projects total	Resource	100%	96.0	96.0	–	–
	Reserve		–	–	–	–
Total	**Resource**		1,441.1	**1,369.6**	(71.5)	(5.0%)
	Reserve		170.4	**154.5**	(15.8)	(9.3%)

1 Attributable reserves and resources based on the Group's percentage ownership of its joint venture projects.

Shareholder information

Company website

Hochschild Mining plc Interim and Annual Reports and results announcements are available via the internet on our website at www.hochschildmining.com. Shareholders can also access the latest information about the Company and press announcements as they are released, together with details of future events and how to obtain further information.

Registrars

The Registrars can be contacted as follows for information about the AGM, shareholdings, and 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: 0371 664 0300 (Calls charged at the standard geographic rate and will vary by provider. Lines are open 8.30am-5.30pm Mon to Fri).

If calling from overseas: +44 371 664 0300 (Calls charged at the applicable international rate).

Currency option and dividend mandate

Shareholders wishing to receive their dividend in US dollars should contact the Company's registrars to request a currency election form. This form should be completed and returned to the registrars by 28 April 2017 in respect of the 2016 final dividend.

The Company's registrars can also arrange for the dividend to be paid directly into a shareholder's UK bank account. To take advantage of this facility in respect of the 2016 final dividend, a dividend mandate form, also available from the Company's registrars, should be completed and returned to the registrars by 28 April 2017. This arrangement is only available in respect of dividends paid in UK pounds sterling. Shareholders who have already completed one or both of these forms need take no further action.

Financial Calendar

Dividend dates	2017
Ex-dividend date	20 April
Record date	21 April
Deadline for return of currency election forms	28 April
Payment date	17 May

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Forward looking statements

The constituent parts of this Annual Report, including those that make up the Directors' Report, contain certain forward-looking statement, including such statements within the meaning of Section 27A of the US Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. In particular, such forward looking statements may relate to matters such as the business, strategy, investments, production, major projects and their contribution to expected production and other plans of Hochschild Mining plc and its current goals, assumptions and expectations relating to its future financial condition, performance and results.

Forward-looking statements include, without limitation, statements typically containing words such as "intends", "expects", "anticipates", "targets", "plans", "estimates" and words of similar import. By their nature, forward looking statements involve risks and uncertainties because they relate to events and depend on circumstances that will or may occur in the future. Actual results, performance or achievements of Hochschild Mining plc may be materially different from any future results, performance or achievements expressed or implied by such forward looking statements. Factors that could cause or contribute to differences between the actual results, performance or achievements of Hochschild Mining plc and current expectations include, but are not limited to, legislative, fiscal and regulatory developments, competitive conditions, technological developments, exchange rate fluctuations and general economic conditions. Past performance is no guide to future performance and persons needing advice should consult an independent financial adviser.

The forward looking statements reflect knowledge and information available at the date of preparation of this Annual Report. Except as required by the Listing Rules and applicable law, Hochschild Mining plc does not undertake any obligation to update or change any forward looking statements to reflect events occurring after the date of this announcement. Nothing in this Annual Report should be construed as a profit forecast.

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