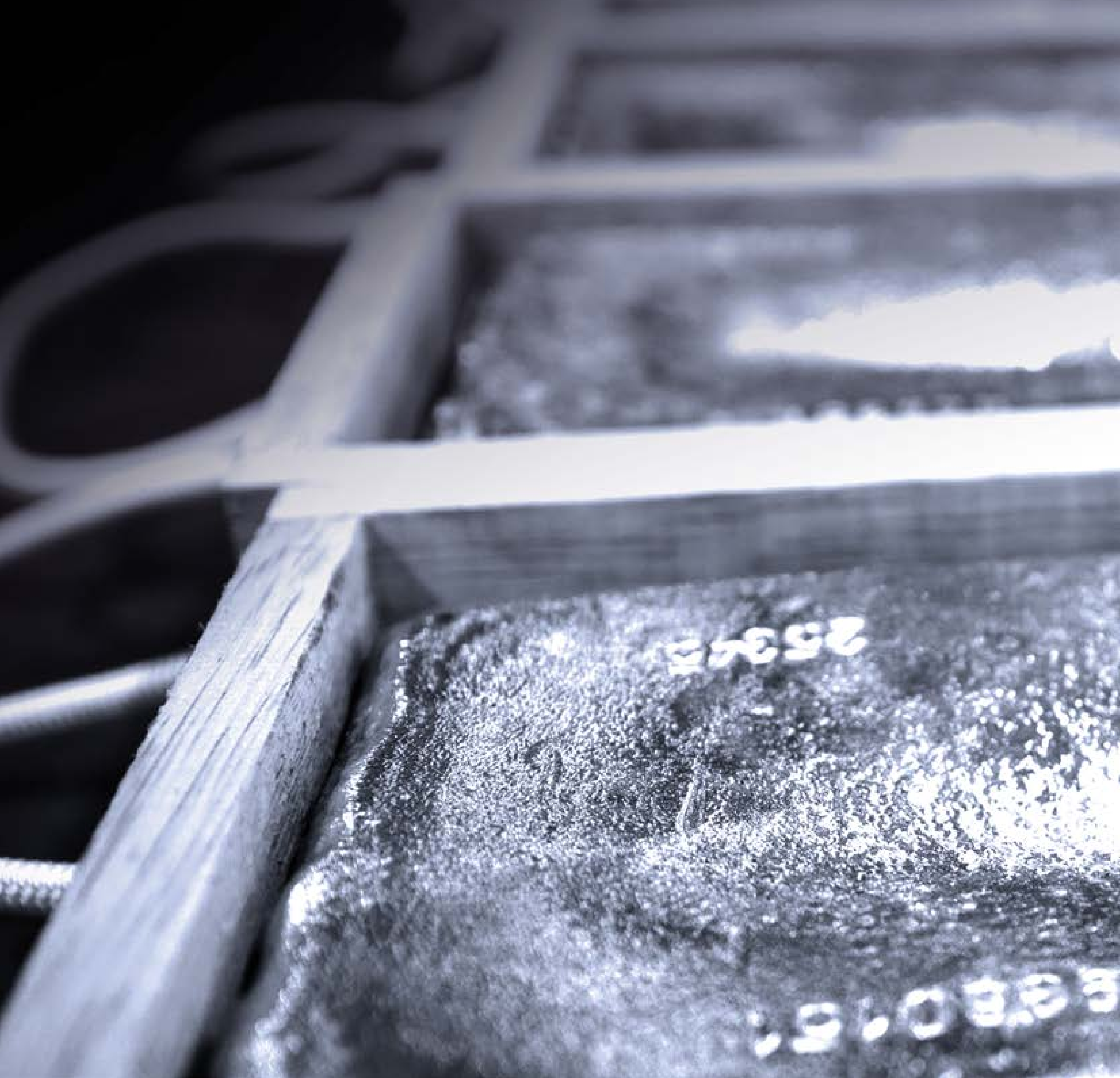
Sustainable Growth in the Americas

Hochschild Mining plc
Annual Report & Accounts 2017



Our future is looking bright.

We are positioned to deliver additional ounces at a competitive cost through organic expansion and there is still plenty more to come.

2017 highlights

Adjusted EBITDA
$301m
(2016: $329m)

EPS of
$0.08
(2016: $0.11)

Final dividend of
1.965 ¢/share
(2016: 1.38¢/share)

AISC
$12.3/oz Ag Eq
(2016: $11.2/oz Ag Eq)

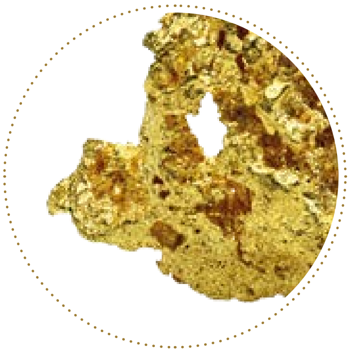
Cash balance of
$257m
(31 Dec 2016: $140m)

Net debt of
$103m
(31 Dec 2016: $187m)

Gold production (attrib.) up 4%
254,930 oz
(2016: 246,080oz)

Silver production (attrib.) up 11%
19.1 m oz
(2016: 17.3m oz)

During 2017, we made significant progress with another year of record production from our core producing mines. We are aiming to continue to drive low cost growth from the business over the next few years through a combination of new discoveries, optimising our current portfolio and potential increased throughput from our plants.



A world-class asset portfolio

In 2017, our four current operating mines produced 19.1 million attributable ounces of silver and 254,930 ounces of gold which resulted in another overall record of 38 million silver equivalent ounces.

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Strong track record

We have over 50 years' operating experience in the Americas and in the last decade have an enviable track record of meeting stated production and cost targets.

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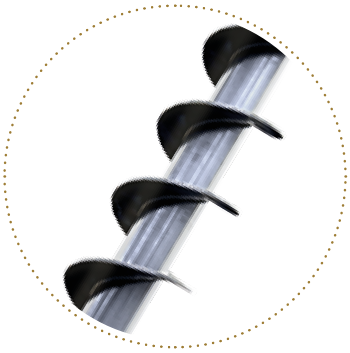

Exciting discovery opportunities

We have a pipeline of brownfield and greenfield projects in numerous locations across three countries in the Americas, as well as substantial parcels of premium geological land.

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At a glance

Our business

Who we are

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

Mining operations

Hochschild operates four underground epithermal deposits, three of which are located in the south west of Peru in our 'Southern Peru Cluster' and one in the southern Argentinian province of Santa Cruz.

Operation	Gold production	Silver production	All-in sustaining costs
1 Inmaculada *Peru*	165,000 oz	5.5m oz	$721/oz Au Eq
2 Arcata *Peru*	15,000 oz	4.4m oz	$18.4/oz Ag Eq
3 Pallancata *Peru*	23,000 oz	6.0m oz	$10.7/oz Ag Eq
4 San Jose *Argentina*	100,000 oz	6.4m oz	$14.0/oz Ag Eq

Growth projects

Hochschild currently has three growth projects with two in southern Peru close to the operating assets and one in northern Chile.

Project	Estimated silver equivalent production p.a.
5 Crespo *Peru*	2.7m oz
6 Volcan *Chile*	N/a
7 Azuca *Peru*	N/a

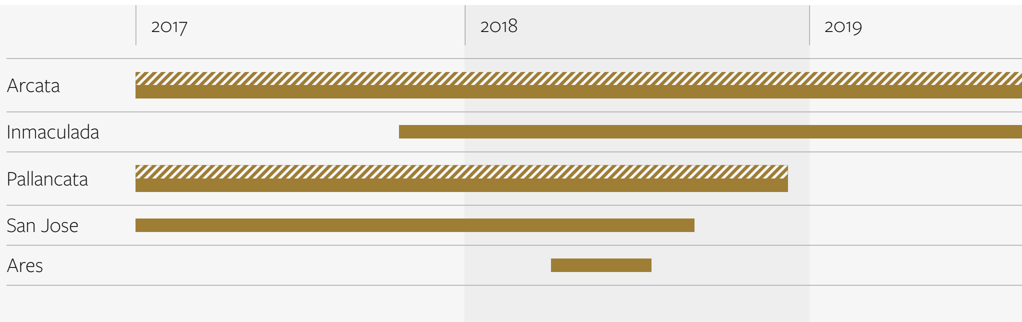
Greenfield prospects

Hochschild has a portfolio of greenfield prospects across the Americas.

Asset	Country
Ares	Peru
Corina	
Fresia	
Cueva Blanca	
Alto Ruri	
Casma	
Antaymarca	
Mario	
Loro	Chile
Moho, Redlitch, Olympic	US
Cobalt Silver District	Canada

Drilling plan for potential resources

Hochschild has a long-term plan to execute almost 150,000 metres of resource drilling at our core assets.



Where we operate

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

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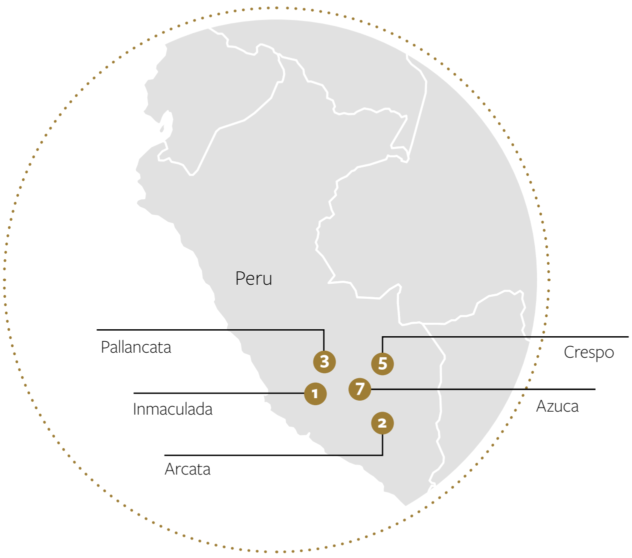

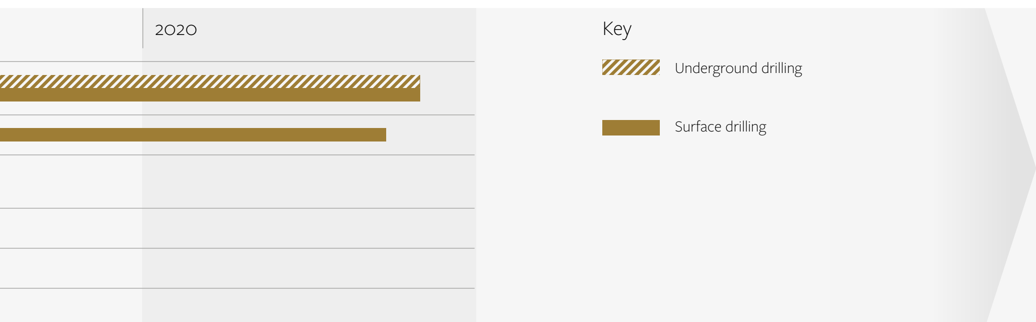

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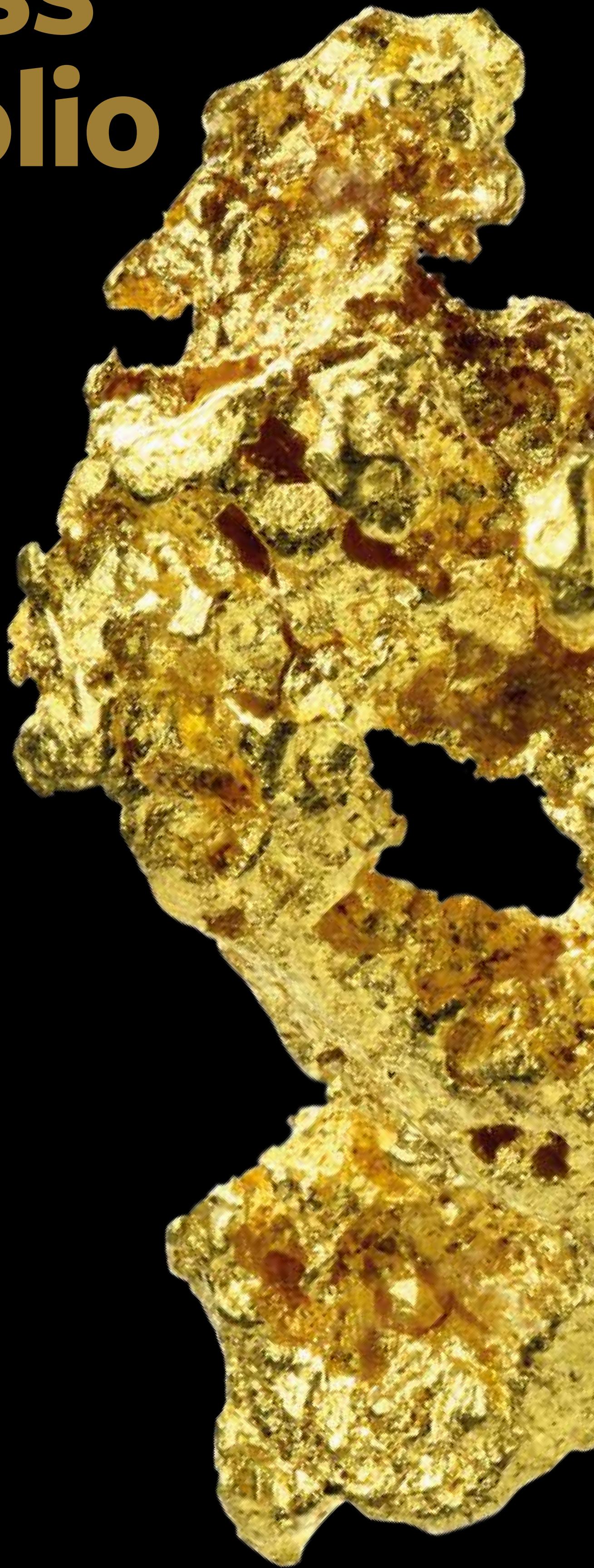
A world-class asset portfolio



In 2017, we once again delivered record production figures with 19.1 million attributable ounces of silver and just over 254,000 ounces of gold. This marked the fifth consecutive year of output increases.

Inmaculada – expansion potential at our flagship mine

We believe that there is strong upside resource potential at the Inmaculada deposit with drilling results from our first campaign in six years confirming the geological hypothesis. We intend to continue to explore the area, add further resources and then we will be in position to make a decision on whether to expand our modular processing plant or to add to Inmaculada's life-of-mine.

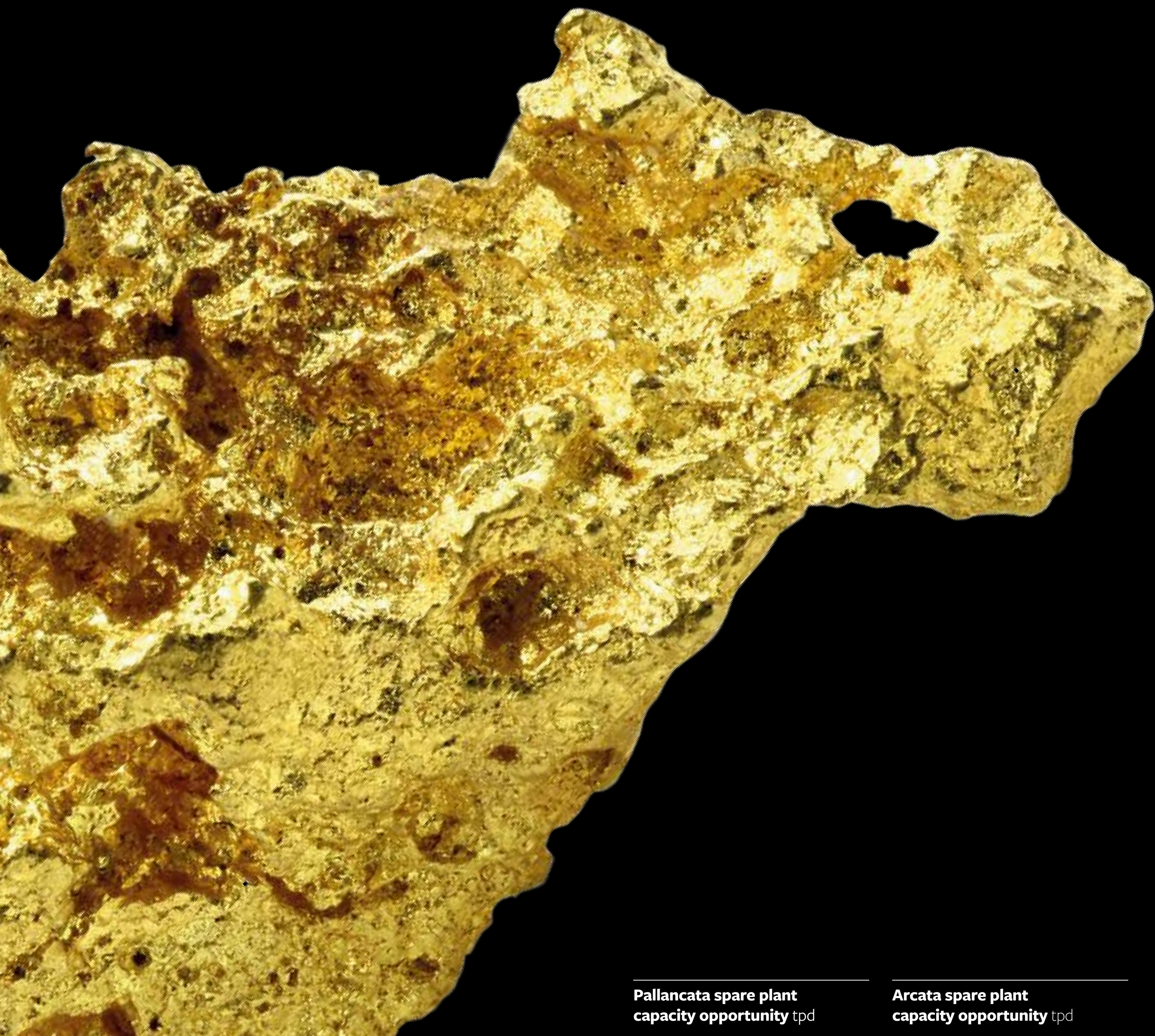
Pallancata – realising significant potential

Since its discovery in 2015, the Pablo area including the main Pablo vein and ancillary veins has hugely expanded its contained tonnage and grade. In 2017, the Company received the Peruvian government approval to begin mining the Pablo vein, increasing the throughput up to 2,800 tonnes per day during 2018 and delivering competitive costs.

235,000
gold equivalent ounce target in 2018 at Inmaculada

53,000
metres of drilling scheduled for Inmaculada in 2018

2,800
tonnes per day target for Pallancata in 2018



Pallancata spare plant capacity opportunity tpd

- Current **1,000 tpd**
- Pablo **1,400 tpd**
- Spare **1,000 tpd**

Arcata spare plant capacity opportunity tpd

- Current **1,000 tpd**
- Spare **1,500 tpd**

A strong track record

We have over 50 years of operating experience in the Americas and are experts at managing complex underground ore bodies throughout the commodity price cycle and in varying political, economic and social environments.

Consistently meeting annual production targets

We have built up an enviable track record of meeting and often exceeding our annual production targets, demonstrating the Company's sensible approach to guidance but also the expertise we have built in managing our portfolio of complex underground narrow vein mines. This has been particularly evident in periods of significant price volatility over the last five years.

Social licence to operate

The Company has maintained a number of long-term policies which demonstrate our commitment to a safe and healthy workplace, manage and minimise the environmental impact of our operations and encourage sustainability by respecting the communities of the localities in which we operate. Our relations with local communities are of the utmost importance and we dedicate significant resources in recognition of the social licence granted to us.

Debt reduction programme on track

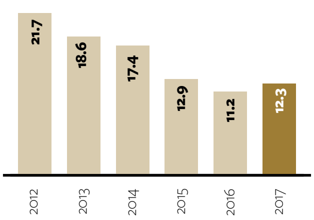
Since the completion of the construction of the Inmaculada mine in 2015, we have been aiming to reduce the Company's debt position. In 2017, we made further encouraging progress with net debt almost halved versus the end of 2016 and a refinancing programme towards the end of the year that is expected to result in significant reductions in the Company's ongoing interest payments.

87%
production growth since 2012

43%
cost reduction since 2012

$350m
reduction in net debt since June 2015

All-in sustaining costs
$/oz Ag equivalent



Exciting discovery opportunities

We have a pipeline of brownfield and greenfield projects in numerous locations across the Americas as well substantial parcels of premium geological land.

Increasing our reserves and resources

Hochschild aims to invest in mineralised districts with the possibility to grow over time and we are excited by the potential to grow our reserves and resources. The discovery and subsequent resource growth of our Pablo vein district at Pallancata and the recent discoveries at Inmaculada demonstrate the efficacy of our low cost brownfield programme. We believe that there are significant further opportunities to extend the lives of our mines and expand their capacity.

Building a greenfield portfolio

Our greenfield exploration programme incorporates exploration campaigns at various types of project. We continue to develop early-stage projects that have the potential to move through the project pipeline from prospects, to drill targets, to Advanced Projects and finally, to production. In this regard we now have six projects in three different countries, all in jurisdictions with geological potential and political and regulatory stability.

5 year

brownfield exploration programme

4–6 projects

in three countries to be drilled in 2018

Earn-in and joint venture agreements

Hochschild is also targeting earn-in and joint venture type arrangements with junior mining companies who have assets in known jurisdictions. These prospects must satisfy our long held acquisition criteria of assets that are early-stage with significant geological upside potential and where we can acquire a clear path to control.

12–15%

Return on invested capital target for acquisitions

Market review

Gold Market Summary

Hochschild is exposed to market dynamics associated with the precious metals industry, whilst our operations, located in Peru and Argentina, are exposed to changing country-specific factors that can impact our business.

Gold

Market review 2017

Gold prices rose for a second consecutive year – by 14% on a Comex nearby active futures monthly settlement basis. This increase came despite negative factors such as a generally improving global economy, record levels in equity markets and a normalisation in US monetary policy. Political factors underpinned prices.

Prices rose from $1,152 at the end of 2016 to an intraday high of $1,358 on 8 September 2017. Escalating tensions between the US and North Korea, several policy implementation failures by the Donald Trump US government and politically inspired problems in Syria, Qatar, Iran, and Catalonia helped to fuel the rally in gold prices. Prices did lose some of their momentum during the fourth quarter, following an announcement by the Federal Reserve to unwind its bond portfolio and raise interest rates for a third time in 2017. Prices touched an intraday low of $1,238 on 12 December but with no changes to interest rate hike expectations for 2018, the price began to rise once again, finishing 2017 at $1,309.

Market drivers

Demand

Net gold investment demand was 24.4 million ounces in 2017, down 11% from 2016. Investment demand had risen sharply in 2016 as it became increasingly evident to investors that the bottom in gold prices had been reached causing a move into gold, pushing up net investment demand sharply. The numerous political/economic issues provided ample reason for investors to remain interested in 2017, which resulted in the healthy net addition to investor gold holdings. While these additions were down versus 2016 they were still very high by historical standards. Investment demand in 2017 was the 14th highest year of net investment demand for data over the past 68 years.

Central banks remained net buyers of gold during 2017 as they continued to diversify their reserve assets away from FX. During the first 11 months of the year, central banks added a net 10.44 million ounces of gold to their holdings.

The present level of additions puts purchases on track to match levels seen from 2010 to 2012. The top three contributors during 2017 were the central banks of Russia, Turkey, and Kazakhstan. Russia and Kazakhstan have been following a long-term programme, while Turkey joined the list as a buyer in May 2017, for the first time since 1991.

Gold fabrication demand reached 92.8 million ounces in 2017 up from 92.2 million ounces in 2016. The increase was due to healthy economic conditions which typically increase discretionary spending, a softening US dollar which reduced the price of gold in the domestic currencies of consuming countries, and a recovery in demand from 2016 when a gold price rise had pushed fabrication demand down.

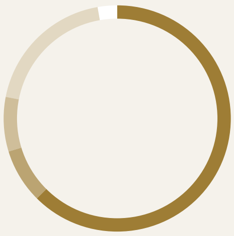
Supply

Total gold supply, which is composed primarily of mine supply and scrap, rose 0.3% to 127.2 million ounces in 2017. A slowdown in mine supply growth coupled with flat secondary recovery resulted in the weak supply growth. Global gold mine supply stood at 97.1 million ounces, up from 96.8 million ounces in 2016 but the growth is beginning to show signs of slowing after years of rises due to new capacity bought onstream following the 2002–2012 gold bull market. Secondary supply was flat year-on-year at 30.1 million ounces as healthy gold prices supported it on the downside.

Outlook

- Gold investment demand is forecast to remain healthy during 2018
- Central banks are expected to continue adding gold to their holdings programmes
- Total gold supply is forecast to rise only marginally to 127.9 million ounces in 2018, up from 127.2 million ounces in 2017.

Demand %



- Jewellery **62.7%**
- Electronics **7.6%**
- Official sector purchases **7.9%**
- Private investor demand **19.2%**
- Dental and other **2.7%**

Supply %

- Mine production **72.6%**
- Secondary supply **23.6%**
- Net exports from transitional economies **3.8%**

Silver Market Summary

Gold and silver prices in 2017

Daily settlement of nearby active Comex futures, indexed to 3 January 2017.

Country production

Latin American production rankings

	2017				2016	
		Gold		Silver	Gold	Silver
Peru	–	**7**	–	**3**	7	3
Argentina	–	**13**	↓	**8**	13	10
Mexico	↑	**9**	–	**1**	8	1
Chile	↑	**19**	↓	**4**	16	5

Silver

Market review 2017

On an average basis, silver prices fell slightly to $17.09 in 2017 from $17.14 in 2016. This was in sharp contrast to 2016 when short-term investors, alongside long-term investors, purchased the metal and drove prices sharply higher. Healthy global economic conditions kept silver prices from rising further although factors such as US tension with North Korea, the Syrian conflict and the Catalonia referendum provided a degree of support. In addition, continued equity market strength also played a part in price suppression throughout 2017. US tax reform helped the stock market repeatedly hit record highs in December, further driving investors away from precious metals. While the Federal Reserve delivered three rate hikes in 2017, inflation did not become a concern, which was another factor that stood in silver's way.

Market drivers

Demand

Investors were net buyers of 108.1 million ounces silver in 2017. The net additions to investor holdings were lower than the average added to inventories annually between 2009 and 2016, but still remained high by historical standards. The net buying of close to 110 million ounces of silver during 2017 remains a key factor in supporting silver prices.

Fabrication demand also plays an important role and is estimated to have reached 889.9 million ounces in 2017, down 1% from 2016 levels with the decline in silver use in the photovoltaic sector, after a record year in 2016, one of the primary reasons.

The largest single source of demand for silver is jewellery/silverware with silver use in these products estimated to have risen to a record high of 303.4 million ounces in 2017. The rate of increase rebounded in 2017 to 1.4% from a 0.6% increase in the previous year with jewellery demand in India helping to underpin demand during the year.

Demand from the electronics sector, the second largest single use of silver, rose to a record of 229.6 million ounces in 2017, up 1.5% from 2016 with most of the increase estimated to have come from consumer electronics. In addition, developments in automotive electronics, medical electronic devices and automation-related industrial electronic products helped underpin silver use in the electronics industry.

The solar panel industry has been one of the fastest growing major uses of silver in recent years and in 2017 it remained the third largest single use of silver although demand is estimated to have fallen by 20% to 68.7 million ounces in 2017.

Supply

Total supply of silver, which is comprised of mine production, secondary supply, government disposals, and net exports from transitional economies, is estimated to have fallen by 1% to 998.1 million ounces in 2017. The faster pace of decline in mine supply was largely responsible for the decline, slipping by 1% to 876.9 million ounces in 2017. Major contributing countries to this weakness included Australia, Peru, and the US. Total secondary supply is estimated to have fallen slightly to 202.0 million ounces in 2017.

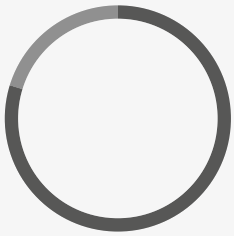
Outlook

- Investors are expected to continue adding silver during 2018 on concerns over volatile global political developments
- Total supply is forecast to rise, driven by increases in both mine supply and secondary supply
- Fabrication demand for silver is forecast to resume its uptrend in 2018, reaching 894.0 million ounces.

Demand %

- Other industrial uses **50.8%**
- Jewellery and silverware **29.4%**
- Coin fabrication **13.8%**
- Photography **6.1%**
- Investment demand **N/A** (excl coins)

Supply %



- Mine production **79.8%**
- Secondary supply **20.2%**

Source: CPM Group LLC

Business model

Creating value and long-term sustainable growth

We believe that our long-term business model will not only create sustainable value for our stakeholders but also differentiates Hochschild, resulting in an attractive investment proposition.

Inputs

These inputs are key in achieving operational control and ensuring viability in the long-term.

Operational and geological expertise
We have a particular expertise in mining mid-sized, narrow epithermal veins in complex geological conditions in the Americas.

Experienced management team
Long experience in operation, cost reduction, project construction, acquisitions and the management of local communities.

Consistent financial strategy
Long-standing financial relationships in place to invest in growth, manage operations and access further required liquidity.

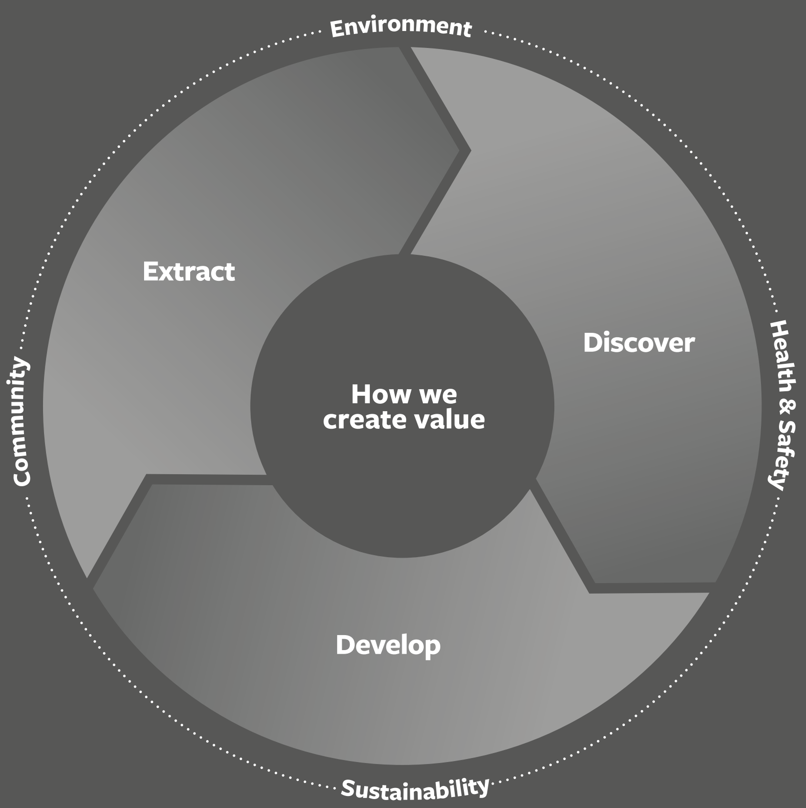
Corporate governance framework
Controls and processes to protect and enhance stakeholder interests.

Highly skilled employees
Strong focus on safety and a value-driven approach.

Effective sustainability programme
Promoting education, health and sustainable economic development in acknowledgment of our social licence to operate.

Our core activities

We have always emphasised exploration expertise to be a key attribute underpinning our business model.



Discover

We have a strong track record of finding geological deposits. The value of ounces we have discovered in less than 10 years exceeds $5 billion in revenue. Our brownfield team believes that there is still potential at all our assets to find further low cost ounces and in addition, our greenfield team is set to drill a number of premium prospects in various countries across the Americas.

Develop

We are able to execute development of our discoveries in a short space of time. Our flagship Inmaculada deposit was first drilled in early 2009 and production was achieved in June 2015 with the mine being ramped up to full production within three months. The operation was also designed and built in a modular fashion to facilitate cost effective expansion potential.

Extract

We have developed a unique in-depth knowledge base of the technical challenges inherent in our orebodies as well as of the environment and jurisdiction where we operate. This has resulted in us consistently meeting annual production targets, executing significant cost reduction programmes, increasing our resource base and achieving positive results from brownfield exploration at existing mines.

Value

Outputs

The ongoing success of our business model allows us to invest in the skills and training of our employees, redistribute profit into our host communities through a wide variety of programmes and deliver long-term value for our shareholders.

Shareholders

We aim to deliver sustainable low cost growth throughout the cycle, generate excess cash flow and use that to reward shareholders and other stakeholders. Since the middle of 2016 we have declared $21 million in equity dividends.

$10m

Recommended final dividend for the full year 2017

Employees

The quality of our employees is key to achieving our strategic objectives and attracting and retaining high quality personnel. The success of our business model helps to achieve this by ensuring competitive remuneration, a positive working environment through the promotion of social and recreational activities and ongoing professional development.

81%

workforce trained in 2017

Communities

Hochschild has been able to invest in a number of local programmes focusing on our core themes of education, health and socio-economic development and allowing us to operate collaboratively with our neighbours in the Southern Peru Cluster for more than 50 years.

$5.6m

Amount spent on social and community welfare activities

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Sustainability
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Chairman's statement

Fit for an exciting future of growth

I am delighted with the progress made operationally and geologically in 2017 as well as with our long-term goal of balance sheet optimisation. This has been demonstrated with our enviable track record of meeting our production and cost forecasts, as well as the delivery of our ambitious brownfield exploration programme which we believe is now starting to bear fruit.

"Over the course of a mine's life, geological conditions and mining methods may change but our commitment to safety remains constant and is one of our values which we are not willing to compromise."

Eduardo Hochschild
Chairman

21%
increase in dividends

Jan 2018
early redemption of high yield bonds

Whilst a complex permitting situation in Peru and unpredictable precious metal prices have at times impacted both the management of our core assets and our ability to execute our drilling campaigns, Hochschild Mining has maintained a consistent strategy over the last few years which places geological expertise at the heart of how we manage our deposits and how we generate further low cost organic growth in the long-term. The Board is pleased, therefore, to be able to recommend an increased final dividend of $1.965 cents per share.

Operationally we were able to continue to grow our output, reaching another Company record in 2017 with key contributions from Inmaculada and San Jose (both production records) and a vastly improved performance at Pallancata. With a positive gold price performance, we were still able to generate solid cash flow throughout the year despite a fall in profitability due to a rise in overall costs. With regards to our balance sheet, we took a decisive step in January 2018 with the early redemption of the high yield bonds, issued in 2014 to finance the construction of Inmaculada, using existing cash and lower cost local Peruvian debt. We are now in an advantageous financial position with a manageable debt profile and the firepower to meet the requirements of our brownfield and greenfield programmes, consider acquisitions and continue to return capital to shareholders.

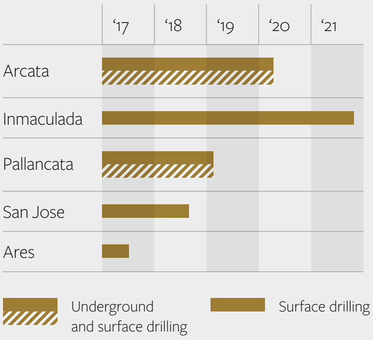
Towards the end of the year we started to receive some positive results from our brownfield drilling campaigns. In particular, I would like to mention the geological developments at Inmaculada which have confirmed our long-held confidence in the prospectivity of the district and I look forward to the team continuing to add high quality resources in 2018 and beyond. The majority of our assets are still underexplored and following positive changes to the permitting process in Peru, I believe that our organic growth programme is beginning to gain real momentum. Furthermore, it is pleasing to see an increasing number of greenfield targets come through the pipeline as well as some earn-in joint venture opportunities being evaluated.

Where we are

Hochschild has grown its production since 2012 by almost 90% and in that time we have reduced our costs by over 40%. We are still focusing on organic growth whether through our ambitious brownfield exploration programme at our current mines or through greenfield prospects spread across the Americas.

We made solid progress in 2017 with our brownfield aims – undertaking mapping and geophysics studies, securing surface drilling permits from the Peruvian government and subsequently starting our drilling campaigns at Arcata, Inmaculada and San Jose.

Our drilling exploration plan



Production at our four mines

- Inmaculada **47%**
- Arcata **14%**
- Pallancata **20%**
- San Jose **19%**

Safety and environment

As mentioned in my statement last year, an accident at the Inmaculada mine early in 2017 resulted in two fatalities. With great regret, we disclosed that a second accident occurred at the Arcata mine in July 2017 which also claimed the lives of two colleagues. On behalf of the Board, I would like to again convey our deepest condolences to the families of the victims involved. Our resolve to make Hochschild Mining a safe place to work is as strong as ever and management has responded by instigating a wide-ranging programme to reinforce our safety culture which: includes senior management reviewing all high-risk activities; involves even more frequent training; focuses on initiatives to motivate and incentivise safe working; and implements the most up-to-date safety risk management information systems. Over the course of a mine's life, geological conditions and mining methods may change but our commitment to safety remains constant and is one of our values which we are not willing to compromise.

Our focus on environmental performance continues to be one of our key priorities. During 2017, we introduced a new environmental corporate objective as part of the Company's overall Performance Objectives Plan (the base for calculating employee bonuses), which has historically been only based on production, safety and financial indicators. We believe that this new objective will help us in further promoting a strong environmental culture, achieve our goal of operating with the least environmental footprint possible and generate long-term value for our stakeholders.

Our people

Our employees are pivotal to the Company's performance and, to them, I wish to express my gratitude for their contribution in making 2017 a record year of profitable production. I also wish to thank my fellow Board colleagues for their support over the year. I am delighted that Dionisio Romero Paoletti joined the Board at the start of the year as a Non-Executive Director, bringing a wealth of business experience in Peru and internationally. Finally, I wish to express the Board's utmost gratitude to Enrico Bombieri who, having served as a Non-Executive Director since 2012 and as Senior Independent Director for four years, retired at the end of 2017.

Outlook

After an encouraging year for metal prices in 2017, particularly for gold, the prospects for precious metals in 2018 remain strong with robust global equity markets and inflation on the rise. We are aiming to continue our long-term growth strategy based around low cost brownfield investment, selective greenfield exploration and a targeted approach to acquisitions. Safety, operational excellence and cost control will remain of paramount importance and we will also continue repaying debt as and when the opportunity arises.

Eduardo Hochschild
Chairman
20 February 2018

Chief Executive's review

We are confident of our enormous potential

Hochschild delivered another record year of production whilst maintaining cost increases within expectations, excellent environmental performance, advancing our brownfield programme and continuing our drive to repay debt and optimise our balance sheet. We have also begun to widen our exploration focus to include selected greenfield projects across the Americas as well as assessing a wide variety of joint ventures and acquisitions that could supplement our long-term growth profile at a low cost.

"We are confident that our exploration-led growth strategy will continue to add high quality ounces to our existing assets, generate new early-stage projects and deliver long-term shareholder value."

Ignacio Bustamante
Chief Executive Officer

Our strategy for growth

Our strategy for growth focuses on three key paths to secure low cost growth.

Brownfield

Optimising and exploring close to our current mines to increase life-of-mine and facilitate low cost plant expansion.

Greenfield

A reshuffled portfolio generating a number of promising targets in good geographies.

Acquisitions

Targeting early-stage opportunities with strong geological potential.

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No less important and in response to the fatalities that occurred during the year, I would like to highlight that the management team has designed and is implementing the 'Hochschild Safety Transformation' plan which will reinforce the entire Company's commitment to a safe working environment.

Operations

Our core operations produced over half a million attributable gold equivalent ounces (38.0 million silver equivalent ounces) for the first time since the IPO – achieving a fifth year of output increases and improving on our original 37.0 million ounce silver equivalent target. This, yet again, demonstrates the value of our long-term organic growth strategy. Inmaculada was a key driver, delivering another record year of almost 240,000 gold equivalent ounces at a competitive all-in sustaining cost of $721 per gold equivalent ounce ($9.7 per silver equivalent ounce). San Jose also achieved a record (7.1 million attributable silver equivalent ounces) and Pallancata moved strongly into a new phase with 7.7 million silver equivalent ounces at a cost of $10.7 per silver equivalent ounce. At our Arcata mine, the effects of a lengthy permit delay to brownfield exploration in 2016 began to be fully felt with the accessing of increasingly narrower veins and a reduced number of stopes lowering production to 5.5 million silver equivalent ounces. We remain optimistic that, despite the impairment recognised in 2017, there is still geological potential in the Arcata deposit area and expect that our current drilling programme will enable an improvement in resource quality and quantity in the future. Finally, I am pleased to report that, during 2017, we achieved an excellent score in our newly implemented environmental corporate objective at all our operations. We will continue to work to maintain and improve our environmental culture and performance based on a strong belief that responsible mining is fully compatible with respect for the environment.

Exploration

Our ambitious brownfield exploration programme in Peru started to gain momentum in the second half of 2017 when, with all requisite permits in place, we were able to commence our surface drilling programmes at Inmaculada and Arcata. Early results from the first campaign in six years at Inmaculada are very encouraging and confirmed the presence of the Millet vein as well as eight other structures close to our mining infrastructure at the Angela vein. In Argentina, we had some success in discovering new structures close to the San Jose mine and we also continued to drill in the Aguas Vivas area to the north west where we are currently assessing the nature of this polymetallic orebody which has significant quantities of zinc and lead as well as precious metals. At Pallancata, the focus was on developing the Pablo vein in preparation for mining in 2018 whilst the discovery of the Marco vein nearby has added further resources and prompted a new regional geological hypothesis which we will be testing in 2018. Finally, at Arcata we were able to discover additional inferred resources and throughout 2018, an intensive campaign will continue to explore for resources with the goal of utilising the plant's significant spare capacity.

Financial position

Strong cash flow from our operations combined with some balance sheet management opportunities has left us in a healthy financial position. On 23 January 2018, we were able to redeem the remaining $295 million of our 7.75% Senior Notes. We replaced a portion of these bonds with short to medium term debt from local banks in Peru with an average rate of 2.2% and approximately $100 million was repaid from existing cash resources. Consequently, our cash balance after this transaction remains a healthy $85 million and we expect our interest costs to fall by approximately $20 million per year from 2019 onwards.

Financial results

Whilst an increased average gold price received was offset by a moderate fall in the silver price received, record production once again ensured a rise in revenue of 5% to $723 million (2016: $688 million). The operational all-in sustaining cost of $12.3 per silver equivalent ounce (2016: $11.2 per ounce) was in line with forecasts although the increase reflected an increased investment in brownfield exploration as well as one-off project costs at Inmaculada and consequently this resulted in Adjusted EBITDA of $301 million (2016: $329 million). Finally, with finance costs reduced despite the high yield bonds (now repaid), basic earnings per share and adjusted earnings per share was $0.08 per share (2016: $0.11 and $0.09 per share respectively).

Outlook

We expect attributable production in 2018 to be 514,000 gold equivalent ounces (38 million silver equivalent ounces) driven by another 240,000 gold equivalent ounces from Inmaculada, an increased contribution of 9.5 million silver equivalent ounces from the revitalised Pallancata mine and another 7.1 million silver equivalent ounces from the dependable San Jose mine. At Arcata, where we expect production of 4 million silver equivalent ounces, management will continue to closely monitor performance to ensure production is optimised whilst maintaining the asset´s optionality with regards to prices, exploration results and cost efficiencies. All-in sustaining costs for operations are expected at between $960 to $990 per gold equivalent ounce ($13.0 to $13.4 per silver equivalent ounce) with the slight increase versus the $12.3 per ounce in 2017 resulting from further development costs of the Pablo vein and a one-off highly profitable investment in a hydraulic backfill project at San Jose. We are also pleased to note that the corporate tax rate in Argentina has been reduced from 35% to 30% from 2018 (and to 25% from 2020) and, hence we can look forward to a significant positive impact on San Jose's net profitability although taxes on dividends have also been reinstated to 7% through to 2020 and then to 13% thereafter.

A further $17 million is expected to be invested in our brownfield exploration in 2018 as we look to maintain the current momentum and an additional budget of $10 million is assigned to greenfield projects with some exciting prospects to be drilled in Peru, Chile, Canada and the United States. Low cost, early-stage acquisition opportunities will continue to be pursued across the Americas and, in particular, earn-in joint ventures where operations can benefit from Hochschild's technical expertise. We are confident that our exploration-led growth strategy will continue to add high quality ounces to our existing assets, generate new early-stage projects and deliver long-term shareholder value.

Ignacio Bustamante
Chief Executive Officer
20 February 2018

514,000
Gold equivalent ounces produced

9
New veins discovered at Inmaculada

Our strategy

A successful and effective strategy for low cost growth

Our strategy is to create value for shareholders based on exploration-led growth by investing in our brownfield drilling programme, pursuing selected greenfield opportunities and assessing opportunistic early-stage acquisitions.

Strategic pillar	2017 Activities
Brownfield We have always focused on mineralised districts with the possibility to grow over time and in this regard we are excited by the brownfield growth potential of our portfolio. We believe that the current long-term programme will discover further resources to fill up our existing spare plant capacity, increase our core asset life-of-mine and consider future plan capacity expansions.	– Achieved all required drilling permits – Added approximately 10 million ounces of resources at Inmaculada from exploratory underground drilling – Started first surface drilling programme at Inmaculada for six years – Discovered Aguas Vivas orebody to the north west of San Jose mine
Greenfield Our exploration programme is focused on finding new, high quality deposits and we are continually evaluating new opportunities throughout the Americas. We have reshuffled our portfolio in the last few years and have generated a number of promising targets in good geographies. For 2018 we have assigned a budget of approximately $10 million for greenfield exploration.	– Assessed 13 opportunities across 10 countries – Progressing drill-ready projects – Staking opportunities – Optimising early-stage projects – Drilled Fresia greenfield project

Acquisitions
Our business development team is dedicated to pursuing early-stage opportunities that demonstrate strong geological potential, value accretion and a clear path to control. This strategy is implemented in line with our conservative financial policies and may include earn in joint venture agreements with junior companies.
	– Assessed 22 opportunities across 13 countries
	– Two deals announced already
	  – Loro (Chile)
	  – Cobalt Silver District (Canada) – alliance established with Cobalt Power Group

2018 Priorities	Risks
– Continue assessing Inmaculada's long-term geological potential – Explore areas surrounding Pallancata – Improve quality and quantity of Arcata resource base – Further drilling campaign at Aguas Vivas and other areas in San Jose to fully understand orebody – Execute new drilling programme at Ares – Test geological hypothesis at Azuca and surrounding area	– Political, legal and regulatory – Community relations – Personnel: recruitment and retention
– Aim to drill 4-6 projects in 3 countries (Peru, Chile and US) – Progress mapping and permitting activities at other selected sites – Targeting skarns, epithermal veins and porphyries – Continue to assess staking opportunities in Peru and other countries in the Americas	– Political, legal and regulatory – Community relations – Personnel: recruitment and retention
– Progress current targets to decision stage – Continue to assess acquisition opportunities across the Americas – Long-term research into minerals of the future	– Political, legal and regulatory – Commodity prices

Key Performance Indicators
Page 20

Risk management and viability
Page 44

Key Performance Indicators

Measuring our progress

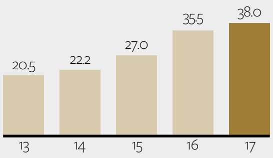
Financial measures

Production

Links to strategy

Links to remuneration ✓ Yes

m oz Ag equivalent **38.0**



Definition
Silver equivalent production equals total attributable gold production multiplied by a gold/silver ratio for 2015–2017 of 74x and 60x for 2012–2014 and added to the total attributable silver production.

Performance
Total silver equivalent production increased by 7% versus 2016 due to increased contributions from Inmaculada, Pallancata and San Jose.

Outlook
Total silver equivalent production is forecast to be 38.0 million silver equivalent ounces in 2018.

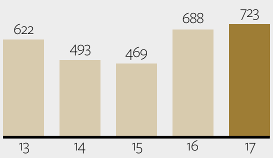
Risks
- Operational performance
- Business interruption
- Personnel: labour relations
- Exploration and Reserve and Resource replacement
- Sustainability risks

Revenue

Links to strategy

Links to remuneration ✓ Yes

$m **723**



Definition
Revenue presented in the financial statements is disclosed as net revenue and is calculated as gross revenue less commercial discounts.

Performance
Total revenue increased by 5% versus 2016 due to increased production and increases in average precious metal prices.

Outlook
Production is expected to be 38.0 million silver equivalent ounces in 2018.

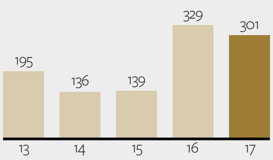
Risks
- Operational performance
- Commodity price

Adjusted EBITDA

Links to strategy

Links to remuneration ✓ Yes

$m **301**



Definition
Calculated as profit from continuing operations before exceptional items, net finance costs, foreign exchange loss and income tax plus depreciation,exploration expenses other than personnel and other exploration related fixed expenses and other non-cash (income)/expenses.

Performance
Adjusted EBITDA decreased by 9% versus 2016 due to increases in cost of sales and administrative expenses.

Outlook
Adjusted EBITDA result for 2018 will depend on precious metal prices and cost and expenses performance.

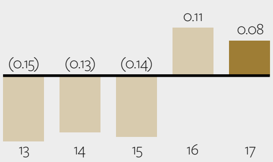
Risks
- Operational performance
- Commodity price

Basic earnings per share

Links to strategy

Links to remuneration ✕ No

$ pre-exceptional **0.08**



Definition
The pre-exceptional basic per-share (using the weighted average number of shares outstanding during the year) profit available to equity shareholders of the Company from continuing operations before exceptional items.

Performance
Pre-exceptional basic earnings per share decreased by 27% due to the decrease in EBITDA.

Outlook
Pre-exceptional basic earnings per share will depend on EBITDA performance and the effective tax rate but is expected to be positively impacted by the reduction in interest from the redemption of the Company's senior notes and the refinancing of the remaining debt at lower interest rates.

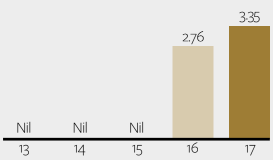
Risks
- Operational performance
- Commodity price

Dividend per share

Links to strategy

Links to remuneration ✕ No

US cents per share **3.35**



Definition
The per-share dividend paid to equity shareholders of the Company as recommended by the Board.

Performance
Total dividend per share increased by 21%.

Outlook
Dividend per share for 2018 will depend on the level of profitability of the Company and the available uses of cash and is at the discretion of the Board.

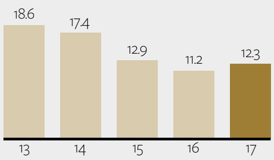
Risks
- Operational performance
- Commodity price

All-in sustaining costs

Links to strategy

Links to remuneration ✓ Yes

$/oz Ag equivalent **12.3**



Definition
Calculated before exceptional items and includes cost of sales less depreciation and change in inventories, administrative expenses, brownfield exploration, operating capex and royalties divided by silver equivalent ounces produced using a gold/silver ratio of 74:1.

Performance
All-in sustaining costs for operations increased by 10% versus 2016 due to increased investment in brownfield exploration, one-off investments at Inmaculada, increased costs at Arcata and inflation in Argentina.

Outlook
All-in sustaining cost from operations in 2018 is expected to be between $13.0 and $13.4 per silver equivalent ounce (or $960 and $990 per gold equivalent ounce).

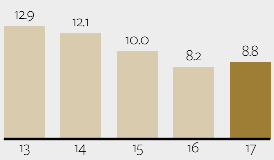
Risks
– Operational performance

Total silver cash costs

Links to strategy

Links to remuneration ✕ No

$/oz Ag equivalent **8.8**



Definition
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.

Performance
Total silver cash costs for the Company increased by 7% versus 2016 due to increases in unit costs in Peru and Argentina partially offset by decreasing costs at the Pallancata mine.

Outlook
Cash costs performance in 2018 is expected to be dependent on operational performance, levels of local cost inflation and levels of local currency devaluation in Argentina.

Risks
– Operational performance

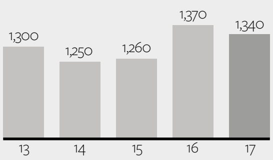
Non-financial measures

Resource base

Links to strategy

Links to remuneration ✓ Yes

m oz Ag equivalent **1,340**



Definition
Total attributable silver equivalent metal resources as at 31 December 2017.

Performance
Total attributable silver equivalent metal resources fell by 2% in 2017.

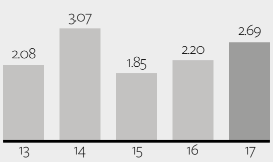
Outlook
Resource increases in 2018 will depend on the level of ongoing success in finding potential resources and the ability to turn these resources into the inferred and measured and indicated categories through drilling.

Risks
– Exploration and Reserve and Resource replacement

LTIFR

Links to remuneration ✓ Yes

Total number of accidents per million labour hours **2.69**



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

Performance
LTIFR increased by 22% but still remains low relative to the industry.

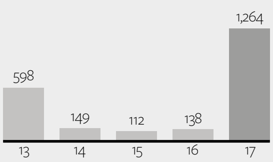
Outlook
The Company has implemented the 'Hochschild Safety Transformation' plan, has migrated to the latest management information systems and has achieved received annual safety certification from DNV.

Risks
– Health and safety

Accident Severity Index

Links to remuneration ✓ Yes

Total number of days lost per million **1,264**



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

Performance
The Accident Severity Index increased to 1,264 due to the fatalities at Inmaculada and Arcata.

Outlook
The Company has implemented the 'Hochschild Safety Transformation' plan, has migrated to the latest management information systems and has achieved received annual safety certification from DNV.

Risks
– Health and safety

Operating review

A world-class portfolio in Latin America

In 2017, Hochschild once again exceeded its full year production target, a record 513,598 gold equivalent ounces or 38.0 million silver equivalent ounces, comprising 254,932 ounces of gold and 19.1 million ounces of silver.

Operations

Production

The overall production target for 2018 is 514,000 gold equivalent ounces (38.0 million silver equivalent ounces).

Total group production

	Year ended 31 Dec 2017	Year ended 31 Dec 2016
Silver production (koz)	**22,301**	20,562
Gold production (koz)	**304.16**	292.63
Total silver equivalent (koz)	**44,809**	42,217
Total gold equivalent (koz)	**605.52**	570.50
Silver sold (koz)	**22,295**	21,088
Gold sold (koz)	**300.21**	298.96

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 2017	Year ended 31 Dec 2016
Silver production (koz)	**19,141**	17,284
Gold production (koz)	**254.93**	246.08
Silver equivalent (koz)	**38,006**	35,493
Gold equivalent (koz)	**513.60**	479.64

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

2018 Production forecast split

Operation	Gold production (oz approx)	Silver production (m oz approx)
1 Inmaculada	160,000	5.6
2 Arcata	10,000	3.3
3 Pallancata	27,000	7.5
4 San Jose	100,000	6.5
Total	297,000	22.9

Note: silver/gold equivalent production and cost figures assume a gold/silver ratio of 74:1. Hochschild has increased the use of gold equivalent figures throughout the release to provide comparability to the gold industry peer group and due to the Company's Inmaculada mine being a majority gold producer.

Costs

All-in sustaining costs from operations in 2017 was $910 per gold equivalent ounce or $12.3 per silver equivalent ounce (2016: $829 per gold equivalent ounce or $11.2 per silver equivalent ounce) driven by Inmaculada's very competitive $721 per gold equivalent ounce (2016: $644 per ounce) and Pallancata's low costs ($10.7 per silver equivalent ounce) driven by better than forecast tonnage and silver grades. Please see page 11 of the Financial review for further details on costs.

The all-in sustaining cost from operations in 2018 is expected to be between $960 and $990 per gold equivalent ounce (or $13.0 and $13.4 per silver equivalent ounce) which includes a full year of the new detoxification process at Inmaculada, further development costs at the Pablo vein and an investment of $14 million in a highly value accretive hydraulic backfill project at San Jose. Arcata´s costs are expected to be higher in line with its resource base despite the implementation of significant cost control measures. An intense drilling campaign is expected to add higher quality resources during the year in order to provide continuity to the operation.

2018 AISC forecast split

Operation	AISC ($/oz)
1 Inmaculada	700-750 Au Eq[1]
2 Arcata	18.0-18.5 Ag Eq
3 Pallancata	13.0-13.5 Ag Eq
4 San Jose	14.5-15.0 Ag Eq

1 $9.0-9.5 per silver equivalent ounce.

Operating review continued

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.

Summary	Year ended 31 Dec 2017	Year ended 31 Dec 2016	% change
Ore production (tonnes)	**1,295,701**	1,306,606	(1)
Average silver grade (g/t)	**145**	133	9
Average gold grade (g/t)	**4.15**	4.21	(1)
Silver produced (koz)	**5,506**	4,908	12
Gold produced (koz)	**165.07**	162.71	1
Silver equivalent produced (koz)	**17,721**	16,948	5
Gold equivalent produced (koz)	**239.48**	229.03	5
Silver sold (koz)	**5,498**	5,004	10
Gold sold (koz)	**162.32**	164.75	(1)
Unit cost ($/t)	**85.4**	64.4	33
Total cash cost ($/oz Au co-product)	**486**	370	31
All-in sustaining cost ($/oz Au Eq)	**721**	646	12

Production
In 2017, Inmaculada delivered record gold equivalent production of 239,479 ounces, a 5% improvement on 2016 (2016: 229,033 ounces) and represents a very successful result following the unexpected stoppage at the operation in the first quarter of the year.

Costs
All-in sustaining costs were in line with expectations at $721 per gold equivalent ounce or $9.7 per silver equivalent ounce (2016: $646 per ounce). Costs rose versus 2016 due to the previously-disclosed investment in the expansion of the tailings dam and other infrastructure as well as reduced mined tonnage resulting from the stoppage in the first quarter and budgeted lower mined gold grades. These effects were partially offset by the processing of a high grade stockpile as well as operational efficiencies versus plan.

239,479
Production (gold equivalent oz)

$721
All-in sustaining cost ($/gold equivalent oz)

Strategy in action

Life-of-mine increases and expansion potential

Links to strategy

For the first time in six years Hochschild is exploring at Inmaculada. We have always aimed to invest in districts and we believe there is significant potential in the area surrounding the Angela vein where we are currently mining. Despite only commencing drilling in November 2017, we are encouraged that early results are proving the existence of a number of other veins close to our current mine infrastructure. As part of the brownfield programme, we are targeting a life-of-mine increase at this flagship deposit but there is also a low cost opportunity to expand the processing plant and increase throughput if we find a sufficient level of additional resources.

Arcata
Peru

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

Summary	Year ended 31 Dec 2017	Year ended 31 Dec 2016	% change
Ore production (tonnes)	**499,385**	677,309	(26)
Average silver grade (g/t)	**308**	337	(9)
Average gold grade (g/t)	**1.07**	1.24	(14)
Silver produced (koz)	**4,391**	6,343	(31)
Gold produced (koz)	**15.15**	22.54	(33)
Silver equivalent produced (koz)	**5,512**	8,011	(31)
Gold equivalent produced (koz)	**74.49**	108.26	(31)
Silver sold (koz)	**4,357**	6,346	(31)
Gold sold (koz)	**14.96**	22.03	(32)
Unit cost ($/t)	**124.8**	101.1	23
Total cash cost ($/oz Ag co-product)	**14.5**	11.0	32
All-in sustaining cost ($/oz Ag Eq)	**18.4**	13.7	34

Production
Production for the year was 5.5 million silver equivalent ounces (2016: 8.0 million ounces), a result which reflected significantly reduced tonnage and lower grades following a revision of the mine plan to accommodate a lower number of available stopes and narrower veins.

Costs
In 2017, as expected, Arcata's all-in sustaining cost rose substantially versus 2016 to $18.4 per silver equivalent ounce (2016: $13.7 per ounce) reflecting the significantly reduced tonnage (affecting unit costs) and grades resulting from the above mentioned revised mine plan as well as the increased investment in the mine's brownfield exploration programme.

5.5m
Production (silver equivalent oz)

$18.4
All-in sustaining cost ($/silver equivalent oz)

Strategy in action
Securing a recovery through a comprehensive brownfield exploration programme

Links to strategy

Arcata is a complex dispersed vein deposit and in its long history has often experienced periods of more challenging mining conditions. However, we still believe there to be significant geological potential in the area and, now that we have secured the requisite permits, we are implementing an aggressive drilling programme that we are hopeful will secure the mine's future. In 2017, we have added over 10 million ounces of resources and also executed a number of long horizontal drill holes that are giving us a clearer underground geological map. We expect these to help us in our 2018 brownfield campaign that aims to improve the quality and quantity of the mine's resources.

Operating review continued

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.

Summary	Year ended 31 Dec 2017	Year ended 31 Dec 2016	% change
Ore production (tonnes)	**470,903**	244,765	92
Average silver grade (g/t)	**442**	381	16
Average gold grade (g/t)	**1.78**	1.86	(4)
Silver produced (koz)	**5,956**	2,620	127
Gold produced (koz)	**23.47**	12.37	90
Silver equivalent produced (koz)	**7,693**	3,536	118
Gold equivalent produced (koz)	**103.95**	47.78	118
Silver sold (koz)	**5,940**	2,660	123
Gold sold (koz)	**23.29**	12.41	88
Unit cost ($/t)	**101.5**	131.0	(23)
Total cash cost ($/oz Ag co-product)	**7.8**	12.4	(37)
All-in sustaining cost ($/oz)	**10.7**	16.3	(34)

Production
The full year result was 7.7 million silver equivalent ounces, a 118% improvement on 2016 (2016: 3.5 million ounces) driven by better than forecast tonnage and silver grades.

Costs
All-in sustaining costs at Pallancata in 2017 fell by 34% versus the same period of 2016 to $10.7 per silver equivalent ounce (2016: $16.3 per ounce). The reduction was due to higher than expected tonnage and silver grades resulting from the accessing of high grade ancillary veins with the wider but lower grade Pablo vein forecast to provide the majority of the ore in 2018. Costs were also reduced due to Pablo development capex being delayed into 2018, which is expected to increase all-in sustaining costs to be between $13.0 to $13.5 per silver equivalent ounce.

7.7m
Production (silver equivalent oz)

$10.7
All-in sustaining cost ($/silver equivalent oz)

Strategy in action
Changing the exploration picture in the Pallancata district

Links to strategy

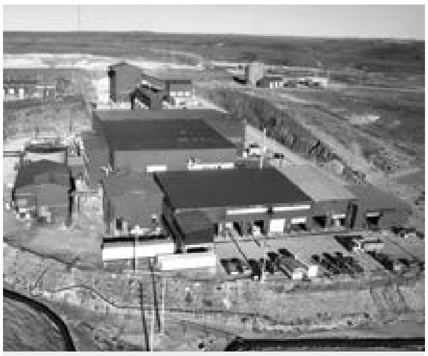
In 2015, Hochschild discovered the Pablo vein which has boosted the mine's long-term prospects and in 2018 we expect to ramp up production throughout to 2,800 tonnes per day. The Pablo discovery initiated a reinterpretation of the whole Pallancata district and further discoveries have included the ancillary Pablo Pisos veins as well as the Marco vein to the north of Pablo. We have also continued mapping activities at the outcropping Cochaloma vein to the west of Pallancata and further mapping and geophysics studies have yielded two additional targets similar to Pablo in Pallancata South and at Farallon to the north west. We are aiming to test these in 2018.

San Jose
Argentina

The San Jose silver/gold mine is located in Argentina, in the province of Santa Cruz, 1,750 kilometres south-south west 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.

Summary*	Year ended 31 Dec 2017	Year ended 31 Dec 2016	% change
Ore production (tonnes)	**532,676**	536,024	(1)
Average silver grade (g/t)	**436**	444	(2)
Average gold grade (g/t)	**6.71**	6.28	7
Silver produced (koz)	**6,448**	6,691	(4)
Gold produced (koz)	**100.47**	95.01	6
Silver equivalent produced (koz)	**13,883**	13,721	1
Gold equivalent produced (koz)	**187.60**	185.42	1
Silver sold (koz)	**6,501**	7,081	
Gold sold (koz)	**99.63**	99.76	–
Unit cost ($/t)	**240.1**	202.4	19
Total cash cost ($/oz Ag co-product)	**10.5**	9.7	8
All-in sustaining cost ($/oz)	**14.0**	11.5	22

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



Strategy in action

Exploring a rich area

Links to strategy

We have not conducted exploration at our high grade deposit in southern Argentina for a number of years due to the political and economic situation in the country under the previous government. However, a new brownfield programme has begun in the area that is aiming to secure short-term, high quality resources but also look for longer-term potential outside of the main San Jose mining area. In 2017, we discovered the Agua Vivas orebody to the north west which contains not only silver and gold but also significant quantities of zinc and lead. In addition, we acquired a package of land from Coeur Mining situated between our joint venture and Goldcorp's Cerro Negro deposit to the south.

Production

The overall production results for 2017 were 6.4 million ounces of silver and 100,474 ounces of gold, which is 13.9 million silver equivalent ounces, a slight improvement on 2016.

6.4m

Production (silver equivalent oz)

Costs

At San Jose, all-in sustaining costs increased to $14.0 per silver equivalent ounce (2016: $11.5 per ounce) mainly due to the Q4 2016 elimination of the Patagonian port rebate which had lowered costs significantly. In addition, lower than expected currency devaluation in Argentina in 2017 only partially offset ongoing high local inflation.

In December 2017, the Argentine government sanctioned a series of fiscal measures that include a reduction in the 35% rate of corporate income tax, taking it to 30% for the years 2018 and 2019, and then to 25% for 2020 onwards. In addition, a withholding tax was imposed on dividends at a rate of 7% for 2018 and 2019, increasing to 13% from 2020. It is expected that the overall net effect on profitability will be positive.

$14.0

All-in sustaining cost ($/silver equivalent oz)

Operating review continued

Brownfield exploration

Arcata

27,662m of resource drilling and 11,200m of potential drilling was carried out at Arcata in 2017 and centred on the Tunel 3, Tunel 4, Paralela 3, Paralela Sur, Ramal Marion, Michele, Soledad, Baja, Ramal 4, Ruby 2 and Ruby 3 veins. In addition, long horizontal drilling for potential resources was also executed in the Pamela and Paralelas vein systems.

Selected results are provided in the table below:

Vein	Results
Ramal Marion	DDH-018-GE-17: 1.0m @ 1.0g/t Au & 326g/t Ag DDH-023-GE-17: 0.8m @ 0.6g/t Au & 154g/t Ag DDH-049-EX-17: 0.8m @ 0.6g/t Au & 146g/t Ag DDH-054-EX-17: 0.8m @ 0.4g/t Au & 201g/t Ag DDH-023-GE-17: 0.8m @ 0.9g/t Au & 246g/t Ag DDH-043-EX-17: 1.2m @ 0.3g/t Au & 159g/t Ag DDH-058-EX-17: 1.0m @ 2.1g/t Au & 712g/t Ag DDH-066-EX-17: 1.3m @ 0.4g/t Au & 167g/t Ag DDH-018-GE-17: 1.2m @ 2.6g/t Au & 1,229g/t Ag DDH-023-GE-17: 0.8m @ 1.0g/t Au & 227g/t Ag DDH-043-EX-17: 0.8m @ 0.2g/t Au & 477g/t Ag DDH-058-EX-17: 0.9m @ 0.5g/t Au & 309/t Ag DDH-043-EX-17: 0.8m @ 0.2g/t Au & 132g/t Ag DDH-052-EX-17: 0.8m @ 0.4g/t Au & 106g/t Ag DDH-066-EX-17: 1.2m @ 1.1g/t Au & 408g/t Ag DDH-018-GE-17: 0.8m @ 0.9g/t Au & 303g/t Ag DDH-023-GE-17: 1.1m @ 3.8g/t Au & 1,025g/t Ag
Paralela	DDH-036-GE-17: 0.8m @ 4.9g/t Au & 605g/t Ag DDH-038-GE-17: 0.8m @ 1.5g/t Au & 198g/t Ag DDH-048-DI-17: 0.4m @ 3.9g/t Au & 389g/t Ag DDH-074-DI-17: 1.2m @ 1.8g/t Au & 176g/t Ag DDH-056-DI-17: 0.8m @ 1.5g/t Au & 177g/t Ag
Paralela 1	DDH-036-GE-17: 0.8m @ 5.2g/t Au & 692g/t Ag DDH-038-GE-17: 0.8m @ 1.4g/t Au & 240g/t Ag DDH-048-DI-17: 0.8m @ 6.6g/t Au & 765g/t Ag
Paralela 2	DDH-057-DI-17: 1.1m @ 3.0g/t Au & 244g/t Ag DDH-028-GE-17: 0.9m @ 2.6g/t Au & 226g/t Ag
Paralela 3	DDH-056-DI-17: 1.1m @ 2.1g/t Au & 331g/t Ag DDH-074-DI-17: 1.8m @ 12.2g/t Au & 1,339g/t Ag DDH-041-DI-17: 1.3m @ 1.4g/t Au & 173g/t Ag DDH-038-GE-17: 0.8m @ 1.7g/t Au & 117g/t Ag DDH-107-DI-17: 1.3m @ 1.9g/t Au & 192g/t Ag
Socorro+800	DDH-074-DI-17: 2.5m @ 12.2g/t Au & 399g/t Ag
Tunel 4	DDH-087-GE-17: 0.8m @ 1.6g/t Au & 850g/t Ag DDH-097-DI-17: 1.8m @ 0.9g/t Au & 397g/t Ag DDH-103-DI-17: 0.8m @ 0.8g/t Au & 126g/t Ag DDH-109-DI-17: 1.3m @ 4.2g/t Au & 636g/t Ag DDH-555-S-17: 0.4m @ 1.6g/t Au & 516g/t Ag DDH-557-S-17: 1.9m @ 1.5g/t Au & 205g/t Ag DDH-576-S-17: 0.6m @ 1.0g/t Au & 268g/t Ag DDH-579-S-17: 2.8m @ 1.1g/t Au & 276g/t Ag
Alexia Techo 2	DDH-094-ST-17: 1.0m @ 1.4g/t Au & 454g/t Ag
Ruby 2	DDH-155-DI-17: 1.0m @ 0.4g/t Au & 241g/t Ag DDH-190-EX-17: 1.3m @ 1.2g/t Au & 551g/t Ag
Ruby 3	DDH-155-DI-17: 2.0m @ 0.7g/t Au & 250g/t Ag DDH-184-DI-17: 1.3m @ 0.3g/t Au & 207g/t Ag DDH-198-EX-17: 1.1m @ 0.5g/t Au & 407g/t Ag DDH-197-DI-17: 1.7m @ 1.3g/t Au & 735g/t Ag

In 2018, an intensive 32,000m resource drilling campaign is scheduled for all areas surrounding the main mining area.

Pallancata

At Pallancata, 1,000m of resource drilling was carried out in the Marco vein, a structure identified close to the Pablo vein with just over 1 million ounces of silver equivalent resources identified. Selected results are below:

Vein	Results
Marco	DLYU-A92A: 1.4m @ 0.7g/t Au & 235g/t Ag DLYU-A88: 1.1m @ 2.2g/t Au & 1,108g/t Ag DLNE-A05: 0.6m @ 1.1g/t Au & 470g/t Ag DLYU-A92A: 2.0m @ 0.7g/t Au & 169g/t Ag DLNE-A07: 0.6m @ 1.1g/t Au & 152g/t Ag

During 2018, mapping and geophysics will be carried out at the Pablo South area whilst an 8,400m potential drilling programme will be carried out to test continuity between the Marco and the Farallon veins to the north west of Pablo.

Inmaculada

At Inmaculada, following receipt of the requisite permits from the government in the fourth quarter, a 56,000 metre surface drilling programme began in early November with four drill rigs onsite. Results in the area to the south west of the Angela vein have so far confirmed the presence of nine new veins close to the existing mine infrastructure. The first results from almost 5,000 metres of drilling are detailed below and show, in particular, the potential of the Millet vein. The current campaign will continue throughout 2018 and will include further potential drilling as well as infill drilling and resource conversion. The Company expects to provide further updates on drill results throughout the year.

In addition, mine development during the third quarter allowed a reinterpretation of the geological model at the deposit and identified a further 9.7 million silver equivalent ounces of resources.

Vein	Results
Millet	MIL-17-002: 36.5m @ 3.3g/t Au & 73g/t Ag MIL-17-003: 3.8m @ 3.8g/t Au & 109g/t Ag MIL-17-004A: 3.0m @ 1.4g/t Au & 80g/t Ag MIL-17-005: 38.5m @ 4.4g/t Au & 96g/t Ag MIL-17-006: 1.2m @ 1.8g/t Au & 88g/t Ag MIL-17-007: 2.5m @ 2.0g/t Au & 19g/t Ag MIL-17-009: 13.0m @ 6.8g/t Au & 68g/t Ag
Thalia	MIL-17-001: 1.1m @ 3.0g/t Au & 125g/t Ag BAR17-017: 1.5m @ 11.0g/t Au & 67g/t Ag LIA17-001: 0.7m @ 2.3g/t Au & 174g/t Ag LIA17-002: 3.0m @ 5.1g/t Au & 60g/t Ag
Alessandra	BAR17-001: 3.9m @ 1.6g/t Au & 119g/t Ag BAR17-003: 1.3m @ 2.4g/t Au & 419g/t Ag BAR17-004: 3.0m @ 2.6g/t Au & 175g/t Ag BAR17-008: 4.3m @ 10.0g/t Au & 751g/t Ag BAR17-009: 3.6m @ 1.9g/t Au & 348g/t Ag BAR17-010: 6.0m @ 15.2g/t Au & 3,042g/t Ag BAR17-011: 2.7m @ 6.6g/t Au & 780g/t Ag BAR17-012: 3.8m @ 6.5g/t Au & 692g/t Ag BAR17-013: 4.1m @ 11.1g/t Au & 1,449g/t Ag BAR17-014: 3.5m @ 16.2g/t Au & 1,227g/t Ag BAR17-017: 2.05m @ 1.38g/t Au & 82g/t Ag BAR17-018: 3.6m @ 3.5g/t Au & 132g/t Ag BAR17-019: 2.25m @ 3.55g/t Au & 242g/t Ag BAR17-020: 1.2m @ 7.9g/t Au & 665g/t Ag BAR17-021: 0.8m @ 1.1g/t Au & 92g/t Ag BAR17-022: 1.2m @ 1.7g/t Au & 720g/t Ag
Barbara	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
Ramal Barbara	BAR 17-019: 1.0m @ 1.7g/t Au & 314g/t Ag
Xiomara	BAR17-017: 1.0m @ 1.0g/t Au & 45g/t Ag BAR17-018: 1.5m @ 2.1g/t Au & 76g/t Ag BAR17-019: 1.8m @ 3.6g/t Au & 242g/t Ag BAR17-020: 2.1m @ 2.5g/t Au & 123g/t Ag BAR17-021: 0.7m @ 0.6g/t Au & 16g/t Ag BAR17-022: 1.0m @ 5.7g/t Au & 122g/t Ag

During 2018, mapping and geophysics is planned for the Inmaculada East zone whilst a programme of 4,500 metres of drilling for potential as well as 53,000 metres of resource drilling is scheduled in the same area.

San Jose

At San Jose, 8,624 m of drilling for potential resources was carried out during the year at the Aguas Vivas zone with results indicating an intermediate sulphide deposit with associated zinc and lead mineralisation. A further 3,000 metres of drilling at Aguas Vivas is scheduled for Q1 2018. In addition, 5,000 metres of further resource and potential drilling was carried out during the year in the Molle, Odin, Ramal Ayelen and Frea E-W veins with selected results of both campaigns shown below:

Vein	Results
Aguas Vivas NW	SJD-1627: 2.6m @ 0.1g/t Au, 43g/t Ag, 8.2% Pb & 5.5% Zn SJD-1616: 2.8m @ 0.3g/t Au, 40g/t Ag, 7.0% Pb & 6.0% Zn SJD-1686: 1.1m @ 3.6g/t Au, 86g/t Ag, 19.0% Pb & 10.3% Zn SJD-1686: 1.5m @ 1.0g/t Au, 29g/t Ag, 1.1% Pb & 2.9% Zn SJD-1687: 0.4m @ 0.2g/t Au, 65g/t Ag, 3.1% Pb & 7.2% Zn SJD-1687: 1.0m @ 6.5g/t Au, 14g/t Ag
Molle	SJD-1651: 0.8m @ 8.4g/t Au & 141g/t Ag SJM-320: 2.5m @ 5.2g/t Au & 427g/t Ag SJM-321: 1.2m @ 46.7g/t Au & 2,256g/t Ag SJD-1696: 2.9m @ 3.8g/t Au & 913g/t Ag SJD-1697: 1.3m @ 92.3g/t Au & 2,429g/t Ag SJM-340: 0.6m @ 5.5g/t Au & 316g/t Ag SJM-341: 0.6m @ 0.6g/t Au & 31g/t Ag SJM-342: 1.1m @ 9.9g/t Au & 496g/t Ag
Odin	SJM-338: 1.4m @ 1.0g/t Au & 472g/t Ag
Ramal Ayelen	SJM-339: 0.6m @ 0.7g/t Au & 329g/t Ag SJM-339: 1.0m @ 0.8g/t Au & 461g/t Ag
Ramal Ayelen SE	SJD-1689: 0.6m @ 1.2g/t Au & 49g/t Ag SJD-1690: 0.5m @ 0.8g/t Au & 225g/t Ag
Frea (E-W)	SJM-331: 0.6m @ 15.9g/t Au & 405g/t Ag SJM-333: 1.2m @ 3.3g/t Au & 262g/t Ag SJD-1693: 1.6m @ 13.8g/t Au & 184g/t Ag

In 2018, mapping and geophysics will continue on the Aguas Vivas zone as well as approximately 3,000m of both potential and resource drilling.

Financial review

Strong financial performance and cash generation

The reporting currency of Hochschild Mining plc is US dollars. In discussions of financial performance the Group removes the effect of exceptional items when indicated.

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 5% to $759.1 million in 2017 (2016: $722.0 million) driven by an increase in sales resulting from increases in production from the Company's Inmaculada and Pallancata mines as well as a rise in gold prices.[1]

Gold

Gross revenue from gold increased 5% in 2017 to $381.3 million (2016: $363.4 million) mainly as a result of a 4% rise in the average gold price as well as a small increase in the total amount of gold ounces sold in 2017. The increase in gold sales came from the recovery in the Pallancata mine offsetting a fall in gold sales from the Arcata mine.

Silver

Gross revenue from silver increased by 5% in 2017 to $377.8 million (2016: $358.7 million) as a result of a 6% increase in the total amount of silver ounces sold to 22,295 koz (2016: 21,088 koz) driven by a recovery at the primarily silver mine of Pallancata as well as increased sales from Inmaculada. This was partially offset by a 31% decrease in the silver sales from the Arcata 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 prior year) and ounces sold for 2017 and 2016:

Average realised prices	Year ended 31 Dec 2017	Year ended 31 Dec 2016
Silver ounces sold (koz)	**22,295**	21,088
Avg. realised silver price ($/oz)	**16.9**	17.0
Gold ounces sold (koz)	**300.21**	298.95
Avg. realised gold price ($/oz)	**1,270**	1,215

Commercial discounts

Commercial discounts refer to refinery treatment charges, refining fees and payable deductions for processing concentrate, 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 2017, the Group recorded commercial discounts of $36.9 million (2016: $34.1 million). The increase is explained by the higher production of concentrate mainly from the Pallancata mine. The ratio of commercial discounts to gross revenue in 2017 was 5% (2016: 5%).

Net revenue

Net revenue increased by 5% to $722.6 million (2016: $688.2 million), comprising net gold revenue of $372.3 million and net silver revenue of $349.8 million. In 2017, gold accounted for 52% and silver 48% of the Company's consolidated net revenue (2016: gold 51% and silver 49%) with the increase in the gold contribution mainly due to the increase in the gold price received.

Revenue by mine[2]

$000	Year ended 31 Dec 2017	Year ended 31 Dec 2016	% change
Silver revenue			
Arcata	**74,452**	106,206	(30)
Inmaculada	**91,943**	83,642	10
Pallancata	**100,285**	44,500	125
San Jose	**111,088**	124,316	(11)
Commercial discounts	**(27,926)**	(25,139)	11
Net silver revenue	**349,842**	333,525	5
Gold revenue			
Arcata	**19,183**	25,717	(25)
Inmaculada	**204,651**	196,466	4
Pallancata	**29,877**	14,994	99
San Jose	**127,602**	126,174	1
Commercial discounts	**(8,998)**	(8,993)	–
Net gold revenue	**372,315**	354,358	5
Other revenue	**415**	359	16
Net revenue	**722,572**	688,242	5

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

Revenue	Adjusted EBITDA	Profit before income tax	Adjusted basic earnings per share
$722.6m	$300.8m	$64.1m	$0.08
(2016: $688.2m)	(2016: $329.0m)	(2016: $108.3m)	(2016: $0.09)

Costs

Total cost of sales was $549.0 million in 2017 (2016: $487.7 million). The direct production cost excluding depreciation was higher at $345.4 million (2016: $293.8 million) explained by higher backfill and detoxification costs at Inmaculada and the impact of the net inflation in Argentina. Depreciation in 2017 was $195.7 million (2016: $185.7 million) with the increase due to Pallancata's higher tonnage extraction. Other items was higher at $3.2 million in 2017 (2016: $1.8 million) due to costs related to the community stoppage at Pallancata in January. Change in inventories was $4.7 million in 2017 (2016: $6.5 million).

$000	Year ended 31 Dec 2017	Year ended 31 Dec 2016	% change
Direct production cost excluding depreciation	**345,436**	293,810	18
Depreciation in production cost	**196,241**	185,655	5
Other items	**3,241**	1,750	85
Change in inventories	**4,131**	6,487	(28)
Cost of sales	**549,049**	487,702	13

Unit cost per tonne

The Group reported unit cost per tonne at its operations of $125.0 per tonne in 2017, an 18% increase versus 2016 ($106.2 per tonne) mainly as a result of new detoxification and backfill processes at Inmaculada, stoppages at Pallancata and Inmaculada, local inflation in Argentina and higher costs at Arcata, partially offset by reduced costs at Pallancata.

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

Operating unit ($/tonne)	Year ended 31 Dec 2017	Year ended 31 Dec 2016	% change
Peru	**97.7**	83.2	17
Arcata	**124.8**	101.1	23
Inmaculada	**85.4**	64.4	33
Pallancata	**101.5**	131.0	(23)
Argentina			
San Jose	**240.1**	202.4	19
Total	**125.0**	106.2	18

Cash costs

Cash cost reconciliation[4]:

$000 unless otherwise indicated	Year ended 31 Dec 2017	Year ended 31 Dec 2016	% change
Group cash cost	**403,552**	358,800	12
(+) Cost of sales	**549,049**	487,702	13
(–) Depreciation and amortisation in cost of sales	**(196,150)**	(180,317)	9
(+) Selling expenses	**11,024**	14,175	(22)
(+) Commercial deductions[5]	**39,629**	37,240	6
Gold	**9,256**	11,486	(19)
Silver	**30,373**	25,754	18
Revenue	**722,572**	688,242	5
Gold	**372,315**	354,358	5
Silver	**349,842**	333,525	5
Others	**415**	359	16
Ounces sold			
Gold	**300.2**	298.9	–
Silver	**22,295**	21,088	6
Group cash cost ($/oz)			
Co product Au	**693**	618	12
Co product Ag	**8.8**	8.2	7
By product Au	**78**	(2)	(4,000)
By product Ag	**1.0**	(0.3)	(430)

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.

Financial review continued

All-in sustaining cost reconciliation

Year ended 31 Dec 2017

$000 unless otherwise indicated	Arcata	Inmaculada	Pallancata	San Jose	Main operations	Corporate & others	Total
(+) Production cost excluding depreciation	62,340	109,005	46,874	127,217	345,436	–	345,436
(+) Other items in cost of sales	–	–	1,461	1,780	3,241	–	3,241
(+) Operating and exploration capex for units	17,557	52,903	19,186	33,998	123,644	453	124,097
(+) Brownfield exploration expenses	3,029	1,127	1,279	3,407	8,842	4,041	12,883
(+) Administrative expenses (excl depreciation)	880	3,351	1,362	8,701	14,294	35,425	49,719
(+) Royalties and special mining tax[6]	–	2,987	1,214	–	4,201	2,229	6,430
Sub-total	**83,806**	**169,373**	**71,376**	**175,103**	**499,658**	**42,148**	**541,806**
Au ounces produced	15,146	165,074	23,471	100,474	304,165	–	304,165
Ag ounces produced (000s)	4,391	5,506	5,956	6,448	22,301	–	22,301
Ounces produced (Ag Eq 000s oz)	5,512	17,721	7,693	13,883	44,809	–	44,809
Sub-total ($/oz Ag Eq)	**15.2**	**9.6**	**9.3**	**12.6**	**11.2**	**–**	**12.1**
(+) Commercial deductions	15,695	2,134	9,633	12,167	39,629	–	39,629
(+) Selling expenses	1,931	1,118	1,298	6,677	11,024	–	11,024
Sub-total	**17,626**	**3,252**	**10,931**	**18,844**	**50,653**	**–**	**50,653**
Au ounces sold	14,963	162,323	23,287	99,634	300,207	–	300,207
Ag ounces sold (000s)	4,357	5,498	5,940	6,501	22,296	–	22,296
Ounces sold (Ag Eq 000s oz)	5,464	17,510	7,663	13,874	44,511	–	44,511
Sub-total ($/oz Ag Eq)	**3.2**	**0.2**	**1.4**	**1.4**	**1.1**	**–**	**1.1**
All-in sustaining costs ($/oz Ag Eq)	**18.4**	**9.7**	**10.7**	**14.0**	**12.3**	**–**	**13.2**
All-in sustaining costs ($/oz Au Eq)[7]	**1,362**	**721**	**792**	**1,036**	**910**	**–**	**977**

6 Royalties arising from revised royalty tax schemes introduced in 2011 and included in income tax line.
7 Calculated using a gold silver ratio of 74:1.

Year ended 31 Dec 2016

$000 unless otherwise indicated	Arcata	Inmaculada	Pallancata	San Jose	Main operations	Corporate & others	Total
(+) Production cost excluding depreciation	68,155	83,796	33,650	108,209	293,810	–	293,810
(+) Other items in cost of sales	462	506	241	541	1,750	–	1,750
(+) Operating and exploration capex for units	20,819	54,199	16,130	32,670	123,818	255	124,073
(+) Brownfield exploration expenses	1,305	1	733	1,691	3,730	2,806	6,536
(+) Administrative expenses (excl depreciation)	1,441	3,420	674	8,180	13,715	32,932	46,647
(+) Royalties and special mining tax[6]	–	3,243	639	–	3,882	3,869	7,751
Sub-total	**92,182**	**145,165**	**52,067**	**151,291**	**440,705**	**39,862**	**480,567**
Au ounces produced	22,541	162,710	12,374	95,006	292,631	–	292,631
Ag ounces produced (000s)	6,343	4,908	2,620	6,691	20,562	–	20,562
Ounces produced (Ag Eq 000s oz)	8,011	16,948	3,536	13,721	42,216	–	42,216
Sub-total ($/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)	6,343	5,004	2,660	7,081	21,088	–	21,088
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**
All-in sustaining costs ($/oz Au Eq)	**1,014**	**644**	**1,206**	**851**	**829**	**–**	**895**

Financial review continued

Administrative expenses

Administrative expenses increased by 7% to $51.3 million (2016: $48.0 million) primarily due to increased share-based compensation affecting personnel expenses.

Exploration expenses

In 2017, exploration expenses increased to $17.2 million (2016: $9.2 million) in line with the overall rise in the Company's investment in brownfield exploration. 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 2017, the Group capitalised $2.3 million relating to brownfield exploration compared to $1.3 million in 2016, bringing the total investment in exploration for 2017 to $19.5 million (2016: $10.5 million).

Selling expenses

Selling expenses decreased by 22% versus 2016 to $11.0 million (2016: $14.2 million) mainly due to the elimination of export duties at San Jose. Selling expenses in 2017 consisted mainly of logistic costs for the sale of concentrate whilst 2016 expenses also included approximately 1.5 months of export duties on concentrate until their elimination on 12 February 2016. Previously, export duties in Argentina were levied at 10% of revenue for concentrate.

Other income/expenses

Other income before exceptional items was $10.2 million (2016: $33.1 million). The reduction is mainly due to the elimination of the Patagonian port rebate (2016: $16.7 million) in the fourth quarter of 2016.

Other expenses before exceptional items were reduced to $11.5 million (2016: $13.9 million).

Adjusted EBITDA

Adjusted EBITDA decreased by 9% over the period to $300.8 million (2016: $329.0 million) driven primarily by production costs.

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 2017**	**Year ended 31 Dec 2016**	**% change**
Profit from continuing operations before exceptional items, net finance cost, foreign exchange loss and income tax	**92,255**	148,188	(38)
Depreciation and amortisation in cost of sales	**196,150**	180,317	9
Depreciation and amortisation in administrative expenses	**1,564**	1,331	18
Exploration expenses	**17,199**	9,193	87
Personnel and other exploration related fixed expenses	**(5,395)**	(3,947)	37
Other non-cash income[8]	**(1,023)**	(6,068)	(83)
Adjusted EBITDA	**300,750**	329,014	(9)
Adjusted EBITDA margin	**42%**	48%	

Finance income

Finance income before exceptional items of $5.9 million increased from 2016 ($1.1 million) primarily due to the impact of a higher net present value of the Patagonian port rebate ($1.9 million) which was discounted in 2016 but collected in 2017. The remainder consists of interest received on deposits ($1.6 million) and other financial income ($2.4 million) which included a gain on sale of shares ($1.4 million) and a gain on derivative instruments ($0.6 million).

Finance costs

Finance costs decreased from $30.5 million in 2016 to $26.1 million in 2017, principally due to the reduction of interest resulting from the repayment of Scotiabank medium term loan in H1 2016 and from lower average short-term borrowings.

Foreign exchange losses

The Group recognised a foreign exchange loss of $5.3 million (2016: $1.8 million loss) as a result of exposures in currencies other than the functional currency – primarily the Argentinean Peso.

Income tax

The Group's pre-exceptional income tax charge was $13.5 million (2016: $47.6 million). The substantial decrease in the charge is explained by the Group's decrease in profitability in the year in addition to a deferred tax credit recognised as a result of a progressive tax rate reduction in Argentina from 35% to 30%.

The effective tax rate for the period was 20.2% (2016: 40.7%). The reduction in the effective tax rate is mainly due to the positive deferred tax impact of the Argentina tax rate reduction which is non-recurring.

Exceptional items

Exceptional items in 2017 totalled a $0.5 million gain after tax (2016: $6.4 million loss). Exceptional items principally included impairment reversals of $31.9 million for Pallancata and $8.4 million at San Felipe partially offset by a $43.0 million impairment of Arcata.

The tax effect of exceptional items amounted to a $3.3 million tax charge (2016: $2.2 million tax credit) although this did not include the impairment reversal at San Felipe, which did not attract a deferred tax liability as no tax asset arose when the impairment was originally carried out.

8 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 2017	Year ended 31 Dec 2016	Change
Net cash generated from operating activities	**233,919**	316,073	(82,154)
Net cash used in investing activities	**(121,054)**	(127,364)	6,310
Cash flows generated/(used in) in financing activities	**4,919**	(132,165)	137,084
Net increase in cash and cash equivalents during the year	**117,784**	56,544	61,240

Operating cash flow decreased from $316.1 million in 2016 to $233.9 million in 2017. Lower operating cash flow is mainly due to: (i) income tax payments in 2017 of $26 million in Argentina, of which $17 million corresponded to income tax from 2016 and the rest to income tax advances for the 2017 period; (ii) the reduction of working capital achieved in 2016 (excluding the income tax effect) of $37 million and maintained during 2017; (iii) higher production costs and exploration expenses partially offset by stronger revenue.

Net cash used in investing activities decreased to $121.1 million in 2017 from $127.4 million in 2016 mainly due to reduced capital expenditure at Arcata, Inmaculada and care and maintenance expenditure at the Azuca and Crespo projects, partially offset by an increase in Pallancata investment.

Finally, cash flows generated from financing activities resulted in a net inflow of $4.9 million in 2017 from $132.2 million used in 2016. In 2016, the $132.2 million used was due to $107.4 million of debt repayment and the remainder by equity dividends of $7.0 million paid to Hochschild shareholders and also $13.0 million to McEwen Mining. The change in 2017 is primarily due to the net increase in short-term credit lines of $31.5 million ($25 million repaid in January 2017 in Peru, $50 million raised in December 2017 in Peru to re-purchase the bonds and $6.5 million raised in Argentina during the year). This was partially offset by dividends paid to Hochschild's shareholders of $14.0 million and to minority shareholders in Argentina of $12.3 million. As a result, total cash flows resulted in a net increase of $117.8 million from $56.5 million in 2016 ($61.2 million improvement).

Working capital

$000	Year ended 31 Dec 2017	Year ended 31 Dec 2016
Trade and other receivables	**88,553**	93,837
Inventories	**56,678**	57,056
Other financial assets/(liability)	**2,591**	(1,726)
Income tax receivable/(payable)	**15,442**	(9,025)
Trade and other payables and provisions	**(228,170)**	(211,277)
Working capital	**(64,906)**	(71,135)

The Group's working capital position changed by $6.2 million to $64.9 million in 2017 from $71.1 million in 2016. Key drivers were: higher income tax receivable ($24.5 million) resulting from $24.2 million of tax payments in Argentina; a negative movement in other financial assets/(liability) of $4.3 million from a liability position in 2016, to an asset position in 2017 resulting from the embedded derivative associated with provisional pricing and higher trade. These were partially offset by: an increase in trade and other payables and provisions of $(16.9) million mainly due to Pallancata's trade payables in line with its higher production.

Net debt

$000	Year ended 31 Dec 2017	Year ended 31 Dec 2016
Cash and cash equivalents	**256,988**	139,979
Long-term borrowings	**(291,955)**	(291,073)
Short-term borrowings[9]	**(67,863)**	(36,312)
Net debt	**(102,830)**	(187,406)

The Group reported net debt position was $102.8 million as at 31 December 2017 (2016: $187.4 million). The reduction in 2017 is mainly due to the operating cash generated mainly in Inmaculada and Pallancata.

Capital expenditure[10]

$000	Year ended 31 Dec 2017	Year ended 31 Dec 2016
Arcata	**17,557**	20,819
Pallancata	**19,186**	16,130
San Jose	**36,288**	35,311
Inmaculada	**52,903**	54,199
Operations	**125,934**	126,459
Other	**2,614**	5,186
Total	**128,548**	131,645

2017 capital expenditure of $128.5 million (2016: $131.6 million) mainly comprised of operational capex of $125.9 million (2016: $126.5 million), with the small decrease versus 2016 comprising decreases at Inmaculada and Arcata partially offset by an increase in capital expenditure at Pallancata.

9 Includes pre-shipment loans and short-term interest payables.
10 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.

Our success brings responsibility

2017 was a year of strong performance in terms of community engagement and the environment, and one of a reinforced commitment to safety.

81%

Workforce trained
(2016: 89%)

$5.6m

Amount spent supporting social and community welfare activities
(2016: $4.4m)

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;

all in compliance with applicable laws, regulation and the Company's own standards.

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, Graham Birch 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 2017

During the year, the CSR Committee:

- considered the investigations into the fatal accidents during the year and monitored the implementation of corrective actions;
- approved the 2016 Sustainability Report for inclusion in the 2016 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 accidents that resulted in the fatalities during the year. Further details of these accidents can be found in the Safety section of this report.

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 2018 are available on the Company's website.

Sustainability continued

I am pleased to be able to introduce Hochschild's Sustainability Report following my appointment as Chairman of the CSR Committee in May 2017."

Dear Shareholder

2017 was a successful year from an operational perspective as well as with regards to the sheer number of environmental and community initiatives that we were able to pursue. However, it is with great regret that the accident that we announced early last year was followed, in July, by a second accident at Arcata, which claimed the lives of two drill workers. These incidences brought to an end three consecutive years without any fatalities.

The Company Chairman, in his statement earlier in this Report, conveyed the Board's condolences to the families of those involved which I wish to reiterate. The Board, and indeed, the CSR Committee are wholly committed to doing all we can to ensure that safety comes first. For this reason, we wholeheartedly support management in the implementation of the Safety Culture Transformation Plan. This is a multi-faceted strategy to meet our Zero Accident target. Further details on the accidents are provided in the Safety section of this report.

Our communities

In 2017, we continued to promote community projects that fall within our chosen areas of focus; Education, Health and Socio-Economic Development. These include smaller versions of the Digital Centre that was established in our flagship Chalhuanca Project, which are being installed, jointly with other commercial partners, in rural locations. We also supported schools, by not only facilitating innovative teaching methods but also by supplying lunch kits. This ensured that children benefited from a healthy meal and learnt the benefits of a balanced and nutritious diet. Further details on these initiatives, as well as those of our Argentinian operation, can be found in this report and on our website.

Our environment

With regards to our environmental performance, I am delighted to report on the success of the inaugural year of the use of the Environmental Corporate Objective ('ECO'). The ECO score for the year, which is explained in the Environment section of the Report, was higher than the most stretching target approved by the Board, demonstrating an environmentally conscious approach across the organisation. The ECO score was incorporated as one of the corporate objectives and therefore eligible employees will, justifiably, see some recognition for this impressive achievement. For further details, please see the final page of this report.

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

Graham Birch
Chairman, Corporate Social Responsibility Committee

Safety

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

2017 highlights

- Launch of the Safety Culture Transformation Plan following the fatal accidents during the year (see below for further details)
- Development of the internally-developed safety software tool, 'Safety HOC' (see opposite)

The Hochschild approach to safety

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

Safety HOC

The Hochschild Safety team has developed a tool which compiles all safety findings in a database designed to aid risk management and generate management reports.

The tool has three modules with the planned addition of the Accident Investigations and Management Inspections modules. A version for installation as an app on a smartphone is in the process of being developed.

Our achievements in 2017

- Decisive steps taken in response to the fatal accidents during the year (see below)
- Restructuring of the emergency response teams; resulting in operating efficiencies
- All operating units secured Level 6 certification of the rating system issued by Det Norske Veritas GL ('DNV') (7th edition)

Accidents in 2017

After three consecutive years without any fatalities, it is with regret that there were two fatal accidents over the course of 2017 which resulted in four fatalities. In this section of the report, we have summarised the details of each incident and the remedial actions taken.

January 2017: Inmaculada

Overview: After the blasting of a stope, contractors were instructed to apply shotcrete to support the area. Inspections of the area were carried out some days after the blasting and support work commenced. During this process, the ceiling collapsed, as a result of which two contractors sustained fatal injuries.

The investigation resulted in a number of actions being taken, including:

- reiterating compliance with the Company's protocols on stope expansion and geotechnical support within prescribed timescales;
- engagement of consultants for an immediate audit of stopes, and ongoing monitoring; and
- more frequent mine planning sessions with the participation of all technical departments.

July 2017: Arcata

Overview: Two drill workers were overcome by carbon monoxide fumes in the process of inspecting and clearing a stope.

The resulting investigation prompted the following actions (among others):

- reiterating compliance with the Company's safety protocols including the need to carry back-up emergency equipment at all times;
- restructuring the emergency response teams by converting the nature of the positions from voluntary to full-time positions;
- enhancing the provision of detection equipment; and
- reinforcing various protocols including the mandatory use of air injection paths for access.

Response to 2017 Accidents

In light of the findings into the causes of the two serious accidents during the year, a programme comprising short-term actions and longer-term actions, to be implemented over three years, was put in place.

Immediate Action Plan

- Messaging from senior management on the non-negotiable zero tolerance to accidents
- Safety top management leadership meetings
- World-renowned consultancy, DuPont, were engaged to conduct a safety culture assessment with the participation of 750 employees. Concluded that HOC had the potential to achieve industry-leading status
- Increased safety supervision implemented
- Clinical psychologists recruited at all sites
- Re-allocation of work between employees on the basis that 'expert workers are safer workers'

Long-term Action Plan:

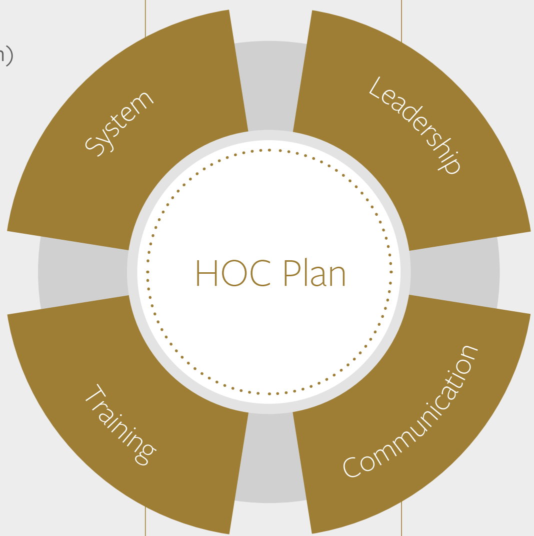
The Safety Culture Transformation Plan

Risk Management System (RMS)

- Review Hochschild RMS and upgrade to latest DNV version 7.0 ISRS (International Safety Regulations System)
- External audit, by DNV, of RMS across all operations completed in mid-February
- Review of all HOC protocols and procedures in process for completion by the end of 2018

Leadership Programme

- New safety committee with senior management involvement in the review of potential high impact events
- Coaching programme for operations management team led by DuPont
- 10-month leadership programme for mine supervisors
- Independent safety promoters have been hired at all mines



Mines' Annual Training Programme

- Redesigned structure and content of weekly training sessions. Training sessions for mine workers comprise 3 modules of c. 5 hours per week in the areas of practical safe working, use of technology and safety leadership

Safety Plan communications support

- Activities detailed herein, together with safety achievements and risks communicated to all individuals through a corporate communication plan

Sustainability continued

Health & Hygiene

The work of Health & Hygiene is to provide an integrated approach to employee welfare.

2017 highlights

- Participation in the design of the Safety Cultural Transformation Plan
- Liaison with mining peers and governmental authorities on new laws affecting health and safety at work
- Holding of the inaugural family welfare event in Arequipa
- Doubling the number of occupational psychologists to cater for the provision of counselling

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.

Family welfare event

The Health & Hygiene team held the inaugural family welfare event in Arequipa aimed at providing mineworkers' families with support and advice.

The sessions provided families with the opportunity to share their experiences. Medically trained staff gave presentations with advice on dealing with the pressures of shift-working on family life.

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 2017

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;
- 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 medical examination of workers at all operations; and
  - the preparation of informational material highlighting the risks and encouraging the use of protective equipment which is readily available.

Our people

Hochschild Mining's success relies on its people.

2017 highlights

- Workforce trained: 81% (2016: 89%)
- Workforce from local communities: 21% (2016: 20%)

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 Resources 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 58% 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.

People indicators

Gender diversity statistics[1]	2017	2016	2015	2014
Number of employees				
Male	**3,849**	3,859	3,492	3,468
Female	**235**	222	237	229
Number of senior managers[2]				
Male	**36**	35	34	31
Female	**1**	1	2	2
Number of Board members				
Male	**7**	8	8	8
Female	**1**	1	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.

Activities in 2017

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 technical and 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. At the end of the year, the Company initiated the 2017 Climate Survey. Its results will be used to improve conditions in our mining units and administrative offices. Results will be reported on in the 2018 Annual Report.

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.

Sustainability continued

Working with our communities

2017 highlights

- Reviewed and updated strategies for Community Relations and social support
- Using the Chalhuanca Project as a blueprint, implemented smaller urban digital centres
- Continued support of causes located close to the Group's Argentinian joint venture

Our view of working with our communities

Through a long-standing collaboration, we have tailored our approach so that we interact with each community by respecting their customs and social dynamics. By doing so, the Community Relations team can focus on prioritising their specific needs and hence the Group's efforts and its intervention strategies.

Our achievements in 2017

Further details of some of the high impact initiatives pursued during the year are provided below.

Education

Elementary education

Contributing to the education of community members living close to our operations has been an established part of our social support. Each year we evaluate programmes and direct our efforts to those where we maximise value for students, teachers and parents.

In 2017, we decided to support extra-curricular activities which combined the teaching of academic subjects with play. This was complemented by the delivery of lunch kits that will not only improve the provision of school lunches but will also facilitate concentration during school hours and also teach children the importance of a well-balanced, nutritious diet. This year almost 300 students and over 60 teachers were supported across 11 schools.

Secondary education

Hochschild has continued to support programmes that promote personal development and basic economic/business awareness to equip those in secondary education for their early adult years.

Over the course of 2017, we have collaborated with over 500 secondary students and almost 100 teachers across seven educational establishments.

Digital centres

After the success of the Group's flagship Chalhuanca Project, Hochschild has worked with TECSUP, IDAT and CISCO, to establish digital centres to promote online literacy. A training programme is being implemented in 2018 to ensure that full advantage can be taken of the equipment provided.

Health

Medico de Cabecera (the Travelling Doctor programme)

This programme enables the Group to bring a mobile health service to those living in the most remote locations. Valued by the young and the old, the Travelling Doctor programme brings coverage that local state health services cannot provide. In 2017 a total of 8,000 medical attendances were facilitated.

Socio-economic development

Business networks

This successful programme has seen over 250 agricultural and livestock producers flourish in their trade. Having been established in 2013, with only 25 beneficiaries, there has been an impressive level of take-up of the support provided by the Group. The project was originally set up with community members living close to the Inmaculada mine and, today, they are suppliers to the mine's catering contractors.

Argentina

The Group has also promoted, in conjunction with its joint venture partner, a number of initiatives at its San Jose operation in Argentina. These have included:

- scholarship opportunities;
- the training of students from the town of Perito Moreno, located close to the mine, in the areas of drilling and explosives handling and who were subsequently employed by the Group; and
- supporting local cultural causes, including funding a local museum and its showcasing of the cave paintings from the Cueva de los Manos.

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

Managing our environmental impact

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

2017 highlights

- Exceeding target for our in-house designed corporate objective (see below)
- Continued focus on water management and treatment across all operations

The Hochschild approach to environmental management

Hochschild Mining is committed to being a leading global mining company in environmental performance, sourcing minerals with the least environmental footprint possible.

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 and the Company operates a policy of progressively closing historic mine components. During the year, a review of a number of these plans was undertaken with the support of internationally recognised consultants.

Our achievements in 2017

- Year-on-year reductions in the number of findings by the Peruvian environmental regulator falling steadily from 50 in 2014 to 7 in 2017
- 2017 ECO score of 4.75, exceeding the most stretching environmental performance target set by the Board for 2017 of 3.5 (see box below on what this score reflects)
- Launched integrated waste management service in collaboration with a specialist contractor which will incorporate the following:
  - » Integrated waste management plans across all operations
  - » Waste minimisation
  - » On-site waste collection
  - » Disposal of hazardous waste and sale of marketable waste
  - » Management of on-site waste facilities
- Overhaul of water treatment plants across all Peruvian operations

Mission of the Environmental Team

In order to achieve the Company's environmental mission, the Environmental team is committed to:

- ensuring compliance with all legal and environmental regulations in place;
- setting an annual environmental performance goal for all Company employees;
- requiring an efficient use of resources, aiming for savings by implementing the best industrial and mining practices, modern technologies and solid procedures for environmental management and control;
- requiring all Company employees to adopt an environmentally conscious culture;
- providing all Company employees with the necessary resources and training to take environmentally appropriate decisions;
- promoting innovative and forward thinking in the development and execution of new concepts and designs related to environmental management; and
- requiring those that perform activities for Hochschild Mining to abide by the Corporate Environmental Policy.

Greenhouse gas emissions data[1] (tonnes of CO_2e)	2017[2]	2016[2]	2015	2014
Emissions from combustion of fuel and operation of facilities (tCO_2e)	**47,305**	45,909	46,790	73,244
Emissions from purchased electricity (tCO_2e)	**94,249**	88,646	78,163	69,933
Emissions intensity, per thousand ounces of total silver equivalent produced (CO_2e/k oz)[3]	**4.036**	4,140	5,531	5,533

1 Method used based on ISO 14064-1 Standard and GHG Protocol Corporate Accounting and Reporting Standard.
2 Includes data for the whole year for Ares, Arcata, Selene, Pallancata, Inmaculada, San Jose and office locations.
3 Total production includes 100% of all production, including that attributable to the joint venture partner at San Jose.

Environmental Corporate Objective ('ECO' score)

The ECO score was developed in order to align all employees with one common environmental mission, thereby making everyone accountable for their actions.

The ECO score is used in the annual bonus scorecard for all eligible employees and is based on measurable and transparent environmental metrics. The scorecard was trialled in 2016 to create a baseline, and therefore 2017 was the first year that a target ECO score has been implemented.

The ECO score is calculated by monitoring performance across all operations and reflects each of the following:

- Zero tolerance to non-compliance with discharge limits and environmental incidents, such as spillages
- The number of observations received from the environmental regulator in Peru
- Good environmental management measured on the basis of:
  - » Water consumption per worker
  - » Amount of non-recyclable waste generated per worker
  - » Proportion of recyclable/industrial waste that is commercialised
  - » Corporate Performance Indicator which tracks the number of compliance inspections that are passed with over 95%

These KPIs are reported on a monthly basis by each mining operation and communicated to all Company employees. Through this monthly publication, we try to foster healthy competition amongst the mining units, an effort called Green Challenge or 'Reto Verde' in Spanish.

Risk management & viability

Managing risk on behalf of the Board

The system of risk management is embedded in the business to protect the Group's resources and to facilitate the achievement of our strategic objectives.

Identify | Measure | Manage | Monitor | Report

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.

Change in risk profile vs 2016:

- Unchanged
- Higher
- Lower

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.

2017 Risks

The key business risks affecting the Group set out in this report remain largely unchanged compared to those disclosed in the 2016 Risk Management report with the exception that:

- in light of events during the year, the discussion on Health & Safety risks also considers the specific risks associated with the transporting and handling of hazardous materials by both employees and contractors; and
- management identified risks associated with the failure of critical processes supported by information systems during the course of the year and has therefore been identified as a new risk. The commentary also treats the subject of cybersecurity risk.

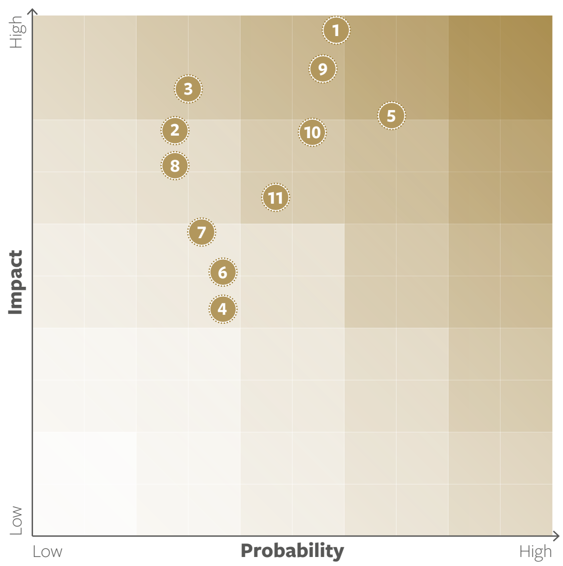
Reasons for the year-on-year change in the profile of a specific risk can be found in the commentary section of the relevant risk which also provides an outlook on the risk for the current financial year.

Risk heat map

To assist the reader in assessing the relative significance of each risk discussed in this section, the heat map below indicates the Board's assessment of the likelihood of the unmitigated risk occurring as well as the extent of the impact on the Group.

Risks

1. Commodity price
2. Operational performance
3. Business interruption
4. Information security and cybersecurity
5. Exploration and resources replacement
6. Personnel: recruitment and retention
7. Personnel: labour relations
8. Political, legal and regulatory
9. Health and safety
10. Environmental
11. Community relations



Financial risks

Risk	Impact	Mitigation	Commentary
1. Commodity price	Adverse movements in precious metal prices could materially impact the Group in various ways beyond a reduction in the financial results of operations. These include impacts on the feasibility of projects, the economics of mineral resources and heightened personnel retention 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 – Policy to maintain low levels of leverage to ensure flexibility through price cycles See the Market Review on pages 10 to 11 for further details	The focus on conserving capital and optimising cash flow continued in 2017 through: – controlling operating and administrative costs; – optimising sustaining capital expenditure; – debt reduction and refinancing; and – maintaining low working capital In relation to debt reduction and the refinancing of debt, the Company announced in 2017 the early redemption of its bonds, which was subsequently completed in early 2018. By doing so, debt has been reduced by approximately $95 million and the balance replaced with shorter-term debt on significantly better terms, saving the Group approximately $7m in interest expenses in 2018 and approximately $20m per year thereafter. As reported earlier in this report, the Inmaculada mine had a record year in 2017 in terms of production but also as the lowest cost operation in the Group's portfolio. It has been key in reducing overall average production costs. Even though currently no part of 2018 production has been hedged, the Group's flexible policy enables the Board to approve hedging contracts to protect cash flow as and when appropriate

Operational risks

Risk	Impact	Mitigation	Commentary
2. Operational performance	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 as well as the overall profitability at all stages of the mining value chain – 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, pipelines to service ongoing operations. Close liaison between relevant departments ensures that procurement, construction and any permitting are undertaken as appropriate	In 2017 the Group exceeded its production target by 1m attributable silver equivalent ounces with particularly strong performances at Inmaculada, Pallancata and San Jose. 2017 budgets across the Group continued to focus on maintaining controlled levels of administrative expenses and sustaining capital expenditure. As reported in the Financial review, the all-in sustaining cost from operations was kept within guidance issued at the beginning of the year at $12.3 per silver equivalent ounce. Management has been closely monitoring performance of the high cost Arcata mine to ensure that production is optimised while at the same time maintaining the asset´s optionality with regards to prices, exploration results and cost efficiencies.

Risk	Impact	Mitigation	Commentary
3. Business interruption	Assets used in the Group's operations may break down and cause stoppages with material effects (in particular, at Inmaculada).	– Insurance coverage to protect against major risks – Management reporting systems to support appropriate levels of inventory – Annual inspections by insurance brokers and insurers assist management's efforts to understand and mitigate operational risks	Mitigating actions during the year include the following: – Insurance advisers 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

Risk	Impact	Mitigation	Commentary

4. Information security and cybersecurity
New
	Failure of any of the Group's business critical information systems, whether as a result of design/maintenance or unauthorised access by third parties, may affect the Group's ability to operate.	– Currently compliant with ISO 27001, an internationally recognised certification to evaluate information security management systems
		– Dedicated team within the IT department focused on preventing cyber-attacks
		– Audits performed by the internal audit department and third parties to test systems and issue recommendations
			During the year management identified vulnerabilities in certain automated processes. This prompted a wide-ranging review of the procedures deployed in the testing of system updates which also incorporated mitigating steps to counter the risk from external unauthorised access.
			This review included:
			– the engagement of external and internal Auditors to identify improvements to the Group's procedures;
			– additional manual controls introduced to supplement automated processes;
			– in addition, the Audit Committee has set objectives for 2018 to:
			  – further explore information vulnerabilities, benchmarking of our protection systems and recommend mitigation procedures; and
			  – improve the Group´s protocols in case of a crisis.

Risk management & viability continued

Operational risks continued

Risk	Impact	Mitigation	Commentary
5. Exploration and reserve and resource replacement	The Group's future operating margins and 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 technology implemented to improve the estimate of mineral resources	The progress of the 2017 brownfield exploration programme in Peru was subjected to delays due to extended timelines in obtaining the requisite governmental permits. As a direct result, a Permitting Committee was established during the year comprising personnel from the Legal, Environmental and Community Relations teams as well as members of senior management to plan and execute a co-ordinated effort to address the administrative delays. All permits required for the 2018 brownfield exploration programme at our operating units have been secured. Following the drilling campaign in the vicinity of the Inmaculada mine, significant potential was discovered at the Millet vein system. For further details, refer to page 29. Greenfield exploration and the appraisal of acquisition/joint venture opportunities restarted in 2017 in light of the Group's improved financial position. These have resulted in: – the Group securing geographically diverse greenfield optionality; and – arrangements to partner with other mining companies to bolster exploration efforts at projects considered to have geological potential.
	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 page 153 for further details

Risk	Impact	Mitigation	Commentary
6. Personnel: recruitment and retention	Inability to attract or retain 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	Due to increased investment in the sector, turnover in 2017 was slightly higher than in previous years but not to a material extent. 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. In addition, a programme of new initiatives in the employee value proposition are also scheduled for implementation. These include the launching of initiatives related to causes that are valued by potential employees; providing them with the opportunity to contribute to innovation, community relations and environmental performance. Retention plans for senior executives in the form of the Company's Long-Term Incentive Plan and Restricted Share Plan are also in place.

Risk	Impact	Mitigation	Commentary
7. Personnel: labour relations	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 – Monthly meetings with mineworkers and unions to ensure a complete understanding of expectations and to keep all parties updated on the Group's financial performance	Given the level of investment at the Inmaculada mine, the Group´s Peruvian operation does not generate taxable income and therefore there is no entitlement to statutory profit sharing for Peruvian mineworkers. The Company has, however, implemented an additional bonus to compensate for this situation. As part of the salary increases agreed with the Peruvian labour unions, a new bonus framework was put in place to promote safety and productivity. The uncertainty with regards to the ongoing viability of the Arcata mine has adversely impacted morale among workers at the operation. During 2017, regular meetings were therefore scheduled and held with union representatives to understand concerns which continue into the current year. Early in 2018, approximately 165 workers were made redundant from the Arcata operation following consultation with workers and the labour union.

Macro-economic risks

Risk	Impact	Mitigation	Commentary
8. Political, legal and regulatory	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	Despite a pro-business administration in Peru, significant delays were encountered during 2017 in the securing of permits to facilitate exploration activity. These were primarily the result of increased bureaucracy introduced by the previous Administration. Simplification measures were adopted by the Government towards the end of 2017 and the permitting process timelines are expected to reduce over time. At the legislative level, the Peruvian Congress, which comprises a majority from the non-governing parties, continues to implement populist measures that could adversely affect the mining industry. Such measures include new laws on the protected nature of headwaters which may oblige mining companies with operations in the Andes to relocate. The Peruvian Government's implementation of certain treaty obligations, including the framework for the prior consultation law has been challenged and which, may, lead to a review of the validity of mining concessions. In terms of social conflicts, the governmental authorities remain sensitive to conflicts between communities and mining companies and are reluctant to intervene with decisiveness. In Argentina, 2017 was marked by congressional elections where the ruling party did not secure a majority. The Government has sought to promote investment through, most notably, a phased reduction in the corporate tax rate. The ongoing inflationary environment which exceeds the rate of devaluation of the Argentinian Peso relative to the US dollar has led to an increase in costs for the Group as an exporter.

Sustainability risks

Risk	Impact	Mitigation	Commentary
9. Health and safety	Group employees working in the mines may be exposed to health and severe safety risks. Failure to manage these risks may result in occupational illness, accidents, a work slowdown, stoppage or strike and/or may damage the reputation of the Group and hence its ability to operate.	– Health & Safety operational policies and procedures reflect the Group's zero tolerance approach to accidents – Use of world-class DNV safety management systems as well as Dupont´s consultancy services – 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	Having recorded three consecutive years of compliance with our ongoing Zero Fatalities objective, the Group sadly reported four fatalities during 2017, which resulted from two separate accidents, one at Inmaculada and one at Arcata. An extensive programme, the HOC Culture Transformation Plan, is being implemented by management in response to these accidents in order to materially reinforce the Group's commitment to safety. The Plan comprises the following pillars: – **Leadership,** with senior management involved in a full review of all high risk activities – **Communications,** focusing on initiatives to motivate and incentivise safe working practices – **Training,** with all personnel receiving five hours of on-site learning every week – **Technical,** with the migration to the latest version of risk information management systems and a review of the Company's procedures For further details, please refer to the safety section of the Sustainability Report on pages 38 and 39. Following an audit on the transportation and handling of hazardous materials, a plan of action to mitigate the risk of injury was put in place which involved: – a review of procedures on the routes to be used to transport such substances; – a review of contracts with transporters to ensure compliance with the Group's safety policy and to manage accident responses; and – the installation of specialist brigades at the Peruvian operations to attend to accidents involving hazardous substances.

Risk management & viability continued

Sustainability risks continued

Risk	Impact	Mitigation	Commentary
10. Environmental (a) In relation to those risks arising from the Group's environmental performance/ infrastructure: (b) In relation to those risks arising from the increased oversight of the environmental regulator:	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 dedicated 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 agency oversight in Peru remained rigorous during the year. In 2017, the Group performed highly in its ECO score, which was developed in-house and which focuses on: – compliance with discharge limits; – minimising the number of environmental incidents such as spills; – minimising the number of findings from the regulator; and – specific aspects of environmental management including water consumption and waste generation. For further details, please refer to the environmental section of the Sustainability report on page 43. In addition, during the year, the Group: – launched an integrated waste management service in conjunction with specialist contractors; – focused on improving the water treatment plants at the Peruvian operations; – supported the business by securing the approval of permits such as with regards to the Pablo vein at Pallancata, new components and plant capacity increases across the Peruvian operations and for exploration at Inmaculada

Risk	Impact	Mitigation	Commentary
11. Community relations	Communities living in the areas surrounding Hochschild's operations may oppose the activities carried out by the Group at existing mines or, with respect to development projects and prospects, may invoke their rights to be consulted under new laws. These actions may result loss of productions, increased costs and decreased revenues, longer lead times, additional costs for exploration and have an adverse impact on the Group's ability to obtain the relevant permits.	– The Group has a dedicated team responsible for Community Relations – 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	As previously reported, protests by a community close to the Pallancata mine resulted in a blockade from November 2016 until mid-January 2017. The blockade did not impact the mine's targeted production as the operations were at the time in the permitting process and transitioning to the new Pablo vein. Dialogue and new agreements between the Company and community representatives resulted in the lifting of the blockade. The Group continues to actively engage with other local communities to understand their needs and to implement action plans in order to anticipate and mitigate potential conflicts. 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. Looking ahead to 2018: – the overall political and social climate may be adversely impacted by the regional elections in Peru in October; and – at Arcata, the declining production profile of the asset has led to redundancies and lower economic activity in the area, which may also result in social unrest. Further details on the Group's activities to mitigate sustainability risks can be found in the Sustainability report on pages 38 to 43.

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) below spot $16/Au oz and $1,100/Ag oz; and (ii) spot prices of $17/Au oz and $1,300/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 e.g. exploration 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) temporary stoppages resulting from the occurrence of a sustainability-risk i.e. those associated with health & safety, environmental and community relations; (c) industrial unrest 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 49, has been reviewed and approved by the Board of Directors and signed on its behalf by:

Ignacio Bustamante
Chief Executive Officer
20 February 2018

Board of Directors

A strong and experienced team

Eduardo Hochschild
Chairman

N

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.51% 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.

Ignacio Bustamante
Chief Executive Officer

C

Experience
Ignacio joined the Board as CEO in April 2010 having previously served as Chief Operating Officer and General Manager of the Group's Peruvian operations. He 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, Scotiabank Peru S.A.A.

Dr Graham Birch
Independent Non-Executive Director

A C N R

Experience
Graham joined the Board in 2011. Up until his retirement in 2009, he 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.

Jorge Born Jr.
Independent Non-Executive Director

N

Experience
Jorge joined the Board in 2006. Previously, he 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).

A Audit Committee
C CSR Committee
N Nominations Committee
R Remuneration Committee
○ Chair

Eileen Kamerick
Independent Non-Executive Director

A N R

Experience
Eileen joined the Board on 1 November 2016 having formerly served as CFO of ConnectWise. Previously Eileen served as CFO 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 Banc-Corp. (Chair of the Nominating and Governance Committee and member of the Compensation Committee), Legg Mason Closed End Mutual Funds (Chair of the Audit Committee), AIG Funds and Anchor Series Trust (Audit Committee Financial Expert).

Non-Profit: Eckerd Connects.

Michael Rawlinson
Senior Independent Director

A C N R

Experience
Michael joined the Board in 2016 and was appointed Senior Independent Director on 1 January 2018. He was formerly the Global Co-Head of Mining and Metals at Barclays investment bank (2013-2017) and prior to that, he 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.

Dionisio Romero Paoletti
Non-Executive Director

N

Experience
Dionisio was appointed to the Board on 1 January 2018 as a nominee of the Company's majority shareholder. Dionisio is Chairman and CEO of Credicorp and its subsidiary, Banco de Crédito del Peru ('BCP'), Peru's largest bank. Mr Romero has served as a board member of BCP since 2003 and was appointed Vice Chairman in 2008 and Chairman in 2009.

Other Directorships
Commercial: Numerous directorships held including Credicorp Group companies Banco de Crédito de Bolivia, El Pacifico-Peruano Suiza Cia. De Seguros y Reaseguros S.A. and El Pacifico Vida Cia. De Seguros y Reaseguros S.A. Alicorp S.A.A, Inversiones Centenario, Cementos Pacasmayo S.A.A and Sierra Metals Inc.

Non-Profit: Fundacion Romero.

Sanjay Sarma
Independent Non-Executive Director

N

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.

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

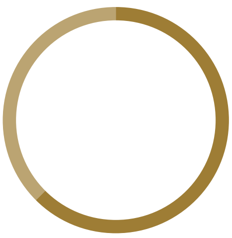
Raj Bhasin
Company Secretary

Experience
Raj joined Hochschild in October 2007 as Company Secretary and UK Counsel. He is a solicitor and Chartered Secretary with almost 20 years' experience gained in FTSE-listed companies. Raj previously served as Deputy Company Secretary and Commercial Counsel at Burberry Group plc.

Tenure of Independent Directors

- 0-3 years **3**
- 3-6 years **1**
- 6 years+ **1**

Balance of independence on the Board



- Independent Directors **5**
- Non-independent Directors **3**

Senior management

Ramón Barúa
Chief Financial Officer

Experience

Ramón Barúa was appointed CFO of Hochschild Mining on 1 June 2010. Prior to his appointment, he served in various positions with other companies associated with the Group, namely CEO of Fosfatos del Pacifico S.A., General Manager for Hochschild Mining's Mexican operations and Deputy CEO and CFO of Cementos Pacasmayo. Prior to joining Hochschild, Ramon was a Vice President of Debt Capital Markets with Deutsche Bank and a sales analyst with Banco Santander. Ramón is an economics graduate of Universidad de Lima and holds an MBA from Columbia Business School. Ramon serves as an Independent Director of Goldspot Discoveries Inc, a technology company that supports mineral exploration activity in which Hochschild Mining is an investor.

Isac Burstein
Vice President, Exploration & Business Development

Experience

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

Experience

Eduardo Landin was appointed COO of Hochschild Mining in March 2013. Eduardo joined Hochschild in January 2008 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 the Inmaculada and Crespo Advanced Projects. Before joining Hochschild, Eduardo held the position of Corporate Development Manager at Cementos Pacasmayo and, prior to that, he worked in the Peruvian Ministry of Energy and Mines. Eduardo began his career at Repsol S.A where he worked for over 10 years in England, Spain and Peru. Eduardo is a Chartered Mechanical Engineer and holds a B.Eng (Honours) 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

Experience

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

Experience

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. In addition, Eduardo has postgraduate qualifications in Business from IESE Business School and Harvard Business School and in Human Resources from London Business School and the University of Michigan.

Directors' Report

The Directors present their report for the year ended 31 December 2017.

Information in Directors' Report

The Directors' Report comprises the Corporate Governance Report from pages 55 to 66, this Report on pages 53 and 54, and the Supplementary Information on pages 67 to 69. 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 43; and
- Policy on Financial Risk Management in note 36 to the consolidated financial statements.

For the purposes of compliance with Disclosure Guidance and Transparency Rules 4.1.5R(2) and 4.1.8R, 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 2017 and is recommending a final dividend of 1.965 cents per ordinary share subject to approval at the forthcoming Annual General Meeting ('AGM'), making a total dividend of $17 million (2016 total dividend: $14 million).

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 pages 50 and 51. With the exception of Dionisio Romero Paoletti, who was appointed to the Board on 1 January 2018, all other Directors were in office for the duration of the year under review.

Roberto Dañino and Nigel Moore retired from the Board at the conclusion of the 2017 AGM and Enrico Bombieri retired from the Board on 31 December 2017.

Each of the Directors will be retiring and seeking re-election by shareholders at the 2018 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 $5.623 million on supporting social and community welfare activities surrounding its mining units (2016: $4.389 million).

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 56 and, with regard to the right to appoint Directors to the Board, are set out on page 69.

As required by the 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.

Directors' Report continued

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 49. The financial position of the Group, its cash flows, liquidity position and borrowings are described in the Financial Review on pages 30 to 35. 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 its exposure to credit risk and liquidity risk.

As described in the Market Review on pages 10 and 11, 2017 saw an increase in the price of gold of c.13% and silver relatively underperformed, ending 2017 just under 5% higher.

The Group has achieved record levels of attributable production of 38 million silver equivalent ounces (513.6k gold equivalent ounces) with strong contributions from Inmaculada and the Group's joint venture, San Jose. With the increase in production and the positive gold and silver price performance, the Group generated robust cash flow during the year despite a fall in profitability due to the expected rise in overall costs.

As part of its risk management responsibilities, the Board continually reviews its capital structure, initiatives to reduce operating costs and, furthermore, contingency measures that can be implemented in the event that precious metal prices 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 12th AGM of the Company will be held at 3 pm on 25 May 2018 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 is 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 is 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
20 February 2018

Corporate Governance Report

"Your Board is committed to ensuring good governance to not only protect shareholder value but to enhance it."

Dear Shareholder

I am delighted to present the Corporate Governance Report for 2017.

In this section of the Annual Report, we report on the Company's compliance with the provisions of the 2016 edition of the UK Corporate Governance Code and the application of its principles. Your Board is committed to ensuring good governance to not only protect shareholder value but to further enhance it by the implementation of a robust framework of controls and practices.

I would like to highlight the following activities in this crucial area undertaken by the Directors during the year.

Succession planning

As highlighted in last year's report, a number of changes at Board level were anticipated and so I am delighted that despite having lost the long-standing support of three Non-Executive Directors, we were well placed to ensure continuity at Board level. In addition, we were delighted to announce the appointment of Dionisio Romero Paoletti as a Non-Executive Director. Dionisio joined the Board on 1 January 2018 and brings a vast wealth of business experience in Latin America, as the Chairman and CEO of the Credicorp financial group.

Succession planning was not only limited to the Board. During the year, the Nominations Committee considered the status of the succession plans for the Group's senior executives. This process involved a review of the key positions below Board level and identifying the rising talent across all functions. The Committee considered specific development plans which, supported by the allocation of the necessary resources, will further strengthen the Group's ability to accomplish our operational and strategic objectives.

Board evaluation

In 2017, we continued with our internally-led Board evaluation process which last year was managed by Michael Rawlinson, as our Senior Independent Director-Designate. The process, which is described in more detail in this report, reviewed many aspects of the functioning of the Board, the Committees and the roles played by the Directors. In addition, the opportunity was taken to identify topics of interest for incorporation of presentations by speakers into the annual board calendar. Equipping the Board with the necessary skills and knowledge of the sector and the global environment in which we operate is key, and I look forward on reporting on these aspects in next year's report.

If you should have any queries arising from this report, please do not hesitate to contact me at Chairman@hocplc.com.

Eduardo Hochschild
Chairman

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') (2016 edition) in respect of the year ended 31 December 2017. 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 67 to 69.

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 following exceptions:

i. 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 (i.e. clawback or malus); and

ii. an externally facilitated evaluation of the Board has not been undertaken.

In relation to (i) above, as stated in last year's Directors' Remuneration Report, the Company reviewed the use of clawback which, following legal advice, was concluded to be unenforceable in the countries in which the Company primarily operates. As reported in this year's Directors' Remuneration Report, the Remuneration Committee reviewed the malus policy during 2017 and agreed to widen its remit beyond adverse events in relation to safety, environment, community and legal compliance so as to also include trigger events including material misstatement, material failure of risk management, action or omission resulting in serious reputational damage. The revised malus provisions will apply to all incentives, including the annual bonus, effective from 2018.

In relation to (ii) above, please refer to the Board Evaluation section below for further details on the internally-led approach to the Board's performance evaluation.

Corporate Governance Report continued

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 six Non-Executive Directors, all of whom were 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 c.51% holding.

The Board has approved a document which sets out the division of responsibilities between the Chairman and Chief Executive Officer.

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.

Status of the Chairman

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 Mr Hochschild 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 53.

Senior Independent Director

Enrico Bombieri was the Senior Independent Director during the year under review until his retirement from the Board at the end of the year when he was succeeded by Michael Rawlinson. During that time Mr Bombieri acted as a central point of contact for the Non-Executive Directors collectively but he also served as a conduit between the Non-Executive Directors and the executive management team.

A crucial part of the role of the Senior Independent Director is to meet with major shareholders if concerns have not been addressed by the executive team. No such meetings were held during the year.

Non-Executive Directors

The Company's Non-Executive Directors hold, or have held, senior positions in the corporate sector with the exception of Sanjay Sarma who has a background in academia in the field of mechanical engineering and technology. They all 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 Non-Executive Directors

The Board considers that all of the Non-Executive Directors serving during the year were independent of the Company with the exception of Roberto Dañino given his previous role as an Executive Director of the Company and that, up until his retirement from the Board in May 2017, he was also engaged as a Special Adviser to the Chairman and senior management team.

In reaching its conclusion on the independence of the Non-Executive Directors serving at the end of the year, the Board considered:

i. Jorge Born's tenure on the Board of over nine years; and

ii. Sanjay Sarma's position as a director of Top Flight Technologies, a company in which Eduardo Hochschild has a 1.25% shareholding and a convertible note investment.

Notwithstanding the above, the Board collectively feels that the above circumstances are not considered to be of a nature to materially interfere with the exercise of the respective Director's independent judgement.

Board meetings held in 2017
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 2017 were:

Safety
- the reports on the two accidents that occurred during the year resulting in four fatalities and the management actions to be taken in light of the findings of the internal investigations; and
- the implementation of a Safety Culture Transformation plan to embed a safety-conscious culture across the organisation.

Financial
- stress-tested financial projections in support of the going concern and viability statements;
- considered recommendations of the Audit Committee to adopt the 2016 Annual Report and Accounts and the 2017 Half-Yearly Report including the recommended 2016 final dividend and the 2017 interim dividend;
- the Group's ongoing financial position and alternative re-financing options to fund the early redemption of the Group's high-yield bonds; and
- the 2018 budget.

Strategy
- the Group's strategic plan; and
- the long-term trends impacting the markets for metals and minerals to identify potential areas of growth for the future.

Business performance
- detailed updates on the operations with regular updates on the operational viability of the Arcata mine;
- consideration of business development projects;
- consideration of unbudgeted strategic initiatives;
- presentations from the Group's senior field geologist on performance against the Group's brownfield objectives;
- review of the Group's methodology of measuring Reserves & Resources; and
- opportunities to partner with other mining/exploration companies to earn-in an interest in prospective locations.

Risk
- the significant risks faced by the Group and the corresponding mitigation plans; and
- the robustness of the Group's IT systems and vulnerability to access by unauthorised third parties or cyber-attacks.

Governance
- regular updates from the Company Secretary on relevant developments in corporate governance including the regulatory framework governing listed companies;
- an update on the implementation of the 2016 Board evaluation recommendations, the outcome of the 2017 Board evaluation and the form of the 2018 process;
- the annual reviews of Directors' conflicts of interest and independence of Non-Executive Directors;
- changes to the composition of the Board committees in light of retirements from the Board;
- the appointment of Dionisio Romero Paoletti as a Non-Executive Director; and
- the fees for the Non-Executive Directors.

Sustainability
- reviews of the social and political climate in Peru and Argentina and their potential impact on the Group;
- review of the community-led blockade which temporarily prevented access to the Pallancata mine; and
- performance of the Group against the internally-designed environmental corporate scorecard.

Personnel
- the implementation of a talent development programme for c.80 employees; and
- the status of negotiations with the labour unions.

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. There were no new appointments during the year.

The Company has adopted the practice of requiring Directors to seek annual re-election by shareholders in keeping with the UK Corporate Governance Code. The biographies of the Directors can be found on pages 50 and 51.

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.

The Major Shareholder exercised this right for the first time through the appointment of Dionisio Romero Paoletti who joined the Board on 1 January 2018.

Board development
It is the responsibility of the Chairman to ensure that the Directors update their knowledge and their skills and are provided with the necessary resources to continue to do so. This is achieved through the various means described as follows.

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

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

Advice
The Company has procedures by which members of the Board may take independent professional advice at the Company's expense in the furtherance of their duties.

Company Secretary
The Company Secretary is appointed and removed by the Board and is responsible for advising the Board on governance matters and the provision of administrative and other services to the Board. All the Directors have access to the Company Secretary.

Board evaluation
The Board is committed to the process of continuous improvement which is achieved in particular by the internally led Board evaluation process.

Corporate Governance Report continued

2017 Board evaluation

In keeping with past practice, the 2017 Board evaluation process was undertaken internally through one-to-one interviews conducted by the Senior Independent Director-designate 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 of the main Board Committees, including specific aspects of the performance of the Audit Committee, as well as of the Brownfield Working Group established to review the Group's progress in this vital source of potential growth
- 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 retirements from the Board
- The workings of the Board
- Strategic planning, governance and evaluation

Risk and culture

- A review of the process of managing risk
- Seeking views on the Group's corporate culture and the behaviours that it promotes

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

Implementation of 2016 Board evaluation

A number of actions were taken during the year following the 2016 Board evaluation process. These included:

- more detailed reporting to the Board on the work of the Remuneration Committee;
- a presentation from management looking back critically at the steps taken in response to the significant falls in precious metal prices in 2013 as a means of ensuring preparedness for future such volatile market conditions; and
- suggestions on the content of the monthly Board reports to convey, among other things, investor sentiment to the industry in general.

2017 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 Michael Rawlinson as the Senior Independent Director-Designate 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 Michael Rawlinson and discussed between the Non-Executive Directors before being relayed to the Chairman.

Outcome

The principal recommendations arising from the 2017 Board evaluation process can be summarised as follows:

- closer supervision of the management of CSR-related risks by the CSR Committee;
- further process enhancements to assist the flow of information between the Remuneration Committee and the full Board;
- scheduling of additional meetings of the Directors outside of formal Board meetings, to promote closer co-operation particularly in light of recent Board changes;
- the reinstatement of a physical Board meeting in August rather than via video conference; and
- incorporation of progress updates against brownfield objectives in the monthly Board reports.

External Board evaluation

Since the process was introduced, the Directors unanimously consider that the internally-led evaluation has resulted in a number of recommendations that have improved the way the Board and the Committees function. For this reason, an externally led evaluation was not undertaken during the year. 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 2018 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 Report

“The Audit Committee undertakes a crucial role in overseeing financial reporting and the framework of internal controls and risk management.”

Dear Shareholder

Having assumed the Chair of the Committee in May, I am pleased to introduce my first report of the Audit Committee in respect of its activities during 2017.

The Audit Committee undertakes a crucial role in overseeing, on behalf of the Board, the quality of the Group’s financial reporting as well as the robustness of the framework of internal controls and risk management. This purpose is fulfilled through frequent and periodic reporting from management and auditors (internal and external), the review of judgements on subjectivities as well as ensuring the implementation of the necessary policies and procedures. The report that follows describes the various means by which these responsibilities were fulfilled in 2017. In addition, the following aspects were also considered.

Review of Assurance Map

The Committee reviewed the Group’s Assurance Map which identifies and grades each source of assurance provided to the Committee with respect to its key functions. This exercise not only facilitates a gap analysis but it also tests the robustness of each source in terms of the provision of complete, accurate and, where necessary, corroborated data.

Whistleblowing

The UK Corporate Governance Code requires the Committee to ensure that the Group has provided employees with a facility to report impropriety in confidence. As described later, the Committee is satisfied that such provision is made though, in the early part of 2017, we commissioned a survey to gauge the awareness of employees as to its availability and purpose. While the results were encouraging, the survey revealed a need to raise awareness on how reports could be submitted and to provide reassurance to employees that adequate follow-up action would be taken. Please refer to the description of the ‘Activity During the Year’ section of the report below for details on the resulting action plan that was implemented.

Tax Compliance Strategy

In line with a new requirement, the Audit Committee considered a policy document describing the Group’s approach to the management of its UK tax affairs. With Hochschild’s mining operations all located outside of the UK, our UK tax footprint is understandably small. However, our commitment in respect of all tax matters is firm; to deal transparently with all relevant authorities and in a responsible manner in relation to tax planning. A copy of the full document can be obtained from the Responsibility section of our website.

Eileen Kamerick
Committee Chair

Members*	Maximum possible attendance	Actual attendance
Nigel Moore (Non-Executive Director and Committee Chairman until 11 May 2017)	2	2
Eileen Kamerick (Non-Executive Director and, from 11 May 2017, Committee Chair)	4	4
Michael Rawlinson (Non-Executive Director)	4	4
Graham Birch (Non-Executive Director)	2	2

* during the year ended 31 December 2017.

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
- 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 was chaired by Nigel Moore until his retirement from the Board on 11 May 2017. Nigel had 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 had acted as Audit Committee Chairman for a number of other listed companies.

Eileen Kamerick succeeded to the chair of the Audit Committee on 11 May 2017. Eileen was formerly a Chief Financial Officer of a number of US-based companies and currently serves as the Audit Committee Financial Expert for the AIG Funds and Anchor Series Trust (US mutual funds) and Audit Committee Chair of the Legg Mason Closed End Mutual Funds.

Michael Rawlinson’s career in banking specialised in the mining sector having initially worked as an analyst and corporate financier, serving most recently as Global Co-Head of Mining and Metals at Barclays Investment Bank from 2013 until his retirement from that role in June 2017.

Graham Birch was appointed to the Committee on 11 May 2017 and is a former director of BlackRock Commodities Investment Trust plc and manager of BlackRock’s World Mining Trust and Gold and General Unit Trust.

The Committee members who served during the year under review are considered to be Independent Directors and the Committee is satisfied that it has, as a whole, competence relevant to the sector in which the Company operates.

For further details on the skills and experience of the Committee members, please refer to the biographical details on pages 50 and 51.

Corporate Governance Report continued

The performance of the Committee was considered as part of the annual Board evaluation process which was considered by the whole Board.

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 2016 Annual Report and Accounts and the 2017 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 45 to 48 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. (See box below for more information)
- **Fraud and bribery** – The Audit Committee continued to review and challenge the actions taken by management to promote ethical and transparent working practices.

The Group has adopted a Code of Conduct which describes the values and standards of behaviour expected of our employees and our business partners. In addition, the Group has adopted a specific anti-bribery and anti-corruption policy to reflect the Board's zero tolerance of these types of act. This policy is circulated to all employees by the CEO on a periodic basis, highlighting the reputational damage and criminal proceedings that could result. The 2017 communications campaign followed certain high-profile cases of alleged corruption in Peru so as to maximise impact.

- **External audit** –The Audit Committee oversees the relationship with the external Auditor who was reappointed following a tender process undertaken in Q1 2016. 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** – The Audit Committee has adopted a Policy on the Use of External Auditors for the Provision of Non-Audit Services (see later section for more details).
- **Governance and evaluation** – The Audit Committee received updates from the Auditor and the Company Secretary on regulatory and other developments impacting the Committee's role. In relation to the evaluation of the Committee's performance, this was carried out as part of the annual Board evaluation. Specific questions were put to each Board member on various aspects of the performance of the Audit Committee including its responsibilities in relation to risk management and internal control. General feedback on the Committee's performance was also sought and fed back to the Committee Chair.
- **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 2017 resulted in:

- supervision of the process of preparation of the 2016 financial statements in preparation for the expedited reporting timetable for the 2017 financial statements;
- a focused and tailored induction programme for Eileen Kamerick in preparation for the succession to the Chair of the Audit Committee. This resulted in a number of briefings with the external Auditors and relevant internal personnel such as the CFO, the Head of Internal Audit and the Company Secretary;
- an internal communication campaign highlighting the Group's anti-bribery and anti-corruption policies.

- **Tax Compliance Strategy** – As set out in the introductory letter, the Audit Committee, approved on behalf of the Board, a document on the Group's approach to UK tax matters. The document can be located at: http://www.hochschildmining.com/en/responsibility/tax_compliance_strategy

During the year, the Committee members held meetings with the external Auditor without executive management to discuss matters relating to the 2016 annual audit and the 2017 Half-Yearly Report. There were no matters of significance to report from these meetings.

2017 Whistleblowing campaign

As mentioned in the Committee Chair's introductory letter, a survey was commissioned during 2017 to gauge the general employee awareness of the facility which identified a need to highlight how reports could be submitted and how reports were handled. An internal publicity campaign was rolled out in H1 2017 highlighting these particular aspects and, in addition, a shortcut to the online whistleblowing tool was installed on the desktop of every company computer to promote ease of access. A survey has been scheduled in the current year to verify the success of the 2017 campaign.

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 2017 financial statements and how these issues have been addressed.

Impairments

The Audit Committee assessed management's analysis which concluded that indicators of impairment (or impairment reversals) in H2 2017 were present with regards to Arcata, Pallancata and San Felipe and hence, were the subject of a full impairment assessment.

The Audit Committee considered

i. with regards to Arcata,

   a. management's evaluation of the reserves and resources volumes at Arcata noting that exploration and mining activities did not result in inferred resources being converted into reserves. Furthermore, the Committee considered that production and costs at Arcata were negatively affected by lower grades and tonnage;

   b. certain key assumptions and the associated sensitivity analysis used in the recoverable value model of Arcata; namely price forecasts, discount rates, production volumes, costs and other operating inputs; and

   c. the basis of calculation of the recoverable value of Arcata.

ii. with regards to San Felipe, the recoverability assessment performed by management,

iii. with regards to Pallancata,

   a. the conversion of inferred resources into Reserves from the Pablo vein;

   b. the better than expected grades and tonnage from operations; and

   c. the better than expected costs and production.

In conclusion, the Audit Committee concurred with management on the following for the full year ending 31 December 2017:

- an impairment of $43 million with regards to Arcata; and
- the impairment reversals with respect to Pallancata of $31.9 million and with respect to San Felipe of $8.4 million.

Going Concern Assessment

The Board and the Committee (under its delegated authority) regularly considered management forecasts on the Group's financial position and the ability of the Group to continue as a going concern.

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

In addition, the Audit Committee corroborated its assessment through consideration of the processes undertaken by the Auditor in its testing of management's forecasts. 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 54 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.

In addition, the Committee considered the view of independent experts as well as the work of the external Auditor which focused on:

- corroborating management's assessments; and
- changes to those assessments relative to prior years and the appropriate treatment in light thereof.

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, with regards to Pallancata, was prepared in conjunction with an external consultant during the year (to supplement the decommissioning cost estimates prepared in 2016 with the same third party on the Group's other operations).

In its assessment of the analysis undertaken by management (and, where relevant, 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.

Revenue recognition

The Audit Committee reviewed management's approach to the accounting of revenue. In addition, the Committee considered the Auditor's procedures which focused on:

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

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

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 in 2016 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 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 70% of the total audit fee for that year. Please refer to the next section entitled '2017 Audit and non-audit fees' for details on the operation of this policy during the 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.

Corporate Governance Report continued

2017 Audit and non-audit fees

Details of fees paid to the external Auditor are provided in note 31 to the consolidated financial statements.

Compliance Statement required under Article 7.1 of the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014 (the 'Order')

The Company confirms that it has complied with the Order save that certain engagements for non-audit services of a recurring nature which the external Auditors were permitted to provide were noted and ratified by the Audit Committee after they were rendered in breach of the Revised NAS Policy. The average value of each such engagement was c.$9k which, in the aggregate, were worth $52k and, hence, are considered to be of a trivial nature and were not considered to have had any bearing on the independence of the external Auditors. It is the Committee's intention to amend the Revised NAS Policy to include the pre-approval of permitted services by the external Auditors for specified recurring services where the value of each such engagement does not individually exceed $15,000 and which will be subject to an overall cap of $50,000 in any one calendar year.

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 Report

"In 2017 the Nominations Committee focused on continuity in terms of the Board's committees and executive succession planning."

Dear Shareholder

The Nominations Committee's focus on succession saw it play an active role during 2017 on two fronts: firstly in ensuring the continuity of the Board Committees in light of the retirements during the year, and secondly, by reviewing the succession plan for the Group's most senior executives. This detailed exercise provided Committee members with visibility of the rising talent of executives at Hochschild Mining.

In terms of additions to the Board, I am delighted to welcome Dionisio Romero Paoletti as a Non-Executive Director who joins as a representative director of Pelham Investment Corporation, the entity through which I hold my majority shareholding in the Company. As Chairman and CEO of Peru's largest bank, Dionisio has built up vast experience of doing business in Peru as well as across Latin America. I and my fellow Board members very much look forward to working with him.

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.

Eduardo Hochschild
Committee Chairman

Members*	Maximum possible attendance	Actual attendance
Eduardo Hochschild (Committee Chairman)	4	4
Jorge Born (Non-Executive Director)	4	4
Enrico Bombieri (Non-Executive Director)	4	4
Sanjay Sarma (Non-Executive Director)	2	2

* during the year ended 31 December 2017.

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

Sanjay Sarma was appointed a member of the Committee on 11 May 2017. Enrico Bombieri stepped down as a member of the Committee on retirement from the Board on 31 December 2017.

Graham Birch, Eileen Kamerick, Michael Rawlinson and Dionisio Romero Paoletti were appointed to the Committee on 1 January 2018.

The Company Secretary acts as Secretary to the Committee.

Activity during the year

The principal matters considered during the year were:

– under the authority delegated to it by the Board, consideration of any conflicts (and if present, the authorisation of such conflicts) in relation to the proposed appointment of Ignacio Bustamante to the Board of Scotiabank Peru SAA as a Non-Executive Director;
– the composition of the Audit Committee in light of Nigel Moore's retirement from the Board in May 2017 followed by a further review of the composition of the Board's committees later in the year;
– the succession plan for the Group's senior executives which, in addition to identifying potential successors, also mapped out the development needs and the timelines of the preparedness of each potential successor;
– the proposed nomination of Mr Dionisio Romero Paoletti as a nominee director of the Group's major shareholder (controlled by Eduardo Hochschild);
– the format of the 2017 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 2017. The format of the 2018 Board evaluation will, however, be kept under review;
– the findings of the 2017 Board evaluation process (see earlier section of the Corporate Governance Report); and
– the nomination of Michael Rawlinson as the Senior Independent Director to succeed Enrico Bombieri following his retirement from the Board at the end of 2017.

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.

Mr Romero Paoletti is an acquaintance of Mr Eduardo Hochschild and therefore, in relation to his appointment as a nominee of the Company's major shareholder pursuant to its rights under the Relationship Agreement, 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 Governance Report continued

Corporate Social Responsibility Committee Report

2017 represented a year of many achievements and our strengthened resolve to safety."

Dear Shareholder

2017 represented a year of many achievements on our sustainability agenda, but it was also a year of setback in terms of our safety record. After three consecutive years of zero fatalities, it is with great sadness that two accidents across our operations during 2017 resulted in four fatalities. The Committee and, indeed the Board as a whole, are deeply committed to ensuring the safety of our colleagues and we are working to ensure that safety comes first for everyone through the implementation of a Safety Culture Transformation Plan.

With regards to the environment, the Group has implemented numerous initiatives to mitigate the impact of our operations.

2017 was the inaugural year for the implementation of a new scorecard to measure our environmental performance which is distilled into an ECO score and which feeds through into the remuneration of our senior employees. By achieving this alignment, we are seeking to foster, and promote, 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 38 to 43.

Dr Graham Birch
Committee Chairman

Members*	Maximum possible attendance	Actual attendance
Roberto Dañino (Committee Chairman until his retirement from the Board on 11 May 2017)	2	2
Graham Birch (Non-Executive Director and Committee Chairman from 11 May 2017)	4	4
Michael Rawlinson (Non-Executive Director)	4	4
Ignacio Bustamante (Chief Executive Officer)	4	4

* during the year ended 31 December 2017.

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

Roberto Dañino stepped down as a member of the Committee on 11 May 2017. Graham Birch assumed the Chairmanship from that date.

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 36 to 43.

Remuneration Committee Report

"The Remuneration Committee's focus in 2017 was on the review of Hochschild's Remuneration Policy taking in best market practice and achieving closer alignment with strategy."

Dear Shareholder

The focus of the Remuneration Committee during 2017 was on our Directors' Remuneration Policy which we are submitting to shareholders for their approval at the forthcoming AGM.

The review of our existing policy was a wide-ranging one that took in all aspects of remuneration at Hochschild Mining with a view to (a) incorporating best market practice; and (b) achieving closer alignment between reward and the successful achievement of the Group's strategic objectives.

Further details on the Company's Remuneration Policy, the Committee's work in 2017 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 70.

Michael Rawlinson
Committee Chairman

Members*	Maximum possible attendance	Actual attendance
Enrico Bombieri (Non-Executive Director & Committee Chairman)	4	4
Graham Birch (Non-Executive Director)	4	4
Nigel Moore (Non-Executive Director)	2	2
Michael Rawlinson (Non-Executive Director)	2	2

* during the year ended 31 December 2017.

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

Nigel Moore ceased to be a member of the Committee following his retirement from the Board at the 2017 AGM on 11 May 2017 and Michael Rawlinson was appointed a member on that same date. On 1 January 2018, Michael Rawlinson assumed the Chair of the Committee following Enrico Bombieri's retirement from the Board, and Eileen Kamerick was appointed a member of the Committee.

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 unless otherwise directed 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 70.

Corporate Governance Report continued

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 2017

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
February	BMO Global Metals & Mining Conference
	2017 Annual Results presentation
	UK Roadshow
March	Citi Resources Conference
May	BoA Merrill Lynch Global Metals, Mining and Steel Conference
	Annual General Meeting
August	2017 Half-Yearly Results presentation
September	UK Roadshow
	Denver Gold Forum
December	NYC Roadshow
	Scotia Capital Conference

An extensive Investor Relations schedule resulted in management holding over 100 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.

2017 AGM

Notice of the 2017 AGM was circulated to all shareholders at least 20 working days prior to the meeting. 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

Supplementary information

Introduction

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

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

Share capital

Issued share capital

The issued share capital of the Company as at 1 January 2017 was 507,232,310 ordinary shares of 25 pence each ('shares'). No shares were issued during the year.

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 2017, 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	258,565,373[1]	–	50.976%
Majedie Asset Management Limited	25,441,448	5.02%	–
Vanguard Precious Metals and Mining Fund	25,333,018	–	4.994%
Van Eck Associates Corporation	24,715,437	–	4.87%

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

No further notifications have been received up until the date of this Annual Report.

Current share repurchase authority

The Company obtained shareholder approval at the AGM held in May 2017 for the repurchase of up to 50,723,231 shares which represented, at that time, 10% of the Company's issued share capital ('the 2017 Authority'). Whilst no purchases have been made by the Company pursuant to the 2017 Authority, it is intended that shareholder consent will be sought on similar terms at this year's AGM when the 2017 Authority expires.

Additional share capital information

This section provides additional information as at 31 December 2017.

(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.

Supplementary information continued

(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 (which, although in issue as at the balance sheet date, were subsequently redeemed earlier this year), 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) $100m Credit Agreement

Under the terms and conditions of the $100 million Credit and Guaranty Agreement between, amongst others, the Group and Scotiabank Peru S.A.A, a Change of Control obliges the Group to prepay all Advances (as defined in the agreement) unless any Lender notifies the Group that it is declining any such prepayment in which case the Advances owing to such declining Lender shall not be prepaid.

In summary, a Change of Control means an event or series of events by which: (a) the Permitted Holders (being Eduardo Hochschild, his spouse, either of their descendants or estate or guardian of any of the aforementioned, a trust for the benefit of one or more of the aforementioned or any entity controlled by any one or more of the aforementioned or investment vehicle for the primary benefit of any of them) shall for any reason cease, individually or in the aggregate, to control the Company; or (b) the Permitted Holders shall for any reason cease, individually or in the aggregate, to have the power to appoint at least a majority of the members of the Board of Directors or other equivalent governing body of the Company; or (c) the Company shall for any reason cease, directly or through one or more of its Subsidiaries, to be the 'beneficial owner' as so defined) of more than 50% of the Equity Interests in Compania Minera Ares S.A.C.

(c) 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 pro-rated 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 pari passu rights for losses arising from the payment of interim dividends on other shares.

Directors' Remuneration Report

Dear Shareholders

On behalf of the Board, I am pleased to present the Directors' Remuneration Report for the year ending 31 December 2017 which is split into three sections: this Annual Statement, the Directors' Remuneration Policy and the Annual Report on Remuneration.

From an operational perspective, 2017 was a successful year for the Company, with a record level of production overall and two of our mines, Inmaculada and our San Jose joint venture, having their best years to date. Our brownfield exploration programme has made good progress with, in particular, some encouraging new discoveries in the vicinity of the Inmaculada mine.

It is with sadness, however, that the year also represented a setback in terms of our safety record and, after investigation, it is clear that we must continue to embed a safety-first culture across all of our operations. More details on the programme that is being implemented can be found in the Safety section of the Sustainability Report.

Remuneration Policy review

This year we are seeking shareholder approval for a revised Directors' Remuneration Policy which appears on pages 71 to 76 and is the culmination of a wide-ranging review by the Remuneration Committee that took in all elements of executive remuneration at Hochschild Mining. The focus has been on incorporating features of good practice in light of specific investor feedback, as well as to reflect general trends in executive remuneration through, among other things, reaction to the work of the Executive Remuneration Working Group in its mission to simplify executive remuneration among the UK's larger companies.

I am pleased to be able to report on the resultant proposals which, subject to shareholder approval, will take effect from the forthcoming AGM. In particular, the new Remuneration Policy will extend the time horizon of the Long-Term Incentive Plan ('LTIP') such that the cash awards, upon vesting after three years, will be invested as to 50% in the Company's shares and will be required to be held for a further two years. In addition, we have reviewed the structure of the annual bonus scheme and, as a result, the level of payouts at the 'threshold' and 'target' levels of performance have been reduced thereby further incentivising the highest levels of performance. We have also increased the minimum shareholding requirement for Executive Directors from 200% to 250% of salary and, in recognition of prevailing best practice and the investor focus in this area, we have widened the scope of the Group's malus policy such that a wider variety of acts (or failure to act) may be brought within the Remuneration Committee's discretion to reduce incentive payouts.

The new Policy will be put to a binding shareholder vote at the forthcoming AGM, and the Annual Report on Remuneration will, as usual, be subject to an advisory vote by shareholders.

Remuneration decisions in 2017

For 2017, the CEO will receive an annual bonus of 125% of salary (equivalent to 83% of maximum). This bonus outcome reflects the Company's strong operational performance as set out above and, as explained later in this report, takes into account the Group's safety performance. A summary of performance against the bonus scorecard is included on page 80.

During 2017, the CEO was granted a Long-Term Incentive Plan award of 200% of salary. Vesting will be based on performance over the three financial years to 31 December 2019. Consistent with our approach for 2016 awards, 2017 awards will vest to the extent that relative TSR targets are achieved over the period.

Based on relative TSR performance to 31 December 2017, 100% of the 2015 LTIP award and 86.3% of the four-year tranche of the legacy 2014 Enhanced Long-Term Incentive Plan ('ELTIP') award will vest in early 2018. The high levels of vesting reflect the Company's strong long-term TSR performance over the three- and four-year periods to 2017.

Implementation of proposed Remuneration Policy in 2018

For 2018, the maximum annual bonus opportunity will remain 150% of salary. The bonus payment will be subject to performance against broadly the same measures as those used in 2017. An LTIP award of 200% of salary is proposed for 2018, in line with past years and while vesting will continue to be based on relative TSR to the mining sector, the LTIP time horizon will be extended as described above. Further detail on the implementation of Policy for 2018 is included on page 82.

I trust that shareholders will be supportive of the proposed changes to Remuneration Policy, and if you should have any queries or comments on the Policy or any aspect of this year's report, I would encourage you to contact me through the Company Secretary.

I hope you find this report to be informative.

Michael Rawlinson
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 ISS (Institutional Shareholder Services), the Investment Association and the Pensions and Lifetime Savings Association.

The Remuneration Committee is seeking shareholder approval for an updated Remuneration Policy at the 2018 AGM. The key changes to the previous Policy are as follows:

- The overall LTIP time horizon to be extended such that 50% of vested LTIP awards is paid immediately on vesting in cash (less tax), and 50% (after tax) is invested in Company shares and required to be held for a further two years
- Payout under the annual bonus for 'threshold' and 'target' performance to be reduced to up to 50% and up to 75% of maximum opportunity, respectively
- Use of the discretion granted under Listing Rule 9.4.2R to be limited to the maxima set out in the Policy Table (unless in relation to a buy-out), and limited to recruitment
- Widening of the malus policy to include a more extensive list of trigger events
- Clarification of the operation of Compensation for Time Services ('CTS'), as mandated by the Peruvian government

The Committee is also seeking shareholder approval for a new Long-Term Incentive Plan at the AGM, as the 2008 LTIP is due to expire in May 2018. The terms of the proposed LTIP are broadly consistent with those of the 2008 Plan. No other material changes to the Remuneration Policy are proposed at this time, though the wording of the Policy has been reviewed to ensure consistency with the relevant Plan Rules and clarity of its application. Subject to shareholder approval, the new Policy will become effective from the date of the 2018 AGM.

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').

The Committee takes into consideration the remuneration arrangements for the wider employee population in making its decisions on remuneration for senior executives. Remuneration decisions are also driven by external considerations, in particular relating to the global demand for talent in the mining sector.

This section of the report sets out the Remuneration Policy for Directors, which shareholders are asked to approve at the 2018 AGM. The Committee intends that this Policy will formally come into effect from approval at the 2018 AGM.

Policy Table

The table below provides a summary of each element of the Remuneration Policy for Executive Directors.

Element: objective and link to strategy	Operation	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.	To avoid setting expectations, there is no prescribed maximum salary. In respect of existing Executive Directors, it is anticipated that salary increases will generally be in line with the wider employee population. In exceptional circumstances (including, but not limited to, a material increase in job size or complexity, the reversal of a previous salary reduction, or if a Director has not received an increase for a number of years), the Committee has discretion to make appropriate adjustments to salary levels.	None.
	Executive Directors receive Compensation for Time Services ('CTS') and profit share, both of which are provided for by Peruvian law, as well as certain allowances which may include medical insurance, the use of a car and driver, and personal security.	CTS is a legal entitlement for employees in Peru which provides for a fund in the event of termination of employment. CTS in respect of base salary is calculated as one month's wages and is deposited biannually in an employee's interest-accruing bank account and prior to the end of employment, employees can gain access to the deposited amount to the extent it exceeds four months' wages. CTS in respect of other forms of remuneration such as incentive payouts, that are considered to be 'non-extraordinary', is currently calculated at a rate of 1/24th. For the profit share, an amount equal to 8% of the relevant Peruvian company's taxable income for the year is distributable to its employees. This amount is mandated by Peruvian law, and any increases are not within the control of the Group. The amount receivable by each Executive Director is determined with reference to annual base salary (plus the annual bonus, if any) and the number of days worked during the calendar year. The value of the other benefits varies by role and individual circumstances; eligibility and cost are reviewed periodically. The Committee retains the discretion to approve a higher cost of benefits in exceptional circumstances (for example relocation) or in circumstances where factors outside the Company's control have changed materially (for example increases in insurance premiums).	None.

Directors' Remuneration Report continued

Element: objective and link to strategy	Operation	Opportunity	Performance metrics
Annual bonus To achieve alignment with the Group's strategy and commitment to operating responsibly	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 individual performance. 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 ('DBP'), for up to three years. Deferred bonus is subject to malus, i.e. forfeiture or reduction, in circumstances such as material misstatement or gross misconduct. If deferral is applied, the Committee retains the discretion to allow dividends (or equivalent) to accrue over the deferral period in respect of the awards that vest.	The maximum annual bonus opportunity is 150% of salary. For 'threshold' and 'target' levels of performance, the bonus earned is up to 50% and up to 75% of maximum, respectively.	Performance is determined by the Committee by reference to Group financial measures as well as the achievement of personal/strategic objectives. The personal/strategic objectives are typically weighted no higher than 30% of maximum. The Committee retains discretion to vary year-on-year the weightings for individual measures, 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 and individual 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. Malus provisions apply, i.e. the Committee has the discretion to reduce bonus payments on the occurrence of an adverse event that is attributable (directly or indirectly) to an act or failure to act by the executive. Such events include those 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.
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	Awards are made annually, in the form of cash, with vesting subject to the attainment of specific performance conditions and continued employment. Awards have a performance and vesting period of at least three years. For LTIP awards made in 2018 and subsequent years, 50% of vested awards is paid immediately on vesting in cash (less tax), and 50% after tax is invested in Company shares and normally required to be held for a further two years. Dividends, if any, will accrue to shares during the holding period.	Maximum annual award level is 200% of salary (267% of salary in exceptional circumstances, such as to aid the recruitment or retention of an Executive Director).	The current performance condition is TSR performance relative to specific sector-based comparator groups, although the Committee has the discretion to adjust the performance measures and/or comparator groups before each cycle to ensure that they remain appropriate. Malus provisions apply, i.e. 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 act or failure to act, which is attributable (directly or indirectly) to an award-holder has resulted in, among other things, an adverse event related to health and safety, the environment or community relations. Details of the TSR comparator groups and targets used for specific LTIP grants 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, but within the limits sets out in the Policy Table, in order to facilitate the recruitment of an individual, exercising the discretion available under Listing Rule 9.4.2R.

The Committee also retains discretion to make non-significant changes to the Policy without going back to shareholders. The Committee is satisfied that the Remuneration Policy is in the best interests of shareholders and does not promote excessive risk-taking.

Notes to the Policy Table

Payments from existing awards

Executive Directors are eligible to receive payment from any award made prior to the approval and implementation of the Remuneration Policy detailed in this report (such as the vesting of Enhanced Long-Term Incentive Plan or Restricted Share Plan ('RSP') awards made under a previous Policy, or awards made prior to appointment to the Board). Details of any such payments will be set out in the Annual Report on Remuneration as they arise.

Performance measurement selection and approach to target-setting

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

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

The Committee considers relative TSR to be the most appropriate measure of long-term performance for the Company and together with the annual bonus measures, provide a balance between absolute and relative performance, between short-term and long-term performance measures, and between external and internal measures of performance. TSR aligns with the Company's focus on shareholder value creation and rewards management for outperformance of sector peers, and is transparent, visible and motivational to executives.

The Committee has discretion to vary the performance condition for in-flight awards in certain circumstances to ensure they continue to be fair, reasonable and no more or less difficult to satisfy than originally intended. For example, in the event of corporate activity amongst the TSR comparator group during a performance period, the Committee may make adjustments to the comparator group (for example, replacing that company with the acquiring company, including a substitute for that company, or tracking the future performance of that company by reference to the median of the remaining comparators). Other examples of special circumstances include but are not limited to rights issues, corporate restructuring, and special dividends. The Committee will also review the appropriateness of the performance conditions prior to each LTIP grant and reserves the discretion to set different targets for future awards without consulting with shareholders.

Remuneration Policy for other employees

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

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

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

All Peruvian employees participate in the statutory profit share scheme whereby an amount equal to 8% of the relevant Peruvian company's taxable income for the year is distributable to its employees. The amount receivable by each employee is determined with reference to their annual base salary and bonus, if any, and the number of days worked in the calendar year.

Selected senior employees participate in the LTIP and are required, subject to shareholder approval of the new plan, to invest 50% of the vested cash award (on a tax net basis) in the Company's shares and hold these shares for a further two years. These shares will count towards their target shareholding (expressed as a percentage of salary, which will be set depending on seniority).

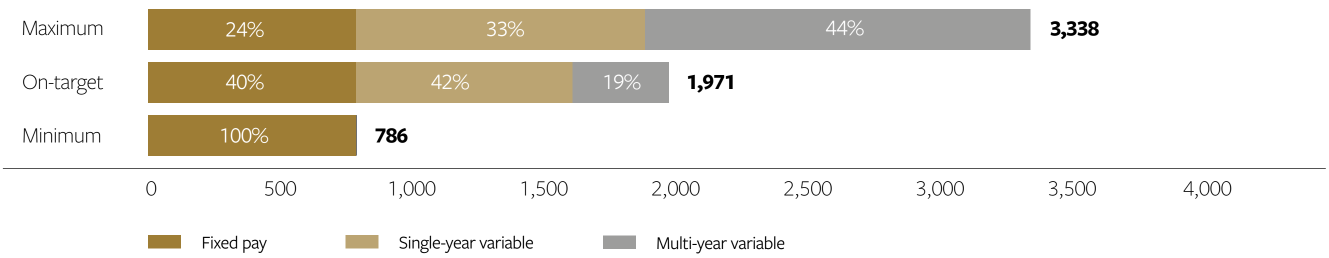
Directors' Remuneration Report continued

Pay scenario charts

The charts below provide an estimate of the potential future reward opportunities for the CEO, and the potential split between the different elements of remuneration under three different performance scenarios: 'minimum', 'on-target' and 'maximum'.

Potential reward opportunities are based on the proposed Remuneration Policy, applied to the CEO's base salary as at 1 March 2018 of $700,000.

Performance scenario ($'000)



The charts above exclude the effect of any Company share price appreciation.

The 'minimum' scenario shows base salary and benefits (that is, fixed remuneration), and associated CTS. These are the only elements of the CEO's remuneration package which are not at risk.

The 'on-target' scenario reflects fixed remuneration as above, plus a target payout of 75% of the annual bonus and threshold vesting of 25% of the maximum award under the LTIP, and associated CTS.

The 'maximum' scenario reflects fixed remuneration, plus full payout of all incentives, and associated CTS.

Approach to remuneration on recruitment or promotion

The Committee's policy is to set the remuneration package for a new Executive Director in accordance with the approved Remuneration Policy at the time of the appointment. The overarching aim is to ensure that the Company pays no more than is necessary to appoint individuals of an appropriate calibre.

In the cases of appointing a new Executive Director, the Committee may make use of any of the existing components of remuneration as set out in the Policy Table. In determining the appropriate remuneration for a new Executive Director, the Committee will take into consideration all relevant factors (including the nature of remuneration and where the candidate was recruited from) to ensure that arrangements are in the best interests of Hochschild and its shareholders. Where an individual is appointed on an initial base salary that is below market, any shortfall may be managed with phased increases over a period of time, subject to the individual's development in the role. This may result in above-average salary increases during this period.

In addition to the components of remuneration as set out in the Policy Table, the Committee may also make an award in respect of a new appointment to 'buy-out' incentive arrangements forfeited on leaving a previous employer on a like-for-like basis, having regard to the fair value of the instruments. In doing so, the Committee will consider relevant factors including any performance conditions attached to these awards and the likelihood of those conditions being met. The Committee aims to use the current remuneration structure in making recruitment awards, but in some cases it may be required to use the flexibility afforded by Listing Rule 9.4.2R, if appropriate, in relation to such buy-out awards.

In cases of appointing a new Executive Director by way of internal promotion, the Committee will determine remuneration in line with the Policy for external appointees as detailed above. Where an individual has contractual commitments made prior to his or her promotion to the Board, the Company will continue to honour these arrangements. Incentive opportunities for below-Board employees are typically no higher than for Executive Directors, but measures may vary to provide better line-of-sight. For more details on the Remuneration Policy for other employees, see page 73.

Service contracts

Executive Director	Date of service contract
Ignacio Bustamante	1 April 2007

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

Ignacio Bustamante was appointed a Director of the Company with effect from 1 April 2010 and is employed under a contract of employment with Compañia Minera Ares S.A.C. (Ares) dated 1 April 2007. The contract is subject to Peruvian law and, as such, has no fixed term and may be terminated (i) by the executive on 30 days' notice and (ii) by Ares without notice. Under Peruvian law, termination by Ares other than termination for certain prescribed reasons (such as gross negligence) gives rise to an entitlement to compensation of no less than 1.5 times the monthly base salary for each year of service completed, up to a maximum of 12 months' base salary. In addition to these provisions and to reflect Peruvian market practice, the Committee has discretion to award Ignacio Bustamante up to an additional 12 months' base salary on termination (other than for the prescribed reasons outlined above). The prevailing circumstances will be taken into consideration at the time of termination.

Leaver and change-of-control provisions

The table below summarises how the awards under the annual bonus and LTIP, as well as legacy plans, are typically treated in specific circumstances, with the final treatment remaining subject to the Committee's discretion. When considering the appropriate treatment, the Committee reviews all potential incentive outcomes to ensure they are fair to both shareholders and participants. Leaver provisions for awards granted prior to 2018 under the ELTIP and RSP are detailed in the previous Remuneration Policy.

Reason for leaving	Treatment of awards	Timing of vesting
Annual bonus		
Retirement, ill health, disability, death or any other reasons the Committee may determine in its absolute discretion	Cash bonuses will only be paid to the extent that Group and personal objectives set at the beginning of the year have been achieved. Any resulting bonus would typically be pro-rated for time served during the year. The Committee has discretion to determine as to whether deferral would be applied.	Normal payment date, although the Committee has discretion to accelerate
Change-of-control and company/business sale	The Committee would determine the most appropriate treatment in the circumstances. The Committee has discretion to determine as to whether deferral would be applied.	On date of event
Any other reason	No bonus is paid.	Not applicable
LTIP		
Retirement, ill health, disability, redundancy, injury or any other reasons the Committee may determine in its absolute discretion	Any outstanding awards will be pro-rated for time and performance, unless the Committee determines otherwise.	Normal vesting date, although the Committee has discretion to accelerate
Death	Any outstanding awards will be pro-rated for time and performance, unless the Committee determines otherwise.	On date of event
Change-of-control and company/business sale	Any outstanding awards will be pro-rated for time and performance, unless the Committee determines otherwise. On a change-of-control, Hochschild awards may alternatively be exchanged for new equivalent awards in the acquirer, where appropriate.	On date of event
Any other reason	Awards lapse.	Not applicable
DBP		
Death, ill health, disability, redundancy, injury, retirement with agreement of the Director, or any other reasons the Committee may determine in its absolute discretion	Any outstanding awards would typically be pro-rated for time.	On date of event
Change-of-control and company/business sale	Any outstanding awards would typically be pro-rated for time. On a change-of-control, Hochschild awards may alternatively be exchanged for new equivalent awards in the acquirer, where appropriate.	On date of event
Any other reason	Awards lapse.	Not applicable

The Remuneration Committee has discretion to determine the most appropriate treatment of vested LTIP awards that are subject to a holding period, based on the individual circumstances at the time.

Directors' Remuneration Report continued

Non-Executive Directors

The Group's Non-Executive Directors serve under Letters of Appointment as detailed in the table below. In accordance with their terms, the Non-Executive Directors serve for an initial period of three years which is automatically extended for further three-year terms. Notwithstanding this, 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	30 January 2015	1 January 2019
Dr Graham Birch	20 June 2011	1 July 2020
Jorge Born Jr.	16 October 2006	16 October 2018
Eileen Kamerick	9 September 2016	1 November 2019
Michael Rawlinson	18 December 2015	1 January 2019
Sanjay Sarma	13 December 2016	1 January 2020
Dionisio Romero Paoletti	18 December 2017	1 January 2021

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 on 1 January 2015, 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 typically effective from 1 March each year. The fee paid to the Chairman is determined by the Committee, and base fees to Non-Executive Directors are determined by the Board. Additional fees are payable for acting as Chairman of the Board's 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.	NED fees will typically 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.

In recruiting a new Non-Executive Director ('NED'), the Committee will use the Policy as set out in the table above. A base fee would be payable for Board membership, with additional fees payable for those acting as Chair of the Company's Board Committees and as Senior Independent Director, as appropriate.

External appointments policy

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

Details of external appointments and the associated fees received are included in the Annual Report on Remuneration.

Consideration of conditions elsewhere in the Company

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

Consideration of shareholder views

When determining remuneration, the Committee takes into account views of shareholders and best practice guidelines issued by institutional shareholder bodies. The Committee will continue to monitor trends and developments in corporate governance and market practice to ensure the structure of the executive remuneration remains appropriate.

The Committee is always open to feedback from shareholders on Remuneration Policy and arrangements, and commits to undergoing shareholder consultation in advance of any significant changes to Remuneration Policy. Further details on the votes received in respect of remuneration resolutions presented at last year's AGM and any matters discussed with shareholders during the year are provided in the Annual Report on Remuneration.

Annual Report on Remuneration

The following section provides details of how Hochschild's 2015 Remuneration Policy was implemented during the financial year ending 31 December 2017, and how the Remuneration Committee intends to implement the proposed Remuneration Policy in 2018. Any information contained in this section of the report that is subject to audit has been marked as such.

Remuneration Committee membership

The Remuneration Committee was chaired during the year under review by Enrico Bombieri, and its other members were Graham Birch and Nigel Moore until his retirement from the Board on 11 May 2017. Michael Rawlinson was appointed to the Remuneration Committee on 11 May 2017, and was subsequently appointed Chairman of the Committee from 1 January 2018 to succeed Enrico Bombieri. Eileen Kamerick was appointed a member of the Committee on that same date. The Remuneration Committee has comprised, at all times, of only 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 65) and undertook the items of business noted below.

Key activities of the Remuneration Committee in 2017:

- Considered external market developments and best practice in remuneration, and latest shareholder guidelines
- Reviewed and approved incentive outcomes for 2016 (2016 annual bonus and vesting of 2014 LTIP awards and the third tranche of 2011 ELTIP awards)
- Reviewed the CEO's total remuneration, including salary for 2017
- Considered and approved the 2016 Directors' Remuneration Report ('DRR')
- Considered investor feedback on the 2016 DRR
- Approved the opportunity/award level and performance targets for 2017 annual bonus and LTIP awards
- Reviewed the Remuneration Policy, LTIP and operation of the Annual Bonus Plan
- Reviewed and widened the malus policy for application across all incentives
- Considered and approved the CEO's 2018 objectives

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, Mercer Kepler. Mercer 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 Mercer 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 Mercer Kepler in respect of work carried out in 2017 (based on time and materials) totalled £44,405, excluding expenses and VAT.

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

Directors' Remuneration Report continued

Summary of shareholder voting at the 2017 AGM

The table below shows the results of the advisory vote on the 2016 Annual Report on Remuneration at the AGM on 11 May 2017:

	2016 Annual Report on Remuneration	
	Total number of votes	% of votes cast
For (including discretionary)	424,953,371	97.3%
Against	11,934,005	2.7%
Total votes cast (excluding withheld votes)	436,887,376	
Votes withheld	104,922	

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

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 2017 and the prior year:

	2017 (US$000)	2016 (US$000)
Base salary[1]	**700**	702
Taxable benefits[2]	**26**	42
Single-year variable[3]	**875**	875
Multiple-year variable[4]	**1,737**	904
Restricted shares[5]	**1,064**	779
Profit share[6]	**–**	–
Compensation for Time Service ('CTS')[7]	**212**[8]	165[9]
Tax refunds	**7**	7
Total	**4,621**	3,474[10]

1 Figures disclosed include certain statutory payments accounted for internally within base salary ('Statutory Supplements') as follows. 2017: $300, 2016: $2k.
2 Taxable benefits include: use of a car and driver (2017: $20k; 2016: $36k) and medical insurance (rounded to nearest $000).
3 Payment for performance during the year under the Annual Bonus Plan. See following sections for further details.
4 2017 value comprises: (a) the 2015 LTIP award of $1m will fully vest based on performance to 31 December 2017 and subject to continued employment on the vesting date, and (b) the four-year tranche of the 2014 ELTIP will vest as to 86.3% ($737k using the three-month average share price for the period ending 31 December 2017 of 235.1p) based on performance to 31 December 2017 and subject to continued employment on the vesting date. 2016 value comprises: 90.4% vesting from the 2014 LTIP award, and nil vesting from the six-year tranche of the 2011 ELTIP, based on performance to 31 December 2016.
5 2017 value comprises the second tranche of restricted shares granted on 30 December 2014 which vested on 30 December 2017 at a share price of 264p; the Committee determined that the individual performance underpin had been met. 2016 value comprises the first tranche of restricted shares granted on 30 December 2014 which 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.
7 For further details on CTS, see page 71.
8 Comprises: CTS on base salary ($58k), 2017 bonus ($36k), 2015 LTIP ($42k), second tranche of vested RSP awards ($44k) and first tranche of the 2014 ELTIP ($31k) (all rounded to nearest $000).
9 Comprises: CTS on base salary ($58k), 2016 bonus ($36k), 2014 LTIP ($38k) and first tranche of vested RSP awards ($32k) (all rounded to nearest $000).
10 Restated to reflect CTS associated with each element of remuneration earned in respect of 2016 rather than CTS paid in 2016.

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 2017 and the prior year:

	Base fee (US$000)		Additional fees (US$000)		Taxable benefits (US$000)		Total (US$000)	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Eduardo Hochschild[1]	**400**	400	**–**	–	**555**	501[2]	**955**	901
Dr Graham Birch	**74**	68	**–**	–	**–**	–	**74**	68
Jorge Born Jr[3]	**74**	68	**–**	–[3]	**–**	–	**74**	68
Eileen Kamerick	**74**	10	**10[4]**	–	**–**	–	**84**	10
Michael Rawlinson	**74**	68	**–**	–	**–**	–	**74**	68
Sanjay Sarma[5]	**74**	n/a	**–**	n/a	**–**	n/a	**74**	n/a
Former Directors								
Enrico Bombieri[6]	**74**	68	**12**	–	**–**	–	**86**	68
Roberto Dañino[7]	**23**	68	**100[8]**	240[8]	**4[8]**	8[8]	**127**	316
Nigel Moore[9]	**23**	68	**5[9]**	14[9]	**–**	–	**28**	82

1 Eduardo Hochschild was an Executive Director until 31 December 2014, and as reported in the 2015 report, Eduardo Hochschild retained eligibility to receive benefits following his transition to the Non-Executive Chairman role.
2 Restated to reflect the correct cost of personal security.
3 Jorge Born Jr 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 at that time.
4 Eileen Kamerick received an additional fee upon assuming the role of Chair of the Audit Committee on 11 May 2017 (see below for further details).
5 Sanjay Sarma was appointed to the Board on 1 January 2017.
6 Enrico Bombieri originally waived his entitlement to additional fees in his capacity as Senior Independent Director and Chairman of the Remuneration Committee up until 1 September 2017 when they were reinstated (see below for further details).
7 Roberto Dañino retired from the Board on 11 May 2017.
8 Pursuant to a contract between Mr Dañino and the Group dated 28 December 2010 in respect of his engagement as Special Adviser to the Chairman and the senior management team (a) an annual fee of $240,000 was payable and (b) certain benefits were provided including medical insurance. The contract was terminated on Mr Dañino's retirement from the Board.
9 Nigel Moore retired from the Board on 11 May 2017. Additional fees relate to the fees payable to Mr Moore as Chairman of the Audit Committee.

Salary and fee adjustments for the year ended 31 December 2017

Executive Director

The Committee reviewed the CEO's salary in 2017 and determined that no increase would be awarded.

Executive Director	Base salary from 1 March 2017 (US$000)	Base salary from 1 March 2016 (US$000)	Percentage increase
Ignacio Bustamante	**700**	700	0%

Base salaries above excludes CTS. Ignacio Bustamante's salary is denominated in US dollars.

Non-Executive Directors

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. The fees for the Non-Executive Directors excluding the Chairman were reviewed during the year. The Board determined that as a result of improved trading conditions and as permitted under the Group's Remuneration Policy, fees for Non-Executive Directors were reinstated to their levels prior to August 2013, when fees were reduced as part of the Group's cost-saving measures. The revised fees took effect from 1 September 2017.

A summary of current fee levels is provided below:

Fee	Current fee (effective from 1 September 2017)	Fee from 1 January 2017	Percentage increase
Chairman fee	**US$400,000**	US$400,000	0%
Base fee	**£70,000**	£50,000	40%
Additional fees	**£14,000**	£10,000	40%

Enrico Bombieri had waived his right to the additional fees to which he was entitled as Chairman of the Remuneration Committee and Senior Independent Director until 1 September 2017, when they were reinstated.

Directors' Remuneration Report continued

Incentive outcomes for the year ended 31 December 2017 (audited)

Annual bonus in respect of 2017 performance

Objectives for the 2017 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 November Committee meeting, which was confirmed in February 2018.

Further details of the bonus paid to the CEO for 2017, including the specific performance metrics, weightings and performance against each of the metrics, are provided in the table below:

Objective	KPI	Target weighting	Targets			Performance assessment
			Threshold	Target	Maximum	
Profitable production and financial results	Production	30%	N/A	37m Oz Aq Eq	37.9m Oz Aq Eq	38m Oz Ag Eq
	EBITDA[1]	15%	US$220m	US$241m	US$250m	US$242m
	All-in sustaining cost (AISC)	15%	US$13.5 Oz	US$12.5 Oz	US$12.3 Oz	US$12.3 Oz
	Brownfields – inferred resources (subject to permitting)	10%	52m Oz Ag Eq	70m Oz Aq Eq	88m Oz Aq Eq	60.4m Oz Ag Eq
Safety & Environmental awareness	Frequency rate (LTIFR)	15%	3.00	2.50	2.00	2.69
	Accident Severity Index	10%	540	450	300	1,264
	ECO score[2]	5%	3.0 – 3.29	3.3 – 3.49	> 3.5	4.75

1 Adjusted as described in the final paragraph below.
2 Please refer to the Sustainability Report on page 43 for further details on the methodology of calculating the Group's ECO score (the internally designed measurement of the Company's environmental performance).

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 2017. A number of adjustments were made in line with the Company's usual practice to (a) 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), the higher provision for vesting of LTIP awards (based on relative Total Shareholder Return), and any budgetary additions approved by the Board, and (b) acknowledge other factors outside of management's control which, in the context of the Brownfields objective, meant the delays by the governmental authorities to process permitting applications for exploration activity. In addition, the Committee considered the Group's safety performance during the year and concluded that the impact on the CEO's bonus entitlement resulting directly from the failure to meet the objective on accident severity represented an appropriate reduction in remuneration. The Committee's assessment of performance resulted in the award of a bonus to the CEO of 125% of salary (83% of maximum).

2015 LTIP vesting

On 18 March 2015, 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 The 2015 LTIP peer group comprises: 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 Company's TSR in the performance period between 1 January 2015 and 31 December 2017 ranked 86th percentile versus that for the tailored peer group and outperformed the median of the constituents of the FTSE350 Mining Index by c.26% per annum. The Committee also considered the overall underlying business performance of the Company over the period, and concluded that given the impact on the CEO's 2017 bonus as a result of the Group's safety performance during the year, there should be no further adjustment to the formulaic vesting outcome in respect of the 2015 LTIP award. Therefore, 100% of the award will vest on 18 March 2018, subject to continued employment on that date.

2014 ELTIP vesting

On 20 March 2014, Ignacio Bustamante was granted an award of 1,076,122 shares under the 2014 ELTIP (as adjusted for the rights issue in October 2015). 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 2014 to 31 December 2017 in respect of 25% of the award 1 January 2014 to 31 December 2018 in respect of 25% of the award 1 January 2014 to 31 December 2019 in respect of 50% of the award
Vesting dates (subject to performance)	20 March 2018 in respect of 269,030 shares 20 March 2019 in respect of 269,030 shares 20 March 2020 in respect of 538,062 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, Hecla Mining, Highland Gold, IAMGOLD, Kinross Gold, Newmont Mining, Pan American Silver, Petropavlovsk, Polymetal, Randgold Resources, and Silver Standard Resources

The Company's TSR in the performance period between 1 January 2014 and 31 December 2017 ranked 82nd percentile versus that for the tailored peer group. The Committee also considered the overall underlying business performance of the Company over the period, and concluded that given the impact on the CEO's 2017 bonus as a result of the Group's safety performance during the year, there should be no further adjustment to the formulaic vesting outcome in respect of this tranche of the 2014 ELTIP award. Therefore, 86.3% of the award will vest in March 2018, subject to continued employment on the vesting date.

Scheme interests awarded in 2017 (audited)

On 8 March 2017, Ignacio Bustamante was granted a cash-settled award under the LTIP with a face value of $1.4 million.

Vesting is dependent on three-year relative TSR from 1 January 2017 to 31 December 2019, 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	8 March 2017	1 January 2017 to 31 December 2019	$1,400,000	$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 The 2017 LTIP peer group comprises: 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.

Directors' Remuneration Report continued

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 2018
A summary of how the proposed Remuneration Policy will be applied for the year ended 31 December 2018, subject to shareholder approval, is provided below.

Salary
The Committee reviewed the CEO's salary and has determined that it shall remain unchanged at US$700k (excluding CTS).

Annual bonus
The maximum annual bonus opportunity for the CEO for the 2018 financial year will remain 150% of salary. The bonus payment will be subject to performance against broadly the same measures as those used in 2017. Further disclosure of measures and targets, where not commercially sensitive, will be provided in next year's Annual Report on Remuneration. As referred to in the Chairman's Statement and Remuneration Policy, effective from the 2018 bonus, payout for 'threshold' and 'target' performance will be reduced to 50% (from 67%) and to 75% (from 83%) of the maximum opportunity, respectively.

As in prior years, the Committee will use its judgement to determine the overall scorecard outcome based on the achievement of the targets and a broad assessment of Company and individual performance. The Committee reviewed the Company's malus policy during the year, and agreed to widen the policy to include a more extensive list of trigger events, including but not limited to material misstatement, material failure of risk management, gross misconduct, action or omission resulting in serious reputational damage. The revised malus provisions will apply to all incentives, including the annual bonus, effective from 2018.

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
Subject to shareholder approval, the Committee will make awards in 2018 within the maximum limits described in the proposed Remuneration Policy. The performance conditions will be the same as for 2017 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.

As referred to in the Chairman's Statement and Remuneration Policy, effective from awards made in 2018, the LTIP time horizon will be extended such that 50% of a vested LTIP award will be paid immediately in cash, with remaining 50% invested (on an after tax basis) in the Company's shares which are required to be held for a further two years.

Revised malus provisions apply to LTIP awards granted in 2018 and subsequent years on the same basis as that described in the annual bonus section.

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]
	2017	**2016**	**% change**	**% change**
Base salary[2]	**700**	700	0%	7.9%
Taxable benefits	**26**	42	-38.1%	n/a
Single-year variable	**875[3]**	875[3]	0%	10.5%[4]

1 'Other employees' comprise full-time salaried employees in Peru.
2 Base salary only (ie excluding Statutory Supplements – see footnote 1 to table on Single total Figure of Remuneration for Executive Directors on page 78).
3 The CEO's bonus is calculated with reference to base salary only, i.e. before CTS and tax rebates.
4 Estimated figure due to the unavailability of final actual data as at the date of this report.

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 2016 to the financial year ended 31 December 2017.

Distribution to shareholders (US$000)			Employee remuneration (US$000)		
2017	**2016**	**% change**	**2017**	**2016**	**% change**
17,000[1]	14,000[1]	21.4%	166,994	143,891	16.06%

1 Which, for each year shown, comprises the interim dividend and the final dividend (or in the case of 2017, the proposed final dividend).

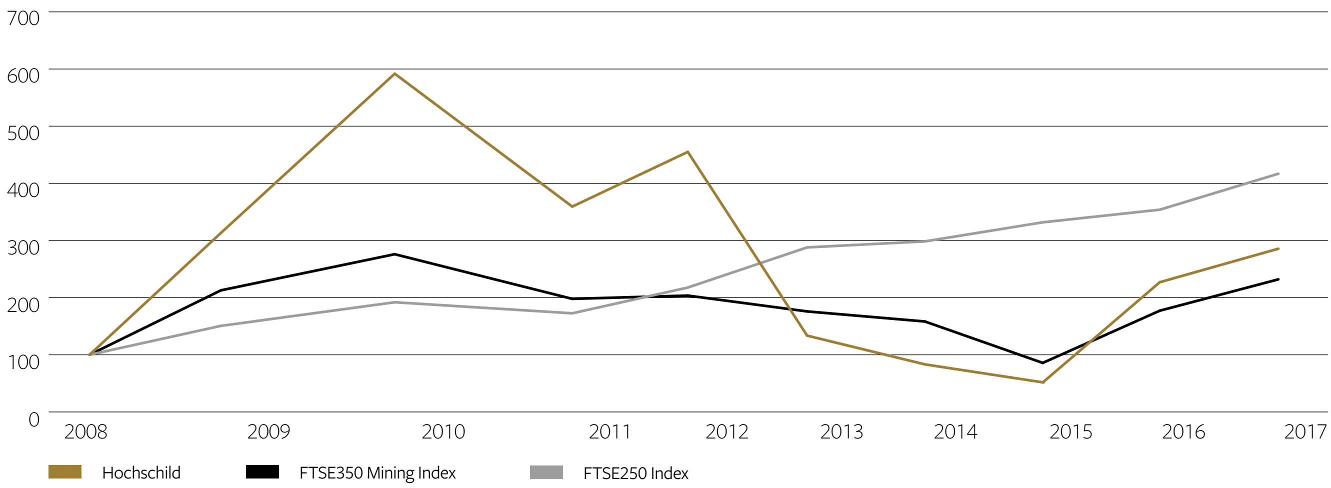
The Directors are recommending the payment of a final dividend of US$10m for the year ended 31 December 2017.

Pay for performance

The following graph shows the TSR for the Company compared to the FTSE350 Mining Index and FTSE250 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 FTSE250 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

Growth in the value of a hypothetical £100 holding over the 9 years to 31 December 2017



	2009	**2010[1]**	**2010[1]**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
CEO	Miguel Aramburú	Miguel Aramburú	Ignacio Bustamante	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	3,474[2]	4,621
Annual bonus outcome (% of maximum)	100%	46%	100%	100%	90%	81%	67%	67%	83%	83%
LTI vesting outcome (% of maximum)	0%	0%	47% (LTIP)	0%	98% (LTIP)	0%	0%	0%	0% (ELTIP) 90% (LTIP)	86% (ELTIP) 100% (LTIP)

1 Miguel Aramburú resigned on 31 March 2010. Ignacio Bustamante was appointed on 1 April 2010.
2 See footnote 10 to table in section entitled 'Single total figure of remuneration for Executive Directors' on page 78.

Directors' Remuneration Report continued

Directors' interests (audited)

The interests of the Directors and their families in the ordinary shares of the Company as at 31 December 2017 are detailed in the table below.

The Company has adopted shareholding guidelines whereby all Executive Directors (currently only the CEO) are required to acquire and retain a beneficial shareholding in the Company equal to at least 200% of base salary. The guideline has been increased to 250% to take effect from the 2018 AGM for additional shareholder alignment. The CEO is required to invest 20% of a vested LTIP award (on a net basis) and retain 50% of the after-tax vested ELTIP shares until such time as he has met the shareholding guideline. In respect of awards granted under the proposed LTIP in 2018 and future years, the CEO will be required to invest 50% of a vested LTIP award (on a net basis) regardless of his achievement of the shareholding guideline.

	Shares held							
	Owned outright or vested at 31 Dec 2016 (or date of appointment if later)	Owned outright or vested at 31 Dec 2017 (or date of retirement if earlier)	Vested but subject to holding period	Unvested and subject to performance conditions	Unvested and subject to deferral only	Shareholding requirement (% of salary)	Current shareholding (% of salary)	Requirement met?
Ignacio Bustamante	531,751	650,448	0	1,971,066	40,383	200%[1]	331%[2]	Yes
Eduardo Hochschild	274,065,373	258,565,373						
Dr Graham Birch	33,750	33,750						
Jorge Born Jr	–	–						
Eileen Kamerick	–	–						
Michael Rawlinson	–	–						
Sanjay Sarma	–	–						
Former Directors								
Enrico Bombieri	–	–						
Roberto Dañino	275,000	275,000						
Nigel Moore	68,750	68,750						

1 Shareholding guideline will increase to 250% of base salary from the 2018 AGM.
2 Using the Company's closing share price and GBP/USD exchange rate as at 29 December 2017 (being the last trading day of the year) of 264p and £1:$1.351 respectively.

Other than the issuance of 298,314 shares to Ignacio Bustamante on 2 January 2018 following the vesting of RSP awards on 30 December 2017, there have been no changes to Directors' shareholdings since 31 December 2017.

Directors' interests in share options, shares and cash awards in Hochschild long-term incentive plans and all employee plans

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

	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]	16.03.16	87p	Nil	40,383	£35,133	n/a	16.03.17
	16.03.16	87p	Nil	40,383	£35,133	n/a	16.03.18
2014 ELTIP	20.03.14	155p	Nil	269,030	£416,996	01.01.14 – 31.12.17	20.03.18
2014 ELTIP	20.03.14	155p	Nil	269,030	£416,996	01.01.14 – 31.12.18	20.03.19
2014 ELTIP	20.03.14	155p	Nil	538,062	£833,996	01.01.14 – 31.12.19	20.03.20
2014 LTIP	12.03.14	n/a	n/a	n/a	$1m	01.01.14 – 31.12.16	12.03.17
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
2017 LTIP	08.03.17	n/a	n/a	n/a	$1.4m	01.01.17 – 31.12.19	08.03.20
RSP[4]	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 values of equity-settled incentives are stated in Pounds Sterling, and 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). These figures have been updated for the October 2015 rights issue.
3 50% of the 2016 DBP award (which relates to the deferred portion of the 2015 annual bonus) vested in March 2017 and the balance will vest in March 2018, subject to continued employment.
4 This second tranche of the 2014 RSP vested on 30 December 2017.

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

The table below details the fees received and retained by Ignacio Bustamante, as the only Executive Director in office during 2017, in respect of his external Directorships.

Name of company	Fee received
Caral Edificaciones SAC	US$5,000
Profuturo AFP	US$38,500
Scotiabank Peru SAA	US$36,000

Signed on behalf of the Board

Michael Rawlinson
Chairman of the Remuneration Committee
20 February 2018

Statement of Directors' Responsibilities

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

Company law requires the Directors to prepare Group and parent company financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with International Financial Reporting Standards ('IFRS') as adopted by the EU.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the parent company and of their profit or loss for that period. In preparing those financial statements, the Directors are required to:

– select suitable accounting policies and then apply them consistently

– make judgements and estimates that are reasonable and prudent;

– state whether applicable IFRS have been followed, subject to any material departures disclosed and explained in the financial statements; and

– prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities. Under applicable law and regulations the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' remuneration report and Corporate governance statement that comply with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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

Opinion

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 2017 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (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.

We have audited the financial statements of Hochschild Mining plc which comprise:

Group	Parent company
Consolidated statement of financial position as at 31 December 2017	Statement of financial position as at 31 December 2017
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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Use of our report

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.

Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the Annual Report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the Annual Report set out on page pages 44 to 48 that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation set out on page 62 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 Directors' statement set out on page 54 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 12 months from the date of approval of the financial statements;
- whether the Directors' statement in relation to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R (3) is materially inconsistent with our knowledge obtained in the audit; or
- the Directors' explanation set out on page 49 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.

Overview of our audit approach

Key audit matters	– 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 three components, for two components we performed audit procedures on specific accounts and for the remaining 13 components we performed other audit procedures – The components where we performed full or specific audit procedures accounted for 97% of Adjusted EBITDA (on absolute basis), 100% of Revenue and 96% of Total assets
Materiality	– Overall Group materiality of US$6.0m (2016: US$6.3m) which represents approximately 2% of Adjusted EBITDA

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

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 61); Accounting policies (page 99); and note 16 (page 120), 17 and 18 of the Consolidated Financial Statements (page 122)
 	
At 31 December 2017 the carrying value of the Group's mining assets were:
 	
– Property, plant and equipment: US$895.7m (2016: US$975.5);
– Evaluation and exploration assets: US$147.4 (US$139.0); and
– Intangible assets: US$24.5m (2016: US$26.4m).
 	
IFRS requires companies to test their non-current assets, by cash-generating unit (CGU) or relevant group of CGUs, for impairment whenever an indicator exists.
 	
Additionally, IFRS requires testing the CGUs for impairment reversal at the end of each reporting period by assessing whether there is any indicator that an impairment loss recognised in prior periods (for an asset other than goodwill) may no longer exist, or may have decreased.
 	
For the Group, the appropriate level of CGUs are:
 	
– Operating mines: Arcata, Pallancata, Inmaculada and San Jose; and
– Advanced exploration projects: San Felipe, Volcan, Azuca and Crespo.
 	
The Volcan CGU includes an intangible asset with an indefinite useful life and therefore is tested for impairment at least annually and whenever there is an indication that the asset might be impaired.
 	
Indicators of impairment were identified in 2017 with respect to the Arcata CGU and indicators of impairment reversals were identified with respect to the Pallancata and San Felipe CGUs:
 	
– The Arcata mine unit experienced significant decrease in production during the year as well as difficulties to replace production with the conversion of resources into reserves.
– At Pallancata there was an increase in resources and reserves as well as in production resulting in an increase in tonnage and grades.
– At San Felipe the significant increase in zinc market prices over the year resulted in an increase in the value of the project, together with the proceeds received in connection to the Group's option agreement to sell San Felipe.
 	
As consequence of the above indicators, management estimated the recoverable amount of these assets which resulted in the recognition of an impairment charge of $43.0m in respect of the Arcata CGU and impairment reversals of $31.9m and $8.4m in respect of Pallancata and San Felipe CGUs, respectively.
 	
There is a risk that the carrying values of the Group's mining assets might not be recoverable or could require additional reversal of impairments previously recognised. This risk has increased relative to the prior year as a result of the impairments and impairment reversals recognised during the year.
	Our approach focused on the following procedures:
	
	– Obtained an understanding of management's process and key controls over impairment of mining assets, and walked through the process in order to assess their design effectiveness in supporting the prevention, detection or correction of material errors in the financial statements
	– Obtained management's assessment of whether any indicators of impairment or reversal of impairment were present during 2017, following the requirements of IAS 36 and IFRS 6
	– We corroborated the validity and completeness of the indicators identified by management. For this purpose, we considered management's assessment by reference to our knowledge of the business and the following procedures:
	  – We compared and assessed the changes to the spot and analyst forecasts of future gold and silver prices between 31 December 2016 and 31 December 2017
	  – We obtained and tested relevant support of management's position on market interest rates and other macro-economic factors
	  – For all operating mines, we assessed the economic performance of the CGUs during the year and identified progress against approved mine plans and budgets, taking into account updated reserves and resources estimates
	  – For exploration projects we obtained an understanding of management's plans to recover the carrying value in full from successful development or by sale
	– We obtained the recoverable value models from management for all those CGUs requiring a full impairment assessment and assessed the appropriateness of the methodology applied in preparing the model as well as the arithmetical accuracy of management's model
	– With respect to the recoverable value model for the Arcata and Pallancata CGUs, we performed the following procedures:
	  – We challenged the appropriateness of key assumptions such as price, production volumes, grades, operating cost and capex by comparing to third party/independent sources or other evidence and performed sensitivity analyses on significant inputs
	  – We agreed the main inputs to approved mine plans or budgets, and compared them with historical actual figures where appropriate
	  – We involved our valuation specialists to assist us in assessing the appropriateness of the discount rate used in the calculation
	– With respect to the recoverable value model for the San Felipe and Volcan CGUs, we agreed the main inputs used to information from third party/independent sources.
	– In addition, for the Volcan CGU, we involved our valuation specialists to assist us in assessing the appropriateness of the methodology applied to determine the carrying value of the CGU as well as the key assumption used therein
	– We compared the calculated recoverable value to the associated carrying value, assessing whether any impairment charges, or reversal of previously recognised impairment charges, were necessary
	  – Furthermore, we 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 and impairment assessment for the Group's CGUs has been carried out appropriately and in accordance with the requirements of IFRS.
		
		We further concluded that the significant assumptions used in the recoverable value models prepared by management were appropriate, and when applicable, fell within the range of acceptable outcomes.
		
		Based on the procedures performed, we concur with management's conclusion to recognise an impairment charge and impairment reversals on the relevant CGUs. Furthermore, we concur with management's assessment that the carrying value of the Volcan CGU is neither further impaired nor requires a reversal of impairment as at 31 December 2017.
		
		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 61); Accounting policies (page 99); and note 5 of the Consolidated Financial Statements (page 113) For the year ended 31 December 2017 the Group recognised revenue from operations of US$722.6m (2016: US$688.2m). The significant number of sales transactions and complex terms under which title, risks and rewards pass to the customer increases the risk of 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. In particular: – Cut-off: the complexity of terms that define when title, risk and reward are transferred to the customer, as well as the high value of the transactions, give rise to the risk that revenue is not recognised in the correct period. – Measurement: at each reporting period there are a number of open invoices that are provisionally priced including the estimate of silver and gold in the concentrate sold and the forward pricing of those sales. Estimation is used in the valuation of the embedded derivative and the income statement impact of the mark to market movement which is recorded in revenue. This calculation is based on estimations and susceptible to potential manipulation The risk relating to revenue recognition has remained stable in comparison to the prior year as no significant changes were noted in sales agreements.	Our approach focused on the following procedures: – Obtained an understanding of the key controls around the revenue recognition process sufficient to assess its design effectiveness in supporting the prevention, detection or correction of material errors in the reported revenue figures – Tested the operating effectiveness of key controls at one component (where this was deemed a more efficient approach than substantive testing, after considering the number of sales transactions), 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. This included: agreeing the main inputs to supporting evidence (such as provisional and final invoices, credit/debit notes, bill of ladings, market prices, agreements and bank statements), recalculating the amounts invoiced and recorded as revenue, performing cut-off testing to ensure revenue is recognised in the correct period – For open sales where provisional pricing applies, we verified with external sources that inputs used were appropriate and recalculated the provisional price adjustment to ensure it was correctly measured – Investigated and understood the nature of any significant credits raised post year-end to ensure that transactions were recorded at the correct value in the relevant period – Tested reconciliation of year-end inventory by agreeing the movements of production and sales transactions to the respective reports – Read and assessed the financial statements disclosures to ensure that presentation and all the disclosure requirements in respect of revenue and the provisional pricing have been included 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 Group has appropriately accounted for the revenue transactions in accordance with IFRS, including the appropriate determination of the provisional pricing adjustment.
Mine rehabilitation provisions Refer to the Audit Committee Report (page 61); Accounting policies (page 99); and note 26 of the Consolidated Financial Statements (page 128) At 31 December 2017 management has recorded a mine rehabilitation provision of US$100.1m (2016: US$102.4m). 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 in assessing the method, timing and quantum of the cash flows required to rehabilitate mines, this is an area of audit focus. The risk relating to mine rehabilitation provisions has remained stable in comparison to the prior year, however as certain mines are approaching the end of life, this matter still had a greater effect on directing the efforts of the engagement team and therefore we consider it as a key audit matter.	Our approach consisted of the following procedures: – Obtained an understanding of management's process to estimate the future restoration costs – Obtained a detailed understanding 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 – Assessed the objectiveness and competence of the external and internal specialists used by management – Understood the main changes or lack of changes in estimates and new restoration costs and challenged the rationale 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 mine rehabilitation provision, including assessing the appropriateness of the discount rate applied by agreeing the nominal risk free rate according to the life of each mine unit to independent sources – Assessed the appropriateness of 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 on two full scope components, covering 99% 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 the judgements and assumptions made by management and the external specialists to be reasonable.

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

The key audit matters included in our auditor's report are consistent with those included in prior year.

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.

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determines 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, risk profile, the organisation of the Group and effectiveness of Group-wide controls, changes in the business environment and other factors such as recent internal Audit results 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 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.

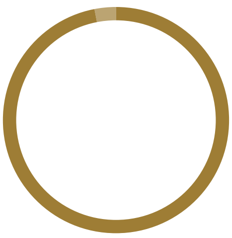
We performed an audit of the complete financial information for three components ('full scope components') which were selected based on their size or risk characteristics. In addition to this, for two components ('specific scope components') we performed audit procedures on specific accounts within those components that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile.

The reporting components where we performed audit procedures accounted for 97% (2016: 97%) of the Group's Adjusted EBITDA (on an absolute basis), 100% (2016: 100%) of the Group's Revenue and 96% (2016: 96%) of the Group's Total assets. For the current year, the full scope components contributed 97% (2016: 97%) of the Group's Adjusted EBITDA, 100% (2016: 100%) of the Group's Revenue and 89% (2016: 90%) of the Group's Total assets. The specific scope components contributed 7% (2016: 6%) of the Group's Total assets. The audit scope of these components may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant accounts tested for the Group.

Of the remaining 13 components that together represent 3% of the Group's Adjusted EBITDA, none are individually greater than 2% of the Group's Adjusted EBITDA. For these components, we performed other procedures, including analytical reviews, testing of consolidation journals and enquiry of management about unusual transactions in these components, to respond to any potential risks of material misstatement to the Group financial statements.

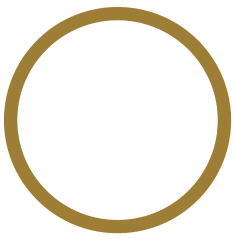
The reporting components where we performed audit procedures represented:

Adjusted EBITDA



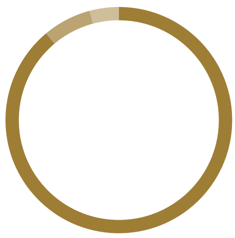
- **97%** Full scope components
- **3%** Other procedures

Revenue



- **100%** Full scope components

Total assets



- **89%** Full scope components
- **7%** Specific scope components
- **4%** Other procedures

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 one of these directly by the primary audit team. For the two specific scope components, the primary audit team performed the audit procedures.

The Group audit team continued to follow a programme of planned visits that has been designed to ensure that the Senior Statutory Auditor visits each of the primary operating locations where the Group audit scope was focused. During the current year's audit cycle, visits were undertaken by the primary audit team, including the Senior Statutory Auditor, to the component team in Peru and by the Senior Statutory Auditor to the component team in Argentina. These visits involved discussing the audit approach with the component team and any issues arising from their work and meetings with local management. In addition, the primary team interacted regularly with the component teams where appropriate during various stages of the audit, were responsible for the scope and direction of the audit process, attended closing meetings either in person or by call and reviewed key audit working papers on risk and other areas. 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

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$6.0 million (2016: US$6.3 million), which is approximately 2% (2016: 2%) of the Group's Adjusted EBITDA. We believe 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.

We determined materiality for the parent company to be US$21.1 million (2016: US$16.4 million), which is 1% (2016: 1%) of Equity. The parent company materiality is higher than the Group materiality as it is based on Equity, which we considered to be an appropriate basis for materiality for a holding company, as the users of the financial statements focus on a capital-based measured.

Starting basis	– Profit from continuing operations before exceptional items, net of 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$300.8m – Materiality: 2% of Adjusted EBITDA – US$6.0m

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, our judgement was that performance materiality was 75% (2016: 75%) of our planning materiality, namely US$4.5 million (2016: US$4.7 million). 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$2.2 million to US$3.8 million (2016: US$3.0 million to US$3.8 million).

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$300k (2016: US$315k), 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.

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

Other information
The other information comprises the information included in the Annual Report set out on pages 1 to 86, including the Strategic Report and Governance sections (including Directors' Report, Corporate Governance Report, Supplementary Information, Directors' Remuneration Report and Statement of Directors' Responsibilities), other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- **Fair, balanced and understandable set out on page 54** – the statement given by the Directors that they consider the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit Committee reporting set out on pages 59 to 62** – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code set out on page 55** – the parts of the Directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the Auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Opinions 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.

In our opinion, 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
In the light of the knowledge and understanding of the Group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in:

- the Strategic Report or the Directors' Report; or
- the information about internal control and risk management systems in relation to financial reporting processes and about share capital structures, given in compliance with rules 7.2.5 and 7.2.6 of the FCA Rules.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

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

Responsibilities of Directors
As explained more fully in the Directors' Responsibilities Statement set out on page 86, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

The objectives of our audit, in respect to fraud, are: to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant which are directly relevant to specific assertions in the financial statements are those related to the report framework (IFRS, the Companies Act 2006 and UK Corporate Governance Code) and the relevant tax compliance regulations in UK, Peru and Argentina.
- We understood how Hochschild Mining plc is complying with those legal and regulatory frameworks by making enquiries of management, internal audit, those responsible for legal and compliance procedures and the Company Secretary. We corroborated our enquiries through our review of Board minutes and papers provided to the Audit Committee.
- We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur by meeting with management from various parts of the business to understand where it is considered there was a susceptibility of fraud. We also considered performance targets and their propensity to influence on efforts made by management to manage earnings. We considered the programmes and controls that the Group has established to address risks identified, or that otherwise prevent, deter and detect fraud; and how senior management monitors those programmes and controls. Where the risk was considered to be higher, we performed audit procedures to address each identified fraud risk. These procedures included testing manual journals and were designed to provide reasonable assurance that the financial statements were free of fraud or error.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations identified in the paragraphs above. Our procedures involved: journal entry testing, with a focus on manual consolidation journals and journals indicating large or unusual transactions based on our understanding of the business; enquiries of legal counsel, Group management, internal audit and all full and specific scope management; and focused testing, as referred to in the key audit matters section above.
- In addition, we concluded that there are certain significant laws and regulations which may have an effect on the determination of the amounts and disclosures in the financial statements being the Listing Rules of the UK Listing Authority, and those laws and regulations relating to health and safety and environmental matters.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our Auditor's report.

Other matters we are required to address

- We were appointed by the Company on 16 October 2006 to audit the financial statements of the Company for the period ending 31 December 2006 and subsequent financial periods. Following a competitive tender process, we were reappointed as Auditor of the Company for the period ending 31 December 2016 and subsequent financial periods.
- The period of total uninterrupted engagement including previous renewals and reappointments is 12 years, covering periods from our initial appointment in 2006 through to the year ended 31 December 2017.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the parent company and we remain independent of the Group and the parent company in conducting the audit.
- The audit opinion is consistent with the additional report to the Audit Committee.

Mirco Bardella
Senior statutory auditor
for and on behalf of Ernst & Young LLP, Statutory Auditor, London
20 February 2018

Consolidated income statement

For the year ended 31 December 2017

		Year ended 31 December 2017			Year ended 31 December 2016		
	Notes	Before exceptional items US$000	Exceptional items (note 11) US$000	Total US$000	Before exceptional items US$000	Exceptional items (note 11) US$000	Total US$000
Continuing operations							
Revenue	3,5	**722,572**	**–**	**722,572**	688,242	–	688,242
Cost of sales	6	**(549,049)**	**–**	**(549,049)**	(487,702)	–	(487,702)
Gross profit		**173,523**	**–**	**173,523**	200,540	–	200,540
Administrative expenses	7	**(51,283)**	**–**	**(51,283)**	(47,979)	–	(47,979)
Exploration expenses	8	**(17,199)**	**–**	**(17,199)**	(9,193)	–	(9,193)
Selling expenses	9	**(11,024)**	**–**	**(11,024)**	(14,175)	–	(14,175)
Other income	12	**10,192**	**–**	**10,192**	33,131	2,667	35,798
Other expenses	12	**(11,549)**	**–**	**(11,549)**	(13,858)	(10,675)	(24,533)
Impairment and write-off of non-current assets, net	11	**(405)**	**(2,753)**	**(3,158)**	(278)	(1,634)	(1,912)
Profit/(loss) from continuing operations before net finance income/(cost), foreign exchange loss and income tax		**92,255**	**(2,753)**	**89,502**	148,188	(9,642)	138,546
Finance income	13	**5,927**	**–**	**5,927**	1,100	974	2,074
Finance costs	13	**(26,095)**	**–**	**(26,095)**	(30,541)	–	(30,541)
Foreign exchange loss		**(5,257)**	**–**	**(5,257)**	(1,800)	–	(1,800)
Profit/(loss) from continuing operations before income tax		**66,830**	**(2,753)**	**64,077**	116,947	(8,668)	108,279
Income tax (expense)/benefit	14	**(13,475)**	**3,279**	**(10,196)**	(47,641)	2,224	(45,417)
Profit/(loss) for the year from continuing operations		**53,355**	**526**	**53,881**	69,306	(6,444)	62,862
Attributable to:							
Equity shareholders of the Company		**41,035**	**526**	**41,561**	53,154	(7,604)	45,550
Non-controlling interests		**12,320**	**–**	**12,320**	16,152	1,160	17,312
		53,355	**526**	**53,881**	69,306	(6,444)	62,862
Basic earnings/(loss) per ordinary share from continuing operations for the year (expressed in US dollars per share)	15	**0.08**	**–**	**0.08**	0.11	(0.02)	0.09
Diluted earnings/(loss) per ordinary share from continuing operations for the year (expressed in US dollars per share)	15	**0.08**	**–**	**0.08**	0.10	(0.01)	0.09

Consolidated statement of comprehensive income

For the year ended 31 December 2017

		Year ended 31 December	
	Notes	2017 US$000	2016 US$000
Profit for the year		**53,881**	62,862
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translating foreign operations		**139**	(249)
Change in fair value of available-for-sale financial assets	19	**(323)**	774
Recycling of the gain on available-for-sale financial assets		**(1,354)**	(66)
Change in fair value of cash flow hedges		**–**	(39,989)
Recycling of the loss on cash flow hedges		**–**	18,722
Deferred income tax relating to components of other comprehensive income	14	**–**	5,955
Other comprehensive loss for the year, net of tax		**(1,538)**	(14,853)
Total comprehensive income for the year		**52,343**	48,009
Total comprehensive income attributable to:			
Equity shareholders of the Company		**40,023**	30,697
Non-controlling interests		**12,320**	17,312
		52,343	**48,009**

Consolidated statement of financial position
As at 31 December 2017

	Notes	**As at 31 December 2017 US$000**	As at 31 December 2016 US$000
ASSETS			
Non-current assets			
Property, plant and equipment	16	**895,666**	975,483
Evaluation and exploration assets	17	**147,399**	138,985
Intangible assets	18	**24,544**	26,379
Available-for-sale financial assets	19	**6,264**	991
Trade and other receivables	20	**7,487**	25,717
Other financial assets	36(e)	**1,333**	–
Deferred income tax assets	28	**2,400**	1,027
		1,085,093	1,168,582
Current assets			
Inventories	21	**56,678**	57,056
Trade and other receivables	20	**81,066**	68,120
Income tax receivable		**21,241**	20,988
Other financial assets	36(e)	**1,258**	–
Cash and cash equivalents	22	**256,988**	139,979
		417,231	286,143
Total assets		**1,502,324**	1,454,725
EQUITY AND LIABILITIES			
Capital and reserves attributable to shareholders of the Parent			
Equity share capital	27	**224,315**	224,315
Share premium	27	**438,041**	438,041
Treasury shares	27	**(140)**	(426)
Other reserves	27	**(217,061)**	(217,288)
Retained earnings		**286,356**	258,269
		731,511	702,911
Non-controlling interests		**90,177**	90,442
Total equity		**821,688**	793,353
Non-current liabilities			
Trade and other payables	24	**1,081**	1,266
Borrowings	25	**291,955**	291,073
Provisions	26	**104,107**	106,121
Deferred income	23	**30,409**	25,000
Deferred income tax liabilities	28	**56,040**	65,971
		483,592	489,431
Current liabilities			
Trade and other payables	24	**116,779**	98,484
Other financial liabilities	36(e)	**–**	1,726
Borrowings	25	**67,863**	36,312
Provisions	26	**6,203**	5,406
Deferred income	23	**400**	–
Income tax payable		**5,799**	30,013
		197,044	171,941
Total liabilities		**680,636**	661,372
Total equity and liabilities		**1,502,324**	1,454,725

These financial statements were approved by the Board of Directors on 20 February 2018 and signed on its behalf by:

Ignacio Bustamante
Chief Executive Officer
20 February 2018

Consolidated statement of cash flows

For the year ended 31 December 2017

	Notes	Year ended 31 December 2017 US$000	Year ended 31 December 2016 US$000
Cash flows from operating activities			
Cash generated from operations	32	**287,799**	345,856
Interest received		**1,445**	860
Interest paid		**(23,942)**	(27,074)
Payment of mine closure costs	26	**(4,359)**	(3,355)
Income tax paid		**(27,024)**	(214)
Net cash generated from operating activities		**233,919**	316,073
Cash flows from investing activities			
Purchase of property, plant and equipment		**(119,630)**	(126,495)
Purchase of evaluation and exploration assets	17	**(4,878)**	(3,478)
Purchase of intangibles	18	**(16)**	(14)
Purchase of available-for-sale financial assets	19	**(4,383)**	–
Net proceeds from sale of subsidiary	4	**–**	807
Proceeds from sale of available-for-sale financial assets		**1,567**	149
Proceeds from sale of other assets	19	**1,570**	1,550
Proceeds from deferred income	23	**4,000**	–
Proceeds from sale of property, plant and equipment		**716**	117
Net cash used in investing activities		**(121,054)**	(127,364)
Cash flows from financing activities			
Proceeds of borrowings	25	**69,500**	70,000
Repayment of borrowings	25	**(38,000)**	(177,431)
Dividends paid to non-controlling interests	29	**(12,585)**	(17,736)
Dividends paid	29	**(13,996)**	(6,998)
Cash flows generated from/(used in) financing activities		**4,919**	(132,165)
Net increase in cash and cash equivalents during the year		**117,784**	56,544
Exchange difference		**(775)**	(582)
Cash and cash equivalents at beginning of year		**139,979**	84,017
Cash and cash equivalents at end of year	22	**256,988**	139,979

Consolidated statement of changes in equity

As at 31 December 2017

					Other reserves									
	Notes	Equity share capital US$000	Share premium US$000	Treasury shares US$000	Unrealised gain on available-for-sale financial assets US$000	Unrealised gain/ (loss) on hedges US$000	Cumulative translation adjustment US$000	Merger reserve US$000	Share-based payment reserve US$000	Total other reserves US$000	Retained earnings US$000	Capital and reserves attributable to shareholders of the Parent US$000	Non-controlling interests US$000	Total equity US$000
Balance at 1 January 2016		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)/(b)	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
Other comprehensive income/(expense)		–	–	–	(1,677)	–	139	–	–	(1,538)	–	(1,538)	–	(1,538)
Profit for the year		–	–	–	–	–	–	–	–	–	41,561	41,561	12,320	53,881
Total comprehensive income/ (expense) for the year		–	–	–	(1,677)	–	139	–	–	(1,538)	41,561	40,023	12,320	52,343
Exercise of share options	27(b)	–	–	286	–	–	–	–	(48)	(48)	(238)	–	–	–
Dividends	29	–	–	–	–	–	–	–	–	–	(13,996)	(13,996)	–	(13,996)
Dividends to non-controlling interests	29	–	–	–	–	–	–	–	–	–	–	–	(12,585)	(12,585)
Share-based payments	27(c)	–	–	–	–	–	–	–	1,813	1,813	760	2,573	–	2,573
Balance at 31 December 2017		224,315	438,041	(140)	(937)	–	(13,712)	(210,046)	7,634	(217,061)	286,356	731,511	90,177	821,688

Notes to the consolidated financial statements

For the year ended 31 December 2017

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 20 February 2018.

The Group´s subsidiaries are as follows:

Company	Principal activity	Country of incorporation	Equity interest at 31 December 2017 %	2016 %
Hochschild Mining (Argentina) Corporation S.A.[1]	Holding company	Argentina	**100**	100
MH Argentina S.A.[2]	Exploration office	Argentina	**100**	100
Minera Santa Cruz S.A.[1,8]	Production of gold and silver	Argentina	**51**	51
Minera Hochschild Chile S.C.M.[3]	Exploration office	Chile	**100**	100
Andina Minerals Chile Ltd.[3]	Exploration office	Chile	**100**	100
Southwest Minerals (Yunnan) Inc.[4]	Exploration office	China	**100**	100
Hochschild Mining Holdings Limited[5]	Holding company	England and Wales	**100**	100
Hochschild Mining Ares (UK) Limited[5]	Administrative office	England and Wales	**100**	100
Southwest Mining Inc.[4]	Exploration office	Mauritius	**100**	100
Southwest Minerals Inc.[4]	Exploration office	Mauritius	**100**	100
Minera Hochschild Mexico, S.A. de C.V[6]	Exploration office	Mexico	**100**	100
Hochschild Mining (Peru) S.A.[4]	Holding company	Peru	**100**	100
Compañía Minera Ares S.A.C.[4]	Production of gold and silver	Peru	**100**	100
Compañía Minera Arcata S.A.[4]	Production of gold and silver	Peru	**99.1**	99.1
Empresa de Transmisión Aymaraes S.A.C.[4]	Power transmission	Peru	**100**	100
Minera Antay S.A.C.[4]	Exploration office	Peru	**100**	100
Hochschild Mining (US) Inc.[7]	Holding company	USA	**100**	100

1 Registered address: Av. Santa Fe 2755, floor 9, Buenos Aires, Argentina.
2 Registered address: Sargento Cabral 124, Comodoro Rivadavia, Provincia de Chubut, Argentina.
3 Registered address: Av. Apoquindo 4775, office 1002, Santiago de Chile, Chile.
4 Registered address: La Colonia 180, Santiago de Surco, Lima, Peru.
5 Registered address: 17 Cavendish Square, London, W1G0PH, United Kingdom.
6 Registered address: Bustamante N 2106, Col Altavista, CP 31200, Chihuahua, Ciudad de Mexico, Mexico.
7 Registered address: 1025 Ridgeview Dr. 300, Reno, Nevada 89519, USA.
8 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 2017 and 2016 is as follows:

	As at 31 December 2017 US$000	2016 US$000
Non-current assets	**184,852**	216,124
Current assets	**103,792**	107,196
Non-current liabilities	**(62,745)**	(83,823)
Current liabilities	**(44,726)**	(57,837)
Equity	**(181,173)**	(181,660)
Revenue	**227,094**	235,961
Profit for the year and total comprehensive income	**25,147**	35,262
Net cash generated from operating activities	**58,308**	102,923
Net cash used in investing activities	**(36,199)**	(35,221)
Cash flow used in financing activities	**(17,884)**	(44,655)

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 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 2017 and 2016 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 (US$) 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 2016. Amendments to standards and interpretations which came into force during the year did not have a significant impact on the Group's financial statements and are as follows:

– 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 an impact on the Group´s financial position or performance. The Group has provided the information for the current year in note 25.

– 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 did not have a significant impact on the Group´s financial position or performance.

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 2018 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

The IASB has issued a new standard for the recognition of revenue arising from contracts with customers. The new revenue standard will supersede all current revenue recognition requirements under IFRS.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The Group has evaluated recognition and measurement of revenue based on the five-step model in IFRS 15 and has not identified significant financial impacts, hence no adjustments will be recorded derived from the adoption of IFRS 15 other than certain reclassifications as explained below.

The Group will adopt the new standard from 1 January 2018 applying the simplified transition method and modified retrospective approach. Certain disclosures will change as a result of the requirements of IFRS 15.

The key issues identified, and the Group's views and perspective are set below. These are based on the Group's current interpretation of IFRS 15 and may be subject to changes as interpretations evolve more generally. Furthermore, the Group is considering and will continue to monitor any further development.

- Embedded derivatives arising from the sales: As discussed in note 2(p), some of the Group's sales of gold and silver contain provisional pricing features which are currently considered to be embedded derivatives recorded within sales. Under IAS 18, revenue is recognised at the estimated fair value of the total consideration received or receivable when the gold and silver is delivered, which is usually when title has passed to the customer. The fair value is based on the most recent determined estimate of metal content and the estimated forward price that the entity expects to receive at the end of the quotational period stipulated in the contract. The revaluation of provisionally priced contracts is recorded as an adjustment to revenue. IFRS 15 will not change the assessment of the provisional price adjustment, however as they are not considered within the scope of IFRS 15, the Group will account for these in accordance with IFRS 9. Therefore, subsequent changes in fair value will be recognised in the statement of profit or loss and other comprehensive income as part of 'other income/other expenses'.
- Impact of shipping terms: The Group sells a portion of its production on CIF Incoterms and therefore the Group is responsible for shipping services after the date at which control of the gold and silver passes to the customer. Under IAS 18, these shipping services are currently not considered to be part of the revenue transaction and thus the Group has disclosed them as selling expenses. However, under IFRS 15 the Group should reclassify the portion of those selling expenses relating to transport of gold and silver from the Group's production plants to the ports and reclassify those costs to cost of sales. The Group estimates that approximately US$4,800,000 would be reclassified from selling expenses to cost of sales, based on 2017 figures. In addition, the Group needs to assess the amount of remaining costs related to shipping services which are considered a separate performance obligation under IFRS 15 and therefore a portion of the revenue currently recognised when the title has passed to the customer will need to be deferred and recognised as the shipping services are subsequently provided. Based on the analysis performed during 2017, the Group determined that the overall impact on the timing of revenue recognition related to these shipping services will not be material and consequently such revenue will not be disclosed separately.

– IFRS 9 Financial Instruments, applicable for annual periods beginning on or after 1 January 2018.

Notes to the consolidated financial statements
continued

2 Significant accounting policies continued

IFRS 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

Based on the assessment performed, the Group expects the new guidance to have the following impacts on the classification and measurement of its financial instruments:

- Classification and measurement of the embedded derivatives arising from sales: The financial assets and liabilities arising from the revaluation provisional priced contracts is currently disclosed separately in the balance sheet as part of 'other financial assets/liabilities'. Under IFRS 9, the embedded derivative will no longer be separated from the host contract and therefore the revaluation of provisionally priced contracts will be disclosed within the receivable of the host contract in 'trade and other receivables'.
- Available-for sale financial assets: The equity instruments that are currently classified as available-for-sale financial assets satisfy the conditions for classification as at fair value through other comprehensive income (FVOCI) and therefore there is no impact in classification. However, as opposed to the current IFRSs, under IFRS 9 gains and losses accumulated in other comprehensive income are not recycled to the income statement. Furthermore, under IFRS 9 there is no exception to carry investments in entities at costs less any recognised impairment and therefore, fair value will need to be calculated. There are no other significant changes to the accounting treatment of these assets.
- Impairment: The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under IAS 39. The Group will apply the simplified approach and record lifetime expected losses on all trade receivables. However, given the short-term nature of the Group's receivables, these are not expected to have a significant impact in the financial statements.
- Disclosures: The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.
- The Group has also assessed other changes introduced by IFRS 9 that will have no impacts in the financial statements as explained below:
- The Group does not expect any impact on the accounting for financial liabilities, as the new requirements of IFRS 9 only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities.

The Group does not currently apply hedge accounting and therefore there are no impacts in the financial statements.

- No impacts are expected in relation to derecognition of financial instruments as the same rules have been transferred from IAS 39 Financial Instruments: Recognition and Measurement.
- 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.
- 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 a significant impact on the Group´s financial position or performance.
- IFRIC 23 Uncertainty over income tax treatments, applicable for annual periods beginning on or after 1 January 2019.

  IFRIC 23 clarifies the accounting for uncertainties in income taxes. This interpretation is to be applied to the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. The Group will adopt. The Interpretation specifically addresses the following:
  - Whether an entity considers uncertain tax treatments separately
  - The assumptions an entity makes about the examination of tax treatments by taxation authorities
  - How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
  - How an entity considers changes in facts and circumstances

The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. The Group will apply interpretation from its effective date, however we do not expect significant impacts on the financial statements on the implementation as the Group's current treatment is in line with the requirements of the interpretation.

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:

- 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.

- 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.

- Recoverable values of mining assets – notes 2(i), 16, 17 and 18.

  The value 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, future capital requirements, exploration potential, operating performance and the application of discount rates which reflect the macro-economic risk in Peru and Argentina as applicable. Changes in these assumptions will affect the recoverable amount of the property, plant and equipment, evaluation and exploration assets, and intangibles.

- Mine closure costs – notes 2(m) and 26(1).

  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.

- Liability for cash-settled share-based payments – notes 26(2).

  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(2).

- Income tax – notes 2(r), 14, 28 and 34.

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

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 probable that a liability will arise (refer to note 34(a)). The final resolution of these transactions may give rise to material adjustments to the income statement and/or cash flow in future periods. The Group reviews each significant tax liability or benefit each period to assess the appropriate accounting treatment.

Notes to the consolidated financial statements
continued

2 Significant accounting policies continued

Critical judgements:

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

The determination of functional currency requires management judgement, particularly where there may be several currencies in which transactions are undertaken and which impact the economic environment in which the entity operates.

– 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.

– Significant judgement 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 is '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 12 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 asset held for sale.

(c) Basis of consolidation

The consolidated financial statements set out the Group's financial position, performance and cash flows as at 31 December 2017 and 31 December 2016 and for the years then ended, respectively.

Subsidiaries are those entities controlled by the Group regardless of the amount of shares owned by the Group. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Non-controlling interests' rights to safeguard their interest are fully considered in assessing whether the Group controls a subsidiary. Specifically, the Group controls an investee if, and only if, the Group has:

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

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

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

The Group reassesses 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 for 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.

Notes to the consolidated financial statements
continued

2 Significant accounting policies continued

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

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

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

Identification of resources – Costs incurred in converting inferred resources to indicated and measured resources (of which reserves are a component) are capitalised as incurred. Costs incurred in identifying inferred resources are expensed as incurred.

(g) Determination of ore reserves and resources
The Group estimates its ore reserves and mineral resources based on information compiled by internal competent persons. Reports to support these estimates are prepared each year and are stated in conformity with the 2012 Joint Ore Reserves Committee (JORC) code.

It is the Group's policy to have the report audited by a Competent Person.

Reserves and resources are used in the units-of-production calculation for depreciation as well as the determination of the timing of mine closure cost and impairment analysis.

(h) Intangible assets

Right to use energy of transmission line
Transmission line costs represent the investment made by the Group during the period of its use. This is an asset with a finite useful life equal to that of the mine to which it relates and that is amortised applying the units-of-production method for that mine.

Water permits
Water permits represent the cost 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 CGU 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, for 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.

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.

Notes to the consolidated financial statements
continued

2 Significant accounting policies continued

(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 estimates 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(a) 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.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the statement of financial position date.

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

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.

Notes to the consolidated financial statements
continued

2 Significant accounting policies continued

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

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

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

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

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

(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;
- 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 used commodity swaps and zero cost collar contracts to hedge certain of its cash flows from product sales against price risk. These derivative financial instruments were initially recognised at fair value on the date on which the derivative contract was entered into and were subsequently remeasured at fair value. The fair value of these forward contracts was determined by reference to market values for similar instruments.

These forward contracts were classified as cash flow hedges as they were hedging the Group's exposure to variability in cash flows that was attributable to a particular risk associated with a highly probable forecast sales transaction.

At the inception of a hedging relationship, the Group formally designated and documented the hedge relationship to which the Group wished to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation included identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity would 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 were expected to be highly effective in offsetting changes in fair value or cash flows and were 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 was recognised directly in equity, while any ineffective portion was recognised immediately in the income statement. In the case of zero cost collar contracts, the time value had to be accounted for at fair value through profit or loss, in consequence the change in the time value would be recognised in the income statement.

Amounts taken to equity were transferred to the income statement when the hedged transaction affected profit or loss, such as when the forecast transaction occurred.

If the forecast sales transaction was no longer expected to occur, amounts previously recognised in equity were transferred to the income statement. If the hedging instrument expired or was sold, terminated or exercised without replacement or rollover, or if its designation as a hedge was revoked, amounts previously recognised in equity remain in equity until the forecast sales transaction occurred.

(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.

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 at fair value, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (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.

At each reporting date, the Group analyses the movements in the values of assets and liabilities which are required to be remeasured or reassessed 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 of the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

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

Notes to the consolidated financial statements
continued

3 Segment reporting

The Group's activities are principally related to mining operations which involve the exploration, production and sale of gold and silver. Products are subject to the same risks and returns and are sold through 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 Aymaraes S.A.C. (a power transmission company that absorbed Empresa de Transmisión Callalli S.A.C. on 1 June 2016)

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 2017								
Revenue from external customers	77,940	120,529	227,094	296,594	–	415	–	**722,572**
Inter-segment revenue	–	–	–	–	–	5,712	(5,712)	**–**
Total revenue	77,940	120,529	227,094	296,594	–	6,127	(5,712)	**722,572**
Segment profit/(loss)	(4,212)	48,926	43,162	73,737	(17,393)	10,832	(9,752)	**145,300**
Others[2]								**(81,223)**
Profit from continuing operations before income tax								**64,077**
Other segment information								
Depreciation[3]	(17,447)	(19,479)	(49,019)	(107,489)	(413)	(5,228)	–	**(199,075)**
Amortisation	–	–	(1,247)	–	(462)	(142)	–	**(1,851)**
Impairment and write-off of assets, net	(43,135)	31,872	(205)	(31)	8,364	(23)	–	**(3,158)**
Assets								
Capital expenditure	17,557	18,906	36,288	52,903	2,026	868	–	**128,548**
Current assets	5,483	21,699	47,398	22,707	30	2,570	–	**99,887**
Other non-current assets	5,859	91,065	182,138	535,840	194,777	57,930	–	**1,067,609**
Total segment assets	11,342	112,764	229,536	558,547	194,807	60,500	–	**1,167,496**
Not reportable assets[4]	–	–	–	–	–	334,828	–	**334,828**
Total assets	11,342	112,764	229,536	558,547	194,807	395,328	–	**1,502,324**

1 'Other' revenue relates to revenues earned by Empresa de Transmisión Aymaraes S.A.C.
2 Comprised of administrative expenses of US$51,283,000, other income of US$10,192,000, other expenses of US$11,549,000, impairment and write-off of assets (net) of US$3,158,000, finance income of US$5,927,000, finance expense of US$26,095,000, and foreign exchange loss of US$5,257,000.
3 Includes depreciation capitalised in the Crespo project (US$831,000), and San Jose unit (US$2,290,000).
4 Not reportable assets are comprised of available-for-sale financial assets of US$6,264,000, other receivables of US$45,344,000, other financial assets of US$2,591,000, income tax receivable of US$21,241,000, deferred income tax asset of US$2,400,000 and cash and cash equivalents of US$256,988,000.

	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.

(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 2017 US$000	2016 US$000
External customer		
USA	**370,035**	225,073
Peru	**45,274**	78,248
Canada	**60,991**	181,569
Germany	**34,777**	4,506
Switzerland	**73,186**	89,838
United Kingdom[1]	**–**	(1,689)
Korea	**102,596**	92,769
Bulgaria	**27,211**	16,334
Japan	**8,502**	1,594
Total	**722,572**	688,242
Inter-segment		
Peru	**5,712**	2,062
Total	**728,284**	690,304

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 (refer to note 5).

Notes to the consolidated financial statements
continued

3 Segment reporting continued

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 2017			Year ended 31 December 2016		
	US$000	**% Revenue**	**Segment**	US$000	% Revenue	Segment
Asahi Refining USA	**130,024**	**18%**	**Inmaculada**	30,304	4%	Arcata
Republic Metals Corporation	**116,274**	**16%**	**Inmaculada and San Jose**	103,405	15%	Arcata, Inmaculada and San Jose
LS Nikko	**102,596**	**14%**	**Pallancata and San Jose**	92,769	14%	Pallancata and San Jose
Asahi Refining Canada Ltd.	**17,492**	**2%**	**Inmaculada**	160,312	23%	Arcata and Inmaculada
Auramet Trading Llc.	**53,585**	**7%**	**Inmaculada**	97,616	14%	Arcata and Inmaculada

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	
	2017 US$000	2016 US$000
Peru	**782,659**	850,605
Argentina	**182,139**	196,056
Mexico	**38,841**	30,990
Chile	**63,970**	63,196
Total non-current segment assets	**1,067,609**	1,140,847
Available-for-sale financial assets	**6,264**	991
Trade and other receivables	**7,487**	25,717
Other financial assets	**1,333**	–
Deferred income tax assets	**2,400**	1,027
Total non-current assets	**1,085,093**	1,168,582

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 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	
	2017 US$000	2016 US$000
Gold (from doré bars)	**266,214**	263,010
Silver (from doré bars)	**144,762**	177,450
Gold (from concentrate)	**106,101**	91,348
Silver (from concentrate)	**205,080**	156,075
Services	**415**	359
Total	**722,572**	688,242

Included within revenue is a gain of US$2,578,000 relating to provisional pricing adjustments representing the change in the fair value of embedded derivatives (2016: loss of US$6,667,000) arising on sales of concentrates and doré (refer to note 2(p) and footnote 1 of note 36(e)).

In 2016, revenue includes realised loss on gold and silver swaps and zero cost collar contracts of US$18,722,000 (gold: US$10,030,000, silver: US$8,692,000).

Other sources of revenue are disclosed in note 13.

6 Cost of sales

Included in cost of sales are:

	Year ended 31 December	
	2017 US$000	2016 US$000
Depreciation and amortisation in cost of sales[1]	**196,150**	180,317
Personnel expenses (note 10)	**124,507**	103,130
Mining royalty (note 30)	**6,677**	7,506
Change in products in process and finished goods	**4,131**	6,487
Other items[2]	**3,241**	1,750

1 The depreciation and amortisation in production cost is US$196,241,000 (2016: US$185,655,000).
2 Other items includes costs related to the stoppage at Pallancata and San Jose mine units (2016: Personnel related provisions in Arcata, Pallancata, Inmaculada and San Jose mining units).

7 Administrative expenses

	Year ended 31 December	
	2017 US$000	2016 US$000
Personnel expenses (note 10)	**34,775**	33,028
Professional fees	**3,233**	3,075
Social and community welfare expenses[1]	**586**	384
Lease rentals	**1,474**	1,455
Travel expenses	**1,020**	598
Communications	**415**	438
Indirect taxes	**2,173**	2,057
Depreciation and amortisation	**1,564**	1,798
Technology and systems	**686**	678
Security	**773**	656
Supplies	**123**	109
Other[2]	**4,461**	3,703
Total	**51,283**	47,979

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$1,273,000 (2016: US$972,000), technical services of US$553,000 (2016: US$533,000), repair and maintenance of US$388,000 (2016: US$492,000) and impairment of receivables of US$79,000 (2016: US$312,000).

Notes to the consolidated financial statements
continued

8 Exploration expenses

	Year ended 31 December	
	2017 US$000	2016 US$000
Mine site exploration[1]		
Arcata	**3,029**	1,305
Ares	**69**	297
Inmaculada	**1,127**	1
Pallancata	**1,279**	733
San Jose	**3,407**	1,691
	8,911	4,027
Prospects[2]		
Peru	**336**	316
Argentina	**30**	11
Chile	**267**	26
	633	353
Generative[3]		
Peru	**1,862**	866
USA	**398**	–
	2,260	866
Personnel (note 10)	**4,646**	3,476
Others	**749**	471
Total	**17,199**	9,193

1 Mine site exploration is performed with the purpose of identifying potential minerals within an existing mine site, with the goal of maintaining or extending the mine's life.
2 Prospects expenditure relates to detailed geological evaluations in order to determine zones which have mineralisation potential that is economically viable for exploration. Exploration expenses are generally incurred in the following areas: mapping, sampling, geophysics, identification of local targets and reconnaissance drilling.
3 Generative expenditure is early-stage exploration expenditure related to the basic evaluation of the region to identify prospects areas that have the geological conditions necessary to contain mineral deposits. Related activities include regional and field reconnaissance, satellite images, compilation of public information and identification of exploration targets.

The 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$2,600,000 in 2017 (2016: US$1,168,000).

9 Selling expenses

	Year ended 31 December	
	2017 US$000	2016 US$000
Transportation of doré, concentrate and maritime freight	**6,477**	8,250
Personnel expenses (note 10)	**296**	254
Warehouse services	**1,742**	1,861
Taxes[1]	**16**	1,495
Other	**2,493**	2,315
Total	**11,024**	14,175

1 The export tax on concentrates in Argentina was reduced to zero percent on 12 February 2016.

10 Personnel expenses[1]

	Year ended 31 December	
	2017 US$000	2016 US$000
Salaries and wages	**116,597**	98,741
Other legal contributions	**26,937**	20,552
Statutory holiday payments	**7,124**	6,361
Long-Term Incentive Plan	**9,348**	10,528
Restricted Share Plan	**2,090**	3,181
Termination benefits	**2,228**	2,577
Other	**2,670**	1,951
Total	**166,994**	143,891

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$124,507,000 (2016: US$103,130,000), US$34,775,000 (2016: US$33,028,000), US$4,646,000 (2016: US$3,476,000), US$296,000 (2016: US$254,000), US$1,621,000 (2016: US$2,406,000) and US$1,149,000 (2016: US$1,597,000) respectively.

Average number of employees for 2017 and 2016 were as follows:

	Year ended 31 December	
	2017	2016
Peru	**2,920**	2,825
Argentina	**1,175**	1,125
Chile	**3**	3
United Kingdom	**10**	11
Total	**4,108**	3,964

Notes to the consolidated financial statements
continued

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 2017 US$000	Year ended 31 December 2016 US$000
Other income		
Reversal of reserves tax[3]	–	2,667
Total	–	2,667
Other expenses		
Work stoppage at Pallancata mine unit[4]	–	(2,474)
Penalty for termination of agreement[5]	–	(4,254)
Damage of tailing dump in Ares mine unit[6]	–	(2,150)
Provision for impairment of other receivables[7]	–	(1,797)
Total	–	(10,675)
(Impairment)/impairment reversal and write-off of non-financial assets, net		
Impairment of assets[1]	**(43,009)**	–
Reversal of impairment of assets[1]	**40,256**	–
Write-off of non-current assets[8]	–	(1,634)
Total	**(2,753)**	(1,634)
Finance income		
Reversal of interests on reserves tax[3]	–	974
Total	–	974
Income tax benefit[2, 9]	**3,279**	2,224
Total	**3,279**	2,224

The exceptional items for the year ended 31 December 2017 are as follows:

1 Corresponds to the impairment of the Arcata mine unit of US$43,009,000 and the reversals of impairment related to the Pallancata mine unit of US$31,892,000 and the San Felipe project of US$8,364,000.

2 Corresponds to the deferred tax credit generated by the impairment of the Arcata mine unit, net by the reversal on impairment of the Pallancata mine unit.

The exceptional items for the year ended 31 December 2016 are as follows:

3 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.

4 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.

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

6 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.

7 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.

8 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.

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 of the tailing dam in 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).

12 Other income and other expenses before exceptional items

	Year ended 31 December 2017	Year ended 31 December 2016
	Before exceptional items US$000	Before exceptional items US$000
Other income		
Decrease in provision for mine closure (note 26(3))	**1,428**	6,346
Export credits[1]	**1,613**	19,029
Lease rentals	**253**	391
Gain on sale of other assets[2]	**1,495**	1,550
Gain on sale of subsidiaries (note 4)	**–**	751
Logistic services	**3,552**	4,288
Other	**1,851**	776
Total	**10,192**	33,131
Other expenses		
Provision of obsolescence of supplies	**(542)**	(2,162)
Contingencies	**(347)**	(570)
Donations (note 30)	**(754)**	(1,000)
Write-off of value added tax	**(221)**	(1,208)
Corporate social responsibility contribution in Argentina[3]	**(3,063)**	(3,146)
Other[4]	**(6,622)**	(5,772)
Total	**(11,549)**	(13,858)

1 Corresponds to the benefit of silver refund in Argentina. In 2016 the amount includes income recognised with respect to the Patagonian port rebate of US$16,900,000. This benefit was eliminated in December 2016.
2 Corresponds to the gain generated by the sale of mining rights of the Ricky project (2016: Corresponds to a gain generated by the sale of a royalty purchase agreement signed with Minera Bateas S.A.C. to Lemuria Royalties Corp).
3 Relates to a new contribution in Argentina to the Santa Cruz province, effective since January 2016 and calculated as a proportion of sales.
4 Mainly corresponds to the expenses in Ares mine unit of US$4,369,000 (2016: US$1,910,000), concessions of US$491,000 (2016: US$1,210,000) and rentals of US$205,000 (2016: US$440,000).

13 Finance income and finance costs before exceptional items

	Year ended 31 December 2017	Year ended 31 December 2016
	Before exceptional items US$000	Before exceptional items US$000
Finance income		
Interest on deposits and liquidity funds	**1,696**	1,011
Interest income	**1,696**	1,011
Gain from changes in the fair value of financial instruments	**647**	–
Gain on exchange of available-for-sale financial assets	**1,386**	–
Gain on discount of other receivables	**1,946**	–
Other	**252**	89
Total	**5,927**	1,100
Finance costs		
Interest on secured bank loans (note 25)	**(185)**	(2,602)
Other interest	**(813)**	(1,106)
Interest on bond (note 25)	**(24,088)**	(23,925)
Interest expense	**(25,086)**	(27,633)
Unwind of discount on mine rehabilitation (note 26)	**(280)**	(46)
Loss on discount of other receivables	**–**	(2,257)
Loss on sale of available-for-sale financial assets	**(32)**	–
Other	**(697)**	(605)
Total	**(26,095)**	(30,541)

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14 Income tax expense

	Year ended 31 December 2017			Year ended 31 December 2016		
	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	**15,070**	**–**	**15,070**	31,701	(1,212)	30,489
Current mining royalty charge (note 35)	**4,201**	**–**	**4,201**	3,882	–	3,882
Current special mining tax charge (note 35)	**2,229**	**–**	**2,229**	3,869	–	3,869
Withholding taxes	**–**	**–**	**–**	552	–	552
	21,500	**–**	**21,500**	40,004	(1,212)	38,792
Deferred taxation						
Origination and reversal of temporary differences from continuing operations (note 28)	**2,755**	**(3,279)**	**(524)**	6,364	(961)	5,403
Effect of change in tax rate[1]	**(10,780)**	**–**	**(10,780)**	1,273	(51)	1,222
	(8,025)	**(3,279)**	**(11,304)**	7,637	(1,012)	6,625
Total taxation charge/(credit) in the income statement	**13,475**	**(3,279)**	**10,196**	47,641	(2,224)	45,417

1 On 29 December 2017, the Argentinian government enacted the tax reform. The main change is the decrease of the statutory income tax rate, from its current level of 35% to 30% with effect from 1 January 2018 and to 25% with effect from 1 January 2020 (2016: 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 1 January 2017).

The weighted average statutory income tax rate was 29.0% for 2017 and 30.1% for 2016. 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	
	2017 US$000	2016 US$000
Deferred taxation:		
Deferred income tax relating to fair value losses on cash flow hedges	**–**	(5,955)
Total tax credit in the statement of other comprehensive income	**–**	(5,955)

The total taxation charge on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to the consolidated profits of the Group companies as follows:

	As at 31 December	
	2017 US$000	2016 US$000
Profit from continuing operations before income tax	**64,077**	108,279
At average statutory income tax rate of 29.0% (2016: 30.1%)	**18,562**	32,570
Expenses not deductible for tax purposes	**776**	1,051
Deferred tax recognised on special investment regime	**(1,819)**	(1,715)
Movement in unrecognised deferred tax[1]	**(1,324)**	2,705
Change in statutory income tax rate[2]	**(10,780)**	1,222
Withholding tax	**–**	552
Special mining tax and mining royalty[3]	**6,430**	7,751
Derecognition of deferred tax asset	**–**	316
Foreign exchange rate effect[4]	**(1,043)**	2,383
Utilisation of losses not previously recognised	**(1,618)**	–
Other	**1,012**	(1,418)
At average effective income tax rate of 15.9% (2016: 41.9%)	**10,196**	45,417
Taxation charge attributable to continuing operations	**10,196**	45,417
Total taxation charge in the income statement	**10,196**	45,417

1 Includes the income tax credit on mine closure provision of US$3,010,000 (2016: US$1,925,000).
2 The Argentinian government approved a decrease of the statutory income tax rate, from its current level of 35% to 30% with effect from 1 January 2018 and 25% with effect from 1 January 2020 (2016: Peruvian government approved an increase of 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.

The effective tax rate for corporate income tax for the period ended 31 December 2017 is 15.9% (2016: 41.9%), compared to the weighted average statutory tax rate of 29.0% (2016: 30.1%), and 39.0% (2016: 37.3%) taking into account the mining royalty and the special mining tax which are income taxes under IAS 12. The main factor that reduced the effective tax rate for corporate income tax is the deferred tax impact of the reduction of the Argentina tax rate and the reversal of San Felipe impairment, which does not attract a deferred tax liability, on the basis that no deferred tax asset arose when the impairment was originally recognised.

15 Basic and diluted earnings per share

Earnings per share ('EPS') is calculated by dividing profit for the year attributable to equity shareholders of the Company by the weighted average number of ordinary shares issued during the year.

The Company has dilutive potential ordinary shares.

As at 31 December 2017 and 2016, EPS has been calculated as follows:

	As at 31 December	
	2017	2016
Basic earnings/(loss) per share from continuing operations		
Before exceptional items (US$)	**0.08**	0.11
Exceptional items (US$)	**–**	(0.02)
Total for the year and from continuing operations (US$)	**0.08**	0.09
Diluted earnings/(loss) per share from continuing operations		
Before exceptional items (US$)	**0.08**	0.10
Exceptional items (US$)	**–**	(0.01)
Total for the year and from continuing operations (US$)	**0.08**	0.09

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

	As at 31 December	
	2017	2016
Profit attributable to equity holders of the parent – continuing operations (US$000)	**41,561**	45,550
Exceptional items after tax – attributable to equity holders of the parent (US$000)	**(526)**	7,604
Profit from continuing operations before exceptional items attributable to equity holders of the parent (US$000)	**41,035**	53,154
Profit from continuing operations before exceptional items attributable to equity holders of the parent for the purpose of diluted earnings per share (US$000)	**41,035**	53,154

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

	As at 31 December	
	2017	2016
Basic weighted average number of ordinary shares in issue (thousands)	**507,204**	505,521
Effect of dilutive potential ordinary shares related to contingently issuable shares (thousands)	**7,768**	9,435
Weighted average number of ordinary shares in issue for the purpose of diluted earnings per share (thousands)	**514,972**	514,956

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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 2017							
Cost							
At 1 January 2017	**1,180,904**	**488,486**	**536,929**	**6,210**	**95,390**	**24,943**	**2,332,862**
Additions	79,054	187	16,339	29	–	28,045	123,654
Change in discount rate	–	–	–	–	575	–	575
Change in mine closure estimate	–	–	–	–	2,572	–	2,572
Disposals	–	–	(2,927)	(3)	–	–	(2,930)
Write-offs	–	(127)	(3,492)	(172)	–	(19)	(3,810)
Transfers and other movements[2]	(56)	8,378	10,633	547	–	(19,560)	(58)
At 31 December 2017	**1,259,902**	**496,924**	**557,482**	**6,611**	**98,537**	**33,409**	**2,452,865**
Accumulated depreciation and impairment							
At 1 January 2017	791,641	218,123	277,692	4,554	64,480	889	1,357,379
Depreciation for the year	109,642	44,431	40,356	325	4,321	–	199,075
Disposals	–	–	(2,564)	(3)	–	–	(2,567)
Write-offs	–	(98)	(3,152)	(155)	–	–	(3,405)
Impairment/(reversal of impairment), net	(2,369)	3,613	8,631	24	(1,646)	143	8,396
Transfers and other movements[2]	467	–	(2,146)	–	–	–	(1,679)
At 31 December 2017	**899,381**	**266,069**	**318,817**	**4,745**	**67,155**	**1,032**	**1,557,199**
Net book amount at 31 December 2017	**360,521**	**230,855**	**238,665**	**1,866**	**31,382**	**32,377**	**895,666**

There were borrowing costs capitalised in property, plant and equipment amounting to US$601,000 (2016: US$825,000). The capitalisation rate used was 8.27% (2016: 7.23%).

1 Mining properties and development costs related to Crespo project (US$26,016,000) are not currently being depreciated.
2 Net of transfers and other movements of US$1,607,000 were transferred from evaluation and exploration assets (note 17).

Management determined there were triggers of impairment in the Arcata mine unit as it has experienced difficulties to replace production with incremental resources and to convert resources into reserves, and there was a significant decrease in production during the year. An impairment test was carried out resulting in an impairment charge of US$43,009,000 (US$39,905,000 in property, plant and equipment and US$3,104,000 and evaluation and exploration assets).

In the case of the Pallancata mine unit, there was an increase in terms of tonnage, grades, and resources and reserves due to the Pablo vein. The Group is currently operating the vein, converting inferred resources into reserves, and the process is showing better results than expected in terms of tonnage and grades. An impairment test was carried out resulting in an impairment reversal of US$31,892,000 (US$31,509,000 in property, plant and equipment and US$383,000 and evaluation and exploration assets).

In addition, management evaluated the carrying value of the San Felipe Project, recognising an impairment reversal of US$8,364,000 (all in evaluation and exploration assets) due to the proceeds received in the year (refer to note 23) and the significant increase in zinc market prices over the year resulting in an increase of the in-situ value (refer to notes 11 and 17).

No indicators of impairment or reversal of impairment were identified in the other CGUs, which includes other exploration projects.

The recoverable values of the Arcata and Pallancata CGUs were determined using a fair value less costs of disposal (FVLCD) methodology with the exception of San Felipe, where the recoverable value was determined using a value in use (VIU). 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.

In assessing the recoverable value of the San Felipe CGU, given the early stage of the project, the Group applied a value-in-situ methodology which applies a realisable 'enterprise value' to unprocessed mineral resources. The enterprise value used is based on observable external market information. Together with the US$29,396,000 recognised as a deferred income (refer to note 23) that will be realised once the option is exercised or terminated; the total recoverable value of the project under a value in use approach amounts to US$37,081,000.

The key assumptions on which management has based its determination of FVLCD and the associated recoverable values calculated are gold and silver prices, production costs, the discount rate and the value per in-situ regarding the San Felipe project. Gold and silver prices used, discount rate applied and value per in-situ per zinc equivalent tonne are presented below.

US$ per oz	2018	2019	2020	Long-term
Gold	1,298	1,300	1,303	1,300
Silver	18	18	19	19

	Arcata	Pallancata[1]	San Felipe
Discount rate (post tax)	4.3%	5.4%	n/a
Value per in-situ per zinc equivalent tonne (US$)	n/a	n/a	29.53

1 The Pallancata CGU was assessed for impairment reversal at 30 June 2017 and therefore the above reflects the relevant assumption at that date.

Current carrying value of CGU, net of deferred tax (US$000)	Arcata	Pallancata	San Felipe
31 December 2017	5,859	91,065	37,081

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 CGUs 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.

As the Arcata CGU was fully impaired at 31 December 2017, a negative change in any of the key assumptions would not have an impact on the impairment charge recognised. However, a positive change in the following key assumptions would, in isolation, decrease the impairment charge recorded by:

	US$000
Prices (increase by 10%)	11,696
Post tax discount rate (decrease by 3%)	30
Production costs (decrease by 10%)	9,535

As the impairment charge previously recognised at the Pallancata CGU was fully reversed at 30 June 2017, a positive change in any of the key assumptions would not have an impact on the impairment reversal recognised. Similarly, an adverse change in the key assumptions (10% decrease in price, 3% increase in post tax discount rate and 10% increase in production costs), in isolation, would still result in a full reversal of the impairment previously recognised.

With respect to the impairment assessment performed at the San Felipe CGU, a decrease of 10% in the value-in-situ per tonne would result in a reversal of impairment of US$7,595,000, whilst an increase of 10% would result in a reversal of previously recognised impairment of US$9,132,000.

	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**

1 Mining properties and development costs related to Crespo project (US$27,321,000) 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).

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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 2016	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**
Additions	197	208	–	768	3,705	4,878
Disposals	–	–	(500)	–	–	(500)
Transfers to property, plant and equipment	–	–	–	–	(2,074)	(2,074)
Balance at 31 December 2017	**81,599**	**26,239**	**55,450**	**94,452**	**12,668**	**270,408**
Accumulated impairment						
Balance at 1 January 2016	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
Transfers to property, plant and equipment	–	–	–	–	(467)	(467)
Impairment/(reversal of impairment)[1]	–	–	(8,364)	–	2,721	(5,643)
Balance at 31 December 2017	**45,876**	**9,878**	**17,470**	**44,381**	**5,404**	**123,009**
Net book value as at 31 December 2016	35,526	16,153	30,116	49,303	7,887	138,985
Net book value as at 31 December 2017	**35,723**	**16,361**	**37,980**	**50,071**	**7,264**	**147,399**

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

1 At 31 December 2017, the Group has recorded an impairment charge with respect to evaluation and exploration assets of the Arcata mine unit of US$3,104,000, and reversals of impairment with respect to the Pallancata mine unit of US$383,000 and the San Felipe project of US$8,364,000. The calculation of the recoverable values is detailed in note 16.

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 2016	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
Additions	–	–	16	–	16
Balance at 31 December 2017	**22,157**	**26,583**	**1,872**	**6,686**	**57,298**
Accumulated amortisation and impairment					
Balance at 1 January 2016	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
Amortisation for the year[4]	1,089	–	158	604	1,851
Balance at 31 December 2017	**14,163**	**12,686**	**1,529**	**4,376**	**32,754**
Net book value as at 31 December 2016	9,083	13,897	485	2,914	26,379
Net book value as at 31 December 2017	**7,994**	**13,897**	**343**	**2,310**	**24,544**

1 The transmission line is amortised using the units-of-production method. At 31 December 2017 the remaining amortisation period is approximately 8 years (2016: 9 years).
2 Corresponds to the acquisition of water permits of Andina Minerals Group ('Andina'). They have an indefinite life according to Chilean law. 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 Group used the value-in-situ methodology. This methodology applies a realisable 'enterprise value' to unprocessed mineral resources which was US$7.10 per gold equivalent ounce of resources at 31 December 2017 (2016: US$6.90). The risk adjusted enterprise value figure has been determined using a combination of Level 2 and Level 3 inputs to estimate the amount that would be paid by a willing third party in an arm's length transaction, taking into account the water restrictions imposed by the Chile government.
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 2017 the remaining amortisation period is from 10 to 20 years (2016: 8 to 20 years).
4 The amortisation for the period is included in cost of sales and administrative expenses in the income statement.

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

	2017	2016
Risk adjusted value per in-situ (gold equivalent ounce) US$	**7.10**	6.90

US$000	**2017**	2016
Current carrying value Volcan CGU	**63,968**	63,187

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. A change in the value-in-situ assumption could cause an impairment loss or reversal of impairment to be recognised as follows:

Approximate (impairment)/reversal of impairment resulting from the following changes (US$000)	**2017**	2016
Value per in-situ ounce (10% decrease)	**(2,667)**	(3,896)
Risk factor (increase by 5%)	**(1,095)**	(2,376)
Risk factor (decrease by 5%)	**9,384**	7,760

19 Available-for-sale financial assets

	Year ended 31 December	
	2017 US$000	2016 US$000
Beginning balance	**991**	366
Acquisitions[1]	**7,163**	–
Fair value change recorded in equity	**(323)**	774
Disposals[2]	**(1,160)**	(149)
Exchange of shares[2]	**(407)**	–
Ending balance	**6,264**	991

1 Corresponds to the purchase of 4,886,538 shares of Cobalt Power Group (Cobalt) (US$500,000), 14,545,454 shares of Red Eagle Mining Corporation (Red Eagle) (US$3,314,000), and 153,616 shares of Goldspot Discoveries Inc. (US$569,000). In addition, 13,415,000 shares of Santa Cruz Silver Mining were received in payment (US$2,780,000) of the option for the San Felipe project (refer note 23) and thus no cash consideration was received. With the acquisition of the shares, the Group also acquired 14,545,454 warrants of Red Eagle and 2,443,269 warrants of Cobalt respectively. The warrants were recognised at fair value on acquisition and presented as other financial assets.

2 As at 31 December 2016 the Group held an investment in Mariana Resources Ltd which was acquired by Sandstorm Gold on 12 July 2017. In consideration for the exchange of shares the Group received cash proceeds of $407,000 and shares of Sandstorm Gold generating a gain of US$1,386,000. On 17 July 2017 the Group disposed its investment in Sandstorm Gold realising a loss on sale of available-for-sale-financial assets of US$32,000.

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

Investments held in Pembrook Mining Corp. (US$11,745,000), ECI Exploration and Mining Inc.(US$2,639,000) and Goldspot Discoveries Inc. (US$581,000) are unlisted and recognised at cost less any recognised impairment loss as there is no active market for these investments. The investments in Pembrook Mining Corp and ECI Exploration and Mining Inc. are fully impaired as at 31 December 2016 and 2017.

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20 Trade and other receivables

	2017 Non-current US$000	2017 Current US$000	2016 Non-current US$000	2016 Current US$000
Trade receivables (note 36(c))	**–**	**43,209**	–	36,821
Advances to suppliers	**–**	**4,482**	–	2,458
Duties recoverable from exports of Minera Santa Cruz[1]	**1,570**	**2,681**	19,065	–
Receivables from related parties (note 30(a))	**–**	**160**	–	71
Loans to employees	**877**	**353**	856	230
Interest receivable	**–**	**402**	–	151
Receivable from Kaupthing, Singer and Friedlander Bank	**–**	**208**	–	198
Other[2]	**1,810**	**9,397**	2,188	10,205
Provision for impairment[3]	**–**	**(4,594)**	–	(6,342)
Assets classified as receivables	**4,257**	**56,298**	22,109	43,792
Prepaid expenses	**91**	**3,720**	44	2,590
Value Added Tax (VAT)[4]	**3,139**	**21,048**	3,564	21,738
Total	**7,487**	**81,066**	25,717	68,120

As at 31 December

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 19 months (2016: 24 months) at a rate of 5.40% (2016: 6.39%) for dollars denominated amounts and 29.60% (2016: 23.31%) for Argentinian Pesos. The gain on the unwinding of the discount is recognised within finance income (2016: loss on discount is recognised within finance costs).
2 Mainly corresponds to account receivables from contractors for the sale of supplies of US$4,773,000 (2016: US$3,968,000), and other tax claims of US$3,903,000 (2016: US$5,333,000).
3 Includes the provision for impairment of trade receivable from a customer in Peru of US$1,080,000 (2016: US$1,043,000), the impairment of deposits in Kaupthing, Singer and Friedlander of US$208,000 (2016: US$198,000), the impairment of the account receivable from a third party of US$2,501,000 (2016: US$1,797,000) and other receivables of US$805,000 (2016: US$3,304,000 that mainly relates to an exploration project that would be recovered through an ownership interest if it succeeds).
4 Primarily relates to US$12,829,000 (2016: US$16,030,000) 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$6,519,000 (2016: US$4,776,000) and Empresa de Transmisión Aymaraes S.A.C. of US$4,034,000 (2016: US$3,665,000). The VAT is valued at its recoverable amount.

Movements in the provision for impairment of receivables:

	Individually impaired US$000
At 1 January 2016	5,327
Provided for during the year	2,061
Released during the year[1]	(1,046)
At 31 December 2016	6,342
Provided for during the year	1,065
Released during the year[1]	(2,813)
At 31 December 2017	**4,594**

1 Corresponds to the reversal of the provision of US$9,000 (2016: US$1,046,000) and write-off of US$2,804,000 (2016: US$nil).

As at 31 December 2017 and 2016, none of the financial assets classified as receivables (net of impairment) were past due.

21 Inventories

	As at 31 December	
	2017 US$000	2016 US$000
Finished goods valued at cost	**3,011**	3,515
Products in process valued at cost	**17,099**	20,727
Raw materials	**–**	33
Supplies and spare parts	**41,572**	40,241
	61,682	64,516
Provision for obsolescence of supplies	**(5,004)**	(7,460)
Total	**56,678**	57,056

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. At 31 December 2017 and 2016 the Group had no doré on hand included in products in process.

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$104,689,000 (2016: US$86,754,000).

Movements in the provision for obsolescence comprise an increase in the provision of US$542,000 (2016: US$2,162,000) and the reversal of US$2,997,000 relating to the sale of supplies and spare parts, that had been provided for (2016: US$nil).

22 Cash and cash equivalents

	As at 31 December	
	2017 US$000	2016 US$000
Cash at bank	**335**	353
Liquidity funds[1]	**2,869**	203
Current demand deposit accounts[2]	**61,612**	68,643
Time deposits[3]	**192,172**	70,780
Cash and cash equivalents considered for the statement of cash flows	**256,988**	139,979

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 29 days as at 31 December 2017 (2016: average of 16 days).
2 Relates to bank accounts which are freely available and bear interest.
3 These deposits have an average maturity of 32 days (2016: Average of 3 days) (refer to note 36(c)).

Notes to the consolidated financial statements
continued

23 Deferred income

	As at 31 December	
	2017 US$000	2016 US$000
San Felipe contract[1]	**29,396**	25,000
El Mosquito contract[2]	**1,413**	–
	30,809	25,000
Current balance	**(400)**	–
Non-current	**30,409**	25,000

1 On 3 August 2011, the Group 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 US$29,396,000 as non-refundable payments at 31 December 2017 (2016: US$25,000,000).
These payments will reduce the total consideration that IMSC will be required to pay upon exercise of the option 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. As a result of this extension, on 9 March 2017 the Group received in payment 13,415,000 ordinary shares of Santa Cruz Silver Mining ('SCSM') quoted in the Toronto Stock Exchange, at the unit price of CAD 0.28 amounting to CAD 3,756,000 equivalent to US$2,780,000. The amount received included valued added taxes of US$384,000 and part consideration of US$2,396,000 recognised as deferred income.
On 28 February 2017, the Group signed a new option agreement with IMSC for the San Felipe properties for a total consideration of US$10,000,000. An initial payment of US$2,000,000 was received in cash on 7 March 2017.
In March 2017, IMSC entered into an agreement with Americas Silver Corporation ('ASC') to assign 100% of its interest in the San Felipe Project.
On 1 December 2017, the option to sell the San Felipe property to IMSC was extended to 31 December 2018 based on an amendment to the payment terms, and additional US$8,000,000 is payable by IMSC at 31 December 2017.
2 On 25 April 2017 the Group signed a five-year option agreement with Minas Argentinas S.A. ('MASA') giving MASA the right to explore and the option to purchase the Mosquito property, located in Argentina. The Group has received in cash US$2,000,000, recognising US$1,813,000 as deferred income at 31 December 2017.

24 Trade and other payables

	As at 31 December			
	2017		2016	
	Non-current US$000	**Current US$000**	Non-current US$000	Current US$000
Trade payables[1]	**–**	**63,038**	–	55,381
Salaries and wages payable[2]	**–**	**36,143**	–	28,500
Dividends payable	**–**	**107**	–	75
Taxes and contributions	**32**	**6,425**	43	4,962
Guarantee deposits	**–**	**6,946**	–	5,073
Mining royalty (note 35)	**–**	**684**	–	679
Accounts payable to related parties (note 30(a))	**–**	**149**	–	94
Other	**1,049**	**3,287**	1,223	3,720
Total	**1,081**	**116,779**	1,266	98,484

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 payable of US$nil (2016: US$2,000) and long-term incentive plan payable of US$7,520,000 (2016: US$6,279,000) at 31 December 2017.

25 Borrowings

	As at 31 December					
	2017			2016		
	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%**	**291,955**	**8,779**	8.56%	291,073	8,778
Secured bank loans (b)						
Pre-shipment loans in Minera Santa Cruz (note 21)	**1.80% to 2.85%**	**–**	**9,043**	2.70% to 3.00%	–	2,524
Short-term bank loans	**1.75%**	**–**	**50,041**	0.65%	–	25,010
Total		**291,955**	**67,863**		291,073	36,312

(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. The balance at 31 December 2017 comprises the carrying value, including accrued interest payable, of US$300,734,000 (2016: US$299,851,000) determined in accordance with the effective interest method.

The following options could be taken before the maturity:

- 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.

(b) Secured bank loans

Short-term bank loans:

One credit agreement signed by Compañía Minera Ares S.A.C. with BBVA Continental (2016: two credit agreements signed by Compañía Minera Ares S.A.C. with BBVA Continental). The loan has an interest rate of 1.75% (2016: 0.65%). The carrying value including accrued interest payable at 31 December 2017 is US$50,041,000 (2016: US$25,010,000). The due date is 15 December 2018 (2016: Repaid on due date 7 February 2017).

The maturity of non-current borrowings is as follows:

	As at 31 December	
	2017 US$000	2016 US$000
Between 1 and 2 years	**–**	–
Between 2 and 5 years	**291,955**	291,073
Over 5 years	**–**	–
Total	**291,955**	291,073

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

	Carrying amount as at 31 December		Fair value as at 31 December	
	2017 US$000	2016 US$000	**2017 US$000**	2016 US$000
Secured bank loans	**–**	–	**–**	–
Bond payable	**291,955**	291,073	**306,566**	318,062
Total	**291,955**	291,073	**306,566**	318,062

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, it is Level 1 input.

	As at 1 January 2017 US$000	Additions US$000	Repayments US$000	Reclassifications US$000	**As at 31 December 2017 US$000**
Current					
Bank loans	**27,534**	69,686	(38,136)	–	**59,084**
Bond payable	**8,778**	24,688	(23,805)	(882)	**8,779**
	36,312	94,374	(61,941)	(882)	**67,863**
Non-current					
Bond payable	**291,073**	–	–	882	**291,955**
	291,073	–	–	882	**291,955**
Accrued interest	**(8,812)**	(24,874)	23,941	–	**(9,745)**
Before accrued interest	**318,573**	69,500	(38,000)	–	**350,073**

Notes to the consolidated financial statements
continued

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 2016	**120,080**	**963**	**6,474**	**127,517**
Additions	–	9,965	570	10,535
Accretion	46	–	–	46
Change in discount rate[4]	(2,367)	–	–	(2,367)
Change in estimates[4]	(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
At 1 January 2017	**102,429**	**4,649**	**4,449**	**111,527**
Additions	–	8,702	347	9,049
Accretion	280	–	–	280
Change in discount rate[4]	863	–	–	863
Change in estimates[4]	856[3]	–	–	856
Foreign exchange effect	–	–	(352)	(352)
Transfer to trade and other payables	–	(7,520)	–	(7,520)
Payments	(4,359)	–	(34)	(4,393)
At 31 December 2017	**100,069**	**5,831**	**4,410**	**110,310**
Less: current portion	4,562	–	1,641	6,203
Non-current portion	**95,507**	**5,831**	**2,769**	**104,107**

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 2017 and 2016 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 0.14% (2016: 0.25%). Expected cash flows will be over a period from one to 16 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) 2017 awards, granted in March 2017, payable in March 2020 (ii) 2016 awards, granted in March 2016, payable in March 2019. 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 FTSE350 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$8,702,000 (2016: US$9,965,000) have been recorded as administrative expenses US$8,215,000 (2016: US$9,298,000) and exploration expenses US$487,000 (2016: US$667,000).
3 Based on the 2017 internal and external review of mine rehabilitation estimates, the provision for mine closure increased by US$856,000 (2016: US$11,975,000 decrease). The net increase (2016: net decrease) mainly corresponds to the Pallancata mine unit of US$1,385,000 (2016: US$447,000 decrease), the Inmaculada mine unit of US$1,191,000 (2016: US$1,651,000 increase), the Crespo project of US$43,000 (2016: US$37,000 decrease), the Ares mine unit of US$22,000 (2016: US$1,622,000 decrease) and the Azuca project of US$7,000 (2016: US$8,000 decrease), net of the decrease in Arcata mine unit of US$1,131,000 (2016: US$6,648,000 decrease), the Selene mine unit of US$607,000 (2016: US$698,000 decrease) and San José mine unit of US$54,000 (US$4,166,000 decrease).
4 US$1,428,000 (2016: US$6,346,000) related to changes in estimate and discount rates for mines already closed and the Arcata mine unit which reduction of the estimated costs exceeded the carrying value of the mine asset, therefore the effect has been recognised directly in the income statement.

The following tables list the inputs to the Monte Carlo model used for the LTIPs for the years ended 31 December 2016 and 2017, respectively:

	LTIP 2015		LTIP 2016		LTIP 2017	
For the period ended	**31 December 2017 US$000**	31 December 2016 US$000	**31 December 2017 US$000**	31 December 2016 US$000	**31 December 2017 US$000**	31 December 2016 US$000
Dividend yield (%)	**–**	0.49	**0.81**	0.49	**0.81**	–
Expected volatility (%)	**–**	3.89	**4.02**	3.89	**4.02**	–
Risk-free interest rate (%)	**–**	0.12	**0.25**	0.12	**0.25**	–
Expected life (years)	**–**	1	**1**	2	**2**	–
Weighted average share price (pence)	**–**	100.68	**63.07**	63.49	**239.22**	–

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.

27 Equity

(a) Share capital and share premium

Issued share capital

The issued share capital of the Company as at 31 December 2017 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 2016 is as follows:

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

At 31 December 2017 and 2017, all issued shares with a par value of 25 pence each were fully paid (2017: weighted average of US$0.442 per share, 2016: weighted average of US$0.442 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 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 2016	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 and 2017	**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 £561,478 (equivalent to US$898,000). No shares were purchased by the Group during 2016 and 2017.

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. On 20 March 2017, 40,383 Treasury shares with a value of US$286,000 (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 2017 comprise 67,197 (2016: 107,580) ordinary shares with a value of US$140,000 (2016: US$426,000).

(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.

Notes to the consolidated financial statements
continued

27 Equity continued

(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.

Under the RSP of the Group, 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. 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 RSP does not have an exercise price.

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.

The carrying amount of the share-based payment reserve relating to the RSP at 31 December 2017 is US$6,048,000 (2016: US$3,958,000) with the amount recognised in the consolidated income statement of US$2,090,000 (2016: US$3,181,000).

On 30 December 2017 20% of the options vested, resulting in 1,660,805 ordinary shares that were issued on 2 January 2018. The balance of shares pending to vest at 31 December 2017 is 4,982,447 ordinary shares.

(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 2017 is US$43,000 (2016: US$57,000) with the amount recognised in the consolidated income statement of US$34,000 (2016: US$76,000).

On 20 March 2016 and 20 March 2017, 66,727 and 40,383 Treasury shares were transferred respectively to the CEO of the Group with respect to the DBP.

(iii) Enhanced Long-term Incentive Plan ('ELTIP')
In April 2011 and March 2014, the CEO was granted awards under the ELTIP (397,645 and 1,076,122 shares respectively). 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 2017 is US$1,543,000 (2016: US$1,854,000). The amount recognised in the consolidated income statement amounts to US$449,000 (2016: US$563,000). In addition, US$$760,000 (2016: US$383,000) relating to options that lapsed during the year (204,731 ordinary shares lapsed in 2017 and 102,365 ordinary shares lapsed in 2016) were transferred from the share-based payment reserve to retain earnings.

As at 31 December 2017, 1,076,122 ordinary shares are pending to vest (31 December 2016: 1,280,853 ordinary shares). No shares lapsed during the year (2016: 204,731 shares).

28 Deferred income tax

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

	As at 31 December	
	2017 US$000	2016 US$000
Beginning of the year	**(64,944)**	(64,274)
Income statement charge/(credit) (note 14)	**11,304**	(6,625)
Deferred income tax arising on net unrealised gains on cash flow hedges recognised in equity (note 14)	**–**	5,955
End of the year	**(53,640)**	(64,944)

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 2016	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**
Transfer	2,474	991	201	(1,197)	2,469
At 31 December 2017	**44,122**	**69,333**	**201**	**1,627**	**115,283**

	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 2016	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
Income statement credit/(charge)	14,347	(51)	893	(110)	(304)	(1,002)	13,773
At 31 December 2017	**30,672**	**19,483**	**1,839**	**802**	**–**	**8,847**	**61,643**

The amounts after offset, as presented on the face of the Statement of financial position, are as follows:

	As at 31 December	
	2017 US$000	2016 US$000
Deferred income tax assets	**2,400**	1,027
Deferred income tax liabilities	**(56,040)**	(65,971)

Notes to the consolidated financial statements
continued

28 Deferred income tax continued

Tax losses expire in the following years:

	As at 31 December	
	2017 US$000	2016 US$000
Unrecognised		
Expire in one year	**3,517**	2,268
Expire in two years	**493**	3,231
Expire in three years	**42**	4,594
Expire in four years	**4,320**	2,295
Expire after four years	**119,461**	111,630
	127,833	124,018

Other unrecognised deferred income tax assets comprise (gross amounts):

	As at 31 December	
	2017 US$000	2016 US$000
Provision for mine closure[1]	**7,287**	9,971
Impairments of assets[2]	**2,509**	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 reversal of impairment of San Felipe project (2016: Related to the impairment of San Felipe and Volcan project) (note 17).

Unrecognised deferred tax liability on retained earnings

At 31 December 2015, there was no recognised deferred tax liability (2014: 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.

29 Dividends

	2017 US$000	2016 US$000
Dividends paid and proposed during the year		
Equity dividends on ordinary shares:		
Final dividend for 2016: 1.38 US cents per share (2015: nil US cents per share)	**6,997**	–
Interim dividend for 2017: 1.38 US cents per share (2016: 1.38 US cents per share)	**6,999**	6,998
Total dividends paid on ordinary shares	**13,996**	6,998
Proposed dividends on ordinary shares:		
Final dividend for 2017: 1.965 US cents per share (2016: 1.38 US cents per share)	**9,967**	6,997
Dividends paid to non-controlling interests	**12,585**	16,983
Dividends paid to non-controlling interest related to 2014 and previous periods	**–**	753
Total dividends paid to non-controlling interests	**12,585**	17,736

Dividends per share

The interim dividend paid in September 2017 was US$6,999,000 (1.38 US cents per share). A proposed dividend in respect of the year ending 31 December 2017 of 1.965 US cents per share, amounting to a total dividend of US$9,967,000, is subject to approval at the Annual General Meeting on 25 May 2018 and is not recognised as a liability as at 31 December 2017.

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 2017 and 2016. 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	
	2017 US$000	2016 US$000	**2017 US$000**	2016 US$000
Current related party balances				
Cementos Pacasmayo S.A.A.[1]	**160**	71	**149**	94
Total	**160**	71	**149**	94

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 2017 and 2016, 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	
	2017 US$000	2016 US$000
Income		
Gain on sale of Asociación 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)**	(200)

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)	**2017 US$000**	2016 US$000
Short-term employee benefits	**6,086**	5,459
Long-Term Incentive Plan, Deferred Bonus Plan and Restricted Share Plan	**5,446**	6,622
Total compensation paid to key management personnel	**11,532**	12,081

This amount includes the remuneration paid to the Directors of the parent company of the Group of US$5,438,873 (2016: US$5,487,769).

Notes to the consolidated financial statements
continued

31 Auditor's remuneration

The Auditor's remuneration for services provided to the Group during the years ended 31 December 2017 and 2016 is as follows:

	Amounts paid to Ernst & Young in the year ended 31 December	
	2017 US$000	2016 US$000
Audit fees pursuant to legislation[1]	**597**	597
Audit-related assurance services	**53**	53
Taxation compliance services	**14**	–
Taxation advisory services	**29**	63
Other non-audit services[2]	**18**	–
Total	**711**	713

1 The total audit fee in respect of local statutory audits of subsidiaries is US$350,000 (2016: US$358,000).
2 Related to the benchmark on derivatives and IFRS 15 and 9 implementation.

In 2017 and 2016, all fees are included in administrative expenses.

32 Notes to the statement of cash flows

	As at 31 December	
	2017 US$000	2016 US$000
Reconciliation of loss for the year to net cash generated from operating activities		
Profit for the year	**53,881**	62,862
Adjustments to reconcile Group loss to net cash inflows from operating activities		
Depreciation (note 3(a))	**195,954**	185,793
Amortisation of intangibles (note 18)	**1,851**	1,660
Write-off of assets	**405**	1,912
Impairment of assets (note 11)	**2,753**	–
Gain on sale of available-for-sale financial assets, net	**(1,354)**	(66)
Loss/(gain) on sale of property, plant and equipment	**145**	(48)
Provision for obsolescence of supplies	**542**	2,162
Gain on sale of subsidiary	**–**	(751)
Decrease of provision for mine closure	**(1,428)**	(6,346)
Finance income	**(4,541)**	(2,008)
Finance costs	**26,063**	30,541
Income tax expense	**10,196**	45,417
Other	**5,464**	5,483
Increase/(decrease) of cash flows from operations due to changes in assets and liabilities		
Trade and other receivables	**(22,109)**	27,949
Income tax receivable	**–**	(423)
Other financial assets and liabilities	**(3,671)**	585
Inventories	**(165)**	11,068
Trade and other payables	**22,670**	(21,595)
Provisions	**1,143**	1,661
Cash generated from operations	**287,799**	345,856

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. These agreements are not under non-cancellable/irrevocable clauses.

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	
	2017 US$000	2016 US$000
Commitment for the subsequent 12 months	**3,300**	350
More than one year	**41,200**	4,500

(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 2017 and 2016 are included in production costs (2017: US$12,565,000, 2016: US$12,265,000), administrative expenses (2017: US$1,474,000, 2016: US$1,455,000), exploration expenses (2017: US$519,000, 2016: US$321,000) and selling expenses (2017: US$2,000, 2016: US$3,000).

The Group entered into leases for vehicles for the mine units. These leases have a life of three years with renewal terms 15 days before the expiration and no purchase option. The rent is payable based on fares depending on the type of the vehicle.

As at 31 December 2017 and 2016, the future aggregate minimum lease payments under the operating lease agreements are as follows:

	For the year ended 31 December	
	2017 US$000	2016 US$000
Not later than one year	**2,462**	3,802
Later than one year and not later than five years	**764**	1,931

(c) Capital commitments

	For the year ended 31 December	
	2017 US$000	2016 US$000
Peru	**15,925**	14,296
Argentina	**5,739**	3,682
	21,664	17,978

34 Contingencies

As at 31 December 2017 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 2017, the Group had exposures totalling US$46,664,000 (2016: US$43,931,000) 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).

Notes to the consolidated financial statements
continued

35 Mining royalties

Peru

In accordance with Peruvian legislation, owners of mining concessions must pay a mining royalty for the exploitation of metallic and non metallic resources. Mining royalties have been calculated with rates ranging from 1% to 3% of the value of mineral concentrate or equivalent sold, based on quoted market prices.

In October 2011 changes came into effect for mining companies, with the following features:

a) Introduction of a Special Mining Tax ('SMT'), levied on mining companies at the stage of exploiting mineral resources. The additional tax is calculated by applying a progressive scale of rates ranging from 2% to 8.4%, of the quarterly operating profit.

b) Modification of the mining royalty calculation, which consists of applying a progressive scale of rates ranging from 1% to 12%, of the quarterly operating profit. The former royalty was calculated on the basis of monthly sales value of mineral concentrates.

The SMT and modified mining royalty are accounted for as an income tax in accordance with IAS 12 '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 2017, 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$108,000 (2016: US$170,000), US$1,133,000 (2016: US$769,000), and US$492,000 (2016: US$737,000) 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$885,000 (2016: US$1,759,000) representing the former mining royalty, classified as cost of sales, US$4,201,000 (2016: US$3,882,000) of new mining royalty and US$2,229,000 (2016: US$3,869,000) 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 applicable to doré and concentrate is 3% of the pit-head value. As at 31 December 2017, the amount payable as mining royalties amounted to US$576,000 (2016: US$509,000). The amount recorded in the income statement as cost of sales was US$5,792,000 (2016: US$5,747,000).

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.

During 2017 the Group had no hedging instruments. For the year ended 2016 the loss recognised in the income statement for the commodity swaps contracts signed was 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)

The fair value of unsettled commodity forward contracts as at 31 December 2017 and 2016 is US$nil.

At 31 December 2017 and 2016 the Group is not exposed to commodity price risk on commodity forward contracts.

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
2017	**Gold +/-10%** **Silver+/-10%**	**+/-335** **+/-542**
2016	Gold +/-10% Silver+/-10%	+/-647 +/-495

(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
2017			
Pounds sterling	**+/-10%**	**+/-58**	**–**
Argentinian pesos	**+/-10%**	**+/4,124**	**–**
Mexican pesos	**+/-10%**	**-/+1,945**	**–**
Peruvian nuevos soles	**+/-10%**	**+/-864**	**–**
Canadian dollars	**+/-10%**	**+/-141**	**+/-567**
Chilean pesos	**+/-10%**	**+/13**	**–**
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	–

Notes to the consolidated financial statements
continued

36 Financial risk management continued

(c) Credit risk
Credit risk arises from debtors' inability to make payment of their obligations to the Group as they become due (without taking into account the fair value of any guarantee or pledged assets). The Group is primarily exposed to credit risk as a result of commercial activities and non compliance, by counterparties, in transactions in cash which are primarily limited to cash balances deposited in banks and accounts receivable at the statement of financial position date.

Counterparty credit exposure based on commercial activities, including trade receivables, embedded derivatives and cash balances in banks as at 31 December 2017 and 31 December 2016:

Summary commercial partners	As at 31 December 2017 US$000	% collected as at 19 February 2018	As at 31 December 2016 US$000	% collected as at 7 March 2017
Trade receivables	**43,209**	**41%**	36,821	76%

Cash and cash equivalents – Credit rating[1]	As at 31 December 2017 US$000	As at 31 December 2016 US$000
A+	**6,651**	–
A	**20,700**	64,017
A-	**29,798**	8,877
BBB+	**199,166**	65,023
BBB	**61**	1,549
BBB-	**6**	–
NA	**606**	513
Total	**256,988**	139,979

1 The long-term credit rating as at 6 February 2018 (2016: 31 January 2017).

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

- Active use of prepayment/advance clauses in sales contracts
- Delaying delivery of title and/or requiring advance payments to reduce exposure timeframe (potential delay in sales recognition)
- Obtaining parent guarantees or contracting directly with parent company to shore up the credit profile of the customer (where possible)
- Maintaining as diversified a portfolio of clients as possible

To manage credit risk associated with cash balances deposited in banks, the Group took the following steps:

- Increasing banking relationships with large, established and well-capitalised institutions in order to secure access to credit and to diversify credit risk
- Limiting exposure to financial counterparties according to Board approved limits
- Investing cash in short-term, highly liquid and low risk instruments (money market accounts, term deposits, US Treasuries)

Receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. The maximum exposure is the carrying amount as disclosed in 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.

At 31 December 2017 the sensitivity to reasonable movements in the share price of available-for-sale financial assets of +/- 25% with all other variables held constant is +/-US$1,421,000 recognised in equity. The amount held of investments at 31 December 2016 (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 2017 and 2016, the Group held the following financial instruments measured at fair value:

Assets measured at fair value	31 December 2017 US$000	Level 1 US$000	Level 2 US$000	Level 3 US$000
Equity shares (note 19)	**5,383**	5,683	–	–
Warrants (note 19)	**1,333**	1,333	–	–
Embedded derivatives[1]	**1,258**	–	–	1,258

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)

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 2017 and 2016, 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 2016	(1,141)
Changes in fair value[1]	(10,328)
Realised embedded derivatives during the period[1]	9,743
Balance at 31 December 2016	(1,726)
Changes in fair value[1]	2,160
Realised embedded derivatives during the period[1]	824
Balance at 31 December 2017	**1,258**

1 The movement of the period has been recognised in 'Revenue' (note 5).

(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 2017					
Trade and other payables	104,121	352	939	–	105,412
Borrowings	82,832	22,845	329,043	–	434,720
Total	**186,953**	**23,197**	**329,982**	**–**	**540,132**
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

Notes to the consolidated financial statements
continued

36 Financial risk management continued

(g) Interest rate risk

The Group has financial assets and liabilities which are exposed to interest rate risk. Changes in interest rates primarily impact loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). The Group does not have a formal policy of determining how much of its exposure should be at fixed or at variable rates. However, at the time of taking new loans or borrowings, management applies its judgement to decide whether it believes that a fixed or variable rate borrowing would be more favourable to the Group over the expected period until maturity.

	As at 31 December 2017				
	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	**192,172**	**–**	**–**	**–**	**192,172**
Liabilities	**(67,863)**	**–**	**(291,955)**	**–**	**(359,818)**
Floating rate					
Assets	**2,869**	**–**	**–**	**–**	**2,869**

	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

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 +/-14,000 effect on profit before tax (2016: +/-6,000). The Group is exposed to fluctuations in market interest rates.

This assumes that the amount remains unchanged from that in place at 31 December 2017 and 2016 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 2017 the Group collected US$69,500,000 (2016: US$70,000,000) due to proceeds of borrowings while US$38,000,000 (2016: 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) A restructuring plan has been established for the Arcata mining unit that includes the dismissal of approximately 165 employees. This reduction is aligned with the exploitation plan 2018, which is lower than budgeted in 2017, and is scheduled to take place between the months of January and February 2018. The process has been co-ordinated and communicated during January 2018 to the employees and the union. The approximate cost associated with the indemnities is estimated to be around US$1,388,000.

(b) On 23 January 2018 the Group redeemed in full all of the US$294,775,000 outstanding principal amount of the Senior Unsecured Notes of Compañía Minera Ares S.A.C. (refer to note 25 (a)). The redemption price was US$317,620,062, that includes the principal amount of US$294,775,000, the total amount of unpaid interests of US$11,422,531 and a premium of US$11,422,531.

(c) On 10 January 2018 the Group signed a short-term loan with Nova Scotia Bank of US$50,000,000 (3 months LIBOR plus 0.32%) and on 17 January 2018 signed a medium-term loan with Nova Scotia Bank of US$100,000,000 (3 months LIBOR plus 0.70%). The proceeds were employed to redeem the Senior Unsecured Notes of Compañia Minera Ares S.A.C.

(d) On 2 January 2018 the Group issued 1,660,805 ordinary shares under the Restricted Share Plan, to certain employees of the Group.

Parent company statement of financial position

As at 31 December 2017

		As at 31 December	
	Notes	**2017 US$000**	2016 US$000
ASSETS			
Non-current assets			
Investments in subsidiaries	5	**2,336,010**	1,844,725
		2,336,010	1,844,725
Current assets			
Other receivables	6	**10,463**	8,824
Cash and cash equivalents	7	**2,182**	10,402
		12,645	19,226
Total assets		**2,348,655**	1,863,951
EQUITY AND LIABILITIES			
Equity share capital	8	**224,315**	224,315
Share premium	8	**458,267**	458,267
Treasury shares	8	**(140)**	(426)
Other reserves		**7,634**	5,869
Retained earnings		**1,423,704**	949,863
Total equity		**2,113,780**	1,637,888
Non-current liabilities			
Trade and other payables	9	**3,500**	5,194
Provisions	10	**480**	419
		3,980	5,613
Current liabilities			
Trade and other payables	9	**230,895**	220,450
		230,895	220,450
Total liabilities		**234,875**	226,063
Total equity and liabilities		**2,348,655**	1,863,951

The profit of the Company after tax amounted to US$487,315,000 (2016: US$1,199,842,000).

The financial statements were approved by the Board of Directors on 20 February 2018 and signed on its behalf by:

Ignacio Bustamante
Chief Executive Officer
20 February 2018

Parent company statement of cash flows

For the year ended 31 December 2017

	Notes	Year ended 31 December 2017 US$000	2016 US$000
Reconciliation of loss for the year to net cash used in operating activities			
Profit for the year		**487,315**	1,199,842
Adjustments to reconcile Company profit to net cash outflows from operating activities			
Reversal of impairment on investment in subsidiary	5	**(491,285)**	(1,202,604)
Share-based payments		**449**	563
Finance income		**(1,739)**	(2,696)
Finance costs		**19**	16
Income tax		**–**	1
(Decrease)/increase of cash flows from operations due to changes in assets and liabilities			
Other receivables		**484**	476
Trade and other payables		**(235)**	(541)
Provision for Long-Term Incentive Plan		**795**	337
Cash used in operating activities		**(4,197)**	(4,606)
Interest received		**45**	121
Net cash used in operating activities		**(4,152)**	(4,485)
Cash flows from investing activities			
Net cash generated from investing activities		**–**	–
Cash flows from financing activities			
Dividends paid		**(13,996)**	(6,998)
Repayment of borrowings		**(72)**	–
Loans from subsidiaries		**10,000**	–
Cash flows used in financing activities		**(4,068)**	(6,998)
Net decrease in cash and cash equivalents during the year		**(8,220)**	(11,483)
Exchange difference		**61**	(44)
Other		**(61)**	44
Cash and cash equivalents at beginning of year		**10,402**	21,885
Cash and cash equivalents at end of year	7	**2,182**	10,402

Parent company statement of changes in equity

For the year ended 31 December 2017

	Notes	Equity share capital US$000	Share premium US$000	Treasury shares US$000	Other reserves: Share-based payment reserve US$000	Other reserves: Total other reserves US$000	Retained earnings US$000	Total equity US$000
Balance at 1 January 2016		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**
Other comprehensive income		–	–	–	–	–	–	–
Profit for the year		–	–	–	–	–	487,315	487,315
Total comprehensive profit for the year		–	–	–	–	–	487,315	487,315
Exercise of share options	8	–	–	286	(48)	(48)	(238)	–
Dividends	2	–	–	–	–	–	(13,996)	(13,996)
Share-based payments	2	–	–	–	1,813	1,813	760	2,573
Balance at 31 December 2017		**224,315**	**458,267**	**(140)**	**7,634**	**7,634**	**1,423,704**	**2,113,780**

Notes to the parent company financial statements
For the year ended 31 December 2017

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.

(b) Going concern
The ability for the Company to continue as a going concern is dependent on Hochschild Mining Holdings Limited providing additional funding to the extent that the operating inflows of the Company are insufficient to meet future cash requirements. As Hochschild Mining Holdings Limited has committed to provide this support, is itself a going concern and can provide financial support if necessary, the Directors have prepared the financial statements for the Company on the going concern basis.

(c) Exemptions
The Company's financial statements are included in the Hochschild Mining Group consolidated financial statements for the years ended 31 December 2017 and 31 December 2016. As permitted by section 408 of the Companies Act 2006, the Company has not presented its own profit and loss account.

(d) 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.

(e) 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 statement for the year ended 31 December 2017. 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.

(f) 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.

(g) Investments in subsidiaries
Subsidiaries are entities over which the Company controls operating and financial policies, generally by owning more than 50% of voting rights. Investments in subsidiaries are recognised at acquisition cost less any provision for impairment. The Company assesses investments for impairment whenever events or changes in circumstances indicate that the carrying value of an investment may not be recoverable. If any such indication of impairment exists, the Company makes an estimate of its recoverable amount. Where the carrying amount of an investment exceeds its recoverable amount, the investment is considered impaired and is written down to its recoverable amount. If, in subsequent periods, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the profit and loss account, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

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

(i) Other receivables

Current receivables are carried at the original amount less provision made for impairment of these receivables. A provision for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivable. The amount of the provision is the difference between the original carrying amount and the recoverable amount and this difference is recognised in the income statement.

(j) Cash and cash equivalents

Cash and cash equivalents are carried in the statement of financial position at cost. For the purposes of the statement of financial position, cash and cash equivalents comprise cash in hand and deposits held with banks that are readily convertible into known amounts of cash within three months or less and which are subject to insignificant risk of changes in value. For the purposes of the cash flow statement, cash and cash equivalents as defined above are shown net of outstanding bank overdrafts.

(k) Share capital

Ordinary shares are classified as equity. Any excess above the par value of shares received upon issuance of those shares is classified as share premium. In the case the excess above par value is available for distribution, it is classified as merger reserve and then transferred to retained earnings.

(l) Provisions

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

(m) Share-based payments

Cash-settled transactions

The fair value of cash-settled share plans is recognised as a liability over the vesting period of the awards. Movements in that liability between reporting dates are recognised as 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.

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 Company'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.

(n) Finance income and costs

Finance income and costs mainly comprise interest income on funds invested, interest expense on borrowings, foreign exchange gains and losses, gains and losses from the change in fair value of derivative instruments and gains and losses on the disposal of available-for-sale investments. Interest income and costs are recognised as they accrue, taking into account the effective yield on the asset and liability, respectively.

(o) Income tax

Income tax for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items charged or credited directly to equity, in which case it is recognised in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted at the statement of financial position date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes with the following exemptions:

- where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss;
- 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.

Notes to the parent company financial statements continued
For the year ended 31 December 2017

2 Significant accounting policies continued

(p) Financial instruments
Financial assets and liabilities are recognised when the Company becomes party to the contracts that give rise to them and are classified as loans or borrowings, receivables, payables, financial instruments at fair value through profit and loss or as available-for sale financial assets, as appropriate. The Company determines the classification of its financial assets and liabilities at initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end. When financial assets and liabilities are recognised initially, they are measured at fair value, being the transaction price plus, in the case of financial assets not at fair value through profit or loss and borrowings, directly attributable transaction costs. The Company considers whether a contract contains an embedded derivative when the entity first becomes a party to it. The embedded derivatives are separated from the host contract if it is not measured at fair value through profit or loss and when the economic characteristics and risks are not closely related to those of the host contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

All regular way purchases and sales of financial assets are recognised on the trade date, being the date that the Company commits to purchase or sell the asset. Regular way transactions require delivery and receipt of assets within the timeframe generally established by regulation or convention in the marketplace.

Financial guarantees
Financial guarantees are guarantees provided by the Company on behalf of one of the Group's subsidiaries. At inception the fair value of a financial guarantee is determined and recognised as a liability in the Company's accounts, while the debit is recognised as a capital contribution to its subsidiary. The liability is subsequently amortised on a straight-line basis over the life of the guarantee, unless it is considered probable that the guarantee will be called, in which case it is measured at the value of the guaranteed amount payable, if higher.

The liability is presented within creditors as 'Financial liability – financial guarantee'.

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

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 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)).

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

3 Profit and loss account

The Company made a profit attributable to equity shareholders of US$487,315,000 (2016: US$1,199,842,000).

4 Property, plant and equipment

At 31 December 2017 and 2016 the Company has property, plant and equipment with cost of equipment of US$265,000 which is fully depreciated.

There were no additions during 2016 and 2017.

5 Investments in subsidiaries

	Total US$000
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
Year ended 31 December 2017	
Cost	
At 1 January 2017	2,336,010
At 31 December 2017	2,336,010
Accumulated impairment	
At 1 January 2017	(491,285)
Reversal of impairment	491,285
At 31 December 2017	–
Net book value at 31 December 2017	**2,336,010**

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 publicly 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$491,285,000 (2016: US$1,202,604,000).

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 2017 and 2016 translated from Pounds Sterling into US 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 positive variation in the key assumptions would not have an impact on the impairment reversal recognised. Therefore, an adverse change of 10% of the market capitalisation would result in a reduction of the reversal of impairment by US$86,048,000.

The breakdown of the investments in subsidiaries is as follows:

	As at 31 December 2017			As at 31 December 2016		
Name	**Country of incorporation**	**Equity interest %**	**Carrying value US$000**	Country of incorporation	Equity interest %	Carrying value US$000
Hochschild Mining Holdings Limited	**England & Wales**	**100%**	**2,336,010**	England & Wales	100%	1,844,725
Total			**2,336,010**			1,844,725

The list of indirectly held subsidiaries of the Group is presented in note 1 (Corporate information) of the notes to the consolidated financial statements.

Notes to the parent company financial statements continued
For the year ended 31 December 2017

6 Other receivables

	Year ended 31 December	
	2017 US$000	2016 US$000
Amounts receivable from subsidiaries (note 11)	**10,436**	8,779
Prepayments	**20**	11
Receivable from Kaupthing, Singer and Friedlander	**208**	198
Interests receivable	**–**	17
Other receivable	**7**	17
	10,671	9,022
Provision for impairment[1]	**(208)**	(198)
Total	**10,463**	8,824
Less current balance	**(10,463)**	(8,824)

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$208,000 accrued in 2008 (2016: US$198,000).

Movements in the provision for impairment of receivables:

	Total US$000
At 1 January 2016	252
Amounts recovered	(54)
At 31 December 2016	198
Provided for during the year	10
At 31 December 2017	**208**

As at 31 December 2017 and 2016, none of the financial assets classified as receivables (net of impairment) were past due.

7 Cash and cash equivalents

	Year ended 31 December	
	2017 US$000	2016 US$000
Bank current account[1]	**669**	440
Time deposits[2]	**1,513**	9,962
Cash and cash equivalents considered for the cash flow statement	**2,182**	10,402

1 Relates to bank accounts which are freely available and bear interest.
2 These deposits have an average maturity of 32 days (2016: 3 days).

8 Equity

(a) Share capital and share premium

Issued share capital

The issued share capital of the Company as at 31 December 2017 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 2016 is as follows:

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

At 31 December 2017 and 2016, all issued shares with a par value of 25 pence each were fully paid (2017: weighted average of US$0.442 per share, 2016: weighted average of US$0.442 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 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 2016	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 and 2017	**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 £561,478 (equivalent to US$898,000). No shares were purchased by the Company during 2016 and 2017.

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. On 20 March 2017, 40,383 Treasury shares with a value of US$286,000 (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 2017 comprise 19,659 (2016: 60,042) ordinary shares with a value of US$140,000 (2016: US$426,000).

(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.

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 2017 and 2016.

9 Trade and other payables

	As at 31 December			
	2017		2016	
	Non-current US$000	**Current US$000**	Non-current US$000	Current US$000
Trade payables	**–**	**485**	–	297
Payables to subsidiaries (note 11)	**–**	**227,324**	–	217,235
Remuneration payable	**–**	**943**	–	747
Taxes and contributions	**–**	**446**	–	476
Financial guarantees[1]	**3,500**	**1,697**	5,194	1,695
Total	**3,500**	**230,895**	5,194	220,450

1 The Company has provided financial guarantees to certain banks over the 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.

Notes to the parent company financial statements continued
For the year ended 31 December 2017

10 Provisions

	As at 31 December	
	2017 US$000	2016 US$000
Beginning balance	**419**	82
Increase in provision, net	**61**	337
At 31 December	**480**	419
Less: current portion	**–**	–
Non-current portion	**480**	419

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 2017, payable in March 2020, (ii) Long-Term Incentive Plan awards, granted in March 2016, payable in March 2019. 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 2017 and 2016.

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 2017 and 31 December 2016.

	As at 31 December 2017		As at 31 December 2016	
	Accounts receivable US$000	**Accounts payable US$000**	Accounts receivable US$000	Accounts payable US$000
Subsidiaries				
Compañía Minera Ares S.A.C.[1]	**9,796**	**441**	7,773	279
Hochschild Mining Holdings Ltd.[2]	**–**	**226,860**	487	216,932
Other subsidiaries	**640**	**23**	519	24
Total	**10,436**	**227,324**	8,779	217,235

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 2017 of US$857,000 (2016: US$766,000). The Company has also provided certain financial guarantees on behalf of Compañía Minera Ares S.A.C. (note 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.

(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$1,364,583 (2016: US$1,420,504).

	As at 31 December	
Compensation of key management personnel (including Directors)	**2017 US$000**	2016 US$000
Short-term employee benefits	**915**	857
Long-Term Incentive Plan	**450**	563
Total compensation	**1,365**	1,420

12 Dividends paid and proposed

Dividends per share
The interim dividends paid in September 2017 were US$6,998,797 (1.38 US cents per share). A proposed dividend in respect of the year ending 31 December 2017 of 1.965 US cents per share, amounting to a total dividend of US$9,967,000, is subject to approval at the Annual General Meeting on 25 May 2018 and are not recognised as a liability as at 31 December 2017.

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
2017			
Pounds sterling	+/-10%	+/-48	–
2016			
Pounds sterling	+/-10%	+/-35	–

(b) Credit risk

The Company is primarily exposed to credit risk in transactions in cash which are primarily limited to cash balances deposited in banks and accounts receivable at the statement of financial position date. The Company has evaluated and introduced efforts to try to mitigate credit risk exposure.

To manage credit risk associated with cash balances deposited in banks, the Company is:

- increasing banking relationships with large, established and well-capitalised institutions in order to secure access to credit and to diversify credit risk;
- investing cash in short-term, highly liquid and low risk instruments (term deposits); and
- maintaining excess cash abroad in hard currency.

Credit risk concentrations exist when changes in economic, industrial or geographic factors take place, affecting in the same manner the Company's counterparties whose added risk exposure is significant to the Company's total credit exposure. Receivable balances are monitored on an ongoing basis with the result that the Company's exposure to bad debts is not significant. The maximum exposure is the carrying amount as disclosed in note 6.

(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 2017 of US$2,182,000 (2016: US$10,402,000) and US$16,137,000 (2016: US$17,218,000) 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 2017					
Trade and other payables	**228,810**	**–**	**–**	**–**	**228,810**
At 31 December 2016					
Trade and other payables	218,279	–	–	–	218,279

The table below analyses the maximum amounts payable under financial guarantees provided to Compañía Minera Ares S.A.C. (note 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 2017					
Financial guarantees[1]	**294,775**	**–**	**–**	**–**	**294,775**
At 31 December 2016					
Financial guarantees[1]	294,775	–	–	–	294,775

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 2017

Company (US$000)	Arcata	Pallancata	Inmaculada	San Jose	Consolidation adjustment and others	Total/HOC
Revenue	77,940	120,529	296,594	227,094	415	722,572
Cost of sales (Pre consolidation)	(80,221)	(70,305)	(221,739)	(177,255)	471	(549,049)
Consolidation adjustment	(159)	(175)	(277)	140	471	–
Cost of sales (Post consolidation)	(80,062)	(70,130)	(221,462)	(177,395)	–	(549,049)
Production cost excluding depreciation	(62,340)	(46,874)	(109,005)	(127,217)	–	(345,436)
Depreciation in production cost	(17,446)	(20,256)	(110,632)	(47,907)	–	(196,241)
Other items	–	(1,461)	–	(1,780)	–	(3,241)
Change in inventories	(276)	(1,539)	(1,825)	(491)	–	(4,131)
Gross profit	(2,281)	50,224	74,855	49,839	886	173,523
Administrative expenses	–	–	–	–	(51,283)	(51,283)
Exploration expenses	–	–	–	–	(17,199)	(17,199)
Selling expenses	(1,931)	(1,298)	(1,118)	(6,677)	–	(11,024)
Other income/expenses	–	–	–	–	(1,357)	(1,357)
Operating profit before impairment	(4,212)	48,926	73,737	43,162	(68,953)	92,660
Impairment and write-off of assets	–	–	–	–	(3,158)	(3,158)
Finance income	–	–	–	–	5,927	5,927
Finance costs	–	–	–	–	(26,095)	(26,095)
FX loss	–	–	–	–	(5,257)	(5,257)
Profit/(loss) from continuing operations before income tax	(4,212)	48,926	73,737	43,162	(97,536)	64,077
Income tax	–	–	–	–	(10,196)	(10,196)
Profit/(loss) for the year from continuing operations	**(4,212)**	**48,926**	**73,737**	**43,162**	**(107,732)**	**53,881**

1 On a post exceptional basis.

Reserves and resources

Ore reserves and mineral resources estimates

Hochschild Mining plc reports its mineral resources and reserves estimates in accordance with the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves 2004 edition ('the JORC Code'). This establishes minimum standards, recommendations and guidelines for the public reporting of exploration results and mineral resources and reserves estimates. In doing so it emphasises the importance of principles of transparency, materiality and confidence. The information on ore reserves and mineral resources on pages 153 to 155 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 aims to provide assurance in respect of ore reserve and mineral resource estimates. These audits are conducted by Competent Persons provided by independent consultants. The frequency and depth of an audit depends on the risks and/or uncertainties associated with that particular ore reserve and mineral resource, the overall value thereof and the time that has lapsed since the previous independent third party audit.

The JORC Code requires the use of reasonable economic assumptions. These include long-term commodity price forecasts (which, in the Group's case, are prepared by ex-house specialists largely using estimates of future supply and demand and long-term economic outlooks).

Ore reserve estimates are dynamic and are influenced by changing economic conditions, technical issues, environmental regulations and any other relevant new information and therefore these can vary from year-to-year. Mineral resource estimates can also change and tend to be influenced mostly by new information pertaining to the understanding of the deposit and secondly the conversion to ore reserves.

The estimates of ore reserves and mineral resources are shown as at 31 December 2017, 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 2017

Reserve category	Proved and probable (t)	Ag (g/t)	Au (g/t)	Ag (moz)	Au (koz)	Ag Eq (moz)
OPERATIONS[1]						
Arcata						
Proved	318,092	395	1.2	4.0	11.8	4.9
Probable	539,625	335	1.1	5.8	18.4	7.2
Total	857,717	357	1.1	9.8	30.2	12.1
Inmaculada						
Proved	3,124,529	147	4.1	14.8	412.0	45.3
Probable	1,564,684	214	5.0	10.8	249.5	29.2
Total	4,689,213	169	4.4	25.6	661.5	74.5
Pallancata						
Proved	934,208	360	1.4	10.8	41.8	13.9
Probable	368,996	289	1.2	3.4	14.4	4.5
Total	1,303,204	340	1.3	14.3	56.3	18.4
San Jose						
Proved	495,980	490	7.0	7.8	111.5	16.1
Probable	221,327	384	6.7	2.7	48.0	6.3
Total	717,307	457	6.9	10.5	159.5	22.4
Grand total						
Proved	**4,872,809**	**239**	**3.7**	**37.5**	**577.2**	**80.2**
Probable	**2,694,631**	**262**	**3.8**	**22.7**	**330.3**	**47.2**
Total	**7,567,440**	**247**	**3.7**	**60.2**	**907.5**	**127.4**

Note: Where reserves are attributable to a joint venture partner, reserve figures reflect the Company's ownership only. Includes discounts for ore loss and dilution.
1 Operations were audited by P&E Consulting.

Reserves and resources
continued

Attributable metal resources as at 31 December 2017[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	1,168,941	416	1.26	–	–	–	509	15.6	47.3	19.1	–	–	–
Indicated	1,933,181	381	1.25	–	–	–	473	23.7	77.5	29.4	–	–	–
Total	3,102,122	394	1.25	–	–	–	487	39.3	124.8	48.6	–	–	–
Inferred	4,129,459	334	1.24	–	–	–	426	44.3	164.7	56.5	–	–	–
Inmaculada													
Measured	3,023,358	178	4.93	–	–	–	542	17.3	479.1	52.7	–	–	–
Indicated	1,797,660	253	5.55	–	–	–	664	14.6	321.0	38.4	–	–	–
Total	4,821,018	206	5.16	–	–	–	588	31.9	800.2	91.1	–	–	–
Inferred	2,964,567	128	3.28	–	–	–	370	12.2	312.5	35.3	–	–	–
Pallancata													
Measured	1,331,079	426	1.73	–	–	–	554	18.2	74.0	23.7	–	–	–
Indicated	693,617	311	1.37	–	–	–	412	6.9	30.6	9.2	–	–	–
Total	2,024,696	387	1.61	–	–	–	506	25.2	104.7	32.9	–	–	–
Inferred	3,095,641	327	1.31	–	–	–	424	32.5	130.3	42.2	–	–	–
San Jose													
Measured	805,579	583	8.37	–	–	–	1,202	15.1	216.7	31.1	–	–	–
Indicated	844,078	427	6.76	–	–	–	927	11.6	183.5	25.2	–	–	–
Total	1,649,657	503	7.55	–	–	–	1,061	26.7	400.2	56.3	–	–	–
Inferred	446,885	360	6.68	–	–	–	854	5.2	96.0	12.3	–	–	–
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	7,049,196	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	**119,042,333**	**21**	**0.89**	**0.08**	**0.04**	**0.00**	**89**	**78.7**	**3,414.5**	**342.3**	**99.3**	**43.1**	**5.5**
Indicated	**314,542,619**	**12**	**0.73**	**0.03**	**0.01**	**0.00**	**67**	**122.6**	**7,374.3**	**677.4**	**83.2**	**37.0**	**4.2**
Total	**433,584,952**	**14**	**0.77**	**0.04**	**0.02**	**0.00**	**73**	**201.3**	**10,790.4**	**1,019.8**	**182.4**	**80.1**	**9.7**
Inferred	**73,356,323**	**58**	**0.73**	**0.10**	**0.04**	**0.22**	**136**	**136.7**	**1,716.4**	**319.8**	**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 being 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 2017	December 2016 Att.[1]	December 2017 Att.[1]	Net difference	% change
Arcata	Resource	**100%**	104.2	**105.1**	0.9	0.9%
	Reserve		17.7	**12.1**	(5.6)	(31.6%)
Inmaculada	Resource	**100%**	143.8	**126.4**	(17.4)	(12.1%)
	Reserve		89.4	**74.5**	(14.9)	(16.7%)
Pallancata	Resource	**100%**	83.6	**75.1**	(8.5)	(10.2%)
	Reserve		18.0	**18.4**	0.4	2.2%
San Jose	Resource	**51%**	73.5	**68.6**	(4.9)	(6.7%)
	Reserve		29.4	**22.4**	(7.0)	(23.8%)
Crespo	Resource	**100%**	53.3	**53.3**	–	–
	Reserve		–	**–**	–	–
Azuca	Resource	**100%**	108.2	**108.2**	–	–
	Reserve		–	**–**	–	–
Volcan	Resource	**100%**	706.9	**706.9**	–	–
	Reserve		–	**–**	–	–
Other projects total	Resource	**100%**	96.0	**96.0**	–	–
	Reserve		–	**–**	–	–
Total	**Resource**		1,369.5	**1,339.6**	(29.9)	(2.2%)
	Reserve		154.5	**127.4**	(27.1)	(17.5%)

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

Link Asset Services, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU.

By telephone

If calling from the UK: 0371 664 0300 (calls cost 12p per minute plus your phone company's access charge. Lines are open 9.00am-5.30pm Mon to Fri excluding public holidays in England and Wales).

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 15 May 2018 in respect of the 2017 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 2017 final dividend, a dividend mandate form, also available from the Company's registrars, should be completed and returned to the registrars by 15 May 2018. 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	2018
Ex-dividend date	10 May
Record date	11 May
Deadline for return of currency election forms	15 May
Payment date	1 June

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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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