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2006

Hochschild Mining plc

Annual Report & Accounts
For the year ended 31 December 2006

Hochschild Mining plc Annual Report & Accounts for the year ended 31 December 2006

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Hochschild Mining plc is a leading precious metals company operating in Latin America with a primary focus on silver and gold.

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Highlights

US$211m
Revenue

2% decrease
Weighted average cost per tonne

US$108m
Adjusted EBITDA*

89% increase
Attributable after tax profit*

US$0.19
Earnings per share (pre-exceptionals)

25% increase
Attributable stated reserves

Revenue

Revenue up 31% from US$161 million in 2005 to US$211 million in 2006

Costs

Weighted average cost per tonne for our three operating mines decreased 2% in 2006

Adjusted EBITDA*

Adjusted EBITDA up 52% from US$71 million in 2005 to US$108 million in 2006 equating to an adjusted EBITDA margin of 51%

Attributable after tax profit*

Attributable after tax profit up 89% from US$25 million in 2005 to US$47 million in 2006

Reserve base

Increased attributable stated reserves by 25% in the second half of 2006

Stable production

Stable production in 2006 with production of 11 6 million ounces of silver and 196 thousand ounces of gold

Project development

The three advanced development projects are on schedule to commence production in 2007 and expansions at the three operating mines are progressing according to plan

Listing

Successfully listed on the London Stock Exchange raising gross proceeds of US$515 million in November 2006

*Full definitions of adjusted EBITDA and attributable after tax profit may be found in the Glossary on page 116

About Us

A leading underground precious metals producer: We have a consistent record of high profitability and sustained growth underpinned by professional and responsible mining practices

Who we are
We are the fourth largest primary silver producer globally and a mid-cap sized gold producer We have over 40 years of experience in the exploration evaluation and extraction of precious metal epithermal vein deposits

Currently, we have three operating underground mines (Arcata, Ares and Selene) located in Southern Peru and four development projects in Argentina, Peru and Mexico We also have over 20 long-term prospects throughout Latin America In addition to potential acquisitions, we believe these projects provide substantial potential for long-term growth

In 2006 we produced 11 6 million ounces of silver and 196 thousand ounces of gold, which amounts to a total of 23 3 million silver equivalent ounces We are targeting 50 million silver equivalent ounces (830,000 gold equivalent ounces) by 2011, more than doubling our 2006 production

We focus on mid-sized, high-grade underground mining operations and projects in Latin America Our knowledge of the region's geological, cultural and political landscape allows us to build on our track record of achieving a high standard of operational efficiency

11.6moz
Silver produced in 2006

196koz
Gold produced in 2006

23.3moz
Silver equivalent produced in 2006

Silver Exchange Traded Fund (ETF)

Introduction of the silver ETF in April 2006 has created a significant amount of investment demand totalling approximately 125 million ounces at the end of January 2007

Source- The Silver Institute- GFMS

A proven track record: We have an established reputation of consistent reserve replacement, high-grade deposits and impressive margins.

Proven track record
Since commencing production at Arcata in the early 1960s, we have been able to replace and grow our high-grade reserve base and have identified new and profitable projects in the region We seek to build on this strong platform going forward

We also have a proven financial track record of high profitability and cash generation This is based on our focus on high-grade deposits and low cash costs Our sustained low costs allow us to maintain our strong cash flow generation and profitability at all times, independent of high mineral prices

Although we have legacy forward sale contracts in place which expire in mid 2007, the corporate policy going forward is to remain 100% unhedged Our greatest hedge is our low costs

A low cost producer: We have a sustained track record of low cash costs positioning us in the lowest quartile of the global cash cost curve for both silver and gold.

High-grade, low cost producer
Despite industry wide cost pressure, our weighted average cost per tonne for our three operating mines decreased 2% in 2006 This decrease was principally driven by a significant cost reduction at our Selene mine resulting from increased mechanisation and productivity

Historically, our low cash costs and high cash flow results from our strategy of acquiring and exploiting high-grade ore reserves and our commitment to operational efficiency This has fostered a corporate culture focused on productivity, underpinned by a rigorous system of cost control

Internally, we measure operating performance on a dollar per tonne basis However, we recognise the importance of comparability against our peers and as such, we calculate silver cash costs on a co-product basis and gold on both a co-product and by-product basis

Silver's antibacterial properties

Use of silver to prevent infection dates to ancient Greece and Rome Today silver, a natural antibacterial agent, is being used in clothing and sportswear, amongst other things, to prevent the growth of bacteria

Underground mining expertise: Our unique focus on mid-sized underground mining, a strategy not typically pursued by the major mining companies, has given us a broad platform for significant growth opportunities in the Americas.

Our experience and expertise
We have been mining and exploring in Latin America since the early 1920s and currently have exploration offices in Peru, Mexico, Argentina, Chile and the United States This gives us invaluable local expertise in addition to our geological familiarity with the region

Our approach
We consistently update our digital geo-database and regularly offer training for our exploration and geology department In addition, we maintain research agreements with geology universities Our approach also consists of daily tracking of activity and continuous re-evaluation of projects and targets to ensure they are meeting our criteria

Our reputation
Our profound knowledge of the region, our underground mining expertise and our professional approach to partnership makes us a 'partner of choice' for junior mining companies seeking to develop properties in the Americas Our joint venture strategy is to maintain majority ownership and secure the operational rights to our projects We have successfully entered joint venture arrangements with various partners including Minera Andes Inc , International Minerals Corporation, and Exmin Resources Group

A team of over 80 geologists apply a consistent and rigorous approach to the exploration of high-grade, underground epithermal vein deposits

Significant growth opportunities: In addition to our three operating mines, we have four development projects in Peru, Argentina and Mexico, three of which will commence production in 2007. Our growth pyramid, together with potential acquisitions, forms a strong platform for growth.

Our growth strategy
In order to achieve our 2011 target of 50 million silver equivalent ounces, we intend to complete planned expansions at our existing operations and to bring our four development projects into production on time In addition to any potential acquisitions, our extensive pipeline of prospects will provide incremental growth above and beyond the 2011 target

Corporate social responsibility: Our commitment to the health and safety of our employees, respect for the environment, and active engagement with local communities, is an intrinsic part of our culture.

Our philosophy
We believe that corporate social responsibility ('CSR') is fundamental to our business in the long term Respect for the environment, commitment to our communities and a healthy and safe workforce are not only ethical imperatives but an essential requirement for the sustained viability of our Group

Oversight of these important issues at Board level lies with the Corporate Social Responsibility Committee, which was installed in January 2007 and began an assessment of the Group's current CSR performance to ensure that we maintain our high standards and comply with best practices

Our CSR objectives
- Zero fatalities
- Lowest quartile in accidents
- World Bank environmental standards in our operations
- Peaceful and constructive relations with the communities surrounding our operations
- A workforce that is motivated healthy and committed to excellence

*National Environment Commission Award for the cleanest and most eco efficient production

Our region: Latin America is a vast region with enormous potential. In the last few years, it has once again grown at a vigorous pace with low inflation.

The economies of most of the key mining countries in Latin America are growing strongly, and have regulatory frameworks which promote appealing mining opportunities The region has thus attracted investment from many of the major global mining companies

Our current operations and our advanced projects are located in three countries in Latin America Peru, Mexico, and Argentina We also have exploration offices in Chile and the United States (Nevada), and a corporate office in London

Peru
Peru is the third largest country in South America with a territory that spans approximately 1 28 million square kilometres and a population of approximately 28 million people Peru has a history of mining dating back to the time of the Incas and is the largest silver producing country in the world In recent years the economy has been growing strongly in real terms with GDP growth of 5 2%, 6 4% and 7 2% in 2004 2005 and 2006, respectively Peru's recent economic stability and low inflation rate have helped to promote foreign direct investment in the country

Source: Economic Commission for Latin America and the Caribbean

Mexico
Mexico is the most populous Spanish-speaking country in the world Mexico covers an area of approximately 1 97 million square kilometres and has a total population of approximately 107 million Mexico is the second largest silver producing country in the world and has an enabling mining regulatory framework Mexico ranks 13th in the world in terms of GDP and had the fourth largest per capita income in Latin America after Argentina, Chile and Costa Rica Mexico s GDP grew at rates of 4 1% in 2004 3 0% in 2005 and 4 8% in 2006

Argentina
Argentina is the second largest country in South America and the eighth largest country in the world Covering an area of approximately 2 7 million square kilometres, Argentina has a population of approximately 39 million Since its financial crisis in 2001/02, Argentinian GDP has grown in 2004, 2005 and 2006 at rates of approximately, 9 0%, 9 2% and 8 5%, respectively Although not traditionally a mining country Argentina has strong mining potential and favourable mining legislation This has led to a significant inflow of mining investments

Geographic locations: We focus on underground mining throughout the Americas and will continue to exploit our mid-sized precious metals niche, while achieving geographic diversification.

Our geographic diversification
We only invest in those countries that offer an enabling environment for foreign investment

We aim to consolidate our regional leadership and aspire to become a global mining company

Our workplace: Our people and their safety are a pillar of our strategy and a deep personal conviction of the Board and employees.

Our employees
By the end of 2006, we had a total workforce of 3,456 at our operating sites, development projects and head office, of which 2 128 were contracted personnel We are proud to provide quality working conditions to our workforce We have, for over 40 years maintained good and peaceful relations with our workforce at all operations

Health and safety
Given the nature of our industry, health and safety is of critical importance and we have made considerable investments in the operating controls and processes at our facilities to ensure that exacting health, safety and environmental standards are met We are in the process of obtaining the health, safety and risk management system accreditation, OHSAS 18001, to monitor our performance in our underground and surface mining operations and aim to qualify for certification this year

Our approach
We have in place a local safety and mining hygiene committee at each of our operating units that meets to review, promote and monitor the Group's health and safety policies

We strive to comply with the most stringent safety standards in the industry

3,456
Total workforce

2,128
Contracted personnel

Our environment: We are committed to minimising our impact on the environment and observing the highest international standards of compliance.

Our environmental standards
We endeavour to minimise the impact of our business on the environment and have implemented an Environmental Management System ISO 14001 at all our operating sites We also use an international certification firm, Deutsche Gesellschaft zur Zertifizierung von Management systemen in Germany ('DQS'), to carry out yearly audits of our performance and management systems We are proud to report that DQS has consistently found us to be in full compliance with international standards

Our current environmental standards not only comply with local regulations in Peru, Mexico and Argentina but also exceed the requirements laid down by the World Bank in its Environmental, Health and Safety Guidelines for the Mining Industry' Our intention is to maintain similar standards at all operations as our project pipeline develops

In our view, underground mining drastically reduces the potential environmental impact as we have been able to backfill a significant proportion of our tailings Nonetheless, we are committed to environmental initiatives to minimise this effect further We budget and prepare for mine closure over the life of the operation Our reforestation programme at both Arcata and Selene, where the Group has planted in excess of 35,000 indigenous plants and our substantial investment in technology to reduce air emissions and control waste disposal, illustrates our commitment and ongoing effort to environmental sustainability

35,000
Indigenous plants replaced at Arcata and Selene

Our community: We believe that active long-term engagement with our local communities is fundamental to our being able to operate in the region and we devote considerable time and resources to such activities.

Commitment
Our long-term community projects seek to improve the lives of local communities on a sustainable basis We believe that the three fundamental requirements for achieving this goal are healthcare, education, and sustainable economic activities

Healthcare
Given the level of poverty in the region, healthcare is of prime importance to improving living standards We invest in healthcare campaigns that are conducted with local communities giving them access to healthcare facilities and medicines Our Community Relations team has improved the infrastructure of health facilities and community houses and carried out health, vaccinations and cold weather campaigns to aid the community

Education
We believe in the importance of a high standard of education in our local communities and seek to improve the level of general education for both adults and children Our commitment to education is best exemplified by TECSUP, a project founded and substantially funded by the Hochschild Group TECSUP has become the leading non-profit technical institute in the country, with over 4,000 graduates and an impressive 95% employment rate

Economic activities
Our programmes include
rehabilitation of agricultural land,
- provision of greenhouses for community production, education on irrigation techniques,
- alpaca wool breeding and marketing programme
- guinea pig farms on a commercial scale,
- trout farming and marketing, and
- roadbuilding and community employment on road maintenance

95%

Of TECSUP graduates enter employment

Silver and gold: We believe in the positive fundamentals behind these metals.

Silver

Silver is traded in its physical form over-the-counter on the London Bullion Market and on Comex in New York, a futures and options exchange 2006 was an exciting year for silver with the launch of the Silver Exchange Traded Fund (ETF) in April and the subsequent increase in investment demand In 2006, the average silver price was US$11 59 per ounce, up 45% year-on-year

In addition to investment demand, silver can be found in many electrical applications, including conductors, switches and contacts The ease of electro-deposition of silver accounts for its widespread use in plating The joining of materials using silver is facilitated by the metal's fluidity and strength

Global silver demand
Historically, demand has been dominated by three factors jewellery and silverware, industrial, and photographic fabrication, although the recent introduction of the ETF has generated incremental investment demand In 2005 total demand amounted to 869 million ounces which was, according to CRU Strategies

- 45% industrial,
  33% jewellery and silverware,
- 18% photography, and
- 4% coinage

Global silver supply
Mine production, scrap supply and government sales are the three primary drivers of silver supply In 2005, mine production accounted for 78% of supply, of which only 30% came from primary sources

Gold

The price for gold is determined on the open market and a procedure known as the Gold Fixing in London provides a daily benchmark figure In 2006, the average gold price was US$604 per ounce up 25% year-on-year

Gold, a superior store of value, is driven more by investment demand rather than physical buying in the market Gold also maintains a role as an alternative investment as it tends to be inversely correlated to the US dollar In addition, gold s enhanced electrical conductivity its malleability, and its resistance to corrosion have made it vital to the manufacture of components used in a wide range of electronic products, including computers, telephones, cellular phones, and home appliances

Global gold demand
In addition to investment demand, gold is fabricated for various markets such as jewellery, electronics, dentistry, industrial, coins and bars with jewellery being by far the most important India was the world's largest consumer of gold jewellery in volume terms, whilst the United States was the largest market in terms of value in 2005 Industry and medical uses are another important source of consumption

Global gold supply
Mine production, scrap supply and central bank sales are the three primary constituents of gold supply accounting for 65%, 22% and 17%, respectively, in 2005 according to CRU Strategies

Source CRU Strategies, GFMS World Gold Council The Silver Institute (latest available data)

Chairman's Statement

Our strategy: To enhance overall value for our shareholders through a strong growth strategy based on high-margin, cash generative, precious metals production in the Americas.

I am pleased to be presenting Hochschild Mining plc's first set of results following our successful Listing on the London Stock Exchange in November 2006, when we raised approximately US$500 million It has been a landmark year for the Company and I must extend my thanks to all those who made it possible our workers, management, office staff and our shareholders Our Listing marks the beginning of a new stage in the Group's development We are now well placed to substantially increase our capacity to build on our track record of successful financial, operational and social performance

Over the last 12 months, we have seen good operational performance and strong financial results that demonstrate the strengths of our business In 2006, our revenues for the year amounted to US$211 million, a 31% increase on 2005, and adjusted EBITDA for the year increased by 52% to US$108 million We continue to achieve low cash costs and high margins in our extraction of precious metals due to our focus on exploiting high-grade deposits and our rigorous system of cost controls at all our operations Whilst costs across the industry have been rising and production has been constrained in many parts of the world by escalating prices for mining machinery, we have seen a 2% reduction in the weighted average cost per tonne at our existing operations

Our production for 2006 was steady with 11 6 million ounces of silver and 196 thousand ounces of gold, contributing to a combined total of 23 3 million silver equivalent ounces, a slight decline on last year due to the anticipated grade decline at our Ares mine We expect this decline to continue into the first quarter of 2007 as we continue to extract lower grades at Ares, but to be more than fully reversed over the course of the year as we ramp-up throughput at our three operating mines and as we bring three new mines into production starting at the end of the second quarter of 2007 Consequently, for 2007, we are targeting production in excess of 26 million silver equivalent ounces The benefits of increasing the number of producing mines from three to six in 2007 will be fully reflected, both operationally and financially, in 2008 This will also keep us on course to reach our target of producing 50 million silver equivalent ounces (or 830,000 gold equivalent ounces) by 2011

Market prices for both gold and silver were strong during 2006, with the prices rising 25% and 45%, respectively, on the back of significant investment demand notably in the wake of inflation concerns, a weak dollar and geopolitical influences, in addition to the introduction of the iShares Silver ETF in April 2006 The average spot price for gold in 2006 was US$604 65 per ounce and for silver it was US$11 59 per ounce Looking forward, we continue to favour precious metals and believe the silver price trend is set to continue into 2007 for two primary reasons First, we expect the investment demand growth to continue and second, industrial demand is targeted to remain robust largely driven by continued strength within the electronics fabrication sector coupled with the new and expanding antibacterial uses of silver

The strong cash flow demonstrated in this set of results – with cash from operations of approximately US$126 million, combined with the net cash of US$406 million

Beginning and consolidation of the business

1910-1970s
Beginning and consolidation of the mining business

1980s-2000
Business approach/aggressive exploration process

2000-2006
Beginning of Latin American diversification

2006 onwards
Listing on the London Stock Exchange Focus on delivering growth and regional consolidation

"We aim to produce 50 million silver equivalent ounces (or 830,000 gold equivalent ounces) by 2011, more than doubling our current production."

at the Group level – gives us the financial strength to deliver on our growth strategy and to partake in the expected industry consolidation in the region I am happy to announce our maiden dividend for the two months of 2006 during which we were listed totalling US$2 3 million

Exploration continues to be a strong focus of the Group and we made significant progress during 2006 Since the half-year figures reported at the time of our Listing, we have increased our attributable reserves by 25% and extended our overall mine life, after discounting our increased production in 2007 Furthermore, our Listing has increased our visibility within the region and has given us access to more acquisition and joint venture opportunities For 2007, we have increased our exploration budget as we look to enhance further our reserve and resource base, explore new properties and continue to build on the progress made last year

It is with deep regret that we report that in the last year there have been fatalities in our business – three in 2006 and one more in the first quarter of 2007 – a substantial aberration from our previous track record The Board has taken steps to support the families of the people involved and the CSR Committee has ordered a comprehensive review of safety procedures and reporting with the leading consultants in the industry We will continue to exert every effort to ensure the safety of all our employees

We take corporate social responsibility very seriously and believe that the health and safety of our employees, the respect for the environment and our active engagement with local communities are fundamental to our business in the long term Responsibility for these important issues at Board level has now been entrusted to the Deputy Chairman Roberto Dañino, who chairs the Corporate Social Responsibility Committee

As a newly listed company on the London Stock Exchange, my Board colleagues and I are also firmly committed to delivering high standards of corporate governance We believe that our combination of a strong management team and experienced independent Directors will provide the best opportunities for growth and strategic direction for the Company

In summary, we are well poised to build on our proven operational strengths to deliver value for all our shareholders The combination of our low cost assets with the ability to grow reserves and production whilst remaining focused on underground precious metals mining in Latin America, form a strong base for future growth The Listing proceeds, together with our strong yearly cash flow provide us with the necessary resources to expand our existing operations, develop our pipeline of projects and consider potential acquisitions We thus remain on course to deliver on our target of 50 million silver equivalent ounces (or 830,000 gold equivalent ounces) by 2011

I extend a warm welcome to all our new shareholders and thank you for your support

Eduardo Hochschild
Executive Chairman

Silver Industrial demand increased 11% in 2005

Silver is the best electrical conductor of all metals and is therefore used in many electrical applications, particularly conductors, switches and fuses Industrial fabrication accounted for 409moz of silver demand in 2005

Source- The Silver Institute

Business Review

Key performance indicators: We measure our performance based on six key performance indicators, which also assist the comparability with other international mining companies.

Revenue is defined as net ounces sold multiplied by the realisable commodity price Revenue is a measure of the Group's production growth as well as an indication of the general commodity price environment We believe in our ability to grow production throughout the cycle while recognising that our financial performance is dependent on metal prices

Adjusted EBITDA is defined as profit from continuing operations before exceptional items, net finance costs and income tax plus depreciation, amortisation and exploration costs other than personnel and other expenses EBITDA is a measure of the cash profits of the business and provides a metric to measure our ability to maintain our low cost profile over time

Attributable after tax profit is defined as the profit for the year attributable to the equity shareholders of the Group from continuing operations and before exceptional items Attributable after tax profit provides a measure of the total profits available to equity shareholders

EPS (pre-exceptionals) is defined as the per share profit (using the weighted average number of shares outstanding for the period) available to the equity shareholders of the Group from continuing operations and before exceptional items EPS provides a measure for the amount of attributable profit available to equity shareholders of the Group taking into account any changes in the weighted average number of shares outstanding

Silver co-product cash costs is defined as total cash costs multiplied by the percentage of revenue from silver, divided by the number of silver ounces sold Cash costs include cost of sales, commercial deduction and selling expenses, less depreciation included in cost of sales This metric allows us to benchmark ourselves versus our peer group in a consistent manner over time, however, we must consider any revenue contribution shift

Gold co-product cash costs is defined as total cash costs multiplied by the percentage of revenue from gold, divided by the number of gold ounces sold Cash costs include cost of sales, commercial deductions and selling expenses less depreciation included in cost of sales This metric allows us to benchmark ourselves versus our peer group in a consistent manner over time, however, we must consider any revenue contribution shift

Operational review: We continue to deliver on the promises made at the time of our Listing.

Production
In line with expectations at the time of the Listing and as disclosed in our quarterly production report in January 2007 the second half of 2006 production was slightly above that of the first half with a total production of 11 6 million silver ounces and 196 thousand gold ounces for the full year ended 31 December 2006 This amounts to a total of 23 3 million silver equivalent ounces Silver production for the year was up 10% as a result of an increase from both Arcata and Selene while gold was down 16% due to the anticipated decrease in grade at the Ares mine

Costs
Our weighted average cost per tonne decreased 2%, despite industry wide cost pressure This decrease was principally driven by a significant cost reduction at the Selene mine However, our silver cash cost increased on a co-product basis from US$2 77 per ounce in 2005 to US$3 57 per ounce in 2006 (cash cost on a co-product basis must be considered in conjunction with the co-product commodity because, as the percentage sales of one product increases, the other decreases, resulting in a similar effect on the respective cash costs) This was primarily driven by a higher percentage of silver sales (68% increase in revenue from silver and 2% increase in revenue from gold) Consequently a greater amount of cost was attributed to silver production This increase was also due to a lesser extent to a decrease in average head grades mined for both silver and gold On the other hand, co-product cash cost for gold decreased from US$159 per ounce in 2005 to US$153 per ounce in 2006 while by-product cash cost for gold went from negative US$21 per ounce to negative US$273 per ounce We do not typically look at silver on a by-product basis

Global gold supply declining

Total gold supply in 2006 fell by 5% from its 2005 level, mainly due to the 346 tonne decline in official sector sales

Source GFMS

Exploration

With a team of over 80 geologists, exploration remains at the core of our business as we seek to expand our existing operations and add to our project pipeline through the discovery of new properties In 2006, we increased our capital expenditure on mine site exploration and will do the same in 2007 We typically capitalise exploration capital expenditure once the project has passed feasibility stage In 2007, we have budgeted US$35 million for exploration at our operations, projects and prospects

Reserves and resources

We have increased our attributable stated reserves by 25% in the second half of 2006 We plan to continue to increase our reserve and resource base in order to bring our reserve life more in line with those of other publicly traded precious metal companies

Silver equivalent content (moz)

Category	June 2006	Depletion[1]	Addition[2]	Dec 2006	%	June 2006 Att[3]	Dec 2006 Att[3]	%
Resource	233 4		34 2	2675	15	1778	202 2	14
Reserve	105 6	(11 7)	49 4	1433	36	83 4	103 9	25

Gold equivalent content (moz)

Category	June 2006	Depletion[1]	Addition[2]	Dec 2006	%	June 2006 Att[3]	Dec 2006 Att[3]	%
Resource	3 9		0 6	4 5	15	3 0	3 4	14
Reserve	1 8	(0 2)	0 8	2 4	36	1 4	1 7	25

Notes Resources are inclusive of reserves reserves and resources are reported according to the JORC code developed by the Australasian Joint Ore Reserves Committee Gold/Silver equivalency 1 ounce Au = 60 ounces Ag

1 Depletion reduction in reserves based on ore delivered to the mine plant
2 Increase in reserves due mainly to mine site exploration but also to price increase.
3 Attributable reserves based on our percentage ownership at our joint venture projects

Arcata Mine: The Arcata mine is an underground epithermal vein system that has been in production since 1964, and is our flagship operation. It is located in Southern Peru near Arequipa on a 47,000 hectare site.

Production

	Year ended 31 December		
	2006	2005	% change
Ore production (tonnes)	**313,688**	282,199	11
Average head grade silver (g/t)	**536 61**	538 55	0
Average head grade gold (g/t)	**1 39**	1 19	17
Concentrate produced (tonnes)	**12,407**	10 787	15
Silver grade in concentrate (kg/t)	**11 92**	12 31	(3)
Silver produced (koz)	**4,754**	4 271	11
Gold produced (koz)	**11 89**	7 19	65
Net silver sold (koz)	**4,046**	4 194	(4)
Net gold sold (koz)	**9 8**	7 2	36

Arcata's processing capacity will be increased to 420 ktpa in the second quarter of 2007 and we envisage undertaking a further expansion to 530 ktpa in 2009 At Arcata we experienced a timing difference between production and sale of concentrate which was significantly above that of previous years and, as such, we anticipate a shipment of approximately 692 thousand ounces of silver and 1 7 thousand ounces of gold that was mined in 2006 to be recognised as revenue in 2007 We recognise revenue from concentrate when the risk passes to the customer which under the contract with Peñoles is when the concentrate is loaded onto the ship in Peru We anticipate the magnitude of this effect will normalise in 2007 to that of previous years

Revenue and costs

	Year ended 31 December		
	2006	2005	% change
Revenue (US$000)	**55,020**	32 587	69
Percentage of consolidated revenue	**26**	20	

Unit costs per tonne at Arcata increased 6% in 2006 principally resulting from an increase in mine costs, up 10%, and royalties, up 137%, although offset by a decrease in geology costs, down 33% Mine costs increased because of less low cost open stopping in the Macarena Vein, more fill transport due to new areas of operation, and to a lesser extent, a greater expense for ventilation Royalties are dictated by Peruvian legislation whereby owners of mining concessions must pay for the exploitation of metallic and non-metallic resources Mining royalties, of 1%-3% of sales, are calculated depending on the value of the mineral concentrates according to the quoted market price published by the Ministry of Energy and Mines Accordingly, as mineral prices have increased so have the applicable royalties Nevertheless, we do not foresee a significant change in the cost profile of Arcata in 2007

Capital expenditure

	Year ended 31 December	
US$ million	**2006**	2007 budget
Total capital expenditure	**14 6**	24 8
Sustaining	**2 1**	8 5
Expansion	**10 6**	12 2
Exploration	**1 9**	4 0

The increase in sustaining capital expenditure at the Arcata unit in 2007 is due to the necessary replacement of the integral pump system for tailings, heavy equipment purchases, the replacement of the pump system in the mine and some infrastructure improvements Additionally, we have significantly increased the budget for mine site exploration, which will permit us to continue to prove up additional reserves and resources at Arcata while increasing production capacity

Exploration and geology

Stated on an attributable basis	**As of 31 December 2006**	As of 30 June 2006	% change
Resource (moz Ag eq)	**60 6**	43 6	39
Reserve (moz Ag eq)	**20 4**	16 1	27

Note Contains only the percentage of reserves or resources attributable to our ownership in the mine/project resources are inclusive of reserves reserves and resources are reported according to the JORC code developed by the Australasian Joint Ore Reserves Committee; Gold/Silver equivalency 1 ounce Au= 60 ounce Ag

Exploration and development has centred on the Mariana Vein system at the northern margin of the mineralised area which includes the majority of reserves and which currently supports the greater part of production Exploration in and around the Mariana Vein system will continue in order to convert additional resources into reserves, expand the mine life, and build a strong platform for production growth at our flagship mine

Ownership
100%

Product
Silver concentrate with gold content

Mining method
Conventional and mechanised cut and fill breast or overhand stoping methods with a flotation plant

Planned expansions
Increase capacity to 420 ktpa by Q2, 2007
Further increase to 530 ktpa in 2009

Ares Mine: The Ares mine is an underground epithermal vein system that has been in production since 1998. It is located in Southern Peru near Arequipa on a 22,700 hectare site.

Production

	Year ended 31 December		
	2006	2005	% change
Ore production (tonnes)	**289,138**	281 095	3
Average head grade silver (g/t)	**310 61**	355 28	(13)
Average head grade gold (g/t)	**17 37**	22 81	(24)
Dore total (koz)	**2,850**	3 151	(10)
Silver produced (koz)	**2,688**	2 944	(9)
Gold produced (koz)	**155 5**	198 55	(22)
Net silver sold (koz)	**2,651**	2 895	(8)
Net gold sold (koz)	**152 9**	196 4	(22)

As anticipated, the average grade at the Ares mine is declining due to the geologic nature of the ore body and, as such, we expect that we will mine at a lower average head grade in 2007 In 2006, we completed the planned expansion of the plant at Ares taking its capacity from 280 ktpa to 325 ktpa Results from the testing were positive and we are currently producing at a rate of 325 ktpa

Revenue and costs

	Year ended 31 December		
	2006	2005	% change
Revenue (US$000)	**92,368**	90 943	2
Percentage of consolidated revenue	**44**	56	

Despite higher prices, revenue was offset by a decrease in the ounces produced and thus sold from Ares

Unit costs per tonne at Ares increased by a modest 2% in 2006 This change was principally driven by an increase in plant costs, up 26%, and administrative costs up 14%, and offset by a decrease in mine costs, down 8%, and general services costs, down 6% Plant costs increased as a result of higher prices of sodium cyanide, more detoxification cycles in 2006 and an increase in steel prices Administrative costs were affected by the implementation of a revamped catering service Mine costs decreased because of a higher proportion of mechanised stopes and a decrease in the number of stopes compared to 2005 resulting from the integration of smaller stopes within larger ones, leading to greater efficiency and cost reduction General services decreased as a result of an overall reduction in energy consumption and operational supplies We have a legal stability agreement at the Ares operation which was granted in January 1999 for a ten year term, and consequently, we do not make any royalty payments Nevertheless, we do not foresee a significant change in the cost profile of Ares in 2007

Capital expenditure

	Year ended 31 December	
US$ million	**2006**	2007 budget
Total capital expenditure	**4 1**	11 1
Sustaining	**2 3**	4 2
Expansion	**0 3**	2 9
Exploration	**1 5**	4 0

The increase in sustaining capital expenditure at the Ares operation in 2007 is due to the replacement of heavy equipment and other equipment used in operational areas We have also increased the budget for mine site exploration at the Ares operation to focus on new exploration targets

Exploration and geology

Stated on an attributable basis	**As of 31 December 2006**	As of 30 June 2006	% change
Resource (moz Ag eq)	**24 9**	30 5	(18%)
Reserve (moz Ag eq)	**22 3**	28 5	(22%)

See note on p 20

As anticipated, the stated reserves and resources at Ares have decreased as a result of production, declining grades and limited geological developments in 2006 In response to this change we have increased our exploration efforts in prospective areas around the high-grade Victoria Vein looking for a deposit of a similar, high-grade nature and will continue to do so in 2007 We are also exploring areas adjacent to the already exploited parts of the Victoria Vein system at higher elevations This exploration has shown positive results in identifying minable high-grade splays and cymoid veins that went previously undetected We expect to produce a reserve and resource replacement in 2007 from this effort which should offset production depletion

Ownership
100%

Product
Dore containing gold and silver

Mining method
Conventional and mechanised cut and fill breast stoping methods with cyanidation and Merrill Crowe plant

Planned expansions
Capacity was increased to 325 ktpa in Q4, 2006

Selene Mine: The Selene mine is an underground epithermal vein system that has been in production since 2003. It is located in Southern Peru in Apurimac on a 19,500 hectare site.

Production

	Year ended 31 December		
	2006	2005	% change
Ore production (tonnes)	**359,686**	288 919	24
Average head grade silver (g/t)	**397 76**	399 11	0
Average head grade gold (g/t)	**2 85**	3 43	(17)
Concentrate produced (tonnes)	**3,812**	3 559	7
Silver grade in concentrate (kg/t)	**33 96**	29 15	17
Silver produced (koz)	**4,162**	3 335	25
Gold produced (koz)	**28 34**	27 48	3
Net silver sold (koz)	**3,705**	3 277	13
Net gold sold (koz)	**26 9**	26 4	2

The capacity at the Selene concentrator will be expanded to 700 ktpa in the third quarter of 2007 to accommodate for the extension of the Selene mine and for the commencement of production at the Pallancata project In the first half of 2007, Selene will produce approximately 424 ktpa and in the second half 75% of plant capacity will be used to treat ore from Selene while the remaining 25% will be used to treat ore from Pallancata The basic and detailed engineering work for the expansion has been compiled and construction is currently in progress and on schedule

As in Arcata, we also experienced a timing difference between production and sale of concentrate at the Selene mine which was above that of previous years Approximately 635 thousand ounces of silver and 3 5 thousand ounces of gold from the Selene mine remained in inventory in December 2006 and will add to revenue in 2007 We are converting the Selene concentrate into silver/gold dore at Ares which will reduce the future magnitude of the timing difference between production and sales

Revenue and costs

	Year ended 31 December		
	2006	2005	% change
Revenue (US$000)	**63,713**	37307	71
Percentage of consolidated revenue	**30**	23	

Unit costs per tonne at Selene decreased by 20% in 2006, principally resulting from an increase in production coupled with further development and mechanisation of the operation This effect significantly impacted our total cost per tonne Mine costs decreased by 33% as we were able to improve productivity with technical solutions most notably stope mechanisation In addition, general services' costs decreased by 24% as we were able to connect to the national grid in 2006 as opposed to running the unit off generators which had been the case previously Finally, administrative costs, a fixed cost, were 14% lower on a per unit basis due to the increased tonnage of production and a reduction in personnel services due to a decrease in the workforce The decrease in costs was offset by an increase in royalties, up 64%, given higher average selling prices We do not anticipate any significant change in the per unit cost at the Selene unit in 2007

Capital expenditure

	Year ended 31 December	
US$ million	**2006**	2007 budget
Total capital expenditure	**4 9**	14 1
Sustaining	**4 2**	5 5
Expansion	**0 3**	4 7
Exploration	**0.4**	4 0

Sustaining capital expenditure will increase due to the replacement of heavy equipment and a new pump station in the mine The increase in the expansion capital expenditure at Selene is to fund mine developments

Exploration and geology

Stated on an attributable basis	As of 31 December 2006	As of 30 June 2006	% change
Resource (moz Ag eq)	**25 2**	18 6	35
Reserve (moz Ag eq)	**12 3**	13 6	(10)

See note on p 20

We significantly increased the resource base at Selene and are now poised to increase Selene s reserves in 2007

In 2007, exploration expenses will be focused in converting resources to reserves mainly by deepening the Explorador mine workings Additionally, we plan to explore, with underground workings and drilling, a set of parallel tensional veins which cross diagonally between the Explorador and Tumiri Vein systems, as well as the Tumiri and Timida Veins where we anticipate expanding our reserve and resource base significantly We have also a number of exploration targets within the Selene mining concession which will be explored using surface drills during 2007 For more information on Selene Mine Vein systems see page 117

Ownership
100%

Product
Dore and silver concentrate with gold content

Mining method
Conventional and mechanised cut and fill breast or overhand stoping methods with a flotation plant

Planned expansions
Increase capacity to 700 ktpa by Q3, 2007

Development projects: We have three advanced stage development projects scheduled to commence production in 2007. These projects exemplify our ability to execute our growth strategy and enter new countries in the region.

Advanced stage development projects

Pallancata

The Pallancata silver/gold property is jointly owned with International Minerals Corporation We have a 60% ownership interest and are the operator Pallancata is located in Southern Peru approximately 11 kilometres from the Selene Vein system and is considered part of the same geological environment

We have commenced construction of the tunnels to reach the Pallancata Vein which we plan to mine in the third quarter of 2007 Future exploration targets exist around the Mariana, Mercedes and San Javier structures We will need to build a 22 kilometre road to transport the ore from Pallancata to Selene where we anticipate commencing construction in March 2007 We are well advanced in the process of building an electrical line between the Selene mine and the Pallancata property, which will completely supply the Pallancata property with power

The majority of the personnel at the Pallancata mine will be contracted, similar to our other Peruvian operations, and we are in the process of ramping up on-site mine personnel

We have applied for all the relevant mining permits and although we have not received all approvals, we are confident in our ability to ascertain these before we begin production We have submitted our Environmental Impact Assessment to the regulatory authority and having received some suggestions, are in the process of implementing their recommendations We do not, however, anticipate any significant issues

The expansion at the Selene plant to accommodate for the ore from Pallancata is progressing according to the original schedule Initial production from Pallancata is scheduled to begin in the third quarter of 2007 and will amount to approximately 175 ktpa In the current expansion at the Selene plant, we are allowing for a further expansion to be implemented in due course and are constructing the plant accordingly In the near future, the ore from Pallancata will be sold from Selene in the form of concentrate although we will evaluate the possibility of converting the Pallancata concentrate into dore at Ares, as we do with the Selene concentrate

Capital expenditure

US$ million	Year ended 31 December 2006	2007 budget
Total capital expenditure	16	23 0
Sustaining	–	–
Expansion	16	19 0
Exploration	–	4 0

The overall budget for the Pallancata project has increased due to an increase in the costs associated with road construction to transport the concentrate from Pallancata to Selene and costs associated with more exploration to increase further the reserve base

Exploration and geology

Stated on an attributable basis	As of 31 December 2006	As of 30 June 2006	% change
Resource (moz Ag eq)	29 5	21 7	36
Reserve (moz Ag eq)	14 3	6 8	110

See note on p 20

The increase in reserve and resource is the result of significant drilling activity on the Pallancata Vein and the extension of the previously known mineralisation along the vein both east and west with significant widths The mineralisation appears still open to the west and further drilling is planned in 2007

San Jose

The San Jose silver/gold property, located in southern Argentina, is jointly owned with Minera Andes, S A We have a 51% ownership interest and are the operator We plan to commence production at San Jose in the second quarter of 2007

In 2006, we completed a 21,241 metre drill programme which increased our resources and reserves by 37% and 54% respectively and in 2007 we plan to complete an additional 32,000 metre drill programme

This year we plan to mine the Huevos Verdes Vein and the nearby Frea Vein where we have developed approximately nine kilometres of underground workings and have completed the required infrastructure While construction of the underground mine is finished we

are completing construction of the plant We are building the plant to accommodate approximately 275 ktpa However, the plant has been designed to be upgraded to 550 ktpa in the future We have also completed a significant portion of the construction of the plant that will produce a silver/gold dore

Initially, we project working with diesel generators at the San Jose property, however, we are currently evaluating alternative sources of energy in order to reduce our future cost base

During the last four months, we have hired all personnel for the mine and are currently in the process of hiring plant personnel Unlike our Peruvian operations where the majority of our personnel are contracted, the majority of the workforce at San Jose will be employed by the Group as is standard practice in Argentina

All relevant mining permits in respect of the San Jose property have been obtained On the corporate social responsibility front, we have established contact with the local communities in order to begin forging a long lasting, mutually beneficial relationship following the approach taken at our Peruvian operations which over time has proven successful

Despite the difficulties of entering a new country, especially one not characterised by an extensive mining history, we are proud of the accomplishments made thus far

Capital expenditure

	Year ended 31 December	
US$ million	**2006**	2007 budget
Total capital expenditure	**32 8**	64 7
Sustaining	**–**	4 4
Expansion	**32 8**	56 9
Exploration	**–**	3 4

The overall budget for the San Jose project has increased due to a more aggressive drilling campaign in the Kospi vein and a planned increase in infrastructure The increase in infrastructure mainly includes more camps and offices as well as an increase in the size of the laboratory all of which were not considered in the original scope

Exploration and geology

Stated on an attributable basis	**As of 31 December 2006**	As of 30 June 2006	% change
Resource (moz Ag eq)	**35 9**	26 3	37
Reserve (moz Ag eq)	**28 3**	18 4	54

See note on p 20

At San Jose, reserves and resources have increased significantly due to the drilling performed in the newly discovered Kospi Vein We will continue to explore the property in 2007 focusing on the Kospi, Frea and Odin veins where we have found positive results Furthermore, we have identified other structures which have been initially tested and where we will drill in 2007 in order to increase our reserve base further at the San Jose property

Mina Moris

In early December 2006, we exercised our option to acquire a 70% stake in the Mina Moris open pit mine in Chihuahua, Mexico, which was owned and operated by Manhattan S A de CV between 1996 and 1999 Exmin Resources Inc ('Exmin'), our current partner, initially acquired the asset and currently owns the remaining 30%

Our current strategy with Mina Moris initially focuses on bringing the open pit mine back into production in a very cost efficient manner and mining the remaining surface ore However, we are most interested in the surface and underground potential and geological characteristics of the surrounding 30,000 hectare property package we own, with our partner Exmin, plus an additional 50,000 hectare claim under approval by the authorities This property package is in one of Mexico's most prolific gold belts and is host to the most recent exploration and new mine developments, namely Ocampo (Barrick Rio Tinto), Mulatos (Gammom Lake) and Dolores (Minefinders) We are committed to explore the area with increasing intensity over the coming years

We expect to commence production at Mina Moris in the third quarter of 2007 at an initial capacity of 1,060 ktpa The ore will be processed at a plant which came with the property and is currently being refurbished Since the operation was initially commissioned in 1996, some of the permits and licences have lapsed However, we have obtained the majority of the necessary permits and licenses except for the health licence blasting licence and the authorisation to purchase explosive material, for which we have already applied

Development projects continued: In addition to our advanced stage development projects, we have an extensive pipeline of other projects and prospects, some of which we are confident will become producing assets.

Mexico is a country with a long history of mining The local reaction to our entering the region has been positive with the people of the local village optimistic about the opportunities which will arise from our recommissioning the mine The local village provides a skilled workforce having worked at the same operation not so long ago In line with our corporate culture, we believe in an emphasis on social responsibility and have already begun a dialogue with the local communities near the mine

Capital expenditure

	Year ended 31 December	
US$ million	2006	2007 budget
Total capital expenditure	–	7 2
Sustaining	–	–
Expansion	–	7 2
Exploration	–	–

Exploration and geology

Stated on an attributable basis	As of 31 December 2006	As of 30 June 2006	% change
Resource (m ounce Ag eq)	**8 6**	8 9	(3)
Reserve (m ounce Ag eq)	**6 2**	0 0	–

See note on p 20

Reserves and resources in the Mina Moris were calculated based on a validation of data delivered by the vendor Our drilling and sampling has validated existing data and has confirmed the reliability of the data to calculate reserves and resources However, we will undertake a full audit in 2007 similar to those undertaken at our other operations

Early stage development project

San Felipe

The San Felipe project is located approximately six kilometres west of San Felipe de Jesus in northern Sonora, Mexico and consists of seven mining concessions covering a total of approximately 548 hectares as well as two other nearby projects, El Gachi and Moctezuma

In mid-2006, we entered into an agreement with the underlying owner Grupo Serrana whereby we have an option to acquire up to 70% of all mining rights and ownership of the San Felipe Moctezuma and El Gachi properties through an investment of US$33 3 million in the property within five years of the date of the agreement Since late 2006 and into early 2007, we have engaged in an accelerated and promising exploration project, including regional surface mapping and confirmation drilling on the original resource block in La Ventana ore body

La Ventana ore body based on information we received from the previous owner, contained 4 5 million tonnes of inferred resources averaging 7 5% zinc, 3 5% lead, 0 5% copper and 80 g/t silver After the initial drilling campaign in excess of 8,000 metres on a portion of the ore body (42 holes drilled of which 33 had assays at the time of resource calculation), we have been able to confirm inferred and indicated resources of 2 7 million tonnes containing 6 8 % zinc, 3 2% lead, 0 4% copper and 71 g/t silver The ore body is still open at depth and to the west and we expect to increase this resource significantly during 2007 with an additional 8,000 metres drilling programme during the first half of 2007 We expect to deliver measured and indicated resources that will justify the initial feasibility work in July 2007

Additionally, we have identified, mapped and sampled a number of exploration targets within the San Felipe project Two of them hold significant new potential In the Las Lamas ore body initial exploration drilling has started and we have two wide intercepts with high-grade zinc mineralisation The previously explored San Felipe ore body, has also returned high-grade results in rehabilitated underground workings which suggest significant potential still exists at depth We will commence exploration drilling on this target in due course

Many other surface exposures of mineralisation have been evidenced by regional surface mapping which indicates that the San Felipe project is facing a mineralised district with great exploration potential We are currently in advanced negotiations to secure the surrounding property blocks to expand the scope of this very exciting project

Review of prospects

El Gachi

Together with the San Felipe joint venture, we have acquired rights on the El Gachi project located 70 kilometres northeast from San Felipe El Gachi was explored by Anaconda and Peñoles in the 1960s and 1970s and unverified historic information indicates

grades of 400 to 900 g/t silver and greater than 12% combined lead and zinc We presently envision a potential ranging from a minimum of two metres to upwards of 10 metres at similar grades Currently we are reviewing the existing information and mapping the area to design an initial drill programme to fast track this high-grade silver and base metal project

Claudia and Santa Rita
We signed a definitive joint venture agreement with Mirasol Resource Ltd on 21 February 2007 The joint venture agreement provides us with the option to earn a 51% interest in each of the Claudia and Santa Rita properties by spending US$6 million on exploration at the Claudia Project and US$3 million on exploration at the Santa Rita project over four years, and by making cash payments totalling US$950,000 We may increase our interest to 65% in either, or both, projects by completing a bankable feasibility study, and may further increase our ownership to 75% by providing mine financing on commercial terms to Mirasol At each decision point, Mirasol may elect to retain its participating interest and fund its share of expenditures

The Claudia property is adjacent to the producing Cerro Vanguardia mine in Argentina and is hosted in a similar regional setting The principal vein system at Claudia is exposed within an erosional window exposing prospective Chon Aike volcanic rocks Exploration to date has identified three gold/silver mineralised zones, where each hosts multiple quartz veins or veinlets of classic, epithermal style The three zones lie within a structurally complex area some three kilometres in strike length and one kilometre wide, and appear to represent distinct erosional levels exposed by block faulting At this point in time, the property has not undergone any drilling activity

The Santa Rita silver project is located south east of our San Jose project in southern Argentina At Santa Rita, reconnaissance exploration has resulted in the discovery of a mineralised structural breccia system localised by a regional structural trend that hosts several other gold/silver showings in the area In keeping with similar low-sulphidation epithermal precious metals occurrences, the quartz vein textures and stratigraphic position at Santa Rita are permissive for gold/silver grades increasing at depth We plan to drill both these properties in the coming months

Other prospects
At the San Luis del Cordero property in Mexico, we completed mapping last year and expect to commence drilling in 2007 According to the terms of the contract with Exploraciones del Altiplano S A de C V where we have agreed to undertake exploration with an option to acquire all rights and ownership, we must spend US$2 7 million over the next four years, of which we have spent US$0 3 million within the first year

We are seeking prospective partners for our San Martin site in Peru as results were encouraging but below our expectations and specified hurdle rates, and are currently in negotiations with prospective partners At the Sierra de las Minas property in Argentina, we encountered high-grade intercepts but due to a lack of continuity we have decided to cease mapping, sampling and drilling programmes

Financial Review: Strong financial results with revenue up 31%, EBITDA up 52%, profits up 89%, and cash flow up over 300%.

Background

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted for use in the European Union ('EU') The Group's Financial Statements are also consistent with IFRS issued by the IASB The Group's transition date to IFRS is 1 January 2005 The key accounting policies adopted by the Group are set out on pages 61 to 67

Key financial performance indicators (stated before exceptional items)

	Year ended 31 December		
US$000 (unless stated)	**2006**	2005	% change
Revenue	**211,246**	161 235	31
Attributable after tax profit[1]	**46,646**	24 719	89
EPS[2]	**0 19**	0 11	73
Adjusted EBITDA[3]	**107,617**	70 650	52
Cash costs (US$/ounce Ag co-product)[4]	**3 57**	2 77	29
Cash costs (US$/ounce Au co-product)[4]	**153**	159	(4)
Silver production (koz)	**11,604**	10 550	10
Gold production (koz)	**196**	232	(16)

Notes

1 Attributable after tax profit is calculated as the profit for the year attributable to the equity shareholders of the Company from continuing operations before exceptional items

2 EPS is calculated using the weighted average number of shares outstanding for the period (2006 24 2 9 million 2005 230 0 million). EPS from continuing operations after exceptional items was US$0 17 and US$0 15 per share for 2006 and 2005 respectively

3 Adjusted EBITDA is calculated as profit from continuing operations before exceptional items net finance costs and income tax plus depreciation amortisation and exploration costs other than personnel and other expenses (see reconciliation on page 32)

4 Cash costs are calculated to include cost of sales treatment charges and selling expenses less depreciation included in cost of sales

Summary of financial performance

In our discussion of financial performance we remove the effect of exceptional items and in our income statement show the results both pre and post such exceptional items We consider events to be exceptional when they are significant and which, due to their nature or the expected infrequency of the events giving rise to them, need to be disclosed separately

Revenue for the year ended 31 December 2006 amounted to US$211 million, a 31% increase from 2005 principally driven by an increase in realisable commodity prices and offset by the number of gold ounces sold Our average realisable price for silver and gold increased 68% and 25%, respectively in 2006 The number of silver ounces sold was flat in 2006 while gold ounces sold decreased 18% year-over-year

Profit from continuing operations before exceptional items, net finance costs and income tax was up 133% from US$32 million in 2005 to US$75 million in 2006 with the margin expanding from 20% to 36% during the same period Adjusted EBITDA, a key performance indicator for measuring underlying operating efficiency, rose 52% from 2005 to US$108 million in 2006 corresponding to an adjusted EBITDA margin of 51% The increase in profit and adjusted EBITDA was fuelled by higher commodity prices and a decrease in the weighted average cost per tonne of our three operating mines as is evidenced by the significant margin expansion

Attributable after tax profit from continuing operations increased by 89% to US$47 million in 2006 Our overall strong performance is attributable to an increase in commodity prices across both silver and gold, stable production and strong cost control at each of the three operating mines

Despite industry wide cost pressure, our weighted average cost per tonne decreased 2% in 2006 principally driven by a significant cost reduction at the Selene operation However, our silver cash cost increased on a co-product basis Cash costs on a co-product basis must be considered in conjunction with the co-product commodity because as the percentage sales of one commodity increase the other decreases, resulting in a similar effect on the respective cash costs In 2006, we experienced an increase in co-product cash cost for silver from US$2 77 per ounce in 2005 to US$3 57 per ounce principally driven by a higher percentage of silver sales (68% increase in revenue from silver and 2% increase in revenue from gold) and consequently a greater amount of cost attributed to silver production, and to a lesser extent, by a decrease in average head grades mined for both silver and gold On the other hand, co-product cash cost for gold decreased from US$159 per ounce in 2005 to US$153 per ounce in 2006 while by-product cash cost for gold went from negative US$21 per ounce to negative US$273 per ounce We do not typically look at silver on a by-product basis

Net debt (see page 33) decreased significantly in 2006 as we raised net proceeds of US$469 million from the Listing and used a portion of the proceeds to pay down long-term debt

Our working capital position improved in 2006 as a result of an increase in trade payables which was offset by the increase in inventory

Cash flow from operations increased over 300% in 2006 from US$30 million in 2005 to US$126 million in 2006 This increase is largely due to higher realisable commodity prices, increased profitability and a release of cash from working capital most notably trade receivables and trade payables

Dividends
The Directors recommend a final dividend of US$0 00740 per share which represents one third of the Company's attributable profit after tax post exceptional items in respect of the two month period from Listing until 31 December 2006

Dividend dates	2007
Ex-dividend date	13 June
Record date	15 June
Deadline for return of currency election forms	19 June
Payment date	6 July

As stated at the time of the Listing, the Company's dividend policy takes into account the profitability of the business and underlying growth in earnings of the Company, as well as its capital requirements and cash flows, while maintaining an appropriate level of dividend cover Interim and final dividends will be paid in the approximate proportions of one-third and two-thirds of the total annual dividend, respectively

Dividends will be declared in US dollars Unless a shareholder elects to receive dividends in US dollars, they will be paid in UK pounds sterling with the US dollar dividend being converted into UK pounds sterling at exchange rates prevailing at the time of payment

Revenue
Our full year revenue from continuing operations increased 31% to US$211 million (2005 US$161 million) due to higher realised commodity prices and offset by a decrease in the number of gold ounces sold

We recognise revenue from concentrate when the risk passes to the customer which under the contract with Peñoles is when the concentrate is loaded onto the ship in Peru We were not able to recognise the sale of approximately 1 3 million ounces of silver and 5 3 thousand ounces of gold as revenue in 2006 However, we anticipate the magnitude of this timing effect will normalise in 2007 to that of previous years

Silver
Revenue from silver increased by 68% in 2006 to US$118 million (2005 US$70 million) This change reflects a higher realised silver price, US$11 4 per ounces in 2006 (2005 US$6 8 per ounce) Total net silver ounces sold were flat in 2006 with 10,403 thousand ounces sold versus 10 366 thousand ounces in 2005 A timing difference between production and sales of concentrate at the Arcata and Selene units left approximately 1 3 million ounces of silver in stock, most of which will be sold in 2007 In 2006, revenue from silver accounted for 56% of consolidated revenue compared to only 44% in 2005

Gold
Revenue from gold was up modestly in 2006 to US$92 million (2005 US$90 million) This change in gold revenue was driven by a 18% decrease in the number of gold ounces sold and offset by a higher realisable gold price, US$487 per ounce in 2006 (2005 US$391 per ounce) Total net ounces of gold sold decreased from 231 thousand ounces in 2005 to 190 thousand ounces in 2006 as a result of the anticipated decrease in the ore grade at Ares Similar to silver, we also experienced an increase in gold stocks in concentrate with approximately 5 3 thousand ounces remaining, most of which will likely be sold in 2007 In 2006, revenue derived from the sale of gold accounted for 44% of consolidated revenue compared to 56% in 2005

Hedging
We have a number of forward sales contracts in place for both silver and gold which were entered into as part of the security package for a loan facility in 2003, the last of which is scheduled to expire in June 2007

	2006	2005
Silver sales hedged (koz)	**2,468**	2 037
Gold sales hedged (koz)	**102**	143
Silver average sale price (US$/ounce)	**11.4**	6 8
Gold average sale price (US$/ounce)	**487**	391

Financial Review: We believe our exploration budget exemplifies our commitment to increasing our reserve life and discovering new prospects in our region.

In the first half of 2007, approximately 60 thousand ounces of gold sales and 880 thousand ounces of silver sales from Ares were hedged at an average hedge price of US$418 per ounce and US$10 7 per ounce, respectively

Our current policy is not to hedge exposure to the underlying commodity prices

Gross profit

Our gross profit increased 53% to US$136 million in 2006 (2005 US$89 million) This was driven not only by higher commodity prices but also by increased efficiencies, which is evidenced by the significant gross margin expansion Our gross margin increased from 55% in 2005 to 64% in 2006 and is principally a reflection of our weighted average production cost decreasing 2% in 2006 At the Arcata operation the increase in unit costs per tonne was driven principally from an increase in mine costs and royalties although offset by a decrease in geology costs Furthermore, as mentioned above, we experienced a modest increase in the per unit cost at Ares as a result of an increase in plant and administrative costs and offset by a decrease in mine and general services costs At Selene, the unit cost decreased significantly as a result of an increase in production coupled with further development and mechanisation of the operation although offset by an increase in mining royalties It is our fundamental corporate focus on operational efficiency and a rigorous system of cost controls that makes us one of the lowest cash cost producers globally, and historically has enabled us to remain profitable throughout the commodity cycle

Administrative expenses

Administrative expenses increased in 2006 to US$39 million (2005 US$25 million) Our administrative costs include all those costs associated with the corporate headquarters as well as certain indirect costs associated with the operating mines The increase in administrative expenses was driven principally by an increase in personnel expenses, workers' profit sharing and third-party services Personnel expenses increased mainly due to a special bonus payment to management Workers' profit sharing is a function of an increase in profit before tax and is not considered a metric over which we have significant control Workers' profit sharing is governed by Peruvian legislation and is equivalent to 8% of taxable income each year The expenses associated with third-party services were incurred during the Listing process to restructure the Company and ultimately increase efficiencies both at operating and managerial levels We believe this increase represents a step change in overhead costs and is a reflection of the incremental annual costs associated with being a public company

Exploration expenses

Exploration expenses decreased 29% in 2006 to US$20 million (2005 US$28 million) This decrease was due principally to the winding down of the exploration phase of the San Jose project and the fact that we capitalise underground development and expense costs associated with pre-feasibility exploration In addition, we had a lower level of mine site exploration at Selene, offset by an increased effort in exploring the Pallancata project as we prepare for production start-up and an increase in mine site exploration at Arcata, as we are placing additional emphasis on proving up additional reserves at the Arcata site

Profit from continuing operations and adjusted EBITDA

Adjusted EBITDA was up 52% from 2005 to US$108 million in 2006 (2005 US$71 million) with margins expanding from 44% in 2005 to 51% in 2006 Below is a reconciliation of the adjusted EBITDA calculation

Adjusted EBITDA reconciliation

	Year ended 31 December		
(US$000, unless stated)	**2006**	2005	% change
Profit from continuing operations before exceptional items net finance and income tax	**75,063**	32 281	133
Operating margin %	**36**	20	
Plus			
Depreciation in cost of goods sold	**16,435**	14 605	
Depreciation in admin expenses	**993**	2,001	
Exploration expenses	**19,863**	28 057	
Less			
Personnel and other in exploration expense	**4,737**	6 294	
Adjusted EBITDA	**107,617**	70 650	52
Adjusted EBITDA margin %	**51**	44	

Finance income
Finance income increased significantly in 2006 to US$7 million (2005 US$4 million) principally due to additional interest earned on the net proceeds from the Listing This increase was offset by a decrease in the interest on loans to related parties as the loans were repaid mid way through the year prior to the Listing

Income tax
The weighted average statutory income tax rate was 25% for 2005 and 30% for 2006 This change is due to a change in the weighting of profit/(loss) before tax in the various jurisdictions in which the Company operates

The effective tax rate for 2006 was 42% which was significantly higher than that of the previous year at 19% principally due to our recognising a significant deferred tax asset in 2005 related to tax losses incurred during the development of San Jose and Arcata, in addition to the introduction of taxable interest in the United Kingdom an increased weighting of income arising in Peru and more withholding tax paid as a result of dividends declared in Peru

Minority interest
The loss attributable to minority interest in both 2005 and 2006 consists predominantly of that portion of the pre-feasibility costs for the San Jose project of which the Company has a 51% ownership with Minera Andes S A owning the remaining 49%

Exceptional items
We consider events to be exceptional when they are significant and which, due to their nature or the expected infrequency of the events giving rise to them, need to be disclosed separately

In 2006, prior to Listing, exceptional items in other expenses principally included a US$3 0 million asset impairment at Sipan, one of our former operations which was closed in 2003, and a loss on the sale of investments of US$2 2 million which was incurred when the Company disposed of shares in Inversiones Pacasmayo prior to the Listing
In addition, there was a US$1 0 million loss on the sale of the Group s wholly owned subsidiary, Mauricio Hochschild & Cia Ltda S A C

Cash flow and balance sheet review
Our operations generated US$126 million of cash flow in 2006 which was up 314% from 2005 (2005 US$30 million) This increase is principally driven by an increase in the underlying profit from continuing operations coupled with a shift in working capital which was primarily due to an increase in payables and a decrease in receivables

Working capital

	Year ended 31 December	
US$000	**2006**	2005
Current assets		
Inventories	**16,405**	10 499
Trade and other receivables	**49,726**	81106
Current liabilities		
Trade and other payables	**64,140**	31 664
Pre-shipment loans	**26,894**	18 800
Working capital	**(24,903)**	41141

Net debt
In 2006, as a result of the proceeds raised in the Listing and the repayment of long-term debt at the end of 2006, we were able to improve the strength of our balance sheet The majority of the long-term debt currently outstanding corresponds to a loan at one of our subsidiaries from our joint venture partner as a way of financing its 49% share of the San Jose project Upon consolidation we account for the portion of the loan outstanding to our partner We exclude short-term pre-shipment loans from net debt as we consider these loans to be more closely related to working capital requirements as they are secured by inventory and receivables

	Year ended 31 December	
US$000	**2006**	2005
Cash and cash equivalents	**(435,543)**	(2 467)
Long-term borrowings	**27,114**	31 089
Short-term borrowings less pre-shipment loans	**2,888**	50 993
Net debt/(net cash)	**(405,541)**	79 615

Financial Review: Our risk management framework aims to achieve best practices and internal controls in line with other international mining companies listed on the London Stock Exchange.

Risk management

Overview

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 risks areas to facilitate consolidated risk reporting across the Group

A high level review of major risks faced by the Company was conducted prior to the IPO and has been further refined since The resulting risk matrix has been reviewed by the Executive Committee and further processes for more detailed identification, evaluation and management of risks are under consideration A risk manager responsible for identifying potential risks and proposing procedures and controls to mitigate such risks is being recruited The Board via the Audit Committee continues to monitor the internal control environment of the Group alongside the development of risk management processes

Foreign currency risk

The Group principally produces silver and gold which are typically priced in US dollars A proportion of the Group's costs are incurred in Nuevo Sol Accordingly, the Group s financial results may be affected by exchange rate fluctuations between the US dollar and the Nuevo Sol The Group does not use derivative instruments to manage its foreign currency risks As of 31 December 2006, the Group has acquired liquidity funds in UK pounds sterling which generate foreign exchange movements

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, however, the Group's profitability is achieved through the control of its cost base and the efficiency of its operations The Group manages its commodity price risk mainly with fixed price sales commitments or with caps and floors built into sales contracts The Group is going to end its current fixed price sales commitments during the first six-month period of 2007 Management has decided that the Group will not enter into additional commitments in order to obtain full benefit from possible price increases in the future, maintaining its efforts of lowering costs in order to assure profitability in case of an eventual decrease in the prices

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), and by non-compliance by the counterparties in transactions in cash, which is limited to balances deposited in banks and accounts receivable at the balance sheets date To manage this risk, the Group deposits its surplus funds in highly-rated financial institutions, establishes conservative credit policies and constantly evaluates the conditions of the market in which it conducts its activities Consequently, the Group does not expect to incur significant losses on account of credit risk Credit risk concentrations exist when changes in economic, industrial or geographic factors take place, affecting in the same manner the Group's counterparties whose added risk exposure is significant to the Group's total credit exposure The Group s portfolio of customers is concentrated in three customers domiciled in foreign countries that represent 85% of the total net sales during the year 2006 Derivatives are executed with different counterparts to avoid concentrations of credit risk

Liquidity risk

Liquidity risk arises from the Group's inability to obtain the funds it requires to comply with its commitments under financial instruments including the inability to sell a financial asset quickly at a price close to its fair value Management believes that it will have access to adequate credit on reasonable terms from highly rated financial instruments

Interest rate risk

The Group has financial assets and liabilities which are exposed to interest rate risk Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt) The 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 uses its judgment 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

Interest on financial instruments classified as floating rate is re-priced at intervals of less than one year Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument The other financial instruments of the Company are non-interest bearing and are therefore not subject to interest rate risk

	As of 31 December 2006				
US$000	Within 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
Fixed rate					
Amounts due to minority shareholders	**(1,445)**	**(80)**	**(26,738)**	**-**	**(28,263)**
Floating rate					
Cash	**997**	**-**	**-**	**-**	**997**
Time deposits	**3,542**	**-**	**-**	**-**	**3,542**
Liquidity funds	**414,527**	**-**	**-**	**-**	**414,527**
Secured bank loans	**(28,017)**	**(296)**	**-**	**-**	**(28,313)**
Loans to minority shareholders	**2,436**	**8,166**	**-**	**-**	**10,602**
Assigned funds	**-**	**6**	**-**	**-**	**6**

	As of 31 December 2005				
US$000	Within 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
Fixed rate					
Amounts due to minority shareholders	-	(13,108)	-	-	(13,108)
Floating rate					
Cash	33,102	-	-	-	33,102
Time deposits	(160)	-	-	-	(160)
Liquidity funds	125	-	-	-	125
Secured bank loans	91	-	-	-	91
Loans to minority shareholders	-	1,699	-	-	1,699
Assigned funds	(48,310)	(17,676)	(295)		66,281

Board of Directors

Board of Directors: We have established a world class Board combining Latin American business expertise with significant UK plc knowledge.

Eduardo Hochschild (43)
Executive Chairman

Eduardo Hochschild joined the Hochschild Mining Group in 1987 as safety assistant at the Arcata unit, becoming head of the Hochschild Mining Group in 1998 and Chairman in 2006 He graduated from Tufts University in Boston with a Bachelor of Science degree in Physics and Mechanical Engineering He holds numerous directorships with COMEX Peru, the Banco de Credito del Peru, the Sociedad Nacional de Mineria y Petroleo, the Asian Pacific Economic Council Business Advisory Committee, the Conferencia Episcopal Peruana, Pacifico Peruano Suiza, TECSUP, the Universidad Nacional de Ingenieria and the Universidad de Ciencias Aplicadas

Roberto Dañino (55)
Deputy Chairman and Executive Director

Roberto Dañino joined the Hochschild Mining Group in 1995, where he remained until 2001 when he left to serve in the Peruvian Government as Prime Minister and later as Peru s Ambassador to the United States From 2003 to 2006, he was Senior Vice President and General Counsel of the World Bank Group and Secretary General of ICSID Previously, he was a partner of Wilmer, Cutler & Pickering in Washington DC He was also founding General Counsel of the Inter-American Investment Corporation (IIC) He holds Law degrees from Harvard Law School and the Pontificia Universidad Catolica del Peru

Alberto Beeck (50)
Executive Director, Strategy & Corporate Development

Alberto Beeck commenced working with the Hochschild Mining Group in 1998 Prior to this, he served as managing director and head of Latin American Investment Banking for Barings, Inc in New York and Baring Brothers, in London From 1988 to 1992, Alberto served in the London Corporate Finance Group of Dillon, Read Ltd as vice president with responsibility for Spain and Portugal He also served as vice president of Lehman Brothers, New York, from 1982 to 1988 in the International Corporate Finance and Government Advisory Group He received a BSc in Mechanical Engineering from Purdue University in 1978, and an MBA in Finance and International Business from Columbia University in 1982

Sir Malcom Field (69)
Senior Non-Executive Director

Sir Malcolm Field is currently the senior non-executive director of Aricom plc and a non-executive director of both Odgers Ray & Berndtson and Linden Homes From 2002 to 2006, Sir Malcolm served as chairman of Tube Lines Limited, one of the London Underground consortia, and from 2001 to 2006, was an external policy adviser to the Department of Transport in the United Kingdom From 1982 to 1993, he was group managing director of WH Smith plc and from 1993 to 1996 he served as chief executive From 1996 to 2001, Sir Malcolm was chairman of the Civil Aviation Authority and he has also held appointments as a non-executive director in a number of companies, including Scottish and Newcastle plc, MEPC, The Stationery Office and Evolution Beeson Gregory

Jorge Born Jr (44)
Non-Executive Director

Jorge Born Jr joined Bomagra S A in 1997 as chief executive officer, and since 2001 has been president and chief executive officer of the same organisation Jorge is also deputy chairman of Caldenes S A , a subsidiary of Bomagra S A Prior to joining Bomagra S A in 1997, he served as head of Bunge Limited's European operations from 1992 to 1997 and as head of Bunge Limited s UK operations from 1989 to 1992 He has been a director and deputy chairman of Bunge Limited since 2001 and director of Mutual Investment Limited since 1997 and its deputy chairman since 2001 Jorge has also been a director of Brasif (Brazil Duty Free) of Rio de Janeiro since 2006 He received a BSc in Economics from the Wharton School of the University of Pennsylvania in 1983

Nigel Moore (62)
Non-Executive Director

Nigel Moore is a Chartered Accountant Since 2003, he has been chairman of TEG Environmental plc He is currently a non-executive director of The Vitec Group plc, IntelligentComms Limited and Ascent Resources plc From 1973 to 2003, Nigel was a partner at Ernst & Young and was the managing partner of Ernst & Young's London office from 1985 to 1987, a senior partner attached to the Chairman's Office (Europe) from 1987 to 1989 and the regional managing partner for Eastern Europe and Russia from 1989 to 1996 From 1996 to 2003, he was a client service partner for the oil and gas sector

Dionisio Romero (70)
Non-Executive Director

Dionisio Romero is chairman and chief executive officer of the financial services holding company, Credicorp ltd He is chairman of Banco de Credito del Peru, Banco de Credito de Bolivia and Atlantic Security Bank, and vice chairman of Pacifico Peruano Suiza Dionisio is also a director of Cementos Pacasmayo He graduated with a BA degree in Economics from Pomona College California in 1957, and earned an MBA from Stanford University in 1959

Corporate Structure

Miguel Aramburu (43)
Chief Operating Officer

Mr Aramburu joined the Hochschild Mining Group in 1995, when he was appointed General Manager of Compañia Minera Pativilca He was appointed Chief Financial Officer of the Hochschild Mining Group in 2002 and General Manager of the Mining Division in 2006 Mr Aramburu graduated from the Pontificia Universidad Catolica del Peru in 1987 in Industrial Engineering and holds an MBA from Stanford University

Jorge Benavides (54)
Chief Executive of Exploration and Geology Officer

Mr Benavides has thirty years' experience in the mining industry He joined Hochschild Mining Group in 2001 and has been head of Exploration and Geology since 2005 Previously, he spent eight years working for the Phelps Dodge Mining Company in South America and Mexico, including as Exploration Manager for the Andean Region Mr Benavides holds an MSc in Ore Deposits and Exploration from Stanford University and a BSc in Geological Engineering from the Colorado School of Mines

Ignacio Bustamante (35)
General Manager, Operations Peru

Mr Bustamante joined the Hochschild Mining Group in 1992 Prior to his current position, he worked for Zemex Corporation, a subsidiary of Cementos Pacasmayo, based in Atlanta, Georgia serving first as Chief Financial Officer and Vice President of Business Development and later as its President Mr Bustamante holds a BSc in Business and a BSc in Accounting from Universidad del Pacifico in Peru and an MBA from Stanford University

Javier Durand (40)
Legal Manager

Mr Durand has 13 years of legal experience in the mining industry He joined the Hochschild Mining Group in 1994 and has been the Legal Manager of the Hochschild Mining Group since 1998 Mr Durand received a Law degree from the Universidad de Lima, has participated in the Management Program for Lawyers at Yale School of Management, and has an MBA from the Universidad del Pacifico

Jose Augusto Palma (39)
Senior Adviser, Executive Committee

Mr Palma joined the Company 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 later worked for the World Bank He also served two years in the Government of Peru Mr Palma has Law degrees from Georgetown University and the Universidad Iberoamericana in Mexico, and is admitted to practice as a lawyer in Mexico, New York and the District of Columbia

Ignacio Rosado (37)
Chief Financial Officer

Mr Rosado has been the Chief Financial Officer of the Hochschild Mining Group since 2005 Previously, he was Senior Engagement Manager for Latin America for McKinsey & Company from 2000-05 Mr Rosado began his career in banking having worked for Banco Wiese Sudameris in Peru (1992-1994) and in Banco de Credito del Peru Mr Rosado holds a MBA from the University of Michigan Business School and a BSc in Economics from the Universidad del Pacifico in Peru

Corporate Governance Report

Introduction
The Hochschild Mining plc Board believes that its participation in an established investment market carries significant responsibility to manage the Company transparently and in a manner appropriate to a successful business Accordingly, the Board fully supports good corporate governance and is determined to comply, wherever possible, in the interests of shareholders and other stakeholders, with the Combined Code on Corporate Governance This is demonstrated by the fact that the Company has taken the following substantial steps to comply with the Combined Code since listing on the London Stock Exchange on 8 November 2006

- The Board has approved a written statement setting out the role and responsibilities of the Executive Chairman, Deputy Chairman and Senior Independent Director
- The Board has appointed four Non-Executive Directors who it considers to be independent thus ensuring that independent Non-Executive Directors form a majority of the Board
- The Board has adopted a Schedule of Matters reserved for its approval It has also adopted formal procedures that ensure that all Directors have access to the Company Secretary and may take independent professional advice, if necessary, in the course of their duties
- A Senior Independent Director has been appointed and is available to shareholders
- Board procedures provide for the Chairman to ensure shareholder views are communicated to the Board, and for Non-Executive Directors to meet with shareholders
- An Audit Committee has been established consisting of three independent Non-Executive Directors and its terms of reference have been adopted The Audit Committee has reviewed the Group's financial reporting procedures, the financial statements for the year ended 31 December 2006 and the Group's system of internal control
- The Corporate Social Responsibility (CSR) Committee has been established consisting of the Chairman, Deputy Chairman and the Senior Independent Director and its terms of reference have been adopted The CSR Committee has commissioned an audit of the Group's compliance with health, safety, environmental and community policies and procedures
- A Remuneration Committee has been established consisting of three independent Non-Executive Directors and its terms of reference have been adopted
- The Remuneration Committee has determined that performance-related elements will comprise a significant percentage of the Executive Directors remuneration
- A Nominations Committee has been established consisting of a majority of independent Non-Executive Directors and its terms of reference have been adopted

Statement of Compliance
The Directors intend to ensure that they continue to comply with the recommendations of the Combined Code and firmly believe that they do so, as demonstrated by the above described actions, save that

- the Chairman is not independent within the terms of the Combined Code,
- the responsibilities of the Chairman and Chief Executive are not separated as required by the Code, and neither Board evaluation nor an evaluation of the Chairman have yet been undertaken

Notwithstanding the Board is firmly of the opinion that, consistent with Main Provision A 2 of the Combined Code, the current governance structure of the Company does not allow any one person to have unfettered powers of decision as discussed below The basis for this opinion centres on the fact that there are checks and balances created by the role of the Executive Committee, the corporate governance responsibilities of the Deputy Chairman and the Senior Independent Non-Executive Director, and the undertakings given within the Relationship Agreement

The Board
The Board consists of the Executive Chairman, Mr Eduardo Hochschild, two Executive Directors, Mr Roberto Dañino, the Deputy Chairman and Mr Alberto Beeck and four Non-Executive Directors Sir Malcolm Field has been nominated as the Senior Independent Non-Executive Director The other Non-Executive Directors are Mr Jorge Born Jr Mr Nigel Moore and Mr Dionisio Romero

The major shareholder of the Company is Pelham Investment Corporation (the 'Major Shareholder') The shares of the Major Shareholder are controlled by Mr Hochschild and Mr Beeck (the 'Beneficial Owners') Both Directors have considerable knowledge and experience in the Latin American gold and silver mining industry Accordingly, the other Directors believe that their membership of the Board and participation in the management of the Company is vital to the continued success and vibrant growth of the Company The Major Shareholder, Mr Hochschild, Mr Beeck and the Company have entered into an agreement that regulates the ongoing relationship between the Company and the Major Shareholder, Mr Hochschild and Mr Beeck Further details concerning this agreement are set out on pages 40 and 41

There is an agreed schedule of matters reserved for the Board which was originally agreed at the time of the IPO and subsequently revised by the Board on 11 January 2007 In addition, the terms of reference of the Board committees and the Executive Committee have been adopted, as well as Board operating procedures Directors receive a full pack of papers for consideration in advance of each Board meeting including regular reports on the Company's operations, to ensure that they remain briefed on the latest developments and are able to make fully informed decisions

Corporate Governance Report continued

The Board is responsible for approving Company strategy and monitoring its implementation, for managing the operations of the Company and for providing leadership and support to the executive management team in achieving sustainable added value for shareholders It is also responsible for enabling the efficient operation of the various businesses by providing adequate financial and human resources and an appropriate system of financial control to ensure these resources are fully monitored and utilised The Board has also delegated authority to

- the Audit Committee, to ensure the development of an appropriate system of financial control and to monitor the integrity of the financial reporting by the Company, to oversee the establishment and development of the Company's internal audit function, including internal control and risk management, and to oversee relations with the external auditors
- the Remuneration Committee, to set the remuneration policy for Executive Directors and senior management,
- the Nominations Committee, for recommending Board appointments and individual performance assessments, and
- the Corporate Social Responsibility Committee, for formulating and recommending to the Board the Company's policy on health and safety, environmental and community relations as they affect the Group's operations Further details concerning the activities of the CSR Committee may be found in the Directors' Report on pages 48 to 52

The terms of reference for all the Board committees are available for inspection on the Company s website at www hochschildmining com

The membership of each of the Board committees is as follows

Audit	Remuneration	Nominations	CSR
Nigel Moore (Ch)	Jorge Born Jr (Ch)	Eduardo Hochschild (Ch)	Roberto Dañino (Ch)
Jorge Born Jr	Sir Malcolm Field	Sir Malcolm Field	Sir Malcolm Field
Sir Malcolm Field	Nigel Moore	Dionisio Romero	Eduardo Hochschild

Prior to the IPO, the Board met three times All the Directors attended all these meetings with the exception of Dionisio Romero who attended two meetings Two full meetings of the Board have taken place between 31 December 2006 and 31 March 2007 The Audit, CSR and Remuneration Committees all met for the first time since the IPO in January 2007

The day-to-day operations of the Company are managed by the Executive Chairman and an Executive Committee In addition to Eduardo Hochschild, two other executive directors Roberto Dañino and Alberto Beeck along with other senior management form the Executive Committee Roberto Dañino serves as Executive Director and Deputy Chairman with primary responsibility over corporate governance and institutional and investor affairs, as well as corporate social responsibility matters (which includes safety, environment, and community relations) Alberto Beeck is responsible for strategy and corporate development The other members of the Executive Committee are Miguel Aramburu, Jorge Benavides, Ignacio Rosado and Ignacio Bustamante, who has recently joined upon assuming the role of General Manager for Peru The terms of reference of the Executive Committee were approved by the Board on 16 October 2006 and further amended by the Board on 11 January 2007

Directors have the right to request that any concerns they may have are recorded in the appropriate Board or committee minutes and there is an agreed procedure by which members of the Board may take independent professional advice at the Company's expense, if they require to do so, in the furtherance of their duties

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

Board balance and independence

The Board believes that its current membership of three Executive Directors and four independent and experienced Non-Executive Directors is a well balanced composition capable of managing the Company in an effective and successful manner and, although the Chairman is not considered to be independent, decisions can be made without any one Director exercising undue influence The other Directors are firmly of the opinion that Mr Hochschild's long-term relationship with the Company and his importance to it, mean that his presence on the Board is in the best interests of the Company and its shareholders generally

The Board also considers that Mr Hochschild's continued involvement as Executive Chairman, and effectively as chief executive officer, is vitally important to the Company at its present stage of development, notwithstanding that the Company is not compliant with the Combined Code in this respect However, the Board believes that the role of the Executive Directors, which together with the Executive Committee take collective responsibility for the running of the Company, and its current membership of three Executive Directors and four independent and experienced Non-Executive Directors, creates a well balanced structure capable of managing the Company in an effective and successful manner Moreover, the undertakings given by the Major Shareholder, Mr Hochschild and Mr Beeck ensure that the Company will be managed in accordance with the Combined Code The Board, therefore, believes that it is structured so as to ensure that no individual has unfettered powers of decision making

The Board considers that all the Non-Executive Directors are independent of the Company as defined by Code provision A 3 1

The independent Non-Executive Directors are

- Sir Malcolm Field is currently the senior non-executive director of Aricom plc and a non-executive director of both Odgers Ray & Berndtson and Linden Homes He has also served as chairman of Tube Lines Limited, was an adviser to the UK Department of Transport, and managing director and chief executive of WH Smith plc, chairman of the Civil Aviation Authority and a non-executive director of various companies including Scottish & Newcastle plc and MEPC
- Jorge Born Jr is currently president and chief executive officer of Bomagra S A and deputy chairman of Caldenes S A , a subsidiary of Bomagra He is also deputy chairman of Bunge Limited and of Mutual Investment Limited Mr Born is also a director of Dufry S A a Brazilian quoted duty free company
- Nigel Moore is a Chartered Accountant and is currently chairman of TEG Environmental plc, a non-executive director of The TEG Group plc, IntelligentComms Limited, Ascent Resources plc and Production Services Network Limited He served as a senior partner with Ernst & Young LLP, holding various positions of responsibility, latterly as client services partner for the oil and gas sector until 2003
- Dionisio Romero is chairman and chief executive officer of the financial services holding company, Credicorp Ltd He is chairman of Banco de Credito del Peru, Banco de Credito de Bolivia and Atlantic Security Bank and vice chairman of Pacifico Peruano Suiza

As required by the Combined Code the Board has considered the independence of these four directors Mr Romero is chairman of Banco de Credito del Peru, a provider of finance to the Company and is a director of TECSUP, a non-profit organisation substantially supported by the Company Prior to the IPO Mr Born received payments of approximately US$72 000 from the Company for his participation in the Company's Advisory Board The Advisory Board has since been dissolved Having taken this into account, the Board regards both Mr Romero and Mr Born as independent for the purposes of the Combined Code and has consequently concluded that all four are independent in character and judgement

The Board has endeavoured to recruit Non-Executive Directors who are both experienced in the mining industry and highly respected by the market The Board is of the opinion that all four independent Directors will significantly enhance the Board s capacity to oversee and grow the Company's operations Despite this, the membership of each Committee will be reviewed annually by the Board

The Non-Executive Directors have held informal discussions with the Chairman without the presence of the other Executive Directors

Sir Malcolm Field has been appointed Senior Independent Director and as such, his main duty is to be available to talk to major shareholders if their concerns have not been resolved by the Chairman or the other Executive Directors Towards this end, Sir Malcolm has met with the Company's major shareholders to introduce himself to them

Consistent with the Combined Code, the Board approves the remuneration of the Non-Executive Directors pursuant to the Schedule of Matters reserved for the Board

Relationship agreement
The Major Shareholder, Mr Hochschild, Mr Beeck and the Company have entered into an agreement that regulates the ongoing relationship between the Company and the Major Shareholder, Mr Hochschild and Mr Beeck The principal purpose of the Relationship Agreement is to ensure that the Company and its subsidiaries are capable of carrying on their business independently of the Major Shareholder, the Beneficial Owners and any of their respective associates, and that transactions and relationships with the Major Shareholder, the Beneficial Owners and any of their respective associates are at arm's length and on normal commercial terms

The Company and the Major Shareholder agree in the Relationship Agreement that they will comply with the applicable obligations under the Listing Rules and to exercise their powers so far as they are able to ensure the Company is managed in accordance with the Combined Code Under the agreement, the Major Shareholder has the right to appoint up to two Non-Executive Directors to the Board for so long as the Major Shareholder holds an interest of 30% or more in the Company and the right to appoint one Non-Executive Director for so long as it has an interest of 15% or more in the Company, and in each case to remove any such Director(s) previously appointed The Relationship Agreement will continue for so long as the Company's shares are traded on the London Stock Exchange or until such times as the Beneficial Owners cease to own or control in aggregate a minimum of 15% or more of the issued share capital or voting rights of the Company

Board development
All the Directors have been briefed by Linklaters, the Company's legal advisers on their responsibilities as directors of a UK listed company and on other relevant UK legal developments In addition, since Listing the Chairman has made arrangements to ensure that the Directors have free access to the Company's officers and advisers and to visit the Company's operations The Board also intends to establish other formal induction training for new Directors which includes meetings with the Company's principal advisers and visits to the Group's operations It is the responsibility of the Chairman to ensure that the Directors update their skills and are provided with the necessary resources to continue to do so

Corporate Governance Report continued

Board development continued
The Board has only recently been established with its current membership and it would be premature to conduct any evaluation of the Board until it has been in place for one year It is therefore intended that the Board will undergo a formal evaluation of performance and effectiveness of the Board as a whole and of its committees and individual Directors towards the end of 2007 The Non-Executive Directors together will agree on the approach to evaluating the Chairman s performance towards the end of 2007

Re-election of Directors
In accordance with article 85 of the Company's articles of association, Directors may be appointed by the Company by ordinary resolution or by the Board If appointed by the Board, a Director holds office only until the next annual general meeting Since all the Directors were appointed during the year they will all retire at the forthcoming AGM and, being eligible, offer themselves for election There will not, therefore, be any Directors retiring by rotation In future years Directors will be required to retire by rotation in accordance with the Company's articles of association

Notice of the 2007 Annual General Meeting will be circulated to shareholders on 25 May 2007 with the Chairman's Letter and Annual Report and Accounts Resolutions to elect all the Directors are set out in full in the AGM notice along with biographical details for each Director The Board fully supports all the elections being proposed

Audit Committee
The Audit Committee was established on 16 October 2006 The role of the Audit Committee is to monitor the integrity of the Company's financial statements and review its summary financial statements, to monitor the effectiveness of the Company's internal controls and risk management systems and to oversee the relationship with the Company's external auditors and review the effectiveness of the external audit process The ultimate responsibility for the appointment, re-appointment and removal of the external auditors and for reviewing and approving the interim and annual financial statements remains with the Board

The Audit Committee terms of reference were approved on 16 October 2006 and reviewed at the Board meeting on 11 January 2007 A copy is available on the Company's website at www hochschildmining com

The Combined Code recommends that all members of the Audit Committee should be independent Non-Executive Directors and that at least one member should have recent and relevant financial experience The Audit Committee is chaired by Mr Nigel Moore who, as indicated above, has extensive and substantial financial experience gained whilst holding a number of senior appointments with Ernst & Young The other members of the Audit Committee are Sir Malcolm Field and Mr Jorge Born Jr, both of whom are considered to be independent Directors

The lead partner of the external auditors and Executive Directors attend each Audit Committee meeting by invitation At least twice a year the Audit Committee will meet with the external auditors without the presence of executive management and also will meet privately with the Head of Internal Audit Once appointed the Head of Internal Audit will also be invited to attend meetings of the Audit Committee

Under its terms of reference, the Audit Committee is required to meet at least three times a year at the most appropriate times in the reporting and audit process

Since its formation, the Audit Committee has met twice and has carried out, or is in the process of carrying out, the activities described below in accordance with the responsibilities set out in its terms of reference

- Financial reporting The Audit Committee reviewed the 2006 Annual Report and Accounts before recommending to the Board its approval and publication As part of its review, the Audit Committee reviewed accounting policies, estimates and judgements that had been applied in preparing the report and accounts and the transparency and clarity of disclosures contained within them
- Risk management A high level review of major risks faced by the Company was conducted in January 2007 in order to identify the areas on which risk management should be focused The resulting risk matrix was reviewed by the Executive Committee and further processes for more detailed identification, evaluation and management of risks are under consideration The Audit Committee has considered and approved the need for a risk manager within the Group, who is currently being recruited by the Company Once appointed, the risk manager will report to the Chief Financial Officer and be responsible for identifying potential risks and proposing procedures and controls to mitigate such risks

  Internal audit The Audit Committee has considered the role of the Group s internal audit function within the Group and decided that it continues to play an important role in the Group's internal control environment The Board has reviewed the reporting line for the internal audit function and has changed it from one of accountability to the Chief Financial Officer to one of direct accountability to the Audit Committee itself The Head of Internal Audit will report directly to the Audit Committee
- Internal control The Audit Committee has reviewed the development of the monthly management accounts process and resourcing within the financial control function It has also reviewed plans for further development of the internal reporting process, the adequacy of the information technology ('IT') systems within the financial control function and performed an initial review of the Group's treasury procedures and controls

- External audit The Audit Committee considered the re-appointment of the Company's external auditors before making a recommendation to the Board in respect of the same to be put to shareholders The Audit Committee oversees the relationship with the external auditors As part of this responsibility, the Audit Committee has reviewed the findings of the external auditors, reviewed management representation letters, approved audit plans, reviewed and agreed audit fees in respect of the 2006 year-end audit and reviewed policies on the independence of the external auditors and the provision of non-audit services
- Whistleblowing The Audit Committee has considered the arrangements by which staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters and a policy has been put in place The Audit Committee is committed to putting appropriate arrangements in place in the UK, Peru, Argentina, Mexico and Chile which enable proportionate and independent investigation of any improprieties with suitable follow-up action

Internal control
The Board has overall responsibility for the system of internal control which includes risk management and reviewing its effectiveness It has delegated its responsibility for reviewing the effectiveness of these controls to the Audit Committee The purpose of internal control is to identify and mitigate business risk with a view to maximising shareholder value and protecting Company assets These controls are managed by the use of formal procedures designed to highlight financial, operational, environmental and social risks and provide the appropriate information to the Board enabling it to react to protect the Company and its shareholders The process the Audit Committee has used to assess the effectiveness of internal control includes

- review of budgets and reporting against budgets,
- consideration of risks to the achievement of strategic plans and objectives,
- review of IT issues and preparation of an IT Plan, and
- review of accounting and financial reporting together with the internal control environment existing at Group level

Based on its review of the process since Listing, the Audit Committee is reasonably satisfied that the internal controls are in place at the operational level within the Group The Board via the Audit Committee continues to monitor the internal control environment of the Group alongside the development of risk management processes

Overall, the Board acknowledges the measures that have already been implemented both before and after the IPO to initiate a risk management framework, are appropriate to the Group's circumstances The Board is committed to making further progress in these areas with a view to achieving best practice levels of risk management and internal control for international mining companies listed on the London Stock Exchange

Going concern
A statement on the Directors position regarding the Company as a going concern is contained in the Directors Report on pages 48 to 52

Nominations Committee
The role of the Nominations Committee is to identify and nominate candidates for the approval of the Board to fill Board vacancies and make recommendations to the Board on Board composition and balance The Nominations Committee also prepares the Chairman's job description including any other significant commitments which he should be responsible for

The Combined Code recommends that a majority of the members of the Nominations Committee should be Non-Executive Directors, all of whom are independent in character and judgement and free from relationships or circumstances which are likely to affect, or could appear to affect their judgement The Nominations Committee is chaired by Mr Eduardo Hochschild Its other members are Sir Malcolm Field and Mr Dionisio Romero, who are deemed by the Board to be independent in character and judgement, thus ensuring that the Nominations Committee complies with the recommendation of the Combined Code as to membership

The make-up of the Board was considered at length in the period prior to the IPO At this stage with a Board whose composition complies with the requirements of the Combined Code, the Nominations Committee has not considered it necessary to meet since the IPO

The Nominations Committee terms of reference were approved on 16 October 2006 and a copy is available on the Company's website at www hochschildmining com

Remuneration Committee
The Remuneration Committee was established on 16 October 2006 Its terms of reference were approved on 16 October 2006 and revised at the Board meeting on 11 January 2007 A copy is available on the Company's website at www hochschildmining com

The role of the Remuneration Committee is to determine and agree with the Board the broad policy for the remuneration of executives and senior management as designated, as well as specific remuneration packages, including pension rights and any compensation payments The Combined Code recommends that all members of the Remuneration Committee should be independent Non-Executive Directors The Remuneration Committee is chaired by Mr Jorge Born Jr and its other members are Sir Malcolm Field and Mr Nigel Moore

Further details concerning the activities of the Remuneration Committee are set out in the Directors' Remuneration Report on page 45

Corporate Governance Report continued

Corporate Social Responsibility Committee
The Corporate Social Responsibility (CSR) Committee was established on 16 October 2006 Its terms of reference were approved on 16 October 2006 and revised at the Board meeting on 11 January 2007 A copy is available on the Company's website at www hochschildmining com

The role of the CSR Committee is to formulate and recommend to the Board the Company s policy on all corporate social responsibility issues as they affect the Company's operations In particular, it will focus on compliance with national and international standards to ensure that effective systems of standards, procedures and practices are in place at each of the Company's operations The CSR Committee will also be responsible for reviewing management's investigation of incidents or accidents that occur in order to assess whether policy improvements are required The CSR Committee is chaired by Mr Roberto Dañino and its other members are Sir Malcolm Field and Mr Eduardo Hochschild

Further details concerning the activities of the CSR Committee are set out in the Directors' Report on pages 48 to 52

Investor relations
The Company is fully committed to achieving an excellent relationship with investors and contact with investors is the responsibility of the Executive Directors, the Chief Financial Officer and the Head of Investor Relations The Company announces its production results on a quarterly basis and analysts are invited to briefings following the Final and Interim results as well as being invited to discuss quarterly results on the telephone The Executive Directors and Chief Financial Officer are available to discuss the concerns of major shareholders at any time during the year The Chairman and Deputy Chairman, in particular, will be responsible for discussing strategy with the Company's shareholders and will communicate the views of shareholders to the other members of the Board

The main means of communication with shareholders are the Annual and Interim Reports However, shareholders are welcome to meet and question the Directors at the Annual General Meeting which will be held on 4 July 2007 Notice of the Annual General Meeting will be circulated to all shareholders at least 20 working days prior to the meeting and the Chairmen of the Audit, CSR, Remuneration and Nominations Committees will be available at the meeting to answer questions Each substantive resolution will be proposed separately and all proxy votes lodged will be notified to shareholders at the meeting and published on the Company's website immediately after the meeting

Information on matters of particular interest to investors is set out in additional shareholder information on page 118 and on the Company's website at www hochschildmining com

Directors' Remuneration Report

Introduction
This Directors' Remuneration Report sets out information about the remuneration of the Directors of Hochschild Mining plc for the year ended 31 December 2006 This report has been prepared in accordance with Schedule 7A of the Companies Act 1985 As required by legislation, the information in Part II of this report has been audited by Ernst & Young LLP as it contains the information upon which the auditors are required to report to the Company's shareholders

PART I (Information not subject to audit)
Remuneration Committee
The Board established the Remuneration Committee on 16 October 2006 which has met twice since that date Jorge Born Jr is the Chairman of the Remuneration Committee and its other members are Sir Malcolm Field and Mr Nigel Moore All the members of the Remuneration Committee are independent Non-Executive Directors

Under its 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 Company Secretary and the other members of the Executive Committee, as well as their specific remuneration packages, including pension rights and, where applicable, any compensation payments In determining such policy, the 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, in a fair and responsible manner, rewarded for their individual contributions to the success of the Company

The composition of the Remuneration Committee and its terms of reference comply with the provisions of the Combined Code and are available for inspection on the Company's website at www hochschildmining com

The Remuneration Committee has appointed KPMG People Services in London to provide advice on remuneration matters including advice in respect of the remuneration policy and the structure of possible long-term incentives for senior management

Remuneration Policy
The Company's Remuneration Policy has been developed to ensure that the Company is able to attract, retain, and motivate its executives and senior management The alignment of management incentives with the creation of shareholder value over both the short and long-term is key to this strategy The achievement of annual performance targets is, therefore, rewarded through an annual performance related bonus, which includes a balanced mix of financial and operational performance measures Additionally, the Remuneration Committee is considering the introduction of an Executive Long Term Incentive Plan ('ELTIP) to ensure that management's interests are further aligned with the long-term success of the Company

In setting the basic levels of pay for the Executive Directors, the Committee seeks to ensure that salaries are market competitive and total remuneration is at or below the upper quartile In making this determination, the Committee makes reference to pay levels of other FTSE 250 companies as well as those of other international mining companies Furthermore, the Committee seeks to ensure that the majority of pay is delivered in the form of performance-related incentives

The following chart sets out the split between fixed and variable pay assuming that the maximum bonus is achieved The maximum bonus percentage of 150% is set out in the Executive Directors' service contracts and is set to ensure that the majority of the remuneration is performance based

Fixed and variable pay
Split between fixed and variable pay for the Executive Directors (based on maximum bonus payments)

Directors' Remuneration Report continued

Components of fixed pay for the Executive Directors

Director	Current salary	Pension supplement	Total
Eduardo Hochschild	US$800,000 per annum	US$200,000 per annum	US$1,000,000 per annum
Roberto Dañino	US$800,000 per annum	US$200,000 per annum	US$1,000,000 per annum
Alberto Beeck	US$800,000 per annum	US$200,000 per annum	US$1,000,000 per annum

Notes

1 Each Executive Director has service contracts with both Hochschild Mining plc and Compañia Minera Ares S A C a Group subsidiary

2 In each case US$640 000 per annum salary is payable from Compañia Minera Ares S A C and US$160,000 per annum is payable from the Company In addition US$160 000 per annum of pension supplement is payable from Compañia Minera Ares S A C and US$40 000 of pension supplement is payable from the Company

3 Salary paid by Compañia Minera Ares S A C includes all legal labour benefits and compensation such as but not restricted to July and December bonuses family allowance vacation salaries and compensation for time services (ruled by Peruvian Legislative Decree 6500) but excluding legal profit sharing

Basic salaries

The base salary for each Executive Director is US$800,000 per annum In each case, US$640,000 per annum is payable from Compañia Minera Ares S A C and US$160,000 per annum is payable from the Company Having assessed the total remuneration packages paid to the Executive Directors with those paid to executive directors of comparable companies, the Remuneration Committee has reviewed the base salaries for the Executive Directors and consider them to be appropriate

Short-term incentives

In respect of 2006, the Remuneration Committee has not made any awards to the Executive Directors

The maximum bonus for each of the Executive Directors under the terms of their service contracts is 150% of aggregate base salary of US$800,000

Pensions and benefits-in-kind

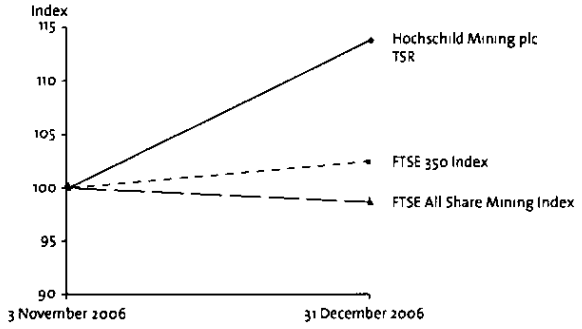
The Company does not currently provide pension benefits to the Directors but does award the Executive Directors with a pension supplement of US$200,000 each year in lieu of pension This pension is paid US$160,000 by Compañia Minera Ares, S A C and US$40,000 by the Company

In addition under Peruvian law companies must pay an annual share of profits, in an amount up to a maximum of 8% of the taxable income for the year to employees

The Group also provides medical expenses insurance and motor cars to the Executive Directors

Performance graph

As required by the Directors' Remuneration Report Regulations, the following graph sets out the performance of the Company's share price since its Listing compared to the FTSE 350 Index and the FTSE All Share Mining Index These are deemed to be the most appropriate indices for comparative purposes



The performance graph shows the TSR for a holding of shares of the Group for the year ended 31 December 2006 compared with the TSR for a hypothetical holding of shares of the same kinds and number as those by reference to which the FTSE 350 Index and the FTSE All Share Mining Index are calculated

The Board considers that the FTSE 350 and the FTSE All Share Mining Indices currently represent the most appropriate of the published indices for these purposes as they provide a view of performance against both the broad equity market index that the Company is a constituent of and additionally the UK listed mining sector

TSR has been calculated on a spot basis with effect from 3 November 2006 the date conditional dealings in the shares commenced on the London Stock Exchange, assuming that an equivalent sum was invested on that day in shares of the Group and in the FTSE 100 and FTSE All Share Mining Indices Dividends are invested in additional shares and benefits receivable in the form of shares are also added to the relevant holding

ELTIP

Whilst many of the Group's senior executives immediately below Board level acquired shares in the Company at the time of the IPO, their holdings are not significant Consequently, the Remuneration Committee believes that it is important to put arrangements in place to incentivise the performance of the senior management group in line with the long-term interests of shareholders The Remuneration Committee is considering the structure of a cash-based long-term incentive plan for executives, and the Executive Directors have agreed to present a formal ELTIP proposal for the consideration of the Remuneration Committee

Directors' service contracts
The Executive Directors are employed under contracts of employment with the Company and Compañia Minera Ares S A C , a Group company dated 16 October 2006 The contracts may be terminated on 12 months' notice in writing In setting the notice period for termination at 12 months, the Remuneration Committee has reduced the likelihood of having to pay excessive compensation in the event of poor performance and to this end, has also included a provision in each Director's contract for immediate dismissal with no compensation in the event of unsatisfactory performance

Non-Executive Directors' fee arrangements
The Non-Executive Directors signed Letters of Appointment with the Company on 16 October 2006 The appointments of the Non-Executive Directors continue for a period of three years and are automatically renewed on a three yearly basis, subject to re-election, when appropriate, by the Company in general meeting, and unless otherwise determined by the Board or the Director giving not less than three months' notice

The Non-Executive Directors' fees have been set at a level to reflect the time commitment and level of involvement that they are required to make in the activities of the Board and its committees, including the transatlantic travel commitments indispensable to the carrying out of their duties The current salaries/fees for the Non-Executive Directors of Hochschild Mining plc are as set out in the table below

Director	Current salary/fee
Sir Malcolm Field	£100,000 per annum
Jorge Born Jr	£100,000 per annum
Nigel Moore	£120,000 per annum
Dionisio Romero	£100,000 per annum

PART II (Information subject to audit)
Directors' remuneration
The following table sets out an analysis of the remuneration of the Directors from the date of commencement of their service arrangements with the Company to 31 December 2006 for individual directors who held office in the Company during that period

Director	Base salary/fees US$000	Pension supplement US$000	Profit share US$000	Benefits-in-kind US$000	Performance related bonus US$000	Total 2006 US$000
Eduardo Hochschild	116	30	26	41	–	213
Roberto Dañino	116	30	26	2	–	174
Alberto Beeck	116	30	26	4	–	176
Sir Malcolm Field	42	–	–	–	–	42
Jorge Born Jr	42	–	–	–	–	42
Nigel Moore	50	–	–	–	–	50
Dionisio Romero	42	–	–	–	–	42
Total	524	90	78	47	–	739

Notes
1 Each Executive Director has a service contract with both Hochschild Mining plc and Compañía Minera Ares S A C a Group subsidiary
2 In each case US$640 000 per annum is payable from Compañía Minera Ares S A C and US$160 000 per annum is payable from the Company In addition US$160 000 per annum of pension supplement is payable from Compañia Minera Ares S A C and US$40 000 of pension supplement is payable from the Company
3 Salary paid by Compañia Minera Ares S A C includes all legal labour benefits and compensation such as, but not restricted to July and December bonuses family allowance vacation salaries and compensation for time services (ruled by Peruvian Legislative Decree 6500) but excluding legal profit sharing
4 Mr Born Jr received fees of US$12 640 during the year in respect of services provided to the Group s Advisory Board The Advisory Board has now been dissolved
5 Mr Moore s fees are higher than those of the other Non-Executive Directors as they include fees paid to him for services as the chairman of the Audit Committee of the Company

Directors' interests in shares
The interests of the Directors are set out in the Directors' Report on pages 48 to 52

Approval
This report has been approved by the Board of Directors of Hochschild Mining plc

On behalf of the Board

Jorge Born Jr
Chairman, Remuneration Committee
19 March 2007

Directors' Report

The Directors have pleasure in presenting the report of Hochschild Mining plc and its subsidiaries for the year ended 31 December 2006

Results and dividend
The Group adjusted EBITDA (calculated as profit before exceptional items, net finance costs and income tax plus depreciation and exploration costs other than personnel and other exploration costs from continuing operations) amounted to US$107 6 million Turnover and attributable profit to equity shareholders after tax increased by 31% and 64% respectively

The Directors recommend the payment of a final dividend of US$0 0074 per share (2005 US$nil) Subject to shareholders approving this recommendation at the Annual General Meeting, the dividend will be paid in UK pounds sterling on 6 July 2007 to shareholders on the register at the close of business on 15 June 2007 Shareholders may elect to receive dividends in US dollars The US dollar dividend will be converted into UK pounds sterling at the exchange rate prevailing at the time of payment

Principal activities and business review
Hochschild Mining plc was incorporated on 11 April 2006 in England and Wales and re-registered as a public company on 17 October 2006 The Company s ordinary shares were admitted to trading on the London Stock Exchange on 3 November 2006 and trading in the Company's shares commenced on 8 November 2006

Hochschild is a leading precious metals company with a primary focus on the exploration, mining, processing and sale of silver and gold The Group is the fourth largest primary silver producer globally and produces a significant quantity of gold

Currently, the Group has three underground mines in production located in southern Peru which are supported by fully developed infrastructure The Group has three advanced stage development projects in Argentina, Mexico and Peru, as well as one early stage development project in Mexico In addition to its development projects, the Group has over 20 long-term prospects throughout Latin America which are at various stages of development A number of these projects and prospects are structured as joint ventures or option arrangements with local or overseas mining partners, whilst others are owned and operated exclusively by the Company

The review of the Group's business (including details of the Group's results, operations and principal activities), key performance indicators and the description of principal risks and uncertainties, prepared in accordance with the Companies Act 1985, is set out on pages 2 to 13 and 16 to 35 (About Us and Business Review) of this Annual Report

These pages, taken together with the Chairman's Statement on pages 14 and 15, the Corporate Governance Report on pages 39 to 44, the Directors' Remuneration Report on pages 45 to 47, details of the Board of Directors and Corporate Structure on pages 36 to 38 and the analysis of revenues, profits and financial performance set out in Notes to the Financial Statements on pages 60 to 99 all form part of this Directors' Report

Future developments
The Directors intend to use the Company's Listing as a platform upon which to grow the Group's operations and they believe that the Group's mines, projects and prospects provide substantial potential for growth Strategic acquisitions may also be considered where suitable opportunities arise within the sector Information relating to the Group's research and development and further information about the Group's future developments may be found in the Business Review on pages 16 to 35

Corporate social responsibility
The Directors believe that the health and safety of the Group's employees, respect for the environment and active engagement with local communities are fundamental to the sustainability of the Group's businesses The Group has sought to back this commitment up with appropriate resources and programmes over many years

Corporate Social Responsibility Committee (CSR Committee')
Immediately prior to the IPO the Board established a committee to oversee these activities The CSR Committee was originally called the Health, Safety, Environment and Community Relations Committee, however its name was subsequently changed to better reflect its role

The CSR Committee will meet at least twice a year and will be responsible for formulating and recommending to the Board the Company's policy on all corporate social responsibility ('CSR') issues, particularly on safety and occupational health, community relations, and the environment, as they affect the Company's operations In particular, it will focus on compliance with national and international standards to ensure that effective systems of standards, procedures and practices are in place at each of the Company s operations The CSR Committee will also be responsible for reviewing management's investigation of incidents or accidents that occur in order to assess whether policy improvements are required The ultimate responsibility for establishing policies will remain with the Board

Monitoring
The CSR Committee has commissioned a full CSR audit of all of the Group's activities to establish a baseline for its future activities and from which to measure its progress This process will be completed during the course of 2007 and the CSR Committee plans to review the results of that audit in the second half of the year

The majority of the Group s employees work in Peru Peruvian law requires companies to use an independent audit company designated by the Peruvian Ministry of Energy and Mines to audit, twice a year, the Company's compliance with all applicable mining health, safety and environmental regulations In addition, the Company uses the international certification firm, Deutsche Gesellschaft zur Zertifizierung von Managementsystemen in Germany ('DQS'), to carry out regular audits of the Group's environmental management system and has found the Group to be in full compliance with international standards

Local safety and mining hygiene committees have been established at each of the Group's operating units These meet once a month to review, promote and monitor health and safety policies and environmental protection programmes, check that recommendations from previous external audits are implemented review the general process of the mining inspections and implement any necessary steps to mitigate health and safety risks at each of the operating units Each local committee is made up of representatives of local management Compliance with relevant legislation is checked regularly by the Group and statistics on permit compliance are reviewed on a monthly basis

Environmental Management System
The Group has implemented an Environmental Management System in respect of its three operating sites which is certified to ISO 14001 2004 standards The Environmental Management System is a management tool used to monitor all environmental aspects of the work undertaken by the Group and specifies the environmental standards to which the Group should operate The San Jose project also has a full environmental management system in place is managed in line with ISO and Group requirements and is planned to be certified to ISO 14001 in 2007 The Group's current environmental standards not only comply with local regulations in Peru, Mexico and Argentina but also exceed the requirements laid down by the World Bank in its Environmental, Health and Safety Guidelines for the mining industry These standards are audited by DQS twice a year

Environmental metrics
As part of its management of its environmental systems, the Company undertakes a programme of measuring its consumption of natural resources including water It also undertakes the measurement of the quality of incoming and outgoing water, as well as the air surrounding its operations and its success in reducing the levels of effluents and pollutants contained in those environments The Company monitors closely the cost of closing every mine and its contribution in mitigating the effect of each closure on the surrounding community and its environment

Health and safety management systems
Group companies are required to comply with a range of health and safety laws and regulations, and the Board recognises that the health and safety of Group employees is a major priority The Group is implementing a Health, Safety and Risk Management System for its underground and surface mining operations based on the OSHAS 18001 international standards, with the aim of qualifying for OSHAS 18001 certification in 2007

In the financial years ended 31 December 2003, 2004 and 2005 Hochschild Mining experienced, in aggregate, one fatal employee accident During the year ended 31 December 2006, there have been three employee fatalities one of the fatalities was due to an accident caused by a landslide and the other two by the premature explosion of obsolete detonators which were being disposed of These fatalities have been fully investigated by management The Company has taken appropriate disciplinary action in respect of the breaches of safety procedure that occurred and as a result, the Company has reviewed and modified its safety procedures

Health and safety metrics
The Group's overall safety target is zero accidents at all of its assets and its programmes are focused on achieving this target As a secondary measure, the Company started monitoring long-term injury frequency rates ('LTIFR') during 2006 The average LTIFR for the Company in 2006 was 4 80 which is better than the industry average of 6 25 The CSR Committee has commissioned an audit of the health and safety policies and procedures to determine how they can be improved to ensure that the Group meets its overall safety targets

The frequency of accidents is monitored on a monthly and annual basis, both at mine and Group level Regular statistics showing the type and causes of accidents are produced and circulated to management so that efforts can be made to reduce and, where possible, eliminate accidents entirely

All employees and contractors are given occupational health examinations prior to joining the Group and are then examined annually As a measure of its concern for the overall wellbeing of its employees, the Company monitors the total monthly attendances at Company medical facilities including the number of visits per employee per month It also measures the pharmacy cost per patient as an indication of the severity of conditions being treated and the time taken to produce medical examination results as an indication of the level of medical service being provided

Directors' Report continued

Rehabilitation of Land
The Company has a policy of closing mine facilities as the lives of the mines progress in order to reduce liabilities at the end of the mine life Total current estimates of end-of-life closure costs for the Group's operations are about US$37 million, which include amounts estimated for ongoing maintenance of sites The Group held a provision of US$32 4 million at 31 December 2006 which was calculated following a review of the mine's estimated closure costs undertaken during the year by external consultants

Social and community programmes
The Directors believe that active long-term engagement with local communities and other stakeholders is fundamental to the Company's business and the Company has devoted considerable time and resources to such engagement The Directors believe that the three fundamental requirements for improving the lives of local communities are (i) access to healthcare, (ii) a good education, and (iii) self-sustainability and, as a result, have tailored the Company's social and community programmes accordingly

To assist the Group in making adequate provision for the communities in which it operates the Company undertakes measurements of the levels of poverty at each location at which it mines, including the adequacy of basic needs such as housing, water, sanitation and schooling It also measures the community's dependency on the Group for employment and training

Further information regarding the Group's activities and programmes in the community relations area may be found in the Business Review on pages 16 to 35

Employees
Except in respect of Argentina, where employees of Minera Santa Cruz, S A are voluntarily affiliated to the Asociacion Obrera Minera Argentina (the Argentine Mineworkers Union) the Group s workforce is not represented by a works council and no unions have yet been formed, either in respect of the employees or the contracted personnel The Group maintains good relations with its workforce and, for almost 20 years, has not experienced any interruptions in production at any of its operating sites as a result of workplace disputes

Supplier payment policy
It is the Company's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the Company and its suppliers provided that all trading terms and conditions have been complied with by suppliers

At 31 December 2006, the Company had an average of 11 days' purchases owed to trade creditors

Political and charitable donations
The Company does not make any political donations During the year the Group made charitable donations of US$2 3 million (2005 US$1 2 million) in respect of community programmes

Market value of land and buildings
For the purpose of the initial public offering, the Company commissioned Consultores & Asesores 2020 S.A C to carry out an independent appraisal of certain items of property, plant and equipment as of 1 January 2003 to determine their fair value as at that date The fair value of property, plant and equipment was determined primarily with reference to depreciated replacement cost Management believes that the fair value reflected the economic condition of Hochschild Mining's property, plant and equipment at that time This fair value has been used to determine cost as at the date of transition (depreciated further to the date of transition) The revaluation process carries a significant element of judgement however, management believes that the use of an appropriately qualified independent appraiser has resulted in a fair value of property, plant and equipment that is suitable for inclusion in the Company's financial statements on transition to IFRS

Events since the balance sheet date
Details of events occurring since 31 December 2006 are set out in note 40 to the Groups' financial statement on page 99

Share capital
The Company's authorised share capital as at 31 December 2006 was £125,000,000 comprising 500,000,000 ordinary shares of £0 25 each The Company's issued share capital as at that date was 307,350,226, ordinary shares of £0 25 each credited as fully paid Full details of the Company's issued capital and reserves are set out at note 28 to the Group financial statements

On incorporation the Company's authorised share capital was £100 divided into 100 ordinary shares of £1 each and one subscriber share was issued

On 16 October 2006, 49,999 ordinary shares of £1 each were allotted to Pelham Investment Corporation and its nominee

At an Extraordinary General Meeting held on 16 October 2006

- the share capital was increased from £100 to £250,000,000 by the creation of 249 999,900 ordinary shares of £1 each,
- each share of £1 each was divided into two ordinary shares of £0 50 each, and
- the authorised share capital was reduced from £250 000 000 to £125,000,000 by a reduction in the nominal value of each authorised and issued share from £0 50 to £0 25, resulting in an authorised share capital of 500,000,000 ordinary shares of £0 25 each, however, the court approval for the aforesaid share capital reduction was received only on 8 November 2006

On 2 November 2006 the Company entered into a share exchange agreement with Pelham Investment Corporation and Navajo Overseas Corporation This agreement was entered into in order to effect part of the reorganisation of Group companies prior to the Listing of the Company on the London Stock Exchange Under the terms of this agreement, the Company allotted 226,450,000 ordinary shares of £0 50 each to Pelham Investment Corporation and 3,450,000 ordinary shares of £0 50 each to Navajo Overseas Corporation, in exchange for shares in various holding companies within the Hochschild Mining Group This was fully disclosed in Part XIV of the prospectus issued in connection with the IPO

On 8 November 2006, 77,350,226 ordinary shares of £0 25 each were allotted in connection with the IPO The special resolution reducing the authorised share capital was confirmed by the Companies Court and registered with the Registrar of Companies and, therefore, became effective on 8 November 2006, following the IPO

Directors and their interests

The Directors who served during the period ended 31 December 2006 and to the current date, are as follows

Name	Date of appointment
Eduardo Hochschild	28 June 2006
Roberto Dañino	4 October 2006
Alberto Beeck	28 June 2006
Sir Malcolm Field	16 October 2006
Jorge Born Jr	16 October 2006
Nigel Moore	16 October 2006
Dionisio Romero	16 October 2006

The interests of the Directors who were in office at 31 December 2006 in the share capital of the Company at the date of their appointment, as at 31 December 2006 and as at 19 March 2007 were as follows

Name	At date of appointment	At 31 December 2006	At 19 March 2007
Eduardo Hochschild[1,2]	1	214,962,500	214,962,500
Roberto Dañino[3]	0	3,450,000	3,450,000
Alberto Beeck[1]	0	0	0
Sir Malcolm Field	0	14,285	14,285
Jorge Born Jr	0	0	0
Nigel Moore	0	14,285	14,285
Dionisio Romero	0	0	0

Notes

1 Mr Hochschild and Mr Beeck hold an indirect interest in the Company through a jointly held intermediate holding company (the shares in which are controlled 82 13% by Mr Hochschild and 17 87% by Mr Beeck and the Board of which is controlled by Mr Hochschild) which owns the entire issued share capital of Pelham Investment Corporation which in turn owns shares in the Company

2 On 28 June 2006 the intermediate holding company through which Messrs Hochschild and Beeck held their interest in the Company subscribed for one ordinary share of £1 As a result of changes described in the section on Share Capital above Eduardo Hochschild held an indirect interest of 214 962 500 at £0 25 each as at 31 December 2006

3 Mr Dañino s shareholding is held through Navajo Overseas Corporation

Relationship agreement

Pelham Investment Corporation, Mr Eduardo Hochschild, Mr Alberto Beeck and the Company have entered into a relationship agreement to regulate the ongoing relationship between them 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 Further details are set out in the Corporate Governance Report on pages 39 to 44

Directors' Report continued

Substantial shareholdings
As at 19 March 2007, the Company has been notified, in accordance with DTR 5 and Transitional Provision 7 of the Disclosure and Transparency Rules of the following interests in the ordinary shares of the Company

Name of holder	Number of ordinary shares held	Percentage held
Eduardo Hochschild	214,962,500	69 94%
Blackrock Investment Management (UK) Ltd	22,633,411	736%

Policy on financial risk management
The Company's objectives and policies on financial risk management can be found in note 39 to the Group financial statements Information on the Company s exposures to foreign currency, commodity price, credit, liquidity and interest rate risks can be found in this note

Directors' and officers liability insurance
Since Directors are increasingly being added as defendants in legal actions against companies, the Board believes that the risk of Directors being placed at significant personal financial risk is increasing The Board also believes that the provision of appropriate indemnities and the funding of Directors' defence costs as permitted by legislation are reasonable protections for the Directors and are important to ensure that the Company continues to be able to attract and retain the highest calibre individuals as Directors Accordingly, the Company has purchased and maintains liability insurance for its Directors and Officers as permitted by section 309A(5)of the Companies Act 1985

However, a Director will not be indemnified for any liability incurred by him to the Company or Group companies, any criminal or regulatory fines, the costs of defending any criminal proceedings in which he is convicted, or the costs of defending any civil proceedings brought by the Company in which judgement is given against him

The adequacy of insurance cover for Directors and Officers will be reviewed by the Board in the light of the changes to Directors' liability to be implemented under the Companies Act 2006

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

Going concern
The Directors confirm that they are satisfied that the Company has sufficient resources to continue in operation for the foreseeable future Accordingly, they continue to adopt the going concern basis in preparing the financial statements

Auditors
A resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting

Annual General Meeting
The first Annual General Meeting of the Company will be held at 11 30 am on 4 July 2007 at One Silk Street London EC2Y 8HQ The notice convening the meeting is included within the accompanying Chairman's letter with details of the business to be considered

Biographical details of the Directors standing for election at the Annual General Meeting are set out within the accompanying Chairman's Letter containing the notice of meeting

On behalf of the Board

Roberto Dañino
Executive Director and Deputy Chairman
19 March 2007

Statement of Directors' Responsibilities in Relation to the Group and Parent Company Financial Statements

The Directors are responsible for preparing the Annual Report and the Group and parent company's financial statements ('financial statements') in accordance with applicable United Kingdom law and those International Financial Reporting Standards (IFRS') as adopted by the European Union

The Directors are required to prepare Group and parent company's financial statements for each financial year which present fairly the financial position of the Group and parent company, and the financial performance and cash flows of the Group and parent company for that period In preparing those financial statements the Directors are required to

- select suitable accounting policies in accordance with IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' and then apply them consistently,
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information,
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group and parent company's financial position and financial performance, and
- state that the Group and parent company has complied with IFRS, subject to any material departures disclosed and explained in the financial statements

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and parent company and enable them to ensure that the financial statements comply with the Companies Act 1985 and Article 4 of the IAS Regulation They are also responsible for safeguarding the assets of the Group and parent company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

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Independent auditors' report

to the members of Hochschild Mining plc

We have audited the group financial statements (the "financial statements") of Hochschild Mining plc for the year ended 31 December 2006 which comprise the Group Income Statement, the Group Balance Sheet, the Group Cash Flow Statement, the Group Statement of Changes in Equity and the related notes 1 to 40 We have also audited the parent company financial statements (the "financial statements") of Hochschild Mining plc for the period ended 31 December 2006 which comprise the Company Income Statement the Company Balance Sheet the Company Cash Flow Statement, the Company Statement of Changes in Equity and the related notes 1 to 12 These financial statements have been prepared under the accounting policies set out therein We have also audited the information in the Directors' Remuneration Report that is described as having been audited

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985 Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report or for the opinions we have formed

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRS) as adopted by the European Union are set out in the Statement of Directors' Responsibilities

Our responsibility is to audit the financial statements and the part of Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland)

We report to you our opinion as to whether the financial statements give a true and fair view, whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and whether the group financial statements have been properly prepared in accordance with Article 4 of the IAS Regulation We also report to you whether, in our opinion, the information given in the Directors' Report is consistent with the financial statements The information given in the Directors' Report includes that specific information presented in the Operating and Financial Review that is cross referred from the Business Review section of the Directors' Report

In addition we report to you if, in our opinion the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed

We review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the 2003 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures

The UK firm Ernst & Young LLP is a limited liability partnership registered in England and Wales with registered number OC300001 and is a member practice of Ernst & Young Global A list of members' names is available for inspection at the above address which is the firm's principal place of business and its registered office

ERNST & YOUNG

We read other information contained in the Annual Report and consider whether it is consistent with the audited Group financial statements The other information comprises only the Chairman's Statement, the Operating and Financial Review, the Directors Report, the unaudited part of the Directors Remuneration Report and the Corporate Governance Statement We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements Our responsibilities do not extend to any other information

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors Remuneration Report to be audited It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and company's circumstances, consistently applied and adequately disclosed

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors Remuneration Report to be audited

Opinion

In our opinion

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 December 2006 and of its profit for the year then ended,
- the parent company's financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the parent's affairs as at 31 December 2006 and of its profit for the year then ended,
- the group and parent company's financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation,
- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Director's Report is consistent with the financial statements

Ernst & Young LLP.

Ernst & Young LLP
Registered Auditors
London
19 March 2007

Group Income Statement
For the year ended 31 December 2006

	Notes	Year ended 31 December 2006 Before exceptional items US$000	Exceptional items US$000	Total US$000	Year ended 31 December 2005 Before exceptional items US$000	Exceptional items US$000	Total US$000
Continuing operations							
Revenue	3, 5	**211,246**	**–**	**211,246**	161,235	–	161,235
Cost of sales	6	**(75,547)**	**–**	**(75,547)**	(72,529)	–	(72,529)
Gross profit		**135,699**	**–**	**135,699**	88,706	–	88 706
Administrative expenses	7	**(38,738)**	**–**	**(38,738)**	(25,434)	–	(25,434)
Exploration expenses	8	**(19,863)**	**–**	**(19,863)**	(28,057)	–	(28,057)
Gain on sale of Bongara zinc project and Compañia Minera Corianta S A C	9	**–**	**–**	**–**	–	14,812	14,812
Selling expenses	10	**(3,187)**	**–**	**(3,187)**	(3,161)	–	(3,161)
Other income	12	**5,022**	**346**	**5,368**	2,846	–	2,846
Other expenses	12	**(3,870)**	**(6,495)**	**(10,365)**	(2,619)	(202)	(2,821)
Profit from continuing operations before net finance costs and income tax		**75,063**	**(6,149)**	**68,914**	32,281	14,610	46,891
Finance income	13	**6,906**	**–**	**6,906**	4,144	–	4,144
Finance costs	13	**(12,037)**	**–**	**(12,037)**	(10,105)	–	(10,105)
Foreign exchange gain/(loss)		**353**	**–**	**353**	(552)	–	(552)
Profit from continuing operations before income tax		**70,285**	**(6,149)**	**64,136**	25,768	14,610	40,378
Income tax expense	14	**(29,486)**	**791**	**(28,695)**	(4,902)	(4,771)	(9,673)
Profit for the year from continuing operations		**40,799**	**(5,358)**	**35,441**	20,866	9,839	30 705
Discontinued operations							
Profit for the year from discontinued operations	31	**–**	**–**	**–**	12,179	–	12,179
Profit for the year		**40,799**	**(5,358)**	**35,441**	33 045	9,839	42,884
Attributable to							
Equity shareholders of the Company		**46,646**	**(5,358)**	**41,288**	36 898	9,839	46,737
Minority interest		**(5,847)**	**–**	**(5,847)**	(3,853)	–	(3,853)
		40,799	**(5,358)**	**35,441**	33 045	9,839	42,884
Basic and diluted earnings/(loss) per ordinary share from continuing operations (expressed in US dollars per share)	15	**0 19**	**(0 02)**	**0 17**	0 11	0 04	0 15
Basic and diluted earnings per ordinary share from discontinued operations (expressed in US dollars per share)	15	**–**	**–**	**–**	0 05	–	0 05

Group Balance Sheet
As at 31 December 2006

	Notes	As of 31 December 2006 US$000	2005 US$000
ASSETS			
Non-current assets			
Property, plant and equipment	16	**118,413**	59,403
Goodwill	17	**2,091**	2,091
Available-for-sale financial assets	18	**6,285**	26 267
Trade and other receivables	19	**17,427**	6,050
Derivative financial instruments	21	**–**	1,902
Deferred income tax assets	29	**15,704**	10,990
		159,920	106,703
Current assets			
Inventories	20	**16,405**	10,499
Trade and other receivables	19	**49,726**	81,106
Derivative financial instruments	21	**6,022**	7,047
Other financial assets at fair value through profit or loss	22	**–**	19,835
Cash and cash equivalents	23	**435,543**	2,467
		507,696	120,954
Assets classified as held-for-sale	31	**345**	3,844
Total assets		**667,961**	231,501
EQUITY AND LIABILITIES			
Capital and reserves attributable to shareholders of the Company			
Equity share capital (including additional capital)		**146,466**	219,233
Share premium		**396,156**	–
Other reserves		**(205,112)**	(198,055)
Retained earnings		**142,810**	28,198
		480,320	49,376
Minority interest		**9,011**	(2,533)
Total equity	28	**489,331**	46,843
Non-current liabilities			
Trade and other payables	24	**1,064**	3,161
Borrowings	25	**27,114**	31,089
Provisions	26	**28,690**	30,982
Deferred income tax liabilities	29	**4,026**	4,134
		60,894	69,366
Current liabilities			
Trade and other payables	24	**64,140**	31,664
Borrowings	25	**29,782**	69,793
Provisions	26	**11,385**	8 860
Income tax payable		**12,429**	4,975
		117,736	115,292
Total liabilities		**178,630**	184,658
Total equity and liabilities		**667,961**	231,501

On behalf of the Board

Roberto Dañino
Executive Director and Deputy Chairman
19 March 2007

Group Cash Flow Statement
For the year ended 31 December 2006

	Notes	Year ended 31 December 2006 US$000	2005 US$000
Cash flows from operating activities			
Cash generated from operations	34	**126,231**	30,464
Interest received		**2,576**	345
Interest paid		**(9,163)**	(4,989)
Payments of mine closure costs		**(5,426)**	(5,228)
Tax paid		**(26,010)**	(12,602)
Net cash generated from operating activities		**88,208**	7,990
Cash flows from investing activities			
Purchase of property, plant and equipment		**(63,864)**	(18,852)
Purchase of available-for-sale financial assets		**(2,770)**	(3,107)
Purchase of shares of Minera Colorada S A C	4	**(240)**	–
Purchase of other financial assets at fair value through profit or loss		**(5,867)**	(21,537)
Purchase of assets and liabilities of Mina Moris	4	**(4,983)**	–
Loan to Exmin, S A de C V	4	**(754)**	–
Loan to Minera Andes Inc	25	**(9,800)**	–
Proceeds from other financial assets at fair value through profit or loss		**5,591**	17,566
Proceeds from sale of Bongara zinc project and Compañia Minera Corianta S A C	9	**–**	16,364
Proceeds from sale of available-for-sale financial assets	12, 18	**6,550**	–
Proceeds from sale of Mauricio Hochschild & Cia Ltda S A C (subsidiary)	12	**3,801**	–
Proceeds from sale of Caylloma mining unit	31	**4,500**	3,050
Proceeds from sale of property, plant and equipment and assets classified as held-for-sale		**991**	239
Proceeds from sale of supplies		**3,975**	3,417
Dividends received		**147**	182
Net cash used in investing activities		**(62,723)**	(2,678)
Cash flows from financing activities			
Proceeds from borrowings		**77,014**	118,103
Repayment of borrowings		**(95,977)**	(127,073)
Dividends paid		**(58,375)**	(50)
Capital contribution		**93**	–
Proceeds from issue of ordinary shares under global offer		**515,245**	–
Transaction costs associated with issue of shares	28	**(33,989)**	–
Purchase of shares from minority shareholders	28	**(2)**	(2,667)
Capital contribution from minority shareholders		**4,215**	3,229
Repayment of capital to minority shareholders		**(671)**	–
Cash flows generated from (used in) financing activities		**407,553**	(8,458)
Net increase/(decrease) in cash and cash equivalents during the year		**433,038**	(3,146)
Exchange difference		**38**	(20)
Cash and cash equivalents at beginning of year		**2,467**	5,633
Cash and cash equivalents at end of year	23	**435,543**	2,467

Group Statement of Changes in Equity
For the year ended 31 December 2006

	Notes	Equity share capital (including additional capital) US$000	Share premium US$000	Other reserves: Unrealised gain/(loss) on suitable-for sale financial assets US$000	Other reserves: Cumulative translation adjustment US$000	Other reserves: Merger reserve US$000	Total other reserves US$000	Retained earnings US$000	Capital and reserves attributable to shareholders of the parent US$000	Minority interest US$000	Total equity US$000
Balance at 1 January 2005	28	219,233	–	6,773	–	(210,046)	(203,273)	(16,095)	(135)	(1,833)	(1,968)
Fair value gains on available-for-sale financial assets	18	–	–	4,492	–	–	4,492	–	4,492	–	4,492
Translation adjustment for the year		–	–	–	726	–	726	–	726	147	873
Net income recognised directly in equity		–	–	4,492	726	–	5,218	–	5,218	147	5,365
Profit for the year		–	–	–	–	–	–	46,737	46,737	(3,853)	42 884
Total recognised income for 2005		–	–	4,492	726	–	5,218	46,737	51,955	(3,706)	48,249
Purchase of shares from minority shareholders	28	–	–	–	–	–	–	(2,444)	(2,444)	(223)	(2,667)
Capital contribution from minority shareholders		–	–	–	–	–	–	–	–	3,229	3,229
Balance at 31 December 2005		219,233	–	11,265	726	(210,046)	(198,055)	28,198	49,376	(2,533)	46,843
Fair value gains on available-for-sale financial assets	18	–	–	13,351	–	–	13,351	–	13,351	20	13,371
Deferred income tax on available-for-sale financial assets	29	–	–	(398)	–	–	(398)	–	(398)	–	(398)
Fair value changes transferred to income statement on disposal		–	–	(22,844)	–	–	(22,844)	–	(22,844)	–	(22,844)
Translation adjustment for the year		–	–	–	2,834	–	2 834	–	2 834	142	2,976
Net income recognised directly in equity		–	–	(9,891)	2,834	–	(7,057)	–	(7,057)	162	(6,895)
Profit for the year		–	–	–	–	–	–	41,288	41,288	(5,847)	35 441
Total recognised income for 2006		–	–	(9 891)	2,834	–	(7,057)	41,288	34,231	(5,685)	28,546
Shares issued	28	93	–	–	–	–	–	–	93	–	93
Shares issued under global offer	28	73,606	441,639	–	–	–	–	–	515,245	–	515,245
Transaction costs associated with issue of shares		–	(45,483)	–	–	–	–	–	(45,483)	–	(45,483)
Capital reduction		(146,466)	–	–	–	–	–	146,466	–	–	–
Dividends	30	–	–	–	–	–	–	(73,142)	(73,142)	(298)	(73,440)
Capital contribution from minority shareholders		–	–	–	–	–	–	–	–	18,200	18,200
Purchase of shares from minority shareholders		–	–	–	–	–	–	–	–	(2)	(2)
Repayment of capital to minority shareholders		–	–	–	–	–	–	–	–	(671)	(671)
Balance at 31 December 2006		**146,466**	**396,156**	**1,374**	**3,560**	**(210,046)**	**(205,112)**	**142,810**	**480,320**	**9,011**	**489,331**

Notes to the Group Financial Statements
For the year ended 31 December 2006

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 address is One Silk Street, London EC2Y 8HQ, 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 the companies listed below constituting the Hochschild Mining Group pursuant to a share exchange agreement ('Share Exchange Agreement') dated 2 November 2006 (see notes 2(a) and 28(a))

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 (formerly 'Dona Limited')

On 8 November 2006, the Company's shares were admitted to the Official List of the United Kingdom Listing Authority ('UKLA') 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 fully developed operating mines (Ares, Arcata and Selene) located in Southern Peru The Group also has a portfolio of projects located across Peru, Mexico, Chile and Argentina at various stages of development

These Group consolidated financial statements, which were the first financial statements presented by the Group, were approved for issue by the Board of Directors on 19 March 2007

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

Company	Principal activity	Country of incorporation	Equity interest at 31 December 2006	2005
Hochschild Mining (Argentina) Corporation (formerly Lorenzon Limited)	Holding company	Cayman Islands	**100**	100
Larchmont Corporation	Holding company	Cayman Islands	**100**	100
Garrison Corporation	Holding company	Cayman Islands	**100**	100
Ardsley Corporation	Holding company	Cayman Islands	**100**	100
Hochschild Mining (Peru) Corporation (formerly Ludlow Corporation)	Holding company	Cayman Islands	**100**	100
Hochschild Mining (Mexico) Corporation (formerly Port Chester Ltd)	Holding company	Cayman Islands	**100**	100
Hochschild Mining Holding Limited	Holding company	United Kingdom	**100**	–
San Jose International Ltd[1]	Dormant	Cayman Islands	**–**	–
Compañia Minera Sipan S A C[2]	Production of gold and silver	Peru	**100**	100
Compañia Minera Ares S A C	Production of gold and silver	Peru	**100**	100
Compañia Minera Arcata S A[3]	Production of gold and silver	Peru	**96 8**	96 8
Mauricio Hochschild & Cia Ltda S A C (MHC)[4]	Services	Peru	**–**	100
Minera Colorada S A C	Exploration office	Peru	**30**	–
Empresa de Transmision Electrica Callalli S A C	Power transmission	Peru	**100**	100
Asociacion Sumac Tarpuy[5]	Not-for-profit	Peru	**–**	–
Pallancata Holding S A C (formerly Compañia Minera Coriorco S A)	Holding company	Peru	**100**	100
Minera Suyamarca S A C	Development project	Peru	**60**	–
MH Argentina S A	Exploration Office	Argentina	**100**	100
Minera MH Chile Ltda	Exploration Office	Chile	**100**	100
Minera Hochschild Mexico, S A de C V	Exploration Office	Mexico	**100**	100
Minas Santa Maria de Moris, S A de C V	Development project	Mexico	**70**	–
Moris Holding, S A de C V	Holding company	Mexico	**100**	–
Hochschild Mining (US) Inc (formerly MH Nevada, Inc)	Exploration Office	USA	**100**	100
Minera Santa Cruz S A	Development project	Argentina	**51**	51

Notes
1 Incorporated and dissolved in 2006
2 Currently involved in mine closure activities
3 Mining unit sold to Compañia Minera Ares S A C in 2006
4 Sold in 2006 refer to note 12(4)
5 Asociacion Sumac Tarpuy is an unincorporated entity which receives donations from Compañia Minera Ares S A C and donates this money to charitable activities at the direction of Ares As a result the Group consolidates this entity

2 Significant accounting policies
(a) Basis of preparation
On 2 November 2006 and according to the Share Exchange Agreement terms Hochschild Mining plc entered into an agreement to acquire Hochschild Mining (Argentina) Corporation, Larchmont Corporation, Garrison Corporation, Ardsley Corporation, Hochschild Mining (Peru) Corporation and Hochschild Mining (Mexico) Corporation (together referred to as the 'Cayman Holding Companies')

In relation to this transaction, Hochschild Mining plc issued 229,900,000 shares to the former shareholders of the Cayman Holding Companies in exchange for the issued share capital of these companies As this transaction involved the combination of businesses under common control, the pooling of interests method of accounting has been applied in the presentation of the consolidated financial statements for the years ended 31 December 2006 and 31 December 2005 which present the results of the Group as if the Cayman Holding Companies had always been part of the Group Accordingly, the assets and liabilities transferred to the Company have been recognised at historical amounts For periods prior to the legal formation of the Company, the assets, liabilities, revenue and expenses of the Cayman Holding Companies comprising the Predecessor Operations were consolidated in preparing the financial statements The accompanying consolidated financial statements present the results and changes in equity of the Company and its subsidiaries as if the Group had been in existence throughout the years presented and as if the Predecessor Operations were transferred to the Company from the Cayman Holding Companies as of 1 January 2005

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted for use in the European Union ('EU') The Group's financial statements are also consistent with IFRS issued by the IASB

The basis of preparation and accounting policies used in preparing the consolidated financial statements for the years ended 31 December 2006 and 2005 are set out below These accounting policies have been consistently applied to all the periods presented unless otherwise stated

The financial statements have been prepared on a historical cost basis, except for certain classes of property, plant and equipment which have been revalued at 1 January 2003 to determine deemed cost (refer to note 2(e)), derivatives, available-for-sale financial instruments and other financial assets at fair value through profit and loss which have been measured at fair value The financial statements are presented in US dollars (US$) and all monetary amounts are rounded to the nearest thousand (US$000) except when otherwise indicated

The Group's transition date to IFRS was 1 January 2005 The rules for first-time adoption of IFRS are set out in IFRS 1, first-time adoption of International Financial Reporting Standards

IFRS 1 allows certain exemptions in the application of particular Standards to prior periods in order to assist companies with the transition process The Group has applied the following exemptions
(i) Certain classes of tangible assets had been revalued at 1 January 2003 Deemed cost as at the date of transition is considered as the revalued amounts as of 1 January 2003 at the time of initial public offering of the Group and depreciated for the period until the date of transition,
(ii) IFRS 3 is applied as from 1 January 2001 and not retrospectively to past business combinations, and
(iii) The Group has deemed cumulative translation differences for foreign operations to be zero at the date of transition, any gains and losses or subsequent disposals of foreign operations will not therefore include translation differences arising prior to the transition date

Reconciliation to the previous GAAP for equity as at the date of transition and profit and loss account for previous years are not presented as these are the first consolidated financial statements of the Group

Standards, interpretations and amendment to existing standards that are not yet effective and have not been early 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 2007 or later periods but which the Group has not early adopted Those that are applicable to the Group are as follows

- IFRS 7, 'Financial Instruments Disclosures', applicable for annual periods beginning on or after 1 January 2007
- IFRS 8, 'Operating Segments, applicable for annual periods, beginning on or after 1 January 2009
- IFRIC 7, 'Applying the Restatement Approach' under IAS 29, 'Financial Reporting in Hyperinflationary Economies', applicable for annual periods beginning on or after 1 March 2006
- IFRIC 8, 'Scope of IFRS 2', applicable for annual periods beginning on or after 1 May 2006
- IFRIC 9, 'Reassessment of Embedded derivatives', applicable for annual periods beginning on or after 1 June 2006
- IFRIC 10, 'Interim Financial Reporting and Impairment', applicable for annual periods beginning on or after 1 November 2006
  IFRIC 11, IFRS 2 'Group and Treasury Shares Transactions', applicable for annual periods beginning on or after 1 March 2007
- IFRIC 12, 'Service Concession Arrangements', applicable for annual periods beginning on or after 1 January 2008
- Complementary amendment to IAS 1, 'Presentation of Financial Statements – Capital Disclosures', applicable for annual periods beginning on or after 1 January 2007

The Directors anticipate that the adoption of these standards and interpretations in future periods will have no material impact on the financial statements of the Group

2 Significant accounting policies continued
(b) Judgements in applying accounting policies and key sources of estimation uncertainty
Many of the amounts included in the financial statements involve the use of judgement and/or estimation These judgements and estimates are based on management's best knowledge of the relevant facts and circumstances, having regard to prior experience, but actual results may differ from the amounts included in the financial statements Information about such judgements and estimation is contained in the accounting policies and/or the notes to the financial statements The key areas are summarised below

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

- Determination of functional currencies (note 2 (d))
- Determination of useful lives of assets for depreciation and amortisation purposes (note 2 (e))
- Determination of ore reserves and resources (note 2 (f))
- Review of asset carrying values and impairment charges (note 2 (i))
- Estimation of the amount and timing of mine closure costs (notes 2 (m) and 26)
- Income tax (notes 14 and 29)
- Contingent liabilities regarding claims from tax authorities (note 36)

(c) Basis of consolidation
The consolidated financial statements set out the Group's financial position and operations and cash flow as of 31 December 2006 and 31 December 2005 and for the years then ended, respectively

Subsidiaries are those enterprises controlled by the Group regardless of the amount of shares owned by the Group Control exists when the Group has the power directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group On acquisition of a subsidiary, the purchase consideration is allocated to the assets and liabilities on the basis of their fair value at the date of acquisition The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill If the cost of acquisition is less than the fair value of net assets of the entity acquired the difference is recognised directly in the income statement

The financial statements of subsidiaries are prepared for the same reporting periods as the Company using consistent accounting policies All intercompany balances and transactions, including unrealised profits arising from intra-Group transactions, have been eliminated on consolidation Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment

Minority shareholders primarily represent the interests in Minera Santa Cruz, Compañia Minera Arcata, Minera Suyamarca, and Mina Santa Maria de Moris S A de C V not held by the Company In the event of a purchase of minority shareholders' interest when the Group holds the majority of shares of a subsidiary, any excess of the consideration given over the Group's share of net assets is recorded in retained earnings in equity

(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 it 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 balance sheet date Exchange gains and losses on settlement of foreign currency transactions which are translated at the rate prevailing at the date of the transactions, or on the translation of monetary assets and liabilities which are translated at period-end exchange rates, are taken to the income statement Non-monetary assets and liabilities denominated in foreign currencies that are stated at historical cost are translated to the functional currency at the foreign exchange rate prevailing at the date of the transaction Exchange differences arising from monetary items that are part of a net investment in a foreign operation are recognised in equity and transferred to income on disposal of such net investment

Subsidiary financial statements expressed in their corresponding functional currencies are translated into US dollars by applying the exchange rate at period-end for assets and liabilities and the average exchange rate for income statement items The resulting difference on consolidation is included as cumulative translation adjustment in equity

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate

(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 any costs directly attributable to bringing it into working condition for its intended use The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads The cost or deemed cost of property, plant and equipment (hereafter referred to as cost') at 1 January 2005, the date of the Group transition to IFRS, is the deemed cost as at the date of transition by considering the revalued amounts as of 1 January 2003 at the time of initial public offering of the Group and depreciated for the period until the date of transition Economical and physical conditions of assets have not changed substantially over this period

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

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

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

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

	Years
Buildings	3 to 33
Plant and equipment	5
Furniture, fixtures and fittings	10
Vehicles	5

Borrowing costs are not capitalised and are expensed

Mineral properties and mine development costs
Payments for mineral properties are expensed during the exploration phase of a project and capitalised during their development phase when incurred Costs associated with developments are capitalised

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

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

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

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

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

There are numerous uncertainties inherent in estimating ore reserves Assumptions that are valid at the time of estimation may change significantly when new information becomes available Changes in the forecast prices of commodities exchange rates, production costs or recovery rates may change the economic status of reserves and may ultimately, result in the reserves being restated

2 Significant accounting policies continued

(g) Assets held for sale

Assets are classified as assets held-for-sale and stated at the lower of carrying amount and fair value less cost to sell if their carrying amount is to be recovered principally through a sale transaction rather than through a continuing use These assets are not depreciated

(h) Goodwill

Goodwill is included in intangible assets and represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired entity at the date of acquisition Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses Impairment losses on goodwill are not reversed

Goodwill is allocated to cash-generating units for the purpose of impairment testing The allocation is made to those cash-generating units that are expected to benefit from business combination in which the goodwill arose

(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 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

If the carrying amount of an asset or its cash-generating unit exceeds the recoverable amount, a provision is recorded to reflect the asset at the lower amount Impairment losses are recognised in the income statement

Calculation of recoverable amount

The recoverable amount of assets is the greater of their value in use and fair value less costs to sell Fair value is based on an estimate of the amount that the Group may obtain in a sale transaction on an arm's length basis In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs The Group's cash-generating units are the smallest identifiable groups of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets

Reversal of impairment

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

(j) Inventories

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

For this purpose, the costs of production include

- costs, materials and contractor expenses which are directly attributable to the extraction and processing of ore,
- the 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 Excess to par value of shares received upon issuance of shares is classified as share premium

(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

Workers' profit sharing and other employee benefits
In accordance with Peruvian legislation, Group 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 (refer to note 11) 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) Trade payables
Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method

(o) Borrowings
Borrowings are recognised initially at fair value, net of transaction costs incurred Borrowings are subsequently stated at amortised cost, any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method

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 balance sheet date

(p) Contingencies
Contingent liabilities are not recognised in the financial statements and are disclosed in notes to the financial information unless their occurrence is remote

Contingent assets are not recognised in the financial statements, but they are disclosed in notes if they are deemed probable

(q) Revenue recognition
The Group is involved in production and sale of dore bars and concentrate containing both gold and silver Concentrate is sold directly to customers Dore bars are sent to a third party for further refining into gold and silver which is then sold

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

Revenue associated with the sale of concentrate and dore bars 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

2 Significant accounting policies continued
In addition, sales of concentrate are 'provisionally priced' where the selling price is subject to final adjustment at the end of a period normally ranging from 30 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 the international exchanges The revaluing of provisionally priced contracts is recorded as an adjustment to 'Revenue'

Income from services provided to related parties (note 32) is recognised in income when services are provided

(r) Exploration and evaluation expenditure
Exploration and evaluation expenditure for each area of interest is charged to the income statement as incurred Administrative and general expenses relating to exploration and evaluation activities are also expensed as incurred

(s) Finance income and costs
Finance income and expenses comprise interest expense on borrowings, the accumulation of interest on provisions, interest income on funds invested, 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 is recognised as it accrues, taking into account the effective yield on the asset

(t) Income tax
Income tax for the year comprises current and deferred tax Income tax is recognised in the income statement except to the extent that it relates to items charged or credited directly to equity, in which case it is recognised in equity

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted at the balance sheet 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

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 balance sheet 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

Tax on dividend remittance, where applicable, is provided in the year in which distributable income is generated

(u) Financial instruments
Recognition
The Group recognises financial assets and liabilities on its balance sheet when, and only when, it becomes a party to the contractual provisions of the instrument

Financial assets and liabilities are offset and the net amount is reported in the balance sheet only when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously

Measurement
Financial assets and liabilities are initially recognised at cost, which is the fair value of consideration given or received, respectively, including in the case of a financial asset or financial liability not at fair value through profit or loss, any transaction costs incurred

In determining estimated fair value, investments in shares or portfolios of listed securities are valued at quoted bid prices When quoted prices on an active market are not available (and for listed non-actively traded securities), fair value is determined using a valuation technique Valuation techniques include using recent arm's length transactions, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models If the range of reasonable fair value is significant and the probabilities of the various estimates cannot be reliably assessed, the investment is not remeasured at fair value Investments in warrants are recorded based on an assessment performed by a third party expert using a Black-Scholes option pricing model

The Group has classified its investments as available-for-sale assets or other financial assets at fair value through profit or loss in accordance with the intent of management at the time of the purchase

Changes in fair value of investments classified as available-for-sale are recognised in equity, except for impairment loss and foreign exchange gain and losses for monetary items which are recognised directly in the income statement, and are included in income when realised Changes in the fair value of financial assets at fair value through profit and loss are recognised directly in the income statement

Loans and receivables are loans and receivables created by the Group companies providing money or goods to a debtor Loans and receivables are initially recognised in accordance with the policy stated above and subsequently remeasured at amortised cost using the effective interest method Financial liabilities are initially recognised in accordance with the policy stated above and subsequently remeasured at amortised cost using the effective interest method

Derivatives futures are initially recognised at fair value Any gains and losses arising from changes in fair value are recognised immediately in the income statement in the period in which they occur

Derivatives are classified as a current asset or liability Changes in fair value of trading derivatives are included in the income statement

Embedded derivatives
Embedded derivatives which are not clearly and closely related to the underlying assets, liability or transaction are separated and accounted for as stand-alone derivatives

Derecognition
Financial instruments are derecognised when the Group transfers all risks and rewards of ownership

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

(w) Cash and cash equivalents
Cash and cash equivalents are carried in the balance sheet at cost For the purposes of the balance sheet, cash and cash equivalents comprise cash on hand and deposits held with banks that are readily convertible into known amounts of cash within three months or less and which are subject to insignificant risk of changes in value For the purposes of the cash flow statement, cash and cash equivalents as defined above are shown net of outstanding bank overdrafts

(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 goodwill impairments, assets held for sale impairments, gain/(loss) from sale of property, plant and equipment, gain/(loss) from sale of investments, gain/(loss) from sale of subsidiaries and the related tax impact of these items

3 Segment reporting
The Group's activities are principally related to mining operations which involve exploration, production and sale of gold and silver Products are subject to the same risks and returns and are sold through the same distribution channels The Group has a number of activities that exist solely to support mining operations including power generation and services As such, the Group has only one business segment as its primary reporting segment The Group operates in various countries including Peru, Argentina, Mexico, Chile and the United States of America Therefore, the geographical segment is the Group's secondary reporting format

(a) Revenue
Revenue for the year is allocated based on the country in which the customer is located There are no inter-segment revenues

	Year ended 31 December	
	2006 US$000	2005 US$000
United Kingdom	**35,708**	60,857
Mexico	**116,034**	52,708
USA	**58,719**	30,476
Canada	**717**	17,235
Peru	**68**	50
Japan	**–**	(91)
Total	**211,246**	161,235

The negative figure results from adjustments to revenue as a consequence of differences between the price and quantity of gold and silver included in a final invoice and in the provisional invoice issued in the previous year

3 Segment reporting continued
(b) Profit for the year
The Group has no inter-segment transactions Profit for the year is based on country of operation as follows

	Year ended 31 December 2006			Year ended 31 December 2005		
	Before exceptional items US$000	**Exceptional items US$000**	**Total US$000**	Before exceptional items US$000	Exceptional items US$000	Total US$000
Peru	**58,844**	**(4,325)**	**54,519**	48,013	9,839	57,852
Cayman Islands	**(2,756)**	**(1,033)**	**(3,789)**	321	–	321
Argentina	**(10,745)**	**–**	**(10,745)**	(9,135)	–	(9,135)
Mexico	**(3,920)**	**–**	**(3,920)**	(3,647)	–	(3,647)
Chile	**(1,613)**	**–**	**(1,613)**	(1,492)	–	(1,492)
USA	**(778)**	**–**	**(778)**	(1,015)	–	(1,015)
United Kingdom	**1,767**	**–**	**1,767**	–	–	–
Total	**40,799**	**(5,358)**	**35,441**	33 045	9,839	42,884

(c) Total segment assets
Total segment assets, which exclude income tax assets, are allocated based on where the assets are located

	Year ended 31 December	
	2006 US$000	2005 US$000
Peru	**133,092**	164,120
Cayman Islands	**11,134**	38,341
Argentina	**58,597**	15,794
Mexico	**12,340**	590
Chile	**580**	59
USA	**162**	98
United Kingdom	**434,218**	–
Total segment assets	**650,123**	219,002
Deferred income tax assets	**15,704**	10,990
Other income tax assets due	**2,134**	1,509
Total	**667,961**	231,501

(d) Capital expenditure
Capital expenditure is allocated based on where the assets are located

	Year ended 31 December	
	2006 US$000	2005 US$000
Peru	**32,573**	16,960
Argentina	**36,155**	5,474
Mexico	**8,191**	52
Chile	**67**	–
USA	**40**	46
United Kingdom	**4**	–
Total	**77,030**	22,532

(e) Total segment liabilities
Total segment liabilities, which exclude income tax liabilities, are allocated based on where the liabilities are located

	Year ended 31 December	
	2006 US$000	2005 US$000
Peru	**95,190**	135,254
Cayman Islands	**22,576**	21,919
Argentina	**35,911**	18,239
Mexico	**1,923**	49
Chile	**99**	84
USA	**48**	4
United Kingdom	**6,428**	–
Total segment liabilities	**162,175**	175,549
Deferred income tax liabilities	**4,026**	4,134
Income tax payable	**12,429**	4,975
Total	**178,630**	184,658

(f) Depreciation
Depreciation is allocated based on where the assets are located

	Year ended 31 December	
	2006 US$000	2005 US$000
Peru	**17,185**	15,957
Argentina[1]	**1,032**	629
Mexico	**44**	20
Chile	**3**	–
USA	**14**	–
Total	**18,278**	16,606

Note
1 Includes US$850 000 of depreciation capitalised in property plant and equipment of Minera Santa Cruz S A

(g) Non-cash expenses
Non-cash expenses for the year based on country of operation were as follows

	Year ended 31 December 2006			Year ended 31 December 2005		
	Before exceptional items US$000	**Exceptional items US$000**	**Total US$000**	Before exceptional items US$000	Exceptional items US$000	Total US$000
Peru	**113**	**5,462**	**5,575**	–	197	197
USA	**–**	**1,033**	**1,033**	–	–	–
Total	**113**	**6,495**	**6,608**	–	197	197

4 Acquisitions

(a) Business combination

Minera Colorada S A C

On 15 June 2006, the Group acquired a 30% controlling interest, based on its power to govern its financial and operating policies so as to obtain benefits from its activities, in Minera Colorada S A C ('Colorada'), an exploration company, from Cementos Pacasmayo S A A ('Pacasmayo') (a related party) for US$240,000 in cash. After the Group's acquisition, the shareholding in Colorada was split 30%, 20%, 50% between the Group, Pacasmayo and Compañia Minera Killacolqui, respectively.

As of 31 December 2006, Management forecasts that the project will not produce future benefits and accordingly the Group has impaired in full the goodwill on acquisition of US$230,000 and related assets of US$113,000.

No further disclosures have been provided since amounts involved are not considered significant in relation to the Group financial statements.

(b) Acquisition of assets

Mina Moris

On 30 June 2006 Minera Hochschild Mexico, S A de C.V. ('MHM') and Exmin, S A de C.V. ('Exmin') entered into an agreement to purchase the assets and related liabilities of Santa Maria de Moris Mine ('Mina Moris') for US$6 million. MHM agreed to pay US$4.2 million (70% share) and Exmin agreed to pay US$1.8 million (30% share). MHM and Exmin also incurred pre-acquisition costs of US$0.8 million, which has been treated as a part of consideration for acquisition of these assets. Exmin's contribution to the project has been funded by a loan from the Group and the proceeds from purchase of shares in Exmin Resources Inc. by the Group (refer to note 18). These shares were issued at a discount of 20% to the market price, resulting in an unrealised gain on issue of these shares of US$0.3 million, which has reduced the cost of acquisition of net assets for the Group.

Assets and liabilities of Mina Moris at the date of acquisition were as follows:

	US$000
Plant and equipment	3,255
Mining properties	3,355
Land and buildings	1,432
Supplies	248
Provision for mine closure costs	(1,830)
Total	6,460

Pallancata

On 3 July 2006, the Group entered into an agreement with Minera Oro Vega S A C. ('Minorva') to form an entity in order to purchase the mining rights for the Pallancata properties located in the Coronel Castañeda District, Parinacochas province, Ayacucho (department in Peru) from Minorva. On 16 August 2006, Pallancata Holdings S A C. (formerly known as Compañia Minera Coriorco S A C.) with Minorva incorporated Minera Suyamarca S A C. ('Suyamarca'), with the Group being the operator of the project through a 60% controlling interest in this company.

The Group's initial contribution was US$6.0 million for the development of the project and Minorva's contribution was in the form of mining rights and an associated US$1.4 million liability representing payables to third parties, at an agreed net value of US$4.0 million. Further, the Group has agreed to fund the cost of construction of the mine in full, up to an operating capacity of 750 tonnes per day. As a result, the total cost of acquisition has been determined by the Group to be US$9.7 million (US$4.0 million of the aforementioned contribution from Minorva and US$5.7 million towards Minorva's share in the net assets on construction of the mine to be paid by the Group), out of which US$11.1 million has been allocated to the mining rights and US$1.4 million towards the liability acquired. The US$5.7 million has been treated as a deferred consideration (refer to note 24(2)).

On 12 October 2006 Suyamarca purchased the mining rights of four additional properties in the Pallancata project area from Minorva for US$89,000 and assumed a liability of US$140,000.

5 Revenue

	Year ended 31 December	
	2006 US$000	2005 US$000
Gold (from dore bars)	**70,498**	74,923
Silver (from dore bars)	**23,929**	16,368
Concentrate	**116,751**	69,894
Services	**68**	50
Total	**211,246**	161,235
Concentrate is made up of		
Gold	**21,953**	15,385
Silver	**94,208**	54,090
Other minerals	**590**	419
Total concentrate	**116,751**	69,894

Included within the valuation of concentrate are the provisional pricing adjustments which represent changes in the fair value of embedded derivatives of US$9,872,000 and US$9,916,000 for 2006 and 2005, respectively (refer to notes 2(q) and 21(4))

The total volumes of gold and silver sold are as follows

	Year ended 31 December	
	2006 US$000	2005 US$000
Gold	**190**	231
Silver	**10,403**	10,366

6 Cost of sales

	Year ended 31 December	
	2006 US$000	2005 US$000
Mining costs		
Contractors	**19,847**	18,984
Depreciation	**16,435**	14,605
Materials	**12,694**	12,795
Personnel expenses	**12,028**	9,484
Energy	**4,692**	4 491
Transportation services	**3,633**	2,560
Mining royalty (note 38)	**3,258**	1,184
Security and maintenance	**1,298**	955
Lease rentals	**1,155**	765
Meals and food at mine site	**1,065**	776
Freight	**1,044**	943
Minerals' treatment	**642**	744
Insurance	**618**	495
Assays	**380**	302
Provision for slow moving and obsolescence of supplies	**303**	63
Communications	**125**	100
Reallocation to administrative expenses	**(137)**	(79)
Reallocation to property, plant and equipment	**(2,403)**	(2,015)
Change in products in process and finished goods	**(3,949)**	1,512
Other	**2,819**	3,865
Total	**75,547**	72,529

7 Administrative expenses

	Year ended 31 December	
	2006 US$000	2005 US$000
Personnel expenses	**18,958**	14,385
Consulting fees	**5,385**	1,464
Donations[1]	**2,307**	1,164
Lease rentals	**1,325**	1,114
Sundry administrative services	**1,193**	1,577
Indirect taxes	**1,037**	986
Depreciation	**993**	2,001
Tax penalties[2]	**940**	198
Contribution to Peruvian Government (note 27)	**800**	–
Technology and systems	**776**	54
Termination benefits	**639**	406
Security	**322**	180
Supplies	**315**	163
Other	**3,748**	1,742
Total	**38,738**	25,434

Notes
1 Corresponds to donations by Compañia Minera Ares S A C to charitable activities of communities surrounding its mining units (refer to note 1 (s))
2 Corresponds to tax not withheld on payments to foreign companies including interest and fines

8 Exploration expenses

	Year ended 31 December	
	2006 US$000	2005 US$000
Mine site exploration[1]		
Arcata	**1,839**	1,335
Ares	**1,527**	1,587
Selene	**413**	1,066
Pallancata	**1,577**	–
	5,356	3,988
Prospects[2]		
Peru	**411**	1,391
Argentina	**–**	9 964
	411	11,355
Generative[3]		
Peru	**1,676**	268
Argentina	**2,826**	633
Mexico	**2,796**	3,078
Chile	**1,018**	1,164
USA	**150**	344
	8,466	5,487
Personnel[4]	**4,401**	5,145
Other	**336**	1,149
Exploration and mining rights[5]	**893**	933
Total	**19,863**	28,057

Notes
1 Mine site exploration is performed with the purpose of proving mineral reserves establishing inferred and indicated resources and identifying potential minerals within an existing mine site with the goal of maintaining or extending the mine s life
2 Prospects expenses are related to detailed geological evaluations to characterise and interpret the three dimensional continuity of the geometry quality and quantity of the ore within a prospect with the goal of justifying further evaluation Geological evidence and interpretations can move the project into a more advanced phase of evaluation with reserve estimation and economic pre-feasibility by the Project
3 Generative expenditure is very early stage exploration expenditure incurred in connection with identifying and developing exploration targets with an inferred resource or potential to develop into a mining operation
4 Expenses relating to personnel involved with exploration
5 Expenditure relating principally to payments for mining rights in accordance with relevant regulation

8 Exploration expenses continued
The following table lists the liabilities (generally payables) incurred in exploration activities of Group companies engaged only in exploration Liabilities related to exploration activities incurred by Group operating companies are not included since it is not possible to separate the liabilities related to exploration activities of these companies from their operating liabilities

	Year ended 31 December	
	2006 US$000	2005 US$000
Liabilities related to exploration activities	**320**	92

Cash flows of exploration activities are as follows

	Year ended 31 December	
	2006 US$000	2005 US$000
Payments	**8,649**	17,420

9 Gain on sale of Bongara zinc project and Compañia Minera Corianta S A C
In April 2005, the Group sold its Bongara zinc project to Cementos Pacasmayo for US$15,558,000 This post-feasibility project was carried at US$1,000,000 Prior to the feasibility study, the Group incurred US$1,900,000 of mine property costs and other expenditures during the exploration period that were charged to the income statement as incurred

In connection with this transaction, the Group also disposed of its subsidiary, Compañia Minera Corianta S A C ('Corianta') to Cementos Pacasmayo for US$806 000, realising a gain of US$254,000

10 Selling expenses

	Year ended 31 December	
	2006 US$000	2005 US$000
Transportation of dore and concentrates and maritime freight	**2,110**	2,233
Sales commissions	**548**	276
Personnel expenses	**77**	78
Warehouse services	**152**	98
Other	**300**	476
Total	**3,187**	3,161

11 Personnel expenses[1]

	Year ended 31 December	
	2006 US$000	2005 US$000
Salaries and wages	**18,175**	16,203
Workers' profit sharing[2]	**8,293**	4,626
Semi-annual salary compensation	**2,950**	3,401
Other legal contributions	**2,484**	2 429
Termination benefits	**1,313**	1,043
Vacations	**1,244**	1,054
Other	**1,005**	581
Total	**35,464**	29,337

Personnel expenses were distributed as follows

	Year ended 31 December	
	2006 US$000	2005 US$000
Cost of sales	**12,028**	9,484
Administrative expenses	**18,958**	14,385
Exploration expenses	**4,401**	5,145
Selling expenses	**77**	78
Discontinued operations	**–**	33
Other	**–**	212
Total	**35,464**	29,337

Notes
1 Personnel expenses include Directors remuneration (refer to note 32(b))
2 In accordance with Peruvian Labour Regulations the Peruvian companies of the Group are required to pay 8% of the taxable profit for the year to their employees

Average number of employees for 2006 and 2005 were as follows

	Year ended 31 December	
	2006	2005
Peru	**887**	845
Argentina	**274**	235
Mexico	**18**	18
Chile	**6**	7
USA	**3**	3
United Kingdom	**1**	–
Total	**1,189**	1,108

12 Other income and other expenses

	Year ended 31 December 2006			Year ended 31 December 2005		
	Before exceptional items US$000	Exceptional items US$000	Total US$000	Before exceptional items US$000	Exceptional items US$000	Total US$000
Other income						
Decrease in provision for mine closure[1]	**2,812**	**–**	**2,812**	725	–	725
Recovery of expenses	**791**	**–**	**791**	379	–	379
Gain on sale of supplies	**–**	**252**	**252**	–	–	–
Income from mine concession	**151**	**–**	**151**	–	–	–
Gain on sale of property, plant and equipment	**–**	**94**	**94**	–	–	–
Lease rentals	**90**	**–**	**90**	77	–	77
Other	**1,178**	**–**	**1,178**	1,665	–	1,665
Total	**5,022**	**346**	**5,368**	2,846	–	2,846
Other expenses						
Impairment of Sipan assets held for sale[2]	**–**	**(2,983)**	**(2,983)**	–	–	–
Loss on sale of investments[3]	**–**	**(2,249)**	**(2,249)**	–	–	–
Loss on sale of MHC (subsidiary)[4]	**–**	**(991)**	**(991)**	–	–	–
Penalty on cancellation of contract	**(971)**	**–**	**(971)**	–	–	–
Loss on maintenance of equipment	**(369)**	**–**	**(369)**	(356)	–	(356)
Provision for obsolescence of supplies	**(377)**	**–**	**(377)**	(99)	–	(99)
Impairment of Colorada assets (note 4(a))	**(113)**	**(230)**	**(343)**	–	–	–
Provision for contingencies	**(292)**	**–**	**(292)**	–	–	–
Allowance SEAL/Electroperu (note 36(a))	**(113)**	**–**	**(113)**	(920)	–	(920)
Loss on sale of Inmobiliaria CNP	**–**	**(42)**	**(42)**	–	–	–
Loss on sale of property, plant and equipment and assets classified as held for sale	**–**	**–**	**–**	–	(197)	(197)
Other	**(1,635)**	**–**	**(1,635)**	(1,244)	(5)	(1,249)
Total	**(3,870)**	**(6,495)**	**(10,365)**	(2,619)	(202)	(2,821)

Notes

1 Decreases in provision for mine closure costs are recorded in Other income where the disturbance is not expected to create a future economic benefit (normally this will occur when the mine to which the provision relates has fully depleted its resources but the closure and rehabilitation costs are yet to be incurred and there is a reduction in the estimate of the total mine closure cost)

2 In December 2006 an appraisal on the assets of Compañia Minera Sipan S A C was performed resulting in an impairment of a portion of these assets (refer to note 31)

3 During the 12 months ended 31 December 2006 the Group disposed of 16 585 047 shares in Inversiones Pacasmayo (refer to note 18) for US$6 350 000 to Greystone Corporation (a related party) These shares were carried at US$21 133 000 including an unrealised fair value gain of US$12 534 000 which had been recorded in equity The disposal of these shares after recycling the unrealised gain through the income statement resulted in a loss of US$2 249 000

4 On 15 June 2006 the Group s wholly owned subsidiary Mauricio Hochschild & Cia Ltda S.A C (MHC) was sold to Greystone Corporation (a related party) for US$1 000 000 plus the benefit of a US$2 801 000 loan payable by MHC to Ardsley Corporation (a subsidiary of the Group) which had previously been eliminated on consolidation resulting in total consideration received of US$3 801 000 This disposal resulted in a loss to the Group of US$991 000

The book value of the individual assets and liabilities disposed of are as follows

	US$000
Available-for-sale financial assets carried at fair value[a]	15 077
Less Unrealised fair value gain on assets recorded in equity	(10 310)
Other assets	344
Other liabilities[b]	(319)
Net book value of assets and liabilities disposed	4 792

Notes

(a) The available-for sale financial assets disposed of represent 11 829 971 shares in Inversiones Pacasmayo (refer to note 18)

(b) Does not include the US$2 801 000 loan payable by MHC to Ardsley Corporation as this loan eliminated on consolidation and therefore the disposal of this loan does not impact upon the liabilities of the consolidated balance sheet of the Group

13 Finance income and finance costs

	Year ended 31 December	
	2006 US$000	2005 US$000
Finance income		
Interest on time deposits	**4,053**	62
Interest on loans to related parties (note 32)	**1,226**	2,418
Gain from changes in the fair value of financial instruments	**918**	959
Interest received from investment bank	**217**	237
Dividends received	**147**	182
Other	**345**	286
Total	**6,906**	4,144
Finance costs		
Interest on bank loans and long-term debt	**(8,832)**	(8,167)
Unwind of discount rate	**(1,441)**	(984)
Bank commissions	**(854)**	(46)
Loss from changes in the fair value of financial instruments	**(345)**	(165)
Interest on loans from related parties (note 32)	**(5)**	(235)
Other	**(560)**	(508)
Total	**(12,037)**	(10,105)

14 Income tax expense

	Year ended 31 December 2006			Year ended 31 December 2005		
	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 tax						
Current tax charge from continuing operations	**31,836**	**104**	**31,940**	14,490	4,383	18,873
Current tax charge from discontinued operations	**–**	**–**	**–**	546	–	546
	31,836	**104**	**31,940**	15,036	4,383	19,419
Deferred taxation						
Origination and reversal of temporary differences from continuing operations (note 29)	**(4,325)**	**(895)**	**(5,220)**	(10,392)	388	(10,004)
Charge in respect of discontinued operations (see note 31)	**–**	**–**	**–**	2,788	–	2,788
	(4,325)	**(895)**	**(5,220)**	(7,604)	388	(7,216)
Withholding taxes	**1,975**	**–**	**1,975**	804	–	804
Total taxation charge in the income statement	**29,486**	**(791)**	**28,695**	8,236	4,771	13,007

The weighted average statutory income tax rate was 30 2% for 2006 and 25 0% for 2005 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 subsidiaries in the respective countries as included in the consolidated financial statements

The changes 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

14 Income tax expense continued
The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated companies as follows

	Year ended 31 December	
	2006 US$000	2005 US$000
Profit before taxation from continuing operations	**64,148**	40,378
Profit before taxation from discontinued operations	**–**	15,739
Profit before tax	**64,148**	56,117
At average statutory income tax rate of 30 2% (2005 25 0%)	**19,359**	14,003
Expenses not deductible for tax purposes	**4,124**	4,447
Non-taxable income	**(170)**	(1,477)
Recognition of previously unrecognised deferred tax assets[1]	**–**	(5,101)
Deferred tax assets generated in the year not recognised[2]	**2,552**	449
Deferred tax on unremitted earnings	**397**	621
Withholding taxes	**1,975**	804
Other	**458**	(739)
At average effective income tax rate of 44 7% (2005 23 2%)	**28,695**	13,007
Taxation charge attributable to continuing operations	**28,695**	9,673
Taxation charge attributable to discontinued operations	**–**	3,334
Total taxation charge in the income statement	**28,695**	13,007

Notes
1 Mainly corresponds to the initial recognition of the deferred income tax asset related to the mine development costs and the tax loss carry forward in Minera Santa Cruz S A.
2 Mainly corresponds to the tax losses of Minera Hochschild Mexico S A de C V and MH Argentina S A. which deferred income tax asset is not recognised due to the uncertainty of generating taxable income in the future

Santa Cruz is under a special investment regime that allows for a double deduction in calculating its corporate income tax liability, in respect of all costs relating to prospecting, exploration and metallurgical analysis, pilot plants and other expenses incurred for feasibility studies of projects In this regard, total investment for this regime amounts to approximately 81,884,000 Argentinean pesos (US$23,866,000 and US$25,613,000 as of 31 December 2005 and 2006, respectively)

Only the tax benefit of a single deduction has been recognised in deferred taxation in the financial statements The benefit of the additional deduction will be realised as and when claimed in future periods once production has commenced

15 Basic and diluted earnings per share
The earnings per share ('EPS') calculation has assumed that the number of ordinary shares issued resulting from the Share Exchange Agreement for the acquisition of the Cayman Holding Companies have been in issue throughout the two year period ended 31 December 2006 Basic 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 no dilutive potential ordinary shares

As of 31 December 2006 and 2005, earnings per share have been calculated as follows

	Year ended 31 December	
	2006	2005
Profit from continuing operations attributable to equity holders of the Company (US$000)	**41,288**	34,558
Profit from discontinued operations attributable to equity holders of the Company (US$000)	**–**	12,179
Weighted average number of ordinary shares in issue (thousands)	**242,867**	229,900
Basic earnings per share from continuing operations (US$)	**0 17**	0 15
Basic earnings per share from discontinued operations (US$)	**–**	0 05

Notes to the Group Financial Statements continued
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16 Property, plant and equipment

	Mining properties and development costs US$000	Land and buildings US$000	Plant and equipment US$000	Vehicles US$000	Mine closure asset US$000	Construction in progress and capital advances US$000	Total US$000
Year ended 31 December 2005							
Cost							
At 1 January 2005	30,501	16,171	37,344	747	34,390	2,729	121,882
Additions	11,148	1	220	31	–	11,132	22,532
Change in discount rate	–	–	–	–	(688)	–	(688)
Disposals	(1,000)	(6)	(568)	–	–	(56)	(1,630)
Transfers and other movements	–	1,632	5,332	237	–	(7,201)	–
Foreign exchange	(11)	–	(34)	–	–	–	(45)
At 31 December 2005	40,638	17,798	42,294	1,015	33,702	6,604	142,051
Accumulated depreciation							
At 1 January 2005	18,718	4,866	13,994	258	28,565	–	66,401
Depreciation for the year	7,705	1,695	5,641	132	1,433	–	16,606
Disposals	–	(1)	(357)	–	–	–	(358)
Foreign exchange	–	–	(1)	–	–	–	(1)
At 31 December 2005	26,423	6,560	19,277	390	29,998	–	82,648
Net book amount at 31 December 2005	14,215	11,238	23,017	625	3,704	6,604	59,403
Year ended 31 December 2006							
Cost							
At 1 January 2006	40,638	17,798	42,294	1,015	33,702	6,604	142,051
Additions	41,163	748	6,369	498	1,810	28,252	78,840
Change in discount rate	–	–	–	–	(636)	–	(636)
Disposals	–	(203)	(564)	(110)	–	(84)	(961)
Impairment of Colorada assets	–	–	2	–	–	–	2
Change in mine closure estimate	–	–	–	–	(360)	–	(360)
Transfers and other movements	–	5,393	5,388	132	–	(10,913)	–
Foreign exchange	(37)	(30)	(33)	(7)	–	(8)	(115)
At 31 December 2006	81,764	23,706	53,456	1,528	34,516	23,851	218,821
Accumulated depreciation							
At 1 January 2006	26,423	6,560	19,277	390	29,998	–	82,648
Depreciation for the year	8,382	2,951	5,650	189	1,106	–	18,278
Disposals	–	(81)	(360)	(47)	–	–	(488)
Impairment of Colorada assets	–	–	2	–	–	–	2
Transfers and other movements	–	–	–	–	–	–	–
Foreign exchange	–	(13)	(15)	(4)	–	–	(32)
At 31 December 2006	34,805	9,417	24,554	528	31,104	–	100,408
Net book amount at 31 December 2006	46,959	14,289	28,902	1,000	3,412	23,851	118,413

The Group has given certain equipment as guarantee for a promissory note in Compañia Minera Arcata S A (refer to note 25(a))

17 Goodwill
Intangible assets represent goodwill arising on business combinations

	US$000
Balance at 1 January and 31 December 2005[1]	2,091
Additions[2]	230
Provision for impairment[2]	(230)
Balance at 31 December 2006	2,091

Notes
1 The opening balance is attributable to goodwill that arose on the acquisition of Minera Santa Cruz S A (Santa Cruz) the holding company for San Jose project in 2001
2 This represents the goodwill arising on the acquisition of Colorada subsequently impaired (refer to note 4(a))

The carrying amount of goodwill is reviewed annually to determine whether it is in excess of its value-in-use The value-in-use is undertaken at the cash generating unit, in this case being the San Jose project, discounting the expected cash flows estimated by management on the basis of the best available estimates considering the life of the mine based on the estimates of reserves and resources available as of date

The key assumptions used for its calculation are as follows

- recoverable reserves and resources,
  gold and silver prices,
- cash costs and inflation including costs to convert resources into reserves and mine closure costs,
  discount rates, and
- production capacity

As outlined above, **recoverable reserves and resources** are based on management's current estimates, considering the exploration and evaluation work undertaken

Gold and silver prices are based on external market consensus

Cash costs are expected to be similar over the period, however, have been adjusted for inflation between 5–8% over the life of the mine

Discount rates reflect management's estimate of the risk specific to the country in which it operates and the risk attached to each project Pre-tax discount rates are applied and for San Jose project, management deems it appropriate to use 14% as the pre-tax rate Management expects the risk associated to the project may reduce over a period when the mine starts producing

Production capacity considered reflects the capacity at which the mine is expected to operate over the life of the mine No adjustments have been made to the capacity based on any future plans or further investments

The calculation of the value-in-use are most sensitive to the following assumptions

- recoverable reserves and resources,
- future prices of gold and silver, and
- discount rates

Management believes that no reasonably possible change in any of these assumptions would cause the carrying value of the goodwill to materially exceed its recoverable amount

18 Available-for-sale financial assets

	As of 31 December	
	2006 US$000	2005 US$000
Beginning balance	**26,267**	16,126
Additions	**3,102**	5,649
Fair value change	**12,973**	5,657
Foreign exchange	**398**	(1165)
Disposals	**(36,455)**	–
Ending balance	**6,285**	26,267

Available-for-sale financial assets include the following

	As of 31 December	
	2006 US$000	2005 US$000
Equity securities – listed Canadian companies	**6,265**	3,396
Equity securities – listed South American companies	**–**	22,871
Bonds	**20**	–
Total	**6,285**	26,267

The breakdown of the investments in equity securities held is as follows (number of shares)

	Inversiones Pacasmayo	Inmobiliaria CNP	Fortuna River	Rio Fortuna Silver Mine	Exmin Resources Inc
Number of shares held at 1 January 2005	18,019,117	700141	1 990 800	–	–
Additions	8,164 451	–	–	2,475,355	–
Number of shares held at 31 December 2005	26,183,568	700,141	1,990,800	2,475,355	–
Additions	2,231,450	–	–	–	3,435,278
Disposals	(28,415,018)	(700,141)	–	–	–
Share consolidation	–	–	(1,327,200)	–	–
Number of shares held at 31 December 2006	**–**	**–**	**663,600**	**2,475,355**	**3,435,278**

Listed South American investments mainly included a 13 9% interest in Inversiones Pacasmayo ('IPSA'), a non-actively traded investment During 2006 this investment was sold for US$6 35 million to Greystone Corporation (a related party), with the balance being sold as part of the disposal of MHC (refer to notes 12(3) and 12(4))

In respect of the listed Canadian companies, the Group received in 2005 shares and warrants to purchase shares in Fortuna Silver Mine, Inc as part of the payment for the sale of Caylloma mining unit (refer to note 31) to Fortuna

In August 2006 Minera Hochschild Mexico, S A de C V purchased 509,090 shares of Exmin Resources Inc for US$100,000 in connection with an exploration contract with Exmin, S A de C V (refer to note 35(g))

In December 2006 Minera Hochschild Mexico, S A de C V purchased 2,926,188 shares of Exmin Resources Inc for US$1 35 million The proceeds were used by Exmin for the final payment of Santa Maria de Moris (refer to note 4(b))

19 Trade and other receivables

	As of 31 December			
	2006		2005	
	Non-current US$000	Current US$000	Non-current US$000	Current US$000
Trade receivables	–	**25,216**	–	13,134
Advances to suppliers	–	**7,412**	–	6,949
Prepaid expenses and VAT[1]	**9,086**	**8,070**	3,547	3,267
Loan to minority shareholder[2]	**8,166**	**2,436**	–	–
Income tax refund due[3]	–	**1,131**	–	1,509
Claim to Peruvian tax authorities[4]	–	**1,003**	–	–
Receivables from related parties (note 32)	–	**1,091**	–	54,383
Loans to employees	**169**	**487**	52	464
Assigned funds[5]	**6**	–	1,699	–
Interest receivable	–	**2,203**	–	17
Other	–	**1,128**	752	1,723
	17,427	**50,177**	6,050	81,446
Provision for impairment[6]	–	**(451)**	–	(340)
Total	**17,427**	**49,726**	6,050	81,106

The fair values of trade and other receivables approximate its book value

Notes

1 Value added tax (VAT) – Included in prepaid expenses and VAT above value added taxes paid in the development of the San Jose Project that will be recovered through the future sales of gold and silver by Minera Santa Cruz S A once it begins its operations VAT has been classified as a long-term receivable and is measured at present value using a discount rate of 11%

2 The effective interest rate on non-current receivables was 8 18% in 2006 (refer to note 39 (e))

3 Mainly corresponds to an over-payment of tax by Compañia Minera Sipan in 2000 Due to an ongoing dispute with the authorities this amount has not yet been refunded (refer to Note 36(b)) The Directors believe that this amount is recoverable

4 Corresponds to the withholding tax of 4 1% paid in-excess to the Peruvian tax authorities

5 Assigned funds are time deposits that guarantee short-term sales commitment to certain customers The deposits are held for more than 12 months and are not accessible to the Group The effective interest rates were between 1% and 2% during 2005 and 2006 During 2006 most of the assigned funds were paid in advance by the Group

6 Includes provision for impairment of other receivables of US$340 000 as of 31 December 2006 and 2005 and a provision for impairment of VAT of US$111 000 as of 31 December 2006

20 Inventories

	As of 31 December	
	2006 US$000	2005 US$000
Finished goods	**7,793**	3,136
Products in process	**1,841**	2,549
Raw materials	**15**	969
Supplies and spare parts	**7,607**	4,661
	17,256	11,315
Provision for obsolescence of supplies	**(851)**	(816)
Total	**16,405**	10,499

Finished goods include dore and concentrates Dore is an alloy containing a variable mixture of silver and gold and minor impurities delivered in a bar form to refiners The refined products are then sold to customers Concentrates is a product containing sulphides with variable content of base and of precious metals and sold to smelters

As part of the short-term management's financing policies, the Group acquires pre-shipment loans which are guaranteed by the finished goods (refer to note 25(a))

21 Derivative financial instruments

	As of 31 December	
	2006 US$000	2005 US$000
Assets		
Interest rate swap[1]	**–**	163
Warrants on Fortuna Silver Mine Inc shares[2]	**2,660**	1,901
Purchased put option[3]	**–**	1
Embedded derivatives[4]	**3,362**	6,884
Total	**6,022**	8,949
Less non-current portion		
– Purchased put option[3]	**–**	1
– Warrants on Fortuna Silver Mine Inc shares[2]	**–**	1,901
Non-current portion	**–**	1,902
Current portion	**6,022**	7,047

Notes
1 The interest rate swap is classified as a trading derivative with fair value movements recognised in finance costs/income
The notional principal amount of the outstanding interest rate swap contract at 31 December 2005 was US$12 million and expired on 20 July 2006 It was entered into to hedge the floating interest rate exposure of long-term loans but did not meet the hedge accounting criteria under IAS 39
2 At 31 December 2006 this item represented 2 475 355 (2005 2 475 355) warrants over the same number of shares in Fortuna Silver Mine Inc which are exercisable on 27 June 2007 at a price of CAD$0 345 per share
3 In 2005 Compañia Minera Ares purchased a put option contract with Citibank N A as from 29 August 2006 for 11 sale transactions of 1 636 ounces of gold each for a price of US$332 00 per ounce The Company paid a total premium amounting to US$161 000 for this contract This contract s expiration date is 27 June 2007
4 Sales of concentrates 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 the smelter to refine and sell the concentrate) 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 This gain or loss that arises on the mark-to-market of this embedded derivative is recorded in Revenue (refer to note 5)

22 Other financial assets at fair value through profit or loss

	As of 31 December	
	2006 US$000	2005 US$000
Bonds and structured assets	**–**	13,170
Equity securities	**–**	6,665
Total	**–**	19,835

The financial assets held as of 31 December 2005 were fair valued at prevailing market price as at the end of year

As of 30 September 2006, the Group transferred all its financial assets to its former shareholder Dona Limited as settlement of the portion of the dividends payable to this entity

23 Cash and cash equivalents

	As of 31 December	
	2006 US$000	2005 US$000
Cash in hand	**997**	125
Liquidity funds[1]	**414,527**	–
Current demand deposit accounts[2]	**16,477**	2,251
Time deposits[3]	**3,542**	91
Cash and cash equivalents considered for the cash flow statement	**435,543**	2,467

Notes
1 The liquidity funds are mainly invested in certificate of deposits, commercial papers and floating rate notes with weighted average annual effective interest rate of 5 16% and a weighted average maturity of 43 days as of 31 December 2006 (refer to note 39 (e))
2 Relates to bank accounts which are freely available and do not bear interest
3 The effective interest rates as of 31 December 2006 and 2005 were 4 45% and 3 70% respectively These deposits have an average maturity of three days (refer to note 39 (e))

24 Trade and other payables

	As of 31 December			
	2006		2005	
	Non-current US$000	**Current US$000**	Non-current US$000	Current US$000
Trade payables	**–**	**24,377**	–	14,501
Professional fees[1]	**–**	**7,099**	–	41
Deferred consideration[2]	**–**	**5,720**	–	–
Board members' remuneration	**–**	**–**	–	2 358
Interest payable	**–**	**107**	–	433
Taxes and contributions	**1,062**	**2,042**	1 165	1,958
Remunerations payable	**–**	**4,256**	–	1,563
Mining royalty (note 38)	**–**	**929**	–	145
Dividends payable[3]	**–**	**16,843**	–	8,716
Accrued expenses	**–**	**1,178**	–	927
Guarantee deposits	**–**	**742**	–	558
Other	**2**	**847**	1,996	464
Total	**1,064**	**64,140**	3,161	31,664

Notes
1 Corresponds to legal fees of US$6 081 000 related to the Company s Listing on the London Stock Exchange (refer to note 1) and audit fees of US$1 018 000
2 Corresponds to Minorva s share of payments (40%) towards the expected cost to construct the mine which the Group has agreed to fund (refer to note 4)
3 Corresponds mainly to dividends payable to Dona Limited a related party (refer to note 32)

Trade payables are mainly for the acquisition of materials, supplies and contractors' services These payables do not accrue interest and no guarantees have been granted The fair value of trade and other payables approximate to their book values

25 Borrowings

	As of 31 December			
	2006		2005	
	Non-current US$000	**Current US$000**	Non-current US$000	Current US$000
Secured bank loans[a]	**296**	**28,017**	17,971	48,310
Amount due to minority shareholders[c]	**26,818**	**1,445**	13,108	–
Amounts due to related parties (note 32)	**–**	**320**	10	21,483
Total	**27,114**	**29,782**	31,089	69,793

(a) Secured bank loans
As of 31 December 2005, the balance mainly corresponds to a syndicated loan that Compañia Minera Ares acquired in 2004 for US$70,000,000 with an effective annual interest rate of LIBOR+3 7 Compañia Minera Ares granted mining pledges on the mineral extracted and mining mortgages on the mining concessions, buildings and facilities, and on the benefits of those assets, for a total amount of US$875 million In addition, the shareholders of Compañia Minera Ares S A C pledged all the shares of that company Compañia Minera Ares S A C has complied with all financial and administrative covenants until the loan was fully paid on 27 December 2006

As of 31 December 2006, the balance corresponds to

- Pre-shipment loans for a total amount of US$26,894,000 in Compañia Minera Ares These obligations accrue an effective annual interest rate ranging from LIBOR +0 45% to LIBOR +0 65% and are guaranteed by the inventories of the Company (refer to note 20)
- US$1,123,000 of a promissory note with an effective annual interest rate of 8 75% and guaranteed by equipment with a total value of US$3 4 million Initial amount of US$2 4 million was received by Compañia Minera Arcata S A in the first quarter of 2006

(b) Unsecured bank loans
Hochschild Mining (Argentina) Corporation entered on 4 October 2006 into a US$20 million loan with Banco de Credito del Peru used by Minera Santa Cruz (51%) and Minera Andes (49%) as a bridge loan for the San Jose Project with an effective annual interest rate of 8 08% and was fully paid on 29 December 2006

The Group does not have unsecured loans as of 31 December 2006 and 2005

25 Borrowings continued
(c) Amounts due to minority shareholders
As of 31 December 2006, the balance corresponds to a loan from Minera Andes Inc to Minera Santa Cruz S.A for an amount of US$25,804,000 (2005 US$1,230,000) There is also a loan of US$934,000 to Minera Santa Cruz S A from Minera Andes S A (2005 US$11,878,000) Both loans have an effective annual interest rate of 12% (refer note 39 (e))

The current portion mainly corresponds to the liabilities assumed in the acquisition of Pallancata's mining rights (refer to note 4)

(d) Maturity of non-current borrowings
The maturity of non-current borrowings is as follows

	As of 31 December	
	2006 US$000	2005 US$000
Between 1 and 2 years	**376**	30,794
Between 2 and 5 years	**26,738**	295
Over 5 years	**–**	–
Total	**27,114**	31,089

(e) Carrying amount of borrowings
The carrying amount of short-term borrowings approximates their fair value The carrying amount and fair value of the non-current borrowings are as follows

	Carrying amount as of 31 December		Fair values as of 31 December	
	2006 US$000	2005 US$000	**2006 US$000**	2005 US$000
Bank loans				
Secured (floating rates)	**296**	17,971	**296**	17,971
Other loans				
Secured (floating rates)	**–**	–	**–**	–
Amounts due to minority interest and related parties (fixed rates)	**26,818**	13,118	**28,913**	14,810
Total	**27,114**	31,089	**29,209**	32,781

26 Provisions

	Provision for mine closure[1] US$000	Workers' profit sharing US$000	Provision for contingencies US$000	Contribution to Peruvian Government (note 27) US$000	Total US$000
At 1 January 2005	41,426	2,811	–	–	44,237
Increase to existing provision	989	–	–	–	989
Accretion resulting from unwinding of discount rate	984	–	–	–	984
Change in discount rate	(1,232)	–	–	–	(1,232)
Payments	(5,228)	(4,403)	–	–	(9,631)
Foreign exchange	–	54	–	–	54
Provision provided for the year	–	4,441	–	–	4,441
At 31 December 2005	36 939	2,903	–	–	39,842
Less current portion	(5,957)	(2,903)	–	–	(8,860)
Non-current portion	30 982	–	–	–	30,982
At 1 January 2006	36,939	2,903	–	–	39,842
Increase to existing provision[2]	3,550	–	–	–	3,550
Accretion resulting from unwinding of discount rate	1,019	–	–	–	1,019
Change in discount rate	(1,158)	–	–	–	(1,158)
Change in estimate[3]	(2,560)	–	–	–	(2,560)
Payments	(5,426)	(4,874)	–	–	(10,300)
Foreign exchange	–	93	–	–	93
Provision provided for the year	–	8,496	293	800	9,589
At 31 December 2006	32,364	6 618	293	800	40,075
Less current portion	(3 967)	(6,618)	–	(800)	(11,385)
Non-current portion	**28,397**	**–**	**293**	**–**	**28,690**

Notes

1 The provision represents the discounted values of the estimated cost to decommission and rehabilitate the mines at the date of depletion of each of the deposits The present value of the provision has been calculated using an annual discount rate of 3 43% and 2 76% as of 31 December 2006 and 2005 Uncertainties in estimating these costs include potential changes in regulatory requirements decommissioning dismantling and reclamation alternatives and the levels of discount and inflation rates

2 The increase in 2006 corresponds to the provision related to the acquisition of Santa Maria de Moris Mine of US$1 830 000 (refer to note 4(b)) and to an increase in the provision of San Jose mining unit of US$1 720,000 due to new constructions performed during 2006

3 In 2006 the Group outsourced the reassessment of its estimate for mine closure costs obligations for its mining units Ares Arcata and Selene The final estimates were received in October 2006

27 Contribution to Peruvian Government

Based on negotiations by the Peruvian Government with a number of large mining companies in Peru, various mining companies including Compania Minera Ares agreed to enter into contracts with the Peruvian Government to make a voluntary contribution over five years for social programmes The draft of the agreement and the authorisation to the Ministry of Energy and Mines to sign these agreements on behalf of the Peruvian Government was approved by Supreme Decree No 071-2006-EM on 21 December 2006 According to the agreement, mining companies will pay voluntary contributions based on a fixed percentage of net income after tax after allowing an additional deduction of a portion of the mining royalties accrued in the period The agreement also sets reference prices for different metals Should the prices fall below these pre-agreed reference prices, companies will not be obliged to make payments This contribution is not tax deductible and is to be used for the purpose of eradicating poverty, malnutrition and social exclusion in poor mining regions in Peru At 31 December 2006, the Group recognised an obligation of US$800,000 in relation to these contributions, included in 'Administrative expenses' (refer to note 7)

28 Equity

(a) Share capital and share premium

As described in note 2, the pooling of interests method of accounting has been applied in the presentation of the consolidated financial statements This method presents the results of the Group as if the Company had always been the parent company Consequently, despite the Company not being incorporated until 11 April 2006, the ordinary share capital shown in 2005 is the one resulting from the Share Exchange Agreement described in note 2(a)

Authorised and issued share capital

The authorised and issued share capital of the Company as at 31 December 2006 is as follows

	Authorised		Issued	
Class of shares	Number	Amount	Number	Amount
Ordinary shares	500,000,000	£250,000,000	307,350,226	£153,675,113

At 31 December 2006, all issued shares with a par value of £0 25 (weighted average of US$0 953 per share) each are fully paid

At 31 December 2005, equity share capital represents the sum of the capital accounts of the Cayman Holding Companies adjusted for the effect of the Share Exchange Agreement described below rather than the share capital of the Company as the Company had not been incorporated at that date

Rights attached to ordinary shares

At general meetings of the Company, on a show of hands, every member who is present in person has one vote and on a poll every member who is present in person or by proxy has one vote for every share of which he is the holder

The changes in share capital are as follows

	Number of shares	Share capital US$000	Share premium US$000
Ordinary shares of £1 each issued and fully paid			
Shares issued to the initial shareholder	1	–	–
Shares issued on 16 October 2006	49,999	93	–
Number of shares issued as of 16 October 2006	50,000	93	–
Share capital following the capital split			
Ordinary shares of £0 50 each issued			
Number of shares in issue at 16 October 2006	100,000	93	–
Shares issued and paid pursuant to the Share Exchange Agreement dated 2 November 2006	229,900,000	219,233	–
Shares issued to employees on 11 November 2006	71,656	68	409
Shares issued and paid by Non-Executive Directors on 11 November 2006	28,570	27	163
Shares issued and paid pursuant to the global offer dated 11 November 2006	77,250,000	73,511	441,067
Transaction costs associated with issue of shares	–	–	(45,483)
Capital reduction from £0 50 each to £0 25 each	–	(146,466)	–
Number of shares issued as of 31 December 2006	**307,350,226**	**146,466**	**396,156**

(b) Other reserves

Unrealised gain/(loss) on available-for-sale financial assets

Under IAS 39, the Group classifies its investments in listed companies as available-for-sale financial assets and are carried at fair value Consequently, the increase in carrying values, net of the related deferred tax liability, is taken directly to this account and will remain in this account until disposal or impairment of the investment, when the cumulative unrealised gains and losses will be recycled through the income statement

Cumulative translation adjustment

Cumulative translation adjustment account is used to record exchange differences arising from the translation of the financial statements of subsidiaries with functional currency different from the reporting currency of the Group

Merger reserve

Merger reserve represents the difference between the 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 (refer to note 2(a))

28 Equity continued
(c) Acquisition of shares from minority shareholders
During the years reported the Group purchased shares of Compañia Minera Arcata from minority shareholders as follows

	Year ended 31 December	
	2006	2005
Number of shares	**5,940**	6,869,033
Amount paid (US$000)	**2**	2,667

29 Deferred income tax
The movement in the deferred income tax liabilities and assets are as follows

	As of 31 December	
	2006 US$000	2005 US$000
Beginning of the year	**(6,856)**	360
Income statement credit	**(5,220)**	(10,004)
Deferred income tax from unrealised gain on available-for-sale financial assets	**398**	–
Use of loss from Caylloma mining unit (see note 31)	**–**	2,788
End of the year	**(11,678)**	(6,856)

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 considering the nature of the temporary differences is as follows

Deferred income tax liabilities	Differences in cost of PP&E US$000	Mine development US$000	Financial instruments US$000	Others US$000	Total US$000
At 1 January 2005	3,535	1,715	446	768	6,464
Income statement (credit) charge	(894)	108	1,620	327	1,161
At 31 December 2005	2,641	1,823	2,066	1,095	7,625
Income statement (credit) charge	(763)	347	(812)	2,501	1,273
Deferred income tax from unrealised gain on available-for-sale financial assets	–	–	398	–	398
At 31 December 2006	**1,878**	**2,170**	**1,652**	**3,596**	**9,296**

Deferred income tax assets	Differences in cost of PP&E US$000	Provision for mine closure US$000	Mine development US$000	Tax losses US$000	Others US$000	Total US$000
At 1 January 2005	181	1,298	419	3,181	1,025	6,104
Income statement charge	460	609	7,264	1,780	1,052	11,165
Use of loss carry forward	–	–	–	(2,788)	–	(2,788)
At 31 December 2005	641	1,907	7,683	2,173	2,077	14,481
Income statement credit (charge)	1,070	(427)	1,422	3,291	1,137	6,493
At 31 December 2006	**1,711**	**1,480**	**9,105**	**5,464**	**3,214**	**20,974**

The amounts after offset are as follows

	As of 31 December	
	2006 US$000	2005 US$000
Deferred income tax assets	**15,704**	10,990
Deferred income tax liabilities	**(4,026)**	(4,134)

29 Deferred income tax continued
Tax losses expire in the following years

	As of 31 December	
	2006 US$000	2005 US$000
Recognised		
Expire in one year	**6**	–
Expire in two years	**54**	6
Expire in three years	**502**	54
Expire in four years	**8,320**	502
Expire after four years	**7,109**	5,654
	15,991	6,216
Unrecognised		
Expire in one year	**–**	224
Expire in two years	**188**	–
Expire in three years	**4,813**	188
Expire in four years	**6,012**	4 813
Expire after four years	**19,474**	17,202
	30,487	22,427
Total tax losses (recognised and unrecognised)	**46,478**	28,643

Other unrecognised deferred income tax asset comprise (gross amounts)

	As of 31 December	
	2006 US$000	2005 US$000
Provision for mine closure	**27,430**	30,554

Unrecognised deferred tax on retained earnings
Due to the statutory tax regime in the countries in which the Group's operating companies are tax residents, there are no temporary differences in respect of undistributed reserves for which a deferred asset should be recognised

30 Dividends paid and proposed

	Amount US$000
Year ended 31 December 2005	
Total dividends paid or provided for during the year	–
Total dividends declared after year-end and not provided for	–
Year ended 31 December 2006	
Total dividends paid or provided for during the year	73,440[1]
Total dividends declared after year-end and not provided for	2,275

Note
1 Corresponds to dividends paid or provided to former shareholder Dona Limited

Dividends per share
The dividends declared in 2006 were US$73,142,000 (US$0 32 per share) A dividend in respect of the year ended 31 December 2006 of US$0 0074 per share, amounting to a total dividend of US$2,274,821, is to be proposed at the Annual General Meeting on 4 July 2007 These financial statements do not reflect this dividend payable

31 Discontinued operations and assets classified as held-for-sale

Discontinued operations

The assets and liabilities related to Caylloma mining unit (part of Compañia Minera Arcata) have been presented as held-for-sale following the approval of the Company s management and shareholders in 2004 to sell Caylloma This unit was sold in 2005 to Fortuna Silver Mine Inc ('Fortuna'), realising a gain of US$15,739,000 before taxation The consideration received in 2005 was as follows

	US$000
Cash	3,050
Deferred consideration	4,450
Interest	50
Derivative financial asset	1,720
Available-for-sale financial asset	2,541
Other	39
Total consideration	11,850

Assets and liabilities of Caylloma mining unit at the date of disposal were as follows

	US$000
Plant and equipment	1,895
Land and buildings	926
Provision for mine closure costs	(6,710)
Total	(3,889)
Gain on sale of operations	15,739

The derivative financial assets and available-for-sale financial assets acquired represent 2,475,355 warrants over Fortuna shares, and 2,472,365 shares in Fortuna, respectively

An analysis of the result of discontinued operations, including the result recognised on the re-measurement of assets or disposal group in 2005, is as follows

	2005 US$000
Revenues	–
Expenses	(321)
Pre-tax loss	(321)
Tax credit	95
Gain on sale of assets and liabilities	15,739
Tax on gain on sale of assets and liabilities	(3 334)
Profit after tax from discontinued operations	12,179

	2005 US$000
Operating cash flows	(321)
Investing cash flows	3,050
Financing cash flows	–
Total cash flows	2,729

Assets classified as held-for-sale

In 2004, management decided to sell the remaining plant of Compañia Minera Sipan The following represents the changes in the value of assets held-for-sale in 2006 and 2005

	2006 US$000	2005 US$000
Balance at 1 January	**3,844**	3,820
Additions	**–**	24
Disposals	**(516)**	–
Provision for impairment (see note 12(2))	**(2,983)**	–
Balance at 31 December	**345**	3,844

According to the management plan and activities over these assets, they expect to sell them during 2007

32 Related-party balances and transactions

(a) Related-party accounts receivable and payable

The Group had the following related-party balances and transactions during the years ended 31 December 2006 and 2005 The related parties are companies owned or controlled by the main shareholder of the parent company

	Accounts receivable as of 31 December		Accounts payable as of 31 December	
	2006 US$000	2005 US$000	**2006 US$000**	2005 US$000
Trade				
Cementos Pacasmayo S A A	**648**	7	**302**	–
Cementos Selva S A	–	–	–	27
Mauricio Hochschild & Cia Ltda S A	–	–	**14**	–
Others	–	–	–	57
	648	7	**316**	84
Other				
Cementos Pacasmayo S A A	**242**	–	**3**	–
Farragut Holding Inc	–	2,873	–	–
Dona Ltd	**1**	–	–	26
Inversiones Pacasmayo S A	–	300	–	6
Other	–	31	**1**	1
	243	3,204	**4**	33
Dividends payable				
Dona Ltd [3]	–	–	**16,460**	8,716
	–	–	**16,460**	8,716
Loans				
Dona Ltd [1]	–	8,110	–	12,804
Harrison Corporation [1]	–	9,960	–	–
Greystone Corporation	–	–	–	898
Farragut Holding Inc [2]	–	33 102	–	6,586
Cementos Pacasmayo S A A	**200**	–	–	160
Transimex Inc	–	–	–	928
	200	51,172	–	21,376
Total	**1,091**	54 383	**16,780**	30,209
Comprised of				
Dividends payable to Dona Ltd [3]	–	–	**16,460**	8,716
Current related party balances	**1,091**	54,383	**320**	21,483
Non-current related party balances	–	–	–	10
Total	**1,091**	54,383	**16,780**	30,209
Effective interest rates				
Farragut Holding Inc [2]	–	8 5%	–	–
Cementos Pacasmayo S A A	–	–	–	8 5%

Notes

1 **Transaction with Harrison Corporation and Dona Limited** These loans do not bear interest and were paid in 2006

2 **Transaction with Farragut Holding Inc** Corresponds to a loan provided by Compañia Minera Ares to Farragut Holding Inc with original maturity in 2009 which is repayable in five instalments starting in 2005 This loan bore an annual interest of LIBOR +4 0% up to June 2006 when the benefit was transferred from Compañia Minera Ares to Ludlow This amount was repaid in 2006

3 **Dividends payable** On 16 October 2006 the Group declared dividends to its former shareholder Dona Limited for US$20 million At 31 October 2006 the Group settled the net balances between the Cayman Holdings Companies and its former shareholder Dona Limited including the dividends payable The net amount owing was settled primarily through the transfer of the entire amount to Dona of the Group s Other financial assets at fair value through profit and loss (refer to note 22) On 4 January 2007 the Group repaid the entire amount payable

As of 31 December 2006 and 2005 all other accounts are, or were, non-interest bearing

No security has been granted or guarantees given by the Group in respect of these related-party balances

32 Related-party balances and transactions continued
Principal transactions between affiliates are as follows

	Year ended 31 December	
	2006 US$000	2005 US$000
Income		
Interest on loans to Farragut Holding	**1,226**	2,418
Rent received	**–**	–
Services provided	**30**	272
Proceeds from sale		
Sale of shares of Inversiones Pacasmayo to Greystone Corporation	**6,350**	–
Sale of shares held in MHC to Greystone Corporation	**1,000**	–
Sale of Inmobiliaria CNP shares to Cementos Pacasmayo	**200**	–
Sale of Bongara zinc project (see note 9)	**–**	15,558
Sale of shares of Compañia Minera Coriianta S A C to Cementos Pacasmayo (see note 9)	**–**	806
Expenses		
Interest expenses	**5**	235
Acquisition cost		
Purchase of Arcata shares from Invernor	**–**	2,566
Purchase of Inversiones Pacasmayo shares from Invernor	**–**	2,837

(b) Compensation of key management personnel of the Group
Key management personnel include the members of the management board and Directors who receive remuneration

	Year ended 31 December	
	2006 US$000	2005 US$000
Salaries and bonuses[1]	**5,714**	4,172
Total compensation paid to key management personnel	**5,714**	4,172

Note
1 Included above is the remuneration paid to the directors of the parent company from the Group of US$2 860 000 (2005 US$1 027000) out of which US$739 000 (2005 nil) relates to the remuneration in their capacity as the Directors of the parent company from date of the commencement of their service contract with the Company to 31 December 2006

(c) Sale of shares of Inversiones Pacasmayo S A ('IPSA)
On 15 June 2006, the Group sold 16,585,047 shares of IPSA for US$6 4 million to a related party generating a loss of US$14 7 million against the fair value of such investment In addition in June 2006, the shares of IPSA held by subsidiary MHC were sold at book value through the sale of MHC to a related party

33 Auditors' remuneration

Ernst & Young LLP was appointed as auditor of the Group during the years ended 31 December 2006 and 2005 and acted as reporting accountant in respect of the Company's Listing on the London Stock Exchange Fees payable to the auditors during the years ended 31 December 2006 and 2005 are mainly those payable to member firms of Ernst & Young The auditors' remuneration for services provided to the Group during the years ended 31 December 2006 and 2005 is as follows

	Ernst & Young Year ended 31 December		Others Year ended 31 December	
	2006 US$000	2005 US$000	**2006 US$000**	2005 US$000
Audit fees[1,2]	**1,150**	91	**6**	6
Transaction advisory services[2]	**12**	30	**–**	–
Taxation services[2]	**9**	1	**3**	3
Others[2]	**21**	40	**–**	–
Fees related to the Listing of the Company[3]	**8,267**	–	**–**	–
Total	**9,459**	162	**9**	9

Notes
1 Includes US$873 000 relating to the 2006 audit fees of the parent company
2 Audit fees transaction advisory services taxation services and others are included in administrative expenses within the consulting fees caption (refer to note 7)
3 The fees related to the Listing of the Company are presented as a reduction of the share premium account (refer to note 28)

34 Notes to the cash flow statement

	Year ended 31 December	
	2006 US$000	2005 US$000
Reconciliation of profit for the year to net cash generated from operating activities		
Profit for the year	**35,441**	42,884
Adjustments to reconcile Group operating profit to net cash inflows from operating activities		
Depreciation	**17,428**	16,606
Gain on sale of Bongara zinc project and Compañia Minera Corianta S A C	**–**	(14,812)
Loss/(gain) on sale/disposal of property, plant and equipment and assets classified as held for sale	**(94)**	197
Impairment of Sipan assets held for sale	**2,983**	–
Impairment of Colorada assets	**343**	–
Loss on sale of available-for-sale financial assets	**2,291**	–
Loss/(gain) on sale of supplies	**(252)**	5
Loss on sale of MHC (subsidiary)	**991**	–
Decrease in provision for mine closure	**(2,812)**	(725)
Gain from sale of Caylloma mining unit	**–**	(15,739)
Finance income	**(6,906)**	(4,144)
Finance costs	**12,037**	10,105
Income tax expense	**28,695**	9,673
Provision for contingencies	**292**	–
Other	**2,938**	871
Increase/(decrease) of cash flows from operations due to changes in assets and liabilities		
Trade and other receivables	**24,615**	(8,950)
Derivative financial instruments	**3,845**	(6,126)
Inventories	**(5,547)**	1,015
Trade and other payables	**5,135**	(489)
Provisions	**4,808**	93
Cash generated from operations	**126,231**	30,464

34 Notes to the cash flow statement continued

Transactions that did not affect cash flows

The main transactions that did not affect cash flows were the following

	Year ended 31 December	
	2006 US$000	2005 US$000
Realised gain from sale of available-for-sale financial assets	**22,844**	–
Capital reduction	**146,466**	–
Transfer of financial assets to Dona Limited (see note 22)	**19,766**	–
Capitalisation of loans from minority shareholders to equity share capital in Minera Santa Cruz S A	**12,185**	–
Unpaid purchase of property, plant and equipment	**1,500**	3,636
Uncollected proceeds from sale of Caylloma mining unit	**–**	8,831
Acquisition on available-for-sale financial assets	**–**	2,542
Liabilities directly associated with assets classified as held for sale	**–**	465
Deferred consideration (see notes 4(b), 24)	**5,720**	–
Deferred income tax on available-for-sale financial assets (see note 29)	**398**	–
Unrealised gain on purchase of Exmin shares	**331**	–
Foreign exchange – property, plant and equipment	**83**	44

35 Commitments

(a) Gold and silver futures contracts[1]

Gold

	Quantity Year ended 31 December				Quotation period	
Organisation	**2006 (ounces)**	2005 (ounces)	Type of contract	(US$/ounce)	From	To
N M Rothschild	**–**	5,950	Min/Max	330/385	January 2003	June 2006
N M Rothschild	**–**	5,950	Min/Max	335/385	January 2003	June 2006
Standard Bank	**–**	6,000	Min/Max	340/385	January 2003	June 2006
N M Rothschild	**–**	7,500	Flat Forward	346 13	April 2003	July 2006
Standard Bank	**–**	10 000	Fixed price	311 00	April 2003	April 2006
Standard Bank	**–**	5,870	Fixed price	300 00	September 2003	April 2006
Standard Bank	**–**	–	Flat Forward	387 00	July 2004	June 2005
Standard Bank	**–**	–	Flat Forward	393 75	July 2004	June 2005
Standard Bank	**–**	7500	Flat Forward	401 55	July 2005	June 2006
Standard Bank	**–**	35,000	Flat Forward	411 75	July 2006	December 2006
Citibank	**23,450**	36,850	Flat Forward	415 93	August 2006	June 2007
Citibank	**36,600**	36,600	Flat Forward	419 20	January 2007	June 2007
Total	**60,050**	157,220				

Silver

	Quantity Year ended 31 December				Quotation period	
Organisation	**2006 (ounces)**	2005 (ounces)	Type of contract	(US$/ounce)	From	To
Standard Bank	**–**	240,000	Flat Forward	5 00	January 2004	December 2005
Rothschild	**–**	–	Flat Forward	5 00	January 2004	December 2005
International	**–**	750,000	Min/Max	7 20/8 40	January 2006	June 2006
International	**–**	750 000	Min/Max	7 00/8 20	January 2006	June 2006
International	**–**	500,000	Min/Max	7 45/8 43	July 2006	December 2006
Standard Bank[2]	**772,000**	–	Min/Max	8 40/10 65	October 2006	March 2007
Total	**772,000**	2,240,000				

Notes

1 The contracts and commitments mentioned above are not fair-valued in the books as they were entered into and continue to be held for the purpose of the delivery of a non financial item in accordance with the Group s expected sales requirements

2 During 2006 the Group rescheduled the delivery of silver ounces from the six-month period comprised between July and December 2006 to the six month period comprised between October 2006 and March 2007 Additionally the maximum price was amended from 10 60 (US$/ounce) to 10 65 (US$/ounce)

35 Commitments continued
(b) 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 Under the terms of some of the agreements, the Group has the option to acquire the concession or invest in the entity holding the concession In order to exercise the option the Group must satisfy certain financial and other obligations over the agreement term The options lapse in the event the Group does not meet the financial requirements At any point in time, the Group may cancel the agreements without penalty

The Group continually reviews its requirements under the agreements and determines on an annual basis whether to proceed with the financial commitment The commitments at the balance sheet date are as follows

	As of 31 December	
	2006 US$000	2005 US$000
Commitment for the subsequent 12 months	**1,210**	1,717
Later than one year	**22,539**	–

(c) Pallancata project
Under the terms of the joint venture agreements with Minera Oro Vega S A C ('Minorva'), Pallancata Holding S A C ('Pallancata') has agreed to meet or contribute towards certain costs relating to the development of the reserves and the mine Pallancata Pallancata has budgeted US$20 3 million for this purpose

The key areas of investment included in the US$20 3 million budgeted expenditure are

- All the drilling and associated costs incurred in converting all or part of the known resources to reserves during the period of 12 months from receipt of all relevant mining permits (the 'initial construction period')
- All the capital required to develop permit and construct a mining operation at the site at an initial production level of 500 tonnes per day within the initial construction period
- Construction of a new 22 kilometre road to transport ore from the mine to the Selene concentrator
- Expansion of the concentrator at Selene

In addition to the above-mentioned budgeted expenditure, the parties to the Pallancata joint venture have agreed to invest an amount of up to US$2 million in further exploration and drilling of additional exploration targets identified by Minorva Such additional amount to be apportioned 60% Pallancata and 40% Minorva

Pallancata will be subject to an advance production payment in case of failure to comply with these commitments The advance production payment would be equal to 40% of quarterly net cash flow that would have been generated

(d) San Felipe project
On 13 May 2006 Minera Hochschild Mexico, S A de C V ('MHM') and Grupo Serrana S A de C V ('Serrana') entered into agreement to explore the mining rights of the concessions owned by Serrana which include San Felipe In this regard, MHM has paid US$200,000 and will invest in exploration expenses in the next three years in an aggregate amount of US$6 7 million MHM is not committed to any minimum expenditure during the first year However after the first year, if MHM wish to continue to explore the mining concessions, it will be committed to the remaining balance of the US$6 7 million If MHM decides not to continue to explore the mine, it will be subject to a penalty equivalent to the difference between US$2 million and 30% of any investment already made in the mining concessions

If MHM meets the investments schedule above, MHM has an option to transfer the exploration reports and works to a new company and Serrana will transfer the properties and rights MHM will invest in the new company US$26 6 million before the end of the fifth year If MHM decides not to continue to explore the mine, it will be subject to a penalty equivalent to the difference between US$26 6 million and 30% of any investment already made in the mining concessions

(e) Colorada project
As outlined in note 4, on 30 June 2006, the Group acquired a 30% controlling interest in Minera Colorada S A C ('Colorada'), an exploration company, from Cementos Pacasmayo S A A (Pacasmayo') Under the agreement, the Group and Pacasmayo have the option to increase their combined participation from 50% to 65% if the Group invests US$1 million in exploration expenses in the project by August 2009

Additionally, Compañia Minera Killacolqui S A C has the option to increase its participation from its actual 50% to 80% if, in the exploration stage of the project, the percentage of silver in the resource is above 50% of the total mine, and elects to fund the feasibility study

As of 31 December 2006, management estimates that the project will produce no future benefits and accordingly the Group has impaired its investment in Colorada

35 Commitments continued

(f) Santa Rita and Claudia Project

On 18 September 2006, the Hochschild Mining Group entered into a letter of intent with Mirasol Resources Ltd ('Mirasol') relating to an option and joint venture agreement to explore for, and develop and mine, minerals at two sites (Santa Rita and Claudia) in Argentina Under the arrangements, the Hochschild Mining Group will have the right to acquire 51% interest in each project by investing at least US$3 5 million in the Santa Rita project, and US$6 million in the Claudia project as well as making four annual payments of US$200,000 to Mirasol The Hochschild Mining Group paid US$150,000 on signing the letter of intent

(g) Project Moris

In July 2006, the Hochschild Mining Group entered into a letter of intent with Exmin Resources Inc relating to an option and joint venture agreement to explore for, and develop and mine, minerals at the surrounding areas of the Mina Moris Project in Mexico Under the arrangements, the Hochschild Mining Group will have the right to acquire 70% interest in a new company that will own the mining and exploration rights for the project area by investing at least US$4 8 million in exploration expenses in the Moris project, as well as buying Exmin shares for a total amount of US$750,000 at the higher of CAD $0 22 or the 10-day weighted average of the closing price The Hochschild Mining Group bought US$100,000 worth of Exmin shares on signing of the contract

(h) San Luis Cordero Project

On 12 May 2006, the Hochschild Mining Group entered into a letter of intent with Exploraciones del Altiplano relating to an option to explore and purchase the mining rights for, the San Luis Cordero Property in Mexico Under the arrangements, the Hochschild Mining Group will have the right to acquire the exploration and mining rights by investing at least US$2 6 million in the San Luis Cordero project as well as making payments for a total of US$500,000 to Exploraciones del Altiplano

(i) Pozos Project

On 3 October 2006 the Hochschild Mining Group entered into a letter of intent with Alejandro Espinoza Dueñas relating to an option to explore and purchase the mining rights for, the Pozos Property in Mexico Under the arrangements, the Hochschild Mining Group will have the right to acquire the exploration and mining rights by investing at least in 800 metres of drilling in the Pozos project as well as making payments for a total of US$500,000 to Alejandro Espinoza Dueñas

(j) Operating lease contract

The number of vehicles under an operating lease agreement with Mitsui has significantly increased in 2006

In addition, the Company has some operating lease agreements for the offices The largest part of the commitment is related to the Compañia Minera Ares S A C office The leasing for drilling equipment with Sandvick expired in August 2006

The lease expenditure charged to the income statement during the years 2006 and 2005 are included in notes 6 and 7

As of 31 December 2006 and 2005, the future aggregate minimum lease payments under the operating lease agreements are as follows

	Year ended 31 December	
	2006 US$000	2005 US$000
Not later than one year	**1,990**	633
Later than one year and not later than five years	**2,272**	266

(k) Capital commitments

	Year ended 31 December	
	2006 US$000	2005 US$000
Peru	**21,366**	22,087
Argentina	**14,153**	–
Total	**35,519**	22,087

36 Contingencies
As of 31 December 2006, the Group had the following contingencies

(a) Dispute with Electroperu S A
Compañia Minera Ares has a dispute with Electroperu S A ('Electroperu') regarding the electric power it used during November and December 2002 which was simultaneously billed by Electroperu and Sociedad Electrica del Sur Oeste S A (SEAL) Compañia Minera Ares has filed a claim with Osinerg (the Peruvian power regulator) claiming that the billing should be only for the actual power consumed by the Company and that Electroperu and SEAL should each have half the billing

Electroperu has filed an administrative court action against the resolution issued by Osinerg and initiated an arbitration process seeking to additionally collect 832 135 Nuevo Sol plus interest (US$242,000) The Arbitration Court issued a decision dated 19 August 2005 comprising a resolution dated 23 September 2005, stating that it has the competence to resolve the dispute and declaring in favour of Electroperu

Compañia Minera Ares has requested the Civil Courtroom of the Supreme Court of Lima to declare the Arbitration Court decision as null and void and has filed an appeal against the resolution of the Arbitration Court on the grounds that it affects constitutional rights In connection with the appeal, Compañia Minera Ares has obtained a resolution suspending the Arbitration Court decision

Management, having consulted legal counsel considers that there is a reasonable possibility that the outcome of these proceedings will be favourable to Compañia Minera Ares

(b) Value added tax and income tax refund due
In 2000, Sipan entered into a leasing arrangement in respect of a building with Credito Leasing S A ('Credileasing') Through this arrangement, Sipan claimed a tax deduction for the total costs of the building over the four-month contract term and recognised the corresponding value added tax credit

The Peruvian Tax Authority is challenging the deductibility of the monthly contract payments, associated interest costs on the loan from Credileasing to fund the finance lease payments and various other expenses for Sipan, as well as the related value added tax They issued an assessment for 2000 for current income tax and value added tax, including interest, of approximately US$3 1 million and a fine of approximately US$6 6 million Sipan appealed against this assessment Additionally, the Group maintains an income tax refund due of US$1,131,000 due to a portion of the tax credit generated in this operation that was not refunded and is maintained as of 31 December 2006 (refer to note 19)

Based on the facts, management considers that the finance lease payments, interest and expenses should be deductible for tax purposes and the value added tax applied However, the Tax Court ruled that the finance leasing contract was in fact a purchase of assets as the real intention of the Company was not to enter into a finance leasing contract but to acquire a building The Tax Court's decision was made on the basis that the building was previously owned by a related entity of Sipan, (being Mauricio Hochschild & Cia S A C) which had transferred it to Credileasing in the same year, the leasing contract was only for a period of four months and Sipan obtained a loan for the same amount as the finance lease payments from a bank economically related to Credileasing on the date the finance leasing contract was signed

Sipan appealed this decision but it was upheld by the Superior Court and so Sipan filed an appeal with the Supreme Court, which resolved that the Superior Court must issue a sentence over this dispute

Under the Peruvian tax law the management of the Group considers that this contingency is remote

(c) Taxation
Fiscal periods remain open to review by the tax authorities in respect of taxes for four years in Peru five years in Argentina and five years in Mexico, preceding the year of review during which 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 they have undertaken, there remains a risk that significant additional tax liabilities may arise 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

(d) Other
The Group has conducted its operations in the ordinary course of business in accordance with its understanding and interpretation, and based on advice of legal counsel, of applicable legislation in the countries where the Group has operations In certain specific transactions, however, the relevant authorities could have a different interpretation of those laws and regulations that could lead to contingencies or additional liabilities for the Group Having consulted legal counsel, management believes that it has reasonable grounds to support its position

37 Guarantees and investment promotion measures contract

Compañia Minera Ares

In 1995, Compañia Minera Ares started a mining investments programme approved by the General Mine Direction of the Energy and Mines Ministry through Directoral Resolution N°330-95 EM/DG issued on 29 December 1995, for an amount of US$13,590,000 which was financed by Compañia Minera Ares and loans from third parties With the approved programme, Compañia Minera Ares subscribed a guarantees and investment promotion measures contract with the Peruvian Government for a 10-year term that commenced on the date in which the final investment was made Likewise, through Directoral Resolution 080-97-EM/DGM dated 25 February 1997, an increase of the investments programme to US$24,760,000 was approved due to the greater potential of the mining site

The main works and labours contained in the investment plan are the following

- Access and mine preparation labour
- Plant buildings construction
- Plant equipment assembly
- Tailings dam constructions
- Power supply system construction
- Water supply system construction
- Auxiliary services construction

The investment programme was completed by Compañia Minera Ares in March 1998 The total amount invested by the Company and demonstrated to the Ministry of Energy and Mines was approximately US$33,274,000 at 31 December 1999 Through Directoral Resolution 189-99-EM/DGM dated 28 October 1999, the Ministry of Energy and Mines granted legal stability to Compañia Minera Ares starting 1 January 1999 for a 10-year term

By virtue of the above mentioned contract, the Peruvian Government is obliged to guarantee legal stability to the Company based on the following terms

(a) Free trade of its products, meaning that the Government cannot apply restrictions such as

- limiting the Company's ability to sell anywhere,
- suspending or postponing internal sales and/or exports
- requiring sales to any market, local or foreign, and
- requiring payment for such products based on an exchange of goods or services or in a currency not valid to make international payments

(b) Banco Central de Reserva del Peru, as representative of the Peruvian Government, also granted the following rights in favour of Compañia Minera Ares, during the term of the contract

- Free access inside and outside the country and to currencies generated by exports subject to laws in force at the date of the contract
- Free exchange to foreign currency of local currency generated by internal mining production
  No discrimination in relation to the exchange rate issued by Banco Central de Reserva del Peru for similar transactions
- Compañia Minera Ares will have the right to totally or partially decide to be governed, when it considers pertinent, under new legal dispositions on exchange matters or exchange norms issued during the term of the contract, including the dispositions and the norms that have to do with exchange aspects not contemplated in the contract, as long as they have a general character or are applicable to the mining activity The decision to be subject to the new dispositions or norms will not affect the term of the stability arrangements, or the exercise of rights other than those contemplated in the new dispositions or norms
  If Compañia Minera Ares decides to be governed under new legislations for a specific period, it has the rights to revert to previous legislation and apply that legislation for the same period This decision does not generate new rights or obligations

(c) Compañia Minera Ares will enjoy legal stability related to the Ares mining unit, without being affected by modifications or new norms The legal stability guarantee provides, additionally, that the following taxes will remain constant with those at the approval date

Income tax, including the way it is determined and the rates applied
- The calculation of compensation and/or tax refunds
- The municipal taxes rates
- The custom taxes rates

(d) In the framework of administrative stability, the following is understood

- The vesting rights of the mining concessions with a rate of US$2 00 per hectare per year, and in the case of profit concessions, the number of Tax Units (UIT), to which it corresponds

38 Mining royalty
In accordance to Peruvian legislation, a mining royalty that owners of mining concessions must pay for the exploitation of metallic and non-metallic resources has been enacted Mining royalties are calculated with rates ranging from 1% to 3% of the value of mineral concentrates or equivalent, according to the quoted market price published by the Ministry of Energy and Mines As of 31 December 2006, the amount payable as mining royalties for the mining units of Selene and Arcata amounted to approximately US$929,000 (US$145,000 at 31 December 2005), and is recorded in the caption 'Trade and other payables' of the balance sheet Management, having consulted with legal counsel, is of the opinion that the Ares mining unit has not been affected by this law and therefore need not make any royalty payments or provisions for such payments due to the fact that it has the legal stability agreement

39 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 risks areas to facilitate consolidated risk reporting across the Group

(a) Foreign currency risk
The Group principally produces silver and gold which are typically priced in US dollars A proportion of the Group's costs are incurred in Nuevo Sol Accordingly, the Group's financial results may be affected by exchange rate fluctuations between the US dollar and the Nuevo Sol The Group does not use derivative instruments to manage its foreign currency risks

As of 31 December 2006, the Group has acquired liquidity funds in UK pounds sterling which generate foreign exchange movements

(b) 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, however, the Group profitability is obtained through the control of its cost base and the efficiency of its operations

The Group manages its commodity price risk mainly with fixed price sales commitments or with caps and floors built into sales contracts The Group is going to end its current fixed price sales commitments during the first six-month period of 2007 (refer to note 35(a)) Management has decided that the Group will not enter into additional commitments in order to obtain full benefit from possible price increases in the future, maintaining its efforts of lowering costs in order to assure profitability in case of an eventual decrease in the prices

(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), and by non-compliance by the counterparties in transactions in cash, which is limited to balances deposited in banks and accounts receivable at the balance sheets dates To manage this risk, the Group deposits its surplus funds in highly rated financial institutions establishes conservative credit policies and constantly evaluates the conditions of the market in which it conducts its activities Consequently the Group does not expect to incur significant losses on account of credit risk

Credit risk concentrations exist when changes in economic, industrial or geographic factors take place, affecting in the same manner the Group's counterparties whose added risk exposure is significant to the Group's total credit exposure The Group's portfolio of customers is concentrated in three customers domiciled in foreign countries that represent 85% of the total net sales during the year 2006 Derivatives are executed with different counterparts to avoid concentrations of credit risk

(d) Liquidity risk
Liquidity risk arises from the Group's inability to obtain the funds it requires to comply with its commitments under financial instruments including the inability to sell a financial asset quickly at a price close to its fair value Management believes that it will have access to adequate credit on reasonable terms from highly rated financial instruments

(e) Interest rate risk
The Group has financial assets and liabilities which are exposed to interest rate risk Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt) The 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 uses 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

39 Financial risk management continued

	As at 31 December 2006				
	Within one year US$000	Between one and two years US$000	Between two and five years US$000	Over five years US$000	Total US$000
Fixed rate					
Amounts due to minority shareholders (refer to note 25)	(1,445)	(80)	(26,738)	–	(28,263)
Floating rate					
Cash (refer to note 23)	997	–	–	–	997
Time deposits (refer to note 23)	3,542	–	–	–	3,542
Liquidity funds (refer to note 23)	414,527	–	–	–	414,527
Secured bank loans (refer to note 25)	(28,017)	(296)	–	–	(28,313)
Loans to minority shareholders (refer to note 19)	2,436	8,166	–	–	10,602
Assigned funds (refer to note 19)	–	6	–	–	6

	As at 31 December 2005				
	Within one year US$000	Between one and two years US$000	Between two and five years US$000	Over five years US$000	Total US$000
Fixed rate					
Amounts due to minority shareholders (refer to note 25)	–	(13,108)	–	–	(13,108)
Receivables from related parties (refer to note 19)	33,102	–	–	–	33,102
Loans from related parties	(160)	–	–	–	(160)
Floating rate					
Cash (refer to note 23)	125	–	–	–	125
Time deposits (refer to note 23)	91	–	–	–	91
Assigned funds (refer to note 19)	–	1,699	–	–	1699
Secured bank loans (refer to note 25)	(48,310)	(17676)	(295)		(66,281)

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

40 Subsequent events

On 8 January 2007, the Group granted an option to Ventura Gold Corp ('Ventura') for the acquisition of an interest in Inmaculada property, located in Peru Under the agreement, in order to acquire an initial 51% controlling interest, Ventura shall complete a total of 15 000 metres of drilling on the property and issue a total of one million of its common shares to the Group within a three-year period

Once Ventura acquires its 51% controlling interest, Ventura shall issue an additional two million of its common shares to the Group within the next five years Additionally, the Group has the option to become the operator of the project and buy back 11% controlling interest in consideration for a payment to Ventura of three times the total investment made in drilling and related exploration work completed If the Group does not exercise the aforementioned option, Ventura may elect to increase its controlling interest by 19% upon the completion of a feasibility study on the project

On 21 February 2007, the Group signed the option and joint venture agreement with Mirasol under the arrangements set forth in the letter of intention described in note 35(f) Within 30 days following the execution of the agreement Mirasol shall constitute under the laws of Argentina two companies named Cabo Sur' and Punta Verde', which will hold the rights of Claudia and Santa Rita properties, respectively Until the exercise of Claudia and Santa Rita options, Mirasol and the Group will own 99% and 1% of each of the new companies, respectively

Parent Company Income Statement
Period ended 31 December 2006

	Notes	Period from date of incorporation to 31 December 2006 US$000
Administrative expenses	3	**(1,729)**
Operating profit		**(1,729)**
Finance income	4, 12	**3,777**
Finance costs		**(1)**
Foreign exchange gain		**553**
Profit before income taxes		**2,600**
Income taxes	5	**(789)**
Profit for the period attributable to equity shareholders of the Company		**1,811**

Parent Company Balance Sheet
At 31 December 2006

	Notes	As at 31 December 2006 US$000
ASSETS		
Non-current assets		
Property, plant and equipment	6	**4**
Investments in subsidiaries	7	**1,608,452**
		1,608,456
Current assets		
Other receivables	8	**10,344**
Cash and cash equivalents	9	**421,344**
		431,688
Total assets		**2,040,144**
EQUITY AND LIABILITIES		
Share capital	10	**146,466**
Share premium	10	**416,191**
Merger reserve	10	**1,315,396**
Retained earnings	10	**148,277**
Total equity		**2,026,330**
Current liabilities		
Trade and other payables	11	**13,814**
Total liabilities		**13,814**
Total equity and liabilities		**2,040,144**

The accompanying accounting policies and notes on pages 104 to 109 are an integral part of these financial statements The financial statements on pages 100 to 103 were approved by the Board of Directors on 19 March 2007

On behalf of the Board

Roberto Dañino
Executive Director and Deputy Chairman
19 March 2007

Parent Company Cash Flow Statement
Period ended 31 December 2006

	Notes	Period ended 31 December 2006 US$000
Reconciliation of profit for the period to net cash used in operating activities		
Profit for the period		**1,811**
Adjustments to reconcile Company operating profit to net cash inflows from operating activities		
Income tax expense		**789**
Finance income		**(3,777)**
Finance cost		**1**
Foreign exchange difference		**(553)**
Increase/(decrease) of cash flows from operations due to changes in assets and liabilities		
Other receivables		**(694)**
Trade and other payables		**1,127**
Cash used in operating activities		**(1,296)**
Interest received		**1,620**
Net cash from operating activities		**324**
Cash flows from investing activities		
Acquisitions of property, plant and equipment	6	**(4)**
Investments in subsidiaries	7	**(67,217)**
Loan to Minera Hochschild Mexico, S A de C V	12	**(7,000)**
Loan to Minera MH Chile Ltda	12	**(500)**
Net cash used in investing activities		**(74,721)**
Cash flows from financing activities		
Capital contribution	10	**93**
Proceeds from issue of ordinary shares under Global Offer	10	**515,245**
Transaction costs associated with issue of shares	10	**(20,150)**
Cash flows generated from financing activities		**495,188**
Net increase in cash and cash equivalents during the period		**420,791**
Foreign exchange difference		**553**
Cash and cash equivalents at end of period		**421,344**
Transactions that did not affect cash flows		
Shares issued under Global Offer	10	**1,534,629**
Capital reduction	10	**146,466**
Unpaid consulting fees		**5,297**
Unpaid investments in subsidiaries	7	**6,606**

Parent Company
Statement of Changes in Equity
Period ended 31 December 2006

	Equity share capital US$000	Share premium US$000	Merger reserve US$000	Retained earnings US$000	Total equity US$000
Shares issued	93	–	–	–	93
Shares issued pursuant to the Share Exchange Agreement	219,233	–	1,315,396	–	1,534,629
Shares issued under Global Offer	73,606	441,639	–	–	514,245
Capital reduction	(146,466)	–	–	146,466	–
Transaction costs associated with issue of shares		(25,448)			(25,448)
Net income recognised directly in equity	146,466	416,191	1,315,396	146,466	2,024,519
Profit for the period	–	–	–	1,811	1,811
Total recognised income for 2006	–	–	–	1,811	1,811
Balance at 31 December 2006	**146,466**	**416,191**	**1,315,396**	**148,277**	**2,026,330**

Notes to the Parent Company Financial Statements
Period ended 31 December 2006

1 Corporate information
Hochschild Mining plc (hereinafter the 'Company') is a public limited company incorporated on 11 April 2006 under the Companies Act 1985 and registered in England and Wales with registration number 05777693 The Company's registered address is One Silk Street, London EC2Y 8HQ, 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 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 is held through Pelham Investment Corporation

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 as they apply to the financial statements of the Company for the period ended 31 December 2006 The Group's financial statements are also consistent with IFRS as issued by the IASB In addition, the financial statements have been prepared in accordance with those parts of the Companies Act 1985 applicable to companies reporting under IFRS

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 (US$000) except when otherwise indicated

(b) Judgements in applying accounting policies and key sources of estimation uncertainty
Certain amounts included in the financial statements such as the recoverability of accounts receivable and the valuation of investments in subsidiaries involves 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

(c) Currency translation
The functional currency for 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 balance sheet 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

(d) 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 dividends are recognised when the Company's right to receive payments is established Dividends received out of pre-acquisition profits of a subsidiary are recorded as a reduction to the carrying value of the investment Dividends received out of pre-acquisition profits are recorded in the income statement

(e) Other receivables
Current trade 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

(f) Cash and cash equivalents
Cash and cash equivalents are carried in the balance sheet at cost For the purposes of the balance sheet, 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 and have an original maturity of three months or less For the purposes of the cash flow statement, cash and cash equivalents as defined above are shown net of outstanding bank overdrafts

2 Significant accounting policies continued

(g) Share capital

Ordinary shares issued by the Company are recorded at the net proceeds received, which is the fair value of the consideration received less costs that are incurred in connection with the share issue The nominal par value of the shares issued is taken to the share capital account and any excess is recorded in the share premium account, including the costs that were incurred with the share issue

(h) Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method

(i) Finance income and costs

Finance income and costs mainly comprise interest income on funds invested and interest expense on borrowings

Interest income and costs are recognised as they accrue, taking into account the effective yield on the asset and liability, respectively

(j) Income tax

Income tax 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 period, using tax rates enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years

No deferred taxes on subsidiaries are recognised

(k) Financial instruments

Recognition

The Company recognises financial assets and liabilities on its balance sheet when, and only when, it becomes a party to the contractual provisions of the instrument

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously

Measurement

A financial asset or liability is recognised initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability

In determining estimated fair value, investments in shares or portfolios of listed securities are valued at quoted bid prices When quoted prices on an active market are not available (and for all non-actively traded securities), fair value is determined using a valuation technique Valuation techniques include using recent arm's length transactions, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models If the range of reasonable fair value is significant and the probabilities of the various estimates cannot be reliably assessed, the investment is not remeasured at fair value

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market They do not qualify as trading assets and have not been designated as either at fair value through the profit and loss account 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 income when the loans and receivables are derecognised or impaired, as well as through the amortisation process

If there is objective evidence that an impairment loss on loans and receivables has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (ie the effective interest rate computed at initial recognition) The carrying amount of the asset is reduced and the amount of the loss is recognised in the profit or loss account If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed Any subsequent reversal of an impairment loss is recognised in the profit and loss account, to the extent that the carrying value of the asset does not exceed its amortised cost (that would have been measured if there had been no impairment) at the reversal date

Financial liabilities are initially recognised in accordance with the policy stated above and subsequently remeasured at amortised cost using the effective interest method

Derecognition

Financial asets and liabilities are generally derecognised when the contract that gives rise to it is settled, sold, cancelled or expires

(l) Dividends payable

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

Notes to the Parent Company Financial Statements continued
Period ended 31 December 2006

3 Administrative expenses

	Period ended 31 December 2006 US$000
Audit fees	873
Directors' fees	264
Training expenses	194
Tax advisory fees	125
Other	273
Total	1,729

4 Finance income

	Period ended 31 December 2006 US$000
Interest received on liquidity funds	3,671
Interest received on current account	64
Interest on loans to related parties (note 12)	42
Total	3,777

5 Income tax

	Period ended 31 December 2006 US$000
Corporation taxes	783
Foreign taxes	6
Total	789

The statutory income tax rate in the United Kingdom is 30% for 2006 The tax on the Company's profit before tax differs from the theoretical amount that would arise using the statutory tax rate as follows

	Period ended 31 December 2006 US$000
Income before tax	2,600
Tax calculated at statutory tax rate	780
Other	9
Tax charge	789

6 Property, plant and equipment

Property, plant and equipment is comprised of US$4,000 of computer equipment and office furniture, all acquired in the period The depreciation charge for the period is less than US$1,000

7 Investments in subsidiaries

Movement of the period

	US$000
Balance at date of incorporation	–
Additions	1,608,542
Balance at 31 December 2006	**1,608,542**

As of 31 December 2006 this account comprises

Name	Country of incorporation	Equity interest	Carrying value
Hochschild Mining Holdings Limited	United Kingdom	100	45,618
Hochschild Mining (Mexico) Corporation	Cayman Islands	100	575,752
Hochschild Mining (Argentina) Corporation	Cayman Islands	100	253,756
Hochschild Mining (Peru) Corporation	Cayman Islands	100	447,125
Ardsley Corporation	Cayman Islands	100	247,337
Garrison Corporation	Cayman Islands	100	1
Larchmont Corporation	Cayman Islands	100	38,863
Total			**1,608,452**

On 2 November 2006, the Company entered into a Share Exchange Agreement to acquire the above companies (together referred to as the 'Cayman Holding Companies')

In relation to this transaction, the Company issued 229,900 000 ordinary shares with a nominal value of £0 50 and a fair value of £3 50 to the former shareholders of the Cayman Holding Companies in exchange for the share capital on these companies

In addition, during 2006 the Company made additional cash contributions to its subsidiaries for US$73,823,000, of which US$6,606,000 remain unpaid at the end of the period

The list of subsidiaries of the Group is presented in note 1 (Corporate information) of the notes to the Group Financial Statements

8 Other receivables

	As at 31 December 2006 US$000
Amounts receivable from subsidiaries (note 12)	**7,536**
Prepayments	**616**
Accrued income	**2,121**
Other debtors	**71**
Total	**10,344**

9 Cash and cash equivalents

	As at 31 December 2006 US$000
Bank current account	**6,817**
Liquidity funds[1]	**414,527**
Cash and cash equivalents considered for the cash flow statement	**421,344**

Note

1 The liquidity funds are mainly invested in certificate of deposits commercial papers and floating rate notes with weighted average annual effective interest rate of 5 16% and a weighted average maturity of 43 days as of 31 December 2006

Notes to the Parent Company Financial Statements continued
Period ended 31 December 2006

10 Equity
(a) Share capital and share premium
Authorised and issued share capital
The authorised and issued share capital of the Company as at 31 December 2006 is as follows

	Authorised		Issued	
Class of shares	Number	Amount	Number	Amount
Ordinary shares	500,000,000	£250,000,000	307,350,226	£153,675,113

At 31 December 2006, all issued shares with a par value of £0 25 per share (weighted average of US$0 953 per share) were fully paid

Rights attached to ordinary shares
At general meetings of the Company, on a show of hands, every member who is present in person has one vote and on a poll every member who is present in person or by proxy has one vote for every share of which he is the holder

The changes in share capital are as follows

	Number	Share interest US$000	Share premium US$000
Ordinary shares of £1 per share, issued and fully paid			
Shares issued to the initial shareholder	1	–	–
Shares issued on 16 October 2006	49 999	93	–
Shares issued as of 16 October 2006	**50,000**	**93**	**–**
Share capital following the capital split			
Ordinary shares of £0.50 per share, issued			
Shares in issue at 16 October 2006	100,000	93	–
Shares issued and paid pursuant to the Share Exchange Agreement	229,900 000	219,233	–
Shares issued to employees on 11 November 2006	71,656	68	409
Shares issued to Non-Executive Directors on 11 November 2006	28,570	27	163
Shares issued pursuant to the global offer	77,250,000	73,511	441,067
Transaction costs associated with issue of shares			(25,448)
Capital reduction from £0 50 per share to £0 25 per share	–	(146,466)	–
Shares issued as of 31 December 2006	**307,350,226**	**146,466**	**416,191**

(b) Merger reserve
Merger reserve represents the difference between the value of the net assets of Cayman Holding Companies acquired under the Share Exchange Agreement and the nominal value of the shares issued in consideration of such acquisition

11 Trade and other payables

	As at 31 December 2006 US$000
Loan from subsidiary (note 12)	**6,606**
Consulting fees	**5,297**
Audit fee	**873**
Corporation income tax payable	**789**
Other payables	**249**
Total	**13,814**

12 **Related-party balances and transactions**

(a) Related-party accounts receivable and payable

The Company had the following related-party balances as at, and transactions during, the period ended 31 December 2006

	As at 31 December 2006	
Subsidiaries	**Accounts receivable US$000**	**Accounts payable US$000**
Minera Hochschild Mexico, S A de C V	**7,035**	**–**
Minera MH Chile Ltda	**501**	**–**
Hochschild Mining (Peru) Corporation (refer to note 7)	**–**	**6,606**
Total	**7,536**	**6,606**

Accounts receivable mainly corresponds to loans given to the above subsidiaries to acquire assets and support their exploration activities These loans bear interest at an annual rate of 8 85% An interest of US$42,000 was recognised as a finance income in 2006 The fair values of the receivables and payables approximate their book value

(b) Compensation of key management personnel of the Company

Key management personnel include the members of the management board and Directors who receive remuneration The amount of this remuneration amounts $264,000 in 2006

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 111 to 114 were prepared by or under the supervision of Competent Persons (as defined in the JORC Code) Competent Persons are required to have sufficient relevant experience and understanding of the style of mineralisation, types of deposits and mining methods in the area of activity for which they are qualified as a Competent Person under the JORC Code The Competent Person must sign off their respective estimates of the original mineral resource and ore reserve statements for the various operations and consent to the inclusion of that information in this report, as well as the form and context in which it appears

Hochschild Mining plc employs its own Competent Person who has audited all the estimates set out in this report

Hochschild Mining Group companies are subject to a comprehensive programme of audits which aim to provide assurance in respect of ore reserve and mineral resource estimates These audits are conducted by Competent Persons provided by independent consultants The frequency and depth of an audit depends on the risks and/or uncertainties associated with that particular ore reserve and mineral resource the overall value thereof and the time that has lapsed since the previous independent third party audit

The JORC Code requires the use of reasonable economic assumptions These include long-range 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 2006, 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 Metric units are used throughout the report The prices used for the reserves calculation were Au Price US$500 per ounce and Ag Price US$8 5 per ounce

Table 01 – Metal resources at 31 December 2006

Resource category	Measured	Indicated	Indicated	Inferred	Ag	Au	Ag	Au	Zn	Pb	Cu
	(t)	(t)	(t)	(t)	(g/t)	(g/t)	(moz)	(koz)	(kt)	(kt)	(kt)
Arcata											
Measured	983,174				503	1 43	15 9	45 2	–	–	–
Indicated		198,839			562	151	3 6	9 7	–	–	–
Total			1,182,013		513	1 44	19 5	54 8	–	–	–
Inferred				1,576,324	648	1 64	32 8	82 9	–	–	–
Ares											
Measured	668,847				272	12 06	5 9	259 3	–	–	–
Indicated		168,598			181	4 26	1 0	23 1	–	–	–
Total			837,445		254	10 49	6 8	282 4	–	–	–
Inferred				75 161	182	4 40	0 4	10 6	–	–	–
Selene											
Measured	789,816				345	2 51	8 8	63 6	–	–	–
Indicated		53,742			213	1 04	0 4	1 8	–	–	–
Total			843,558		336	2 41	9 1	65 4	–	–	–
Inferred				914,559	323	1 49	9 5	43 7	–	–	–
Pallancata											
Measured	548,396				327	1 30	5 8	22 9	–	–	–
Indicated		705,282			330	1 40	7 5	31 7	–	–	–
Total			1,253,678		329	1 35	13 3	54 5	–	–	–
Inferred				616 640	542	1 90	10 7	37 7	–	–	–
San José											
Measured	152,221				600	7 74	2 9	37 9	–	–	–
Indicated		758,934			507	8 48	12 4	206 9	–	–	–
Total			911,155		522	8 36	15 3	244 8	–	–	–
Inferred				162,090	576	9 29	3 0	48 4	–	–	–
Moris											
Measured	3,015,654				4	1 31	0 4	127 1	–	–	–
Indicated		218,661			5	1 15	0 0	8 1	–	–	–
Total			3,234,315		4	1 30	0 4	135 2	–	–	–
Inferred				37,476	4	0 88	0 0	1 1	–	–	–
San Felipe											
Inferred				1 886,472	71	10 3[1]	6 2	1 6	181 9	85 8	10 0
TOTAL											
Measured	6,158,108				200	2 81	39 6	555 9	0 0	0 0	0 0
Indicated		2 104,056			367	4 16	24 8	281 2	0 0	0 0	0 0
Total			8,262,164		243	3 15	64 4	837 2	0 0	0 0	0 0
Inferred				5,268 722	359	1 33	62 7	226 1	181 9	85 8	10 0

Note

1 A combined metal content of 6 75% zinc, 3 18% lead and 0 37% copper are not included in totals and these metals represent 13 2 million ounces of equivalent silver

Resources include undiscounted reserves Where reserves are attributable to joint venture partner reserve figures reflect the Company's ownership only No ore loss or dilution has been included and stockpiled ore excluded

Reserves and Resources continued

Table 02 – Metal reserves at 31 December 2006

Reserve category	Proved	Probable	Proved and probable	Ag	Au	Ag	Au
	(t)	(t)	(t)	(g/t)	(g/t)	(moz)	(moz)
Arcata							
Proved	1,012,036			437	1 21	14 2	39 5
Probable		216,897		469	1 26	3 3	8 8
Total			1,228,933	442	1 22	17 5	48 3
Ares							
Proved	688 663			249	11 05	5 5	244 6
Probable		156,786		175	4 14	0 9	20 9
Total			845,450	235	9 77	6 4	265 5
Selene							
Proved	809,259			317	2 30	8 3	60 0
Probable		56,161		194	0 94	0 3	1 7
Total			865,420	309	2 22	8 6	61 7
Pallancata							
Proved	641,002			263	1 06	5 4	21 9
Probable		671,562		283	1 10	6 1	23 8
Total			1,312,565	273	1 08	11 5	45 7
San Jose							
Proved	153 188			528	6 79	2 6	33 4
Probable		845,611		435	7 29	11 8	198 2
Total			998,800	450	7 21	14 4	231 6
Moris							
Proved	1,273,582			5	1 72	0 2	7 0 3
Probable		767,974		4	1 16	0 1	2 8 7
Total			2,041,556	4	1 51	0 3	9 9 0
Total							
Proved	4,577,732			246	3 19	36 2	46 9 8
Probable		2,714,991		258	3 23	22 6	28 2 1
Total			7,292 723	251	3 21	58 7	75 1 9

Note
Includes discounts for ore loss and dilution Reserves = Resources – Ore Loss + Dilution Where reserves are attributable to joint venture partner reserve figures reflect the Company s ownership only

Table 03 – Change in reserves and resources from June 2006 to December 2006

		Ag content (million ounces)					
Region	Category	June 2006	Depletion[1]	Addition[2]	December 2006	Net Difference	% change
Peru	**Arcata**						
	Resource	43 6		17 0	60 6	17 0	39
	Reserve	16 1	–3 1	7 4	20 4	4 3	27
	Ares						
	Resource	30 5		–5 7	24 9	–5 7	–19
	Reserve	28 5	–5 6	–0 5	22 3	–6 2	–22
	Selene						
	Resource	18 6		6 6	25 2	6 6	36
	Reserve	13 6	–3 0	1 7	12 3	–1 3	–10
	Pallancata						
	Resource	36 2		13 0	49 2	13 0	36
	Reserve	11 3	0 0	12 5	23 8	12 5	111
Peru totals	**Resource**	**128 9**		**31 0**	**159 8**	**31 0**	**24**
	Reserve	**69 5**	**–11 7**	**21 0**	**78 8**	**9 3**	**13**
Argentina	**San José**						
	Resource	51 5		18 9	70 4	18 9	37
	Reserve	36 1	0 0	19 5	55 6	19 5	54
Argentina totals	**Resource**	**51 5**		**18 9**	**70 4**	**18 9**	**37**
	Reserve	**36 1**	**0 0**	**19 5**	**55 6**	**19 5**	**54**
Mexico	**Moris**						
	Resource	12 7		–0 4	12 3	–0 4	–3
	Reserve	0 0	0 0	0 0	8 9	8 9	0
	San Felipe						
	Resource	40 3		–15 3	25 0	–15 3	–38
	Reserve	0 0	0 0	0 0	0 0	0 0	0
Mexico totals	**Resource**	**53 0**		**–15 7**	**37 3**	**–15 7**	**–30**
	Reserve	**0 0**	**0 0**	**8 9**	**8 9**	**8 9**	**0**
Totals	**Resource**	**233 4**		**34 2**	**267 5**	**34 2**	**15**
	Reserve	**105 6**	**–11 7**	**49 4**	**143 3**	**37 7**	**36**

Note
1 Reduction in reserves based on ore delivered to the mine plant
2 Increase in reserves due mainly to mine site exploration but also to price increase

Reserves and Resources continued

Table 04 – Change in attributable reserves and resources from June 2006 to December 2006

Region	Category	% Attributable	Ag Content (million ounces) June 2006 Att.[1]	December 2006 Att.[1]	Net difference	% change
Peru	**Arcata**	100				
	Resource		43 6	60 6	17 0	39
	Reserve		16 1	20 4	4 3	27
	Ares	100				
	Resource		30 5	24 9	–5 7	–19
	Reserve		28 5	22 3	–6 2	–22
	Selene	100				
	Resource		18 6	25 2	6 6	36
	Reserve		13 6	12 3	–1 3	–10
	Pallancata	60				
	Resource		21 7	29 5	7 8	36
	Reserve		6 8	14 3	7 5	111
Peru totals	**Resource**		**114 4**	**140 2**	**25 8**	**23**
	Reserve		**65 0**	**69 3**	**4 3**	**7**
Argentina	**San José**	51				
	Resource		26 3	35 9	9 6	37
	Reserve		18 4	28 3	9 9	54
Argentina totals	**Resource**		**26 3**	**35 9**	**9 6**	**37**
	Reserve		**18 4**	**28 3**	**9 9**	**54**
Mexico	**Moris**	70				
	Resource		8 9	8 6	–0 3	–3
	Reserve		0 0	6 2	6 2	n m
	San Felipe	70				
	Resource		28 2	17 5	–10 7	–38
	Reserve		0 0	0 0	0 0	n m
Mexico totals	**Resource**		**37 1**	**26 1**	**–11 0**	**–30**
	Reserve		**0 0**	**6 2**	**6 2**	**n m**
Totals	**Resource**		**177 8**	**202 2**	**24**	**14**
	Reserve		**83 4**	**103 9**	**20**	**25**

Note
1 Attributable reserves and resources based on the Group s percentage ownership at its joint venture projects

Glossary

Ag
Silver

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

AGM or Annual General Meeting
The annual general meeting of the Company which is scheduled to be held on Wednesday 4 July 2007 at 11 30 am in the offices of Linklaters LLP at One Silk Street, London EC2Y 8HQ

Annual Report
The annual report of Hochschild Mining plc for the year ended 31 December 2006 and comprising a review of the business for the year, financial statements, compliance reports and shareholder information

Audit Committee
The audit committee of the Board

Au
Gold

Attributable after tax profit
Profit for the year before dividends attributable to the equity shareholders of Hochschild Mining plc from continuing operations before exceptional items and after minority interest

Average head grade
Average ore grade fed into the mill

Board
The board of Directors of the Company

CAD$
Canadian dollars

Capital employed
The aggregate of equity attributable to shareholders, minority interests and borrowings

Cayman Holding Companies
Hochschild Mining (Argentina) Corporation, Larchmont Corporation, Garrison Corporation, Ardsley Corporation, Hochschild Mining (Peru) Corporation and Hochschild Mining (Mexico) Corporation, all subsidiary undertakings incorporated in the Cayman Islands

Committee(s)
Any or all of the Audit, CSR, Executive, Nominations and Remuneration Committees

Company or Hochschild
Hochschild Mining plc

Competent Persons
Persons who, under the JORC Codes, 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

CSR Committee or Corporate Social Responsibility Committee
The corporate social responsibility committee of the Board

CSR
Corporate social responsibility

Cu
Copper

Cymoid veins
Looping veins

Directors
The directors of the Company

Dore
Dore bullion is an impure alloy of gold and silver and is generally the final product of mining and processing, the dore bullion will be transported to be refined to high purity metal

Dollar or US$
United States dollars

Effective tax rate
Income tax expense as a percentage of profit from continuing operations before income tax

ELTIP
Executive Long Term Incentive Plan

EPS (pre-exceptionals)
The per-share (using the weighted average number of shares outstanding for the period) profit available to equity shareholders of the Group from continuing operations before exceptional items and after minority interest

eq
equivalent

ETF
Exchange Traded Fund

Executive Committee
The executive committee of the Board

Exceptional item
Events that are significant and which, due to their nature or the expected infrequency of the events giving rise to them, need to be disclosed separately

Executive Directors
Executive directors of the Company

Expansion capital expenditure
Capital expenditure that increases the Group s operating capacity

Exploration capital expenditure
Capital expenditure spent to convert resources into reserves and to increase the reserve and resource base

GAAP
Generally Accepted Accounting Principles

Gold by-product cash costs
Defined as total cash costs multiplied by the percentage of revenue from gold, divided by the number of gold ounces sold Cash costs include cost of sales, commercial deductions and selling expenses less depreciation included in cost of sales This metric allows us to benchmark ourselves versus our peer group in a consistent manner over time, however, we must consider any revenue contribution shift

Group or Hochschild Mining Group
Hochschild Mining plc and its subsidiary undertakings

g/t
Grams per metric tonne

IASB
International Accounting Standards Board

IAS
International Accounting Standards

IASB
International Accounting Standards Board

IFRIC
International Financial Reporting Interpretations Committee

IFRS
International Financial Reporting Standards

ISO 14001
An international environmental management system standard published by the International Organisation for Standardisation

JORC
Joint Ore Reserves Committee

JORC Code
Code developed by the Australian Joint Ore Reserves Committee for reporting mine reserves and resources

koz
Thousand ounces

kt
Thousand metric tonnes

ktpa
Thousand metric tonnes per annum

LIBOR
London Inter Bank Offer Rate

Listing or IPO (Initial Public Offering) or Global Offer
The listing of the Company's ordinary shares on the London Stock Exchange on 8 November 2006

LME
London Metals Exchange

LSE
London Stock Exchange

moz
Million ounces

Nominations Committee
The nominations committee of the Board

Non-Executive Directors
Non-executive directors of the Company

Nuevo Sol
The currency of Peru

OHSAS 18001
Occupational Health and Safety Assessment Series (standards for occupational health and safety management systems)

Ordinary shares
Ordinary shares of £0 25 each in the Company

Pb
Lead

PPE
Property Plant and Equipment

Registrars
The registrars of the Company, being Capita Registrars

Relationship Agreement
An agreement entered between Pelham Investment Corporation (referred to as the Major Shareholder), Mr Eduardo Hochschild, Mr Alberto Beeck (together the Beneficial Owners) and the Company on 20 October 2006 The principal purpose of the Relationship Agreement is to ensure that the Company and its subsidiaries are capable of carrying on their business independently of the Major Shareholder, the Beneficial Owners and of any of their respective associates

Reserve replacement
Calculated on the base of tonnage The difference between end of year and beginning of year plus the total production is the tonnage identified for the year That amount is divided by the tonnage at the beginning of the year and expressed as a percentage gives the reserve replacement ratio

Selene Mine System
The Selene Mine is a low sulphidation, precious metal epithermal vein system conformed, based on current knowledge, by two vein systems The first, the Explorador System, is where most of our production, reserve and resources are focused The second, the Tumin System, has been mined by previous owners and still has an important exploration potential to develop

Share Exchange Agreement
An agreement entered into on 2 November 2006 whereby the Company acquired the Cayman Holding Companies in consideration for 229,900,000 ordinary shares

Silver co-product cash costs
Defined as total cash costs multiplied by the percentage of revenue from silver, divided by the number of silver ounces sold Cash costs include cost of sales, commercial deduction and selling expenses, less depreciation included in cost of sales This metric allows us to benchmark ourselves versus our peer group in a consistent manner over time, however, we must consider any revenue contribution shift

Splays
Secondary veins that bifurcate from the main structure

Spot or spot price
The purchase price of a commodity at the current price, normally this is at a discount to the long term contract price

Sustaining capital expenditure
Capital expenditure to maintain the Group's operating capacity

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tonne

TECSUP
The leading non-profit technical institute in Peru, substantially funded by Hochschild Mining

TSR
Total shareholder return

UKLA
United Kingdom Listing Authority

Zn
Zinc

Shareholder Information

Shareholder interests at 31 December 2006
Number of shareholders 238 (2005 nil)
Number of shares in issue 307,350,226 (2005 nil)

By size of holding

	Shareholders %	Shares %
500 and under	5 88	0 01
501 to 1,000	6 72	0 01
1,001 to 10,000	40 34	0 12
10,001 to 100,000	23 53	0 68
100,001 to 1,000,000	16 81	4 31
Over 1,000,000	6 72	94 87
Total	100 00	100 00

By category of shareholder

	Shareholders		Shares	
Description	no of holders	% of holders	holding	% of capital
Private shareholders	36	15 13	89 812	0 03
Nominee companies	187	78 57	297 767 058	96 88
Limited companies	7	2 94	219,531	0 07
Bank and bank nominees	4	1 68	7,652,384	2 49
Other institutions	4	1 68	1,621,441	0 53
Total	**238**	**100 00**	**307,350,226**	**100 00**

Annual General Meeting
The AGM will be held at 11 30 am on Wednesday 4 July 2007 at the offices of Linklaters LLP, One Silk Street, London, United Kingdom EC2Y 8HQ The Notice of Meeting and the Form of Proxy are enclosed with this Annual Report

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
For information about the AGM, shareholdings, dividends and to report changes in personal details, shareholders should contact Capita IRG Plc, Northern House, Woodsome Park, Fenay Bridge, Huddersfield, HD8 0LA United Kingdom
Telephone United Kingdom 0870 162 3131
Overseas 0044 208 639 2157 (www capitaregistrars com)

Currency option and dividend mandate
Shareholders wishing to receive their dividend in US dollars should contact the Company's registrars to request a currency election form This form should be completed and returned to the registrars by 19 June 2007

The Company's registrars can also arrange for the dividend to be paid directly into shareholders' UK bank accounts To take advantage of this facility a dividend mandate form, also available from the Company's registrars, should be completed and returned to the registrars by 19 June 2007 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

Investor Relations
For investor enquiries please contact Wray Barber Head of Investor Relations, Hochschild Mining plc, 1 Grosvenor Crescent, London, SW1X 7EF
Telephone 020 7152 6014
Email wray barber@hocplc com

Financial calendar
Dividend payments

Ex-dividend date	13 June 2007
Record date	15 June 2007
Deadline for return of currency election form	19 June 2007
Final dividend payable	6 July 2007
Interim dividend payable	November 2007

Other dates

Annual General Meeting	4 July 2007
Interim results announced	September 2007
Interim report circulated	September 2007

Head Office
1 Grosvenor Crescent
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United Kingdom

Auditors
Ernst & Young LLP
1 More London Place
London SE1 2AF
United Kingdom

Solicitors
Linklaters LLP
One Silk Street
London EC2Y 8HQ
United Kingdom

Registered Office
(from 1 April 2007)
Hochschild Mining plc
18 Hanover Square
London W1S 1HX
United Kingdom

Company Secretary
Prism Cosec Limited

Forward looking statements

The documents in this Annual Report including those that make up the Directors Report contain certain forward looking statements particularly those relating to 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

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 Past performance is no guide to future performance and persons needing advice should consult an independent financial adviser

The forward looking statements reflect knowledge and information available at the date of preparation of this Annual Report Except as required by the Listing Rules and applicable law the Board of Hochschild Mining plc does not undertake any obligation to update or change any forward looking statements to reflect events occurring after the date of this Annual Report

Nothing in this Annual Report should be cons rued as a profit forecast

www.hochschildmining.com

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