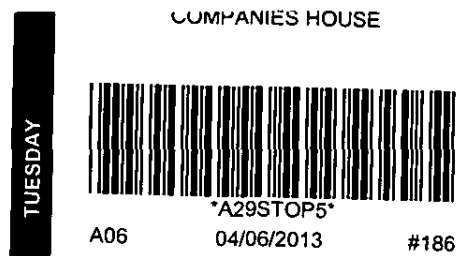


Exploring for **Growth**

HOCHSCHILD MINING PLC
ANNUAL REPORT & ACCOUNTS 2012



COMPANY REGISTRATION NO
05777693

We are a leading underground precious metals producer focused on high grade silver and gold deposits. We have a solid asset base, an extensive project pipeline and a clear strategy.

Discover more about 'Exploring for growth' online

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

www.hochschildmining.com

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OUR LEADERSHIP TEAM DISCUSSES
THE YEAR AND THE FUTURE FOR
HOCHSCHILD MINING



An overview of our operational and financial performance in 2012 and the key drivers for the Company going forward

HOW WE CREATE LONG-TERM
VALUE FOR SHAREHOLDERS



To create long-term value for shareholders we have to have a sustainable business model and key differentiators

WHAT OUR VISION AND STRATEGY
IS AND HOW WE MANAGE OUR
BUSINESS TO ACHIEVE THIS



It is important that we run our business with a clear strategy that takes market conditions into account

HOW WE HAVE PERFORMED AND
HOW WE REWARD PERFORMANCE
WITHIN HOCHSCHILD



The evidence that our strategy is being successfully implemented

DETAILED INFORMATION



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Exploring for growth
Inmaculada

The Inmaculada Advanced Project is set to deliver total annual production of 12 million silver equivalent ounces.

View more information on Exploring for Growth online www.hochschildmining.com

Overview

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- 06 Where we operate
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- 12 Our exploration in action

We continued to make good progress at Inmaculada in 2012, meeting our procurement, engineering and construction targets, and the project is on schedule for commissioning in the second half of 2014. We were also pleased to announce in October that the Peruvian Government had approved the Environmental Impact Study for the Project.

The exploration team at Inmaculada also delivered positive results during the year

and continued to grow the Project's substantial 150 million silver equivalent ounces resource base as well as discovering new veins with excellent mineralisation.

We have a comprehensive engineering, construction and exploration programme in place for Inmaculada in 2013.

12million
Silver equivalent ounces
per annum

Key performance indicators

In 2012 we delivered a strong production performance, reported promising results from our record investment in exploration, and delivered a solid set of financial results

Our Strategy overview, Operating and Exploration reviews and Sustainability report provide more detail of our performance in relation to our key strategic priorities

REVENUE
\$m

ADJUSTED EBITDA
\$m

EARNINGS PER SHARE
\$

PROPOSED TOTAL DIVIDEND
\$

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

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

LTIFR

ACCIDENT SEVERITY INDEX

COMMUNITY INVESTMENT
\$m

Calculated as total number of accidents per million labour hours

Calculated as total number of days lost per million labour hours

For further details please see the Sustainability report

For more information visit
www.hochschildmining.com

SOLID PRODUCTION PERFORMANCE

We once again met our full year production target in 2012 producing 20.3 million attributable silver equivalent ounces comprised of 13.6 million ounces of silver and 111.8 thousand ounces of gold. In 2012 our net silver revenue was \$557.8 million and our net gold revenue \$259.6 million.

2012 REVENUE BY PRODUCT

2012 ATTRIBUTABLE
PRODUCTION
Silver equivalent moz

RESOURCE BASE
Silver equivalent moz

1 Silver	69%
2 Gold	31%

\$817m

CREATING VALUE THROUGH EXPLORATION

Our investment in exploration reinforces our strategic focus on exploration at our core assets and our extensive portfolio of projects that offer not only optionality but also considerable scope to create profitable growth. We have a team of 120 geologists and exploration offices in Peru, Chile, Argentina and Mexico.

EXPLORATION BUDGET

GREENFIELD BREAKDOWN BY COUNTRY

1 Greenfield	44%
2 Brownfield	26%
3 Advanced Projects	14%
4 Other	16%

\$77m

1 Peru	46%
2 Chile	26%
3 Argentina	5%
4 Mexico	23%

Where we operate

We have almost 50 years' operating experience in the Americas and currently have four underground mines in operation, three located in southern Peru and one in southern Argentina. We also have an extensive portfolio of Advanced Projects and exploration assets in Peru, Chile, Argentina and Mexico.

CURRENT OPERATIONS¹

1 Arcata Peru	Silver equivalent production	6.6 moz
	Capacity	1 750 tpd
2 Pallancata² Peru	Silver equivalent production	9.0 moz
	Capacity	3 000 tpd
3 San Jose³ Argentina	Silver equivalent production	11.1 moz
	Capacity	1 650 tpd
4 Ares Peru	Silver equivalent production	2.1 moz
	Capacity	1 000 tpd
5 Moris Mexico	Silver equivalent production	0.6 moz
	Capacity	3 000 tpd

ADVANCED PROJECTS¹

6 Inmaculada⁴ Peru	Estimated silver equivalent production p.a.	12 moz
7 Crespo Peru	Estimated silver equivalent production p.a.	2.7 moz
8 Azuca Peru	Estimated silver equivalent production p.a.	3.5 moz
9 Volcan Chile	Estimated silver equivalent production p.a.	n/a

GREENFIELD PROJECTS

Peru	Ibel Huacullo Astana Farallón Josnitoro Sorapampa San Martín Sipan Santo Tomás Fresia Julieta	Cuello Cuello Coriwasi Apacheta Alpacocha (Cu) Huachocha Jasperoide (Cu) Antay (Cu) Millohuayco (Cu) Numa Miraflores Ccellopunta
Argentina	El Mosquito Pomona	La Flora Argentina
Mexico	Baborigame Corazon de Tinieblas El Tanque	Mercurio Moctezuma
Chile	Victoria Potrero La Falda	Valenano Encrucijada

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

² The Company has a 60% interest in Pallancata.

³ The Company has a 51% interest in San Jose.

⁴ The Company has a 60% interest in Inmaculada.

MEXICO

KEY
Current Operations
Advanced Projects

PERU

CHILE

Discover more about where we operate
Visit the interactive map on our website for more details of the location of our assets
www.hochschildmining.com

ARGENTINA

How we do it

We believe that our sustainable business model and core strengths will not only create long-term value for our shareholders and all our stakeholders but also set Hochschild Mining apart, offering a unique investment proposition

We create value through our focus on exploration, supported by the strength of our core assets, the depth of our experience in the Americas and underpinned by our strong financial position, the contribution of our people, and our commitment to sustainability

OUR BUSINESS MODEL

EXPERIENCE IN
THE AMERICAS

STRENGTH OF
CORE ASSETS

COMMITMENT TO
SUSTAINABILITY

FOCUS ON
EXPLORATION

OUR PEOPLE

OUR UNIQUE PROPOSITION

We believe that the following qualities of Hochschild Mining set us apart and represent a unique proposition

EXPERIENCE IN THE AMERICAS

We have almost 50 years' experience operating across the Americas and have a wealth of operating, exploration and business development knowledge and experience within our teams. We are headquartered in Lima and have exploration offices in Argentina, Chile and Mexico.

STRENGTH OF CORE ASSETS

Since our IPO in 2006 we have delivered on all of our annual production targets and achieved our resource life-of-mine targets. Our substantial near-mine and brownfield exploration programmes continue to deliver positive results and in 2012 we have improved the quality of the resource base at our core operations.

FOCUS ON EXPLORATION

Our focus on exploration not only delivers growth as we progress projects through our extensive project pipeline, but also ensures the long-term sustainability of our core producing assets as we maximise their mine lives and the quality of their resources through exploration.

\$77m

2013 exploration budget

A view from the Crespo Advanced Project

Workers at San Jose

A geologist at Pallancata

COMMITMENT TO SUSTAINABILITY

We firmly believe that our business success is due to our approach of integrating and effectively managing the social and environmental business impacts in our decision-making and across all of our operations. We take great pride in managing our business in a way that ensures returns not only to our shareholders, but to all stakeholders including our employees and the communities surrounding our operations.

OUR PEOPLE

We value highly the depth of knowledge and experience we have within our Company and we encourage all of our employees to reach their full potential and ensure that they are part of a leading team, with a culture of operational excellence and high standards of social responsibility and safety.



For more information please see our Sustainability report on page 42

A member of the community near Arcata

How we are going to get there

OPERATING RESPONSIBLY

CORE ASSETS

EXPLORATION

ACQUISITIONS

OUR STRATEGY

Our strategy is to create value through optimising our current operations extensive exploration and opportunistic acquisitions

Our strategy is underpinned by our commitment to ensuring a safe and healthy workplace for all of our employees to manage and minimise the environmental impact of our operations and to encourage sustainability by respecting the communities surrounding our operations



For more information on our strategy please see our Chief Executive's review on page 18

CORE ASSETS

Improve productivity
Optimise life-of-mine

At our core assets we are focused on improving operational productivity maximising the life-of-mine and ensuring their long-term

sustainability Since our IPO we have doubled the overall throughput capacity at our operations and have achieved all of our annual production

targets We have also consistently increased our resource base and continue to receive positive results from our mines and brownfield exploration

EXPLORATION

Land package
People
Incentives
Budget

Our substantial exploration programme and extensive project pipeline are fundamental elements of our strategy We believe they offer not only optionality but also considerable scope for growth and creating value
We have an extensive pipeline of brownfield and greenfield projects with drilling campaigns in numerous locations across four countries in the Americas as well as over one million hectares of premium geological land

Our significant spend on exploration demonstrates our strong strategic focus on growth through exploration as well as our confidence in the considerable potential of our project pipeline
Underpinning our exploration strategy is our team of over 120 geologists with considerable technical experience and expertise and an unrivalled knowledge of the Americas We have exploration offices in Peru Chile Argentina and Mexico In recognition of

the contribution that our exploration team makes to the long-term success of our business we have an incentive programme to retain and attract geologists with direct economic rewards for geological discoveries We also have educational initiatives including partnerships with local and international universities and a graduate trainee programme where graduates from local universities are trained and recruited by the Company

ACQUISITIONS

Early stage
Geological potential
Highly accretive
Control

Our Business Development team has a clear mandate to pursue opportunities that are early stage with strong geological potential highly value accretive but also with a clear path to control

We have a proven track record of identifying early stage value accretive opportunities such as our acquisition of a controlling stake in the Inmaculada project and the recent

acquisition of Andina Minerals that added to our project pipeline with the Volcan gold deposit located in Chile

OUR GROWTH PYRAMID

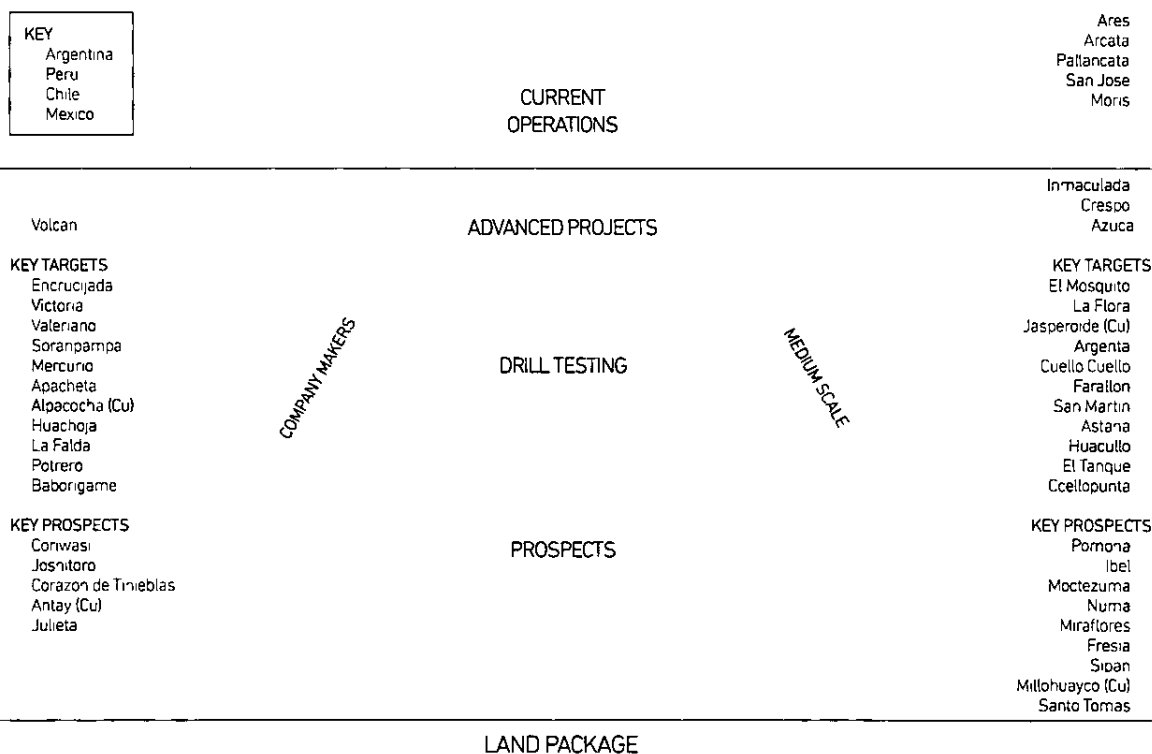
Our growth pyramid includes and categorises our projects from current operations to Advanced Projects, to Company Maker and Medium Scale targets and prospects, and finally, our premium land package. The pyramid also illustrates how these projects move up the pipeline from prospects to drill testing to Advanced Projects through to producing operations. Learn more about each stage of our exploration programme in Our Exploration in Action section.

Company Makers:

We currently have 16 potential Company Makers, which are projects that have the potential to achieve 20-30 million silver equivalent ounces of production per year.

Medium scale

We currently have 20 potential Medium Scale projects which have the potential to achieve 5-10 million silver equivalent ounces of production per year.



For more information please see our Operating review and Exploration review on pages 22-36



See overleaf for an explanation of each stage of our growth pyramid in action

Our exploration in action

We have a solid asset base and an extensive project pipeline with projects across the Americas. Our strategy is to create value through optimising our current operations, extensive exploration and opportunistic acquisition of early stage projects.

1 LAND PACKAGE

Hochschild Mining has an extensive and highly-prospective land package with more than one million hectares of premium geological land



For more information

2 PROSPECTS

At the Prospects level the goal is to identify and define the potential of an ore body through geological studies and surface sampling



For more information

3 DRILL TESTING

In order to progress the project in the pipeline drilling is conducted to confirm the potential for an economic resource and possibly delineate an inferred resource



For more information

MINE-SITES & BROWNFIELD EXPLORATION

Our mine-sites and brownfield exploration programme is focused in and around our current mines and is aimed at optimising our core assets by increasing their life-of-mine and improving the quality of their resources. Exploration work is concentrated on the definition of new high grade structures and the incorporation of high quality resources. We also invest in advanced stage projects located either in or around the Company's existing clusters or in new mining-friendly districts.

4 ADVANCED PROJECTS

The Company has four Advanced Projects: Inmaculada, Crespo and Azuca in Peru and the Volcan gold deposit in Chile. See them in action:

p 2
Inmaculada

p 14
Crespo

p 62
Azuca

p 98
Volcan

5 CURRENT OPERATIONS

Our three core assets are currently ranked amongst the 13 leading primary silver mines globally. Since our IPO in 2006, we have doubled the throughput capacity of our operations and delivered on all of our annual production targets.

Our strategy consists of:

- Consistently improving operational productivity and efficiency
- Optimising the resource base and life-of-mine at our core operations
- Safe and sustainable mining

Keep up to date with the latest information on our current operations at www.hochschildmining.com



For more information

Exploring for growth
Crespo

The Crespo Advanced Project will contribute an average annual production of 2.7 million silver equivalent ounces.

View more information on Exploring for Growth online www.hochschildmining.com

Business review

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In 2012 we progressed the detailed engineering for the mine and plant and completed the final engineering for the camp layout and construction at Crespo and we continue to anticipate that production will commence in the second half of 2014. We also saw good progress in our community relations initiatives at Crespo during the year. We held a successful public hearing for the

Project's Environmental Impact Study and we also had both the surface water study and land agreement approved by the local community, all key steps in the project's permitting process.

In 2013 we will complete the detailed engineering at Crespo and continue with the extensive exploration programme at the property.

2.7 million
Silver equivalent ounces
per annum

Chairman's statement

"2012 provided the mining industry with a number of challenges to which our team has responded with energy and confidence. In 2012, we produced 13.6 million attributable ounces of silver and 111.8 thousand attributable ounces of gold, a total of approximately 20.3 million attributable silver equivalent ounces."

2012 Overview

2012 has provided the mining industry with a number of challenges to which I believe our team has responded with energy and confidence. The outperformance of the Company's share price over the course of the year was evidence that a growing number of stakeholders agreed that our organic growth pipeline represents the best opportunity to generate long-term sustainable shareholder value. This resilience in the face of continuing global economic uncertainty is testament to our achievements in meeting our production targets once again, making considerable progress with our Advanced Projects despite the delays caused by changes in the Peruvian permitting process and identifying and executing acquisitions such as Andina Minerals with long-term potential for significant value enhancement.

In 2012, we generated revenue of just over \$800 million leading to EBITDA in the

region of \$400 million with earnings per share of \$0.19. The Board has decided to maintain the total dividend at 6 cents per share. This balances Hochschild's strong financial position and outstanding near-term potential for significant earnings growth with the Company's short-term capital expenditure commitments as well as current industry-wide pressures.

In November, we announced the purchase of Andina Minerals, our first sizeable acquisition since 2009. I am confident that we have secured an attractive opportunity at a purchase price significantly below recent comparable transactions. The move into large scale gold assets is entirely consistent with our long-standing Company Maker exploration strategy. Our Board has already visited the site and whilst there are undeniable potential challenges in bringing the deposit into production, the Volcan project represents a viable option to diversify our asset base by building a strong presence in a very prospective area of Northern Chile in the long term.

Our organic growth strategy continued to unfold during 2012 and during the year we approved two feasibility studies and subsequently made excellent progress at our two Advanced Projects with significant targets met in procurement, engineering and construction and also in both projects' social development programmes. We did experience delays in the process of obtaining the final construction permits but I remain excited by the potential of these projects to increase our current production levels by 50% and also the significant exploration upside opportunity at Inmaculada.

Our exploration-led strategy and the current capital constrained industry environment require that disciplined resource allocation and effective risk management be inherent in all our initiatives across the four countries that

A worker at the Arcata mine

A view from the Crespo Advanced Project

we explore. We have ensured that we are not only focusing our exploration capital on the most promising prospects, but also that we retain the discipline to exit or farm-out deposits or prospects that do not clear a defined set of hurdles. The year saw meaningful progress at many of our projects both in the Company Maker and Medium Scale categories, and I am confident that we will begin to witness the benefits of our greenfield investment as well as further success in brownfield exploration. I firmly believe this is the key to creating long-term shareholder value.

Operating responsibly

Underpinning our strategy is our commitment to operate responsibly. During 2012, Hochschild Mining was granted the Socially Responsible Company accreditation by Peru 2021, an organisation that reviews companies' efforts in this crucial area. As a mining company, we are conscious of the impact our activities have on the environment. To assist us, we seek to rely on leading environmental reporting systems, and so I am delighted that an external audit has confirmed that systems at our active operations remain compliant with ISO14001.

We also advanced during the year with the implementation of our Community Relations strategy, acknowledging our social commitment to operate in long-term harmony with our communities. A notable initiative for the year was

Digital City, where we dedicated significant financial and human resources to create a digital hub at the town of Chalhuanca, located close to our operations at Pallancata. This project sought to improve access to education and to encourage economic sustainability through the installation of free internet access for the whole town. Further details of all of these initiatives will be provided in the Annual Report.

On the issue of safety, we continue to make progress with an 8% reduction in the Group's accident frequency rate. However, there is still a lot more work to be done, as most regrettably, there were four fatalities at our operations during 2012. In keeping with Group practice, all mining activity was suspended immediately after each incident while investigations were carried out. We consider each accident to be avoidable, and we therefore took the active decision to re-emphasise management's zero tolerance policy on accidents by designating 14th November 2012 as the Hochschild Safety Day, when production across all sites was suspended and we conducted Group-wide safety training sessions.

Outlook

Despite ongoing price volatility, long-term precious metal fundamentals remain robust as inflation fears continue to drive demand, and resource scarcity restricts supply. Looking ahead, our consistent

performance and our growth opportunities clearly show that we are on the right track, and in 2013 we can expect further progress on the development of our Advanced Projects. In addition, there is significant potential, and indeed the financial strength, to continue to add optionality to our extensive project pipeline through organic development or further value-enhancing acquisitions.

Board composition

I am delighted that we were able to announce during the year the appointment of Enrico Bombieri as an independent Non-Executive Director. Enrico brings a wealth of global capital markets experience from his previous roles as a senior member of management at JP Morgan. I would also like to take this opportunity to express my gratitude to Sir Malcolm Field for agreeing to postpone his retirement from the Board until the end of 2013, allowing us to further benefit from his invaluable contribution.

On behalf of the Board, I would like to thank the entire talented Hochschild team for another year of strong performance, and our shareholders for your continued support.

Eduardo Hochschild
Executive Chairman
12 March 2013

TOTAL SHAREHOLDER RETURN (indexed to the Hochschild Mining plc share price since start 2008)
£

800

600

400

200

0

2008 2009 2010 2011 2012
— FTSE 350 Index — Hochschild Mining plc

Chief Executive's review

"I am pleased to report that Hochschild has delivered a robust set of results in 2012 reflecting the successful achievement of our annual production target, considerable progress with regard to our organic growth pipeline and, towards the end of the year, the announcement of the exciting purchase of Andina Minerals

Despite further economic, financial and political difficulties continuing to affect many markets in 2013, Hochschild remains in a strong position to enter a critical delivery phase. We remain committed to the safe and sustainable delivery of optimised production, complementing our value enhancing growth potential."

STRATEGIC HIGHLIGHTS FROM 2012

- Annual production target achieved
- Overall unit cost performance in line with guidance
- Good progress at Inmaculada and Crespo Advanced Projects
- Excellent results from brownfield exploration – core asset resource base optimised
- Addition of Volcan gold deposit to long-term project pipeline

Strategic progress

The geological conditions at our main operations continue to be extremely promising and during 2012 our brownfield exploration results have been significant with high grade discoveries at all three operations. Having previously exceeded all our original life-of-mine targets in 2012 we shifted the focus of our brownfield exploration programme to improving the quality of our resource base and the results received have confirmed the potential for continued high quality resource additions in the future. As part of this work we have also completed a full review of our resource base and have been able to optimise the geological models of our main operations. Furthermore, in an effort to improve our

resource to reserve conversion ratios we have optimised our mine plans by removing resources that although economic at our stringent cut-off threshold are unlikely to be mined at present. These include resources that necessitate high capex, inaccessible resources from previous mining campaigns or those that still require further evaluation before inclusion in the mine plan. As a result we have been able to maintain a life-of-mine that is now supported by a more robust resource base. I remain positive about the exploration potential of these outstanding mines and their ability to continue producing high value resources into the future.

The development of our project pipeline remains a key pillar of our strategy and during the year our Advanced Projects which will increase our production levels by 50% made good progress. Following the Board's approval of both feasibility studies in January, several key procurement, engineering and construction targets were achieved throughout the year with the expected start-up date for both projects now set for the second half of 2014. We have also made significant advances with regards to the projects' social development programmes and environmental aspects

as demonstrated by the approval of Inmaculada's Environmental Impact Study in October.

Our ambitious greenfield programme also continued in 2012 and I am pleased that we have received further positive results from our Company Maker pipeline, in particular at Valeriano in Northern Chile where initial drilling testing encountered evidence of a mineralised porphyry copper system at depth with significant copper and gold mineralisation capped by a mineralised lithocap. Drilling continues at the property to evaluate grades and the size of a potential resource. We have again affirmed our continuing commitment to our exploration strategy with a \$77 million budget set for 2013 with almost half assigned to the greenfield programme.

We have always stated that we will look for opportunities to create value not only from our project pipeline but also from acquisitions that meet our disciplined acquisition criteria. In this regard, the announcement in November of the purchase of Andina Minerals was consistent with our strategic model, providing Hochschild with further long-term optionality as well as increased geographical balance within our extensive project pipeline. Its principal asset, the Volcan project, is located in Chile, one

of the most attractive mining-friendly jurisdictions in the Americas. The impressive size of the deposit necessitates careful planning before committing any development capital and therefore we intend to conduct substantial geological and technical evaluation work on the deposit throughout 2013 and are confident that our experienced professionals will develop its strong potential in the long term.

2012 Overview

Hochschild has established a reputation for consistently meeting its annual production targets and in 2012 our operations once again delivered producing 20.3 million silver equivalent ounces. The San Jose mine in Argentina enjoyed another robust year with full year production up by 3% and can look forward to an even stronger 2013 following a cost effective 10% plant capacity expansion. Our Peruvian operations continued their policy of mining close to their average reserve grades whilst pursuing opportunities to optimise their performance. For example, the Arcata mine further capitalised on high silver prices to process low grade previously mined material, as well as completing the value enhancing Dore project.

In 2012, Hochschild experienced ongoing cost increases in Peru that were consistent with industry-wide inflation. This trend is set to continue in 2013 with further labour cost increases and currency appreciation currently forecast. In Argentina, we were encouraged by the Company's ability to mitigate the ongoing effects of high local inflation with increased year-on-year tonnages, further helped by a degree of local currency devaluation. We expect local cost inflation in Argentina to continue to be high in 2013, but are confident that the combination of increased tonnage from the capacity increase with further currency devaluation will provide a significant offset.

Hochschild reported revenue of \$818 million in 2012. This reflected a fall of almost 10% in the average silver price

received that more than offset the 6% rise in year-on-year gold prices, as well as the scheduled fall in production versus 2011. EBITDA reached \$385 million, in line with the fall in revenue, as well as the above mentioned cost inflation, and pre-exceptional EPS was \$0.19 for the full year. We continue to have a strong cash balance of approximately \$359 million even after the payment for 86.7% of Andina Minerals, as well as just over \$250 million in minority investments. Together with our healthy operating cash flow, Hochschild retains the flexibility to begin full construction at the Inmaculada and Crespo projects in the second half of 2013, execute our \$77 million exploration programme and, subject to satisfying the Company's strict criteria, further capitalise on the significant range of acquisition opportunities in the current environment.

Outlook

The Company's production target for 2013 is 20.0 million attributable silver equivalent ounces, driven by stable production from our core Peruvian operations and a continued decline in contribution from our two ageing mines, Ares in Peru and Monis in Mexico, offset by the increased output from San Jose following the capacity increase.

2013 promises to be an important year in Hochschild's development, as the expected receipt of construction permits for our two Advanced Projects in the second half will signal the start of a key phase of capital expenditure aiming to take the Company smoothly to the next level of production. Our core strategy is unchanged. We will once again be focused on delivering on our stated operational targets, begin the detailed process of assessment at the exciting Volcan project and continue to develop our comprehensive project pipeline supported by its \$77 million budget and further selective acquisitions.

We retain great confidence in our experienced workforce to deliver operational improvements and efficiencies while balancing increased investment in the drivers of long-term profitable growth with opportunities to enhance returns. I am confident we can continue to deliver significant value for all our stakeholders.

Ignacio Bustamante
Chief Executive Officer
12 March 2013



For more information about our operating performance

Workers at Pallancata

Market & geographic overview

2012 market overview

Precious metals prices remained at elevated levels in 2012 driven mainly by investment demand. The slowdown in Chinese economic growth and the recession in Europe weighed on industrial demand for these metals although lower prices did lead to a growth in jewellery demand. Finally investors became more price conscious during 2012 largely buying on price dips.

2012 SILVER AND GOLD PERFORMANCE (INDEXED)

Geographic overview

Our strategy is focused in the Americas a region with enormous mineral potential and a long and supportive history of mining.

Hochschild operates three of the 13 largest primary silver mines globally and has projects and investments in four of the top 20 precious metal producing countries including Peru and Mexico which were the world's largest and third largest producers of silver in 2012 respectively.

Country production rankings

	2012*		2011	
	Gold	Silver	Gold	Silver
Peru	6	3	6	3
Argentina	13	9	12	9
Mexico	8	1	8	1
Chile	16	6	14	5

* Forecast

Source: CPM Group LLC

Dore bars at San Jose

SILVER REVIEW

Overview

Silver prices trended lower in 2012 continuing a decline that began in April 2011 after prices peaked above \$48/oz. In 2012 silver prices averaged \$31.17/oz down 11.7% from the record nominal annual average high of \$35.29/oz in 2011. A slowdown in industrial activity across the globe coupled with less momentous investment demand weighed on prices throughout the year, however investors proved resilient to declining silver prices continuing to buy on price dips and contributing to three price rallies that occurred throughout 2012.

Investors are estimated to have bought 130.8 million ounces of silver in 2012 up from 125.0 million ounces in 2011. Silver exchange traded product holdings increased by 9.1% or 51.4 million ounces in 2012. Whilst coin demand declined an estimated 15% during the year purchases of silver investment bars increased as bargain hunters bought on price dips.

Silver fabrication demand growth increased to an estimated 2.8% in 2012 from 1.1% in 2011 and accounted for almost 30% of silver demand in 2012. Fabrication demand was buoyed by a 3.1% increase in jewellery demand, which benefited from lower silver prices and as an alternative to gold jewellery. Electronics and batteries demand growth slowed to 3.2% in 2012 from 4.5% in 2011. Growth in the tablet mobile device market weighed on demand for silver from this sector. Tablets contain about one-tenth the amount of silver contained in personal computers. Silver demand from solar panel manufacturers dropped to 43.7 million ounces down 24.6% from 57.9 million ounces in 2011. This was the first decline in silver demand from the industry and was mostly due to aggressive thrifting of the metal in solar panel.

GOLD REVIEW

Overview

Gold prices remained at historically elevated levels during 2012. Prices moved between \$1,526.70/oz and \$1,798.10/oz during the year. Gold prices were unable to reach the levels seen in September 2011 but reached a record high annual average of \$1,670.15/oz in 2012 up from an annual average of \$1,572/oz during 2011.

Continued investor demand the most significant factor influencing prices helped to maintain prices at high levels during 2012. However despite investor interest in gold remaining strong in 2012 investors became more price sensitive holding back when prices rose and buying the metal when prices declined. This investor activity locked prices into a range during 2012.

Central bank purchases continued to underpin gold prices during 2012. On a net basis central banks purchased 9.5 million ounces of gold in 2012. This was up from net purchases of 9.2 million ounces in 2011.

Global gold mine supply in 2012 is estimated at 76.7 million ounces lower than the 79.1 million ounces mined in 2011. A decline in South African mine supply with strike action impacting the industry in the second half was largely responsible for the lack of growth in global gold mine supply during 2012. It is estimated that 42.3 million ounces of gold was recovered from the secondary supply of gold during 2012, up 4.2% from 2011. Increased secondary recovery of gold in India was largely responsible for the increase in global scrap recovery.

Gold fabrication demand during 2012 is estimated at 70.8 million ounces up 1.4% from 2011. Jewellery demand accounted for almost 47% of gold demand in 2012. Jewellery demand from India fell during

technologies. Photography demand declined an estimated 4.6% which was the slowest rate of decline since 2004.

Total silver supply rose above one billion ounces for the first time in history a 1.6% increase year-on-year. Mine production rose by 2.1% whilst scrap and other secondary supply increased by a modest 0.3% and accounted for 28% of supply in 2012. A decline in scrap flows in the United States and China as well as a drop in government disposals of silver was not able to offset a 10.4 million ounce increase in Indian scrap in 2012.

Possible drivers for silver in 2013

- Jewellery demand is expected to increase at a stronger pace
- Electronics and batteries and solar panel demand growth for silver are expected to improve year-on-year
- Mine production is expected to expand at a faster pace in 2013 relative to 2012. Secondary supply is expected to decline more rapidly in 2013 relative to 2012
- Investment demand is expected to be lower in 2013. Investors are expected to continue to add silver to their portfolios but at a slower rate and are expected to be extremely price sensitive buying on dips

2012 SILVER SUPPLY

1 Mine production	71.9%
2 Secondary supply [†]	28.0%
3 Net exports from transitional economies*	0.1%

2012 SILVER DEMAND

1 Jewellery & silverware	29.7%
2 Investment demand (excl coins)	5.1%
3 Coin fabrication	7.9%
4 Other industrial uses [‡]	47.6%
5 Photography	9.7%

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

[‡] Other industrial uses include electronics, solar panels, biocides, mirrors, batteries, brazing alloys and solders, dental alloys and chemical catalysts

Source: CPM Group LLC

the first half of the year as changes in regulations, taxes and a weak domestic currency against the US dollar impacted demand. Indian demand did however rise during the second half of the year mainly reflecting pent-up demand and the festival and wedding seasons. Chinese gold fabrication demand rose to a record high in the first quarter of 2012 and edged lower on a year-on-year basis during the second and third quarters of the year. However demand from China during these quarters remained well above the levels seen in 2011.

Possible drivers for gold in 2013

- Continued strength in investment demand is expected although investors will remain price sensitive buying the metal only when prices decline
- Central banks are expected to remain large net buyers of gold as they continue to diversify their foreign exchange reserves which should provide support to prices
- Growth in the secondary supply of gold is likely to soften in 2013 but remain at elevated levels and mine supply is likely to see a strong rise during the year
- Fabrication demand from the jewellery sector could improve in 2013 as consumers become accustomed to higher gold prices and Indian consumers fully digest the higher taxes and the negative impact of a possibly weak domestic currency

2012 GOLD SUPPLY

1 Mine production	60.0%
2 Secondary supply [†]	36.0%
3 Net exports from transitional economies*	5.0%

2012 GOLD DEMAND

1 Jewellery	46.9%
2 Electronics	12.6%
3 Official sector purchases	12.4%
4 Private investment demand	28.1%

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

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

Source: CPM Group LLC

Operating review

Core assets

In 2012 Hochschild once again met its full year production target, producing 20.3 million attributable silver equivalent ounces

2012 HIGHLIGHTS

- Full year production of 20.3 million attributable silver equivalent ounces in line with guidance
- Good progress at Advanced Projects – Inmaculada plant construction contract awarded and EIS approved by Peruvian government, detailed engineering and construction continued at Inmaculada and Crespo
- Excellent results from brownfield exploration programmes at core assets

Production

In 2012 Hochschild once again met its full year production target, producing 20.3 million attributable silver equivalent ounces comprised of 13.6 million ounces of silver and 111.8 thousand ounces of gold. The Company has announced a production target of 20.0 million attributable silver equivalent ounces for 2013. Production at each of the Company's main operations is expected to be in line with 2012. As anticipated, production at the ageing Ares mine will continue to decline, reflecting lower tonnages and grades. Production at the Moris mine in Mexico is not expected to be material.

Costs¹

In 2012, excluding mine royalties and the cost impact of the increased dore production at Arcata (which is more than compensated for by a reduction in commercial discounts and selling expenses), the Company reported a 17% increase in unit cost per tonne at its main Peruvian operations to \$70.9 per tonne (2011: \$60.8). The increase in unit cost per tonne excluding royalties, including the cost impact of the dore project, was 21% (from \$60.8 per tonne in 2011 to \$73.3 in 2012). In Argentina,

unit cost per tonne excluding royalties increased by 12% to \$190.4 per tonne (2011: \$169.6). The Company expects the increase in overall 2013 unit cost per tonne in Peru to be approximately 15-20% excluding royalties and the increased refining cost due to the effects of the dore project at Arcata. In Argentina, expected continuing local inflation, partially offset by local currency devaluation, is anticipated to result in a unit cost per tonne increase of 10-15%. Please see page 38 of the Financial Review for further details of costs.

A view of Arcata

OUR CORE ASSETS KEY PERFORMANCE INDICATORS

In 2012 we not only achieved our annual production target but we also received excellent results from our brownfield exploration programme and maintained our life-of-mine which is also now supported by a more robust resource base.

ATTRIBUTABLE SILVER PRODUCTION
moz

ATTRIBUTABLE GOLD PRODUCTION
koz

RESOURCE LIFE-OF-MINE
Years

¹ Following the revision of the mining royalty regime in Peru in 2011, the mine royalties levied on the output of the Pailancata and Ares units are now accounted for as income tax, whereas previously royalties for both units were treated as production costs. The effect of this change should be taken into account when comparing the units' production cost per tonne, cash costs and Adjusted EBITDA metrics in 2012 with those of 2011.

Core assets

Arcata

Arcata Peru

KEY SITE INFORMATION

Silver production koz

5,526

Gold production koz

17.27

Silver equivalent production koz

6,562

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

Production and sales

In 2012 full year silver equivalent production at Arcata was 6.6 million ounces (2011: 7.1 million ounces). There was an increase in tonnage compared to 2011 mainly reflecting a planned fourth quarter increase in volumes processed from the low grade Macarena Waste Dam Deposit. This was achieved following a 500 tonne per day capacity expansion at the Arcata plant completed in Q3 2012. The decrease in production was also a result of lower grades in line with the Company's policy of mining close to the average reserve grade at its core assets.

In addition production at Arcata included the decrease in ounces recovered as a result of the ramping up of the dore project. This initiative was completed in the fourth quarter with 100% of Arcata's concentrate now being converted into dore resulting in significant commercial savings which more than offset the decrease in ounces recovered from the process. Excluding the effect of this project Arcata would have produced an additional 234 thousand silver equivalent ounces in the full year.

Contribution from Macarena Waste Dam Deposit

	12 mths 2012	12 mths 2011
Total		
Tonnage	773,498	687,966
Average head grade gold (g/t)	0.83	0.88
Average head grade silver (g/t)	271	312
Macarena		
Tonnage	133,825	86,859
Average head grade gold (g/t)	0.30	0.30
Average head grade silver (g/t)	105	95
Stopes and developments		
Tonnage	639,673	601,107
Average head grade gold (g/t)	0.94	0.97
Average head grade silver (g/t)	306	344

In 2012 the silver/gold concentrate from Arcata was sold to Consorcio Minero S.A. Korea Zinc Co and MRI Trading AG. 47% of Arcata's production was processed into dore, all of which was sold to Johnson Matthey in 2012.

Costs

Unit cost per tonne, excluding royalties and the additional cost of increased dore production increased by 9%. Including the additional cost of increased dore production the unit cost increased by 17% to \$82.0 (2011: \$70.2). The main drivers were higher mining costs resulting from a higher proportion of production from narrower veins, a 4% appreciation in the Peruvian Sol and higher wage costs in line with industry inflation. These effects were partly offset by economies of scale resulting from an increase in treated tonnage.

Resource life and Brownfield exploration

The resource life of Arcata stands at 11.7 years as at 31 December 2012. During the year exploration work at Arcata focused on the definition of new high grade structures and the incorporation of high quality resources from known vein systems, as well as to provide further geological interpretation of the area. Positive results included the discovery of high grade resources in the Tunel 4 area, the discovery of the new Katty vein and the extension of the Alexia vein with the potential to increase the life-of-mine and to improve the average grade quality of the resource. In total 56,269 metres of diamond drilling was completed during 2012 (2011: 94,656 metres) with significant intercepts including¹:

• Alexia

DDH-380 200m at 4.56 g/t Au and 814 g/t Ag
DDH-400 934m at 3.34 g/t Au and 984 g/t Ag

• Katty

DDH-354 145m at 13.69 g/t Au and 1,965 g/t Ag
DDH-397 150m at 47.01 g/t Au and 3,642 g/t Ag

• Tunel 4

DDH-355 224m at 4.68 g/t Au and 1,162 g/t Ag
DDH-306 115m at 6.87 g/t Au and 2,387 g/t Ag
DDH-304 133m at 3.48 g/t Au and 2,815 g/t Ag

• Sandra

DDH-301 118m at 2.06 g/t Au and 1,059 g/t Ag

In 2013 the exploration and drilling programme of 34,000 metres at Arcata will continue in the potential and near mine exploration areas in the northern part of the district surrounding the Socorro, Alexia and Katty vein systems.

¹ Please note that all mineralised intersections in this report are quoted as down-hole lengths, not true widths.

Operating review continued

Core assets

Pallancata

Pallancata Peru

KEY SITE INFORMATION

Silver production koz

7,441

Gold production koz

26.23

Silver equivalent production koz

9,014

The Pallancata silver/gold property is located in the Department of Ayacucho in southern Peru approximately 160 kilometres from the Arcata operation. Pallancata commenced production in 2007 and is a joint venture in which Hochschild holds a controlling interest of 60% and is the mine operator with International Minerals Corporation (IMZ). Ore from Pallancata is transported 22 kilometres to the Selene plant for processing.

Production and sales

Full year production at Pallancata in 2012 was 9.0 million silver equivalent ounces (2011 10.8 million). The decrease in production compared to 2011 was mainly due to lower grades reflecting the Company's policy of mining close to the average reserve grade at its core assets as well as the processing of a higher proportion of mineral from narrower structures with higher mine dilution and lower metallurgical recovery. In addition temporary delays in the mine execution plan in the first half of the year that led to the treatment of a greater proportion of lower grade material from the mine also contributed to the decrease in production.

In 2012 the silver/gold concentrate from Pallancata was sold to Teck Metals Ltd.

Aurubis AG LS-Nikko Copper Inc.
and Consorcio Minero S.A.

Costs

Excluding mine royalties unit cost per tonne increased by 23% to \$67.2 per tonne (2011 \$54.5)¹. Including royalties the increase in 2012 was 11% to \$67.2 per tonne (2011 \$60.4). This rise was principally due to an increase in mine costs reflecting the higher proportion of production from narrower veins as well as an increase in mined areas and higher cement consumption following the temporary delays in the mine execution plan in the first half of the year as mentioned above. In addition an increase in wage costs resulting from industry inflation and a 4% appreciation of the Peruvian Sol also contributed to the rise.

Resource life and Brownfield exploration

The resource life of the Pallancata operation stands at 7.4 years as at 31 December 2012. During 2012 a total of 50,326 metres of diamond drilling was carried out over the course of the year (2011 50,748 metres) focused on the identification of wider structures and the incorporation of new resources. Drilling in 2012 mainly focused on the Paola,

Luisa Pallancata West, Huararani Rina Yurika and Teresa veins with intercepts including²

• Luisa

DLLU-A26 3.79m at 4.44 g/t Au and 1.061 g/t Ag
DLLU-A88 3.03m at 1.76 g/t Au and 523 g/t Ag
DLLU-A99 1.20m at 12.17 g/t Au and 1.670 g/t Ag

• Huararani

DLHU-A14 3.01m at 3.61 g/t Au and 1.236 g/t Ag

• Paola

DLLU-A28 7.13m at 2.52 g/t Au and 279 g/t Ag

• Pallancata East

DLPE-A87 1.70m at 3.87 g/t Au and 473 g/t Ag

• Yurika

DLTE-A11 1.65m at 2.93 g/t Au and 451 g/t Ag

In 2013 the exploration programme at Pallancata will focus on the definition of structures with high quality resources from known veins systems. The drilling campaign will also concentrate on identifying new high grade veins with 39,050 metres of drilling planned in total.

Workers at the Pallancata mine

1 Following the revision of the mining royalty regime in Peru in 2011 the mine royalties levied on the output of the Pallancata and Ares units are now accounted for as income tax whereas previously royalties for both units were treated as production costs. The effect of this change should be taken into account when comparing the units' production cost per tonne, cash costs and Adjusted EBITDA metrics in 2012 with those of 2011.

2 Please note that all mineralised intersections in this report are quoted as down-hole lengths, not true widths.

Core assets San Jose

San Jose, Argentina

KEY SITE INFORMATION

Silver production koz

5,953

Gold production koz

85.77

Silver equivalent production koz

11,099

Workers at the San Jose mine

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

Production and sales

San Jose delivered another strong performance in 2012 with silver equivalent production of 11.1 million ounces (2011 10.7 million ounces). The 3% rise in production versus 2011 resulted from an increase in overall tonnage due to a greater availability of lower grade economic development material as well as operational efficiencies that allowed for an increase in mill throughput. The decrease in silver grades reflected this higher proportion of development material as well as the Company's policy of mining close to the average reserve grade at each of its core operations.

San Jose experienced a temporary accumulation of concentrate inventory during Q2 2012 due to the impact of industry-wide regulatory changes in Argentina. However, exports resumed at the end of Q2 and sales of this inventory were completed in Q3 2012.

In 2012, the ore produced at San Jose was sold to Argor Heraeus S.A. The concentrate produced at the operation was sold to Teck Metals Ltd, Aurubis AG, LS-Nikko Copper Inc and Consorcio Minero S.A.

Costs

Unit cost per tonne at San Jose, excluding royalties, increased by 12% to \$190.4 (2011 \$169.6). Including royalties, the increase in 2012 was 11% at \$202.2 per tonne (2011 \$181.7). The key driver was wage cost increases driven by local inflation in Argentina continuing to run at between 25% and 30% in 2012. In addition, this impacted energy costs. These effects were partially offset by a 10% devaluation of the Argentinian peso and economies of scale achieved through an increase in tonnages extracted and treated.

Resource life and Brownfield exploration

The resource life of San Jose stands at 12.2 years as at 31 December 2012. The Company received some excellent results from the exploration programme at San Jose in 2012, including the discovery of the Emilia vein located within the San Jose area, followed by the discovery of two further high grade structures, the Rosario

and Kospi extension veins. During the year, a total of 81 099 metres (2011 55 678 metres) of drilling was carried out to incorporate further resources and new economic areas. Drilling focused on a number of veins and significant intercepts included¹

- **Kospi**
SE SJM-217 9.50m at 21.25 g/t Au and 3.404 g/t Ag
- **Emilia**
SJD-496 1.00m at 46.37 g/t Au and 6.951 g/t Ag
SJD-1246 1.00m at 71.31 g/t Au and 3.579 g/t Ag
SJD-1264 0.90m at 147.04 g/t Au and 1.276 g/t Ag
- **Chenque**
SJD-1121 1.70m at 11.05 g/t Au and 1.186 g/t Ag
- **Frea**
SJD-1319 1.00m at 35.54 g/t Au and 267 g/t Ag
- **Huevos Verdes**
SJD-1322 1.00m at 5.99 g/t Au and 1.632 g/t Ag
- **Pilar**
SJD-1052 0.84m at 13.00 g/t Au and 2.275 g/t Ag

In 2013, the exploration programme at San Jose will include geological mapping and a 32 000 metre drilling campaign to continue exploration in and around the San Jose mine and the Saavedra areas.

¹ Please note that all mineralised intersections in this report are quoted as down hole lengths, not true widths.

Operating review continued

Core assets

Ares & Moris

Moris Mexico

KEY SITE INFORMATION

Silver production koz

481

Gold production koz

26.28

Silver equivalent production koz

2,058

Ares: Peru

The Ares mine, which commenced production in 1998, is a 100% owned operation located approximately 275 kilometres from the city of Arequipa in southern Peru.

Production and sales

Although production at Ares was expected to end in 2011, the Company continues to extract mineral from new veins and production continued in 2012. Full

year production at Ares was 2.1 million ounces (compared to 2.3 million ounces in 2011). The Company continues to monitor production closely at Ares to ensure the extraction of profitable ounces during the last stage of its life cycle, with production expected to continue into 2013. The exploration programme is continuing at the property and positive results have already been received.

100% of Ares' production is processed into dore, all of which was sold to Johnson Matthey in 2012.

Brownfield exploration

In 2012, a full geophysical survey was conducted at Ares and as a result new intersections at the Isabel vein were discovered and new structural corridors were detected. During the second half of the year, near mine exploration continued on the Apolo vein in the NW corridor. In addition, several new anomalies were detected and drilling was carried out in the Rosario and Isabel veins to define new resources. During the year

Ares Peru

a total of 17,534 metres of drilling was carried out at Ares. Positive intercepts included¹

• **Isabel**

AM-1515: 1.70m at 3.36 g/t Au & 578 g/t Ag
AM-1493: 1.35m at 9.83 g/t Au & 68 g/t Ag
AM-1482: 6.05m at 0.44 g/t Au & 155 g/t Ag

• **Olga**

AM-1482: 2.65m at 0.13 g/t Au & 448 g/t Ag

• **Apolo**

AM-1497: 0.70m at 0.10 g/t Au & 243 g/t Ag

In 2013, the exploration programme and 2,800 metre drilling campaign at Ares will focus on exploring the potential extensions of known veins systems and in new structures.

KEY SITE INFORMATION

Silver production koz

42

Gold production koz

8.79

Silver equivalent production koz

570

Moris: Mexico

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

Production and sales

Despite mine production at Moris having ceased in September 2011, in 2012 continued leaching of the pads produced a further 570,000 silver equivalent ounces (2011: 1.2 million ounces). The Company expects to continue recovering mineral from the pads in 2013, although this is not expected to be material. Exploration continues at the property.

In 2012, the gold/silver dore produced at Moris was sold to Johnson Matthey.

Brownfield exploration

Exploration work at Moris during 2012 focused on identifying new economic structures. During the year, 13,994 metres of drilling was carried out in the La Nopalera, Creston, Eureka, La Mexicana, Los Alamos and San Luis areas. Positive intercepts included¹

• **La Mexicana**

DM-34: 1.72m at 4.97 g/t Au & 7 g/t Ag
DM-37: 4.91m at 2.56 g/t Au & 3 g/t Ag
DM-36: 5.85m at 1.74 g/t Au & 3 g/t Ag

During 2013, further mapping and sampling will be carried out in order to better define the new resource areas.

¹ Please note that all mineralised intersections in this report are quoted as down-hole lengths, not true widths.

Advanced Projects Inmaculada, Crespo, Azuca & Volcan

Inmaculada
Crespo Azuca
Peru &
Volcan Chile

The Company has four Advanced Projects Inmaculada, Crespo and Azuca in Peru and the Volcan Gold project in Chile. In January 2012, Hochschild announced the successful completion of the Inmaculada and Crespo feasibility studies which are forecast to contribute 10 million silver equivalent ounces of attributable production on average per annum. In November 2012, the Company announced that, following industry-wide delays in the permitting process in Peru, it now expects to receive the final mill construction permits for the Inmaculada and Crespo projects in the second half of 2013 with commissioning for both projects' mills scheduled for the second half of 2014. At Azuca, the Company continued exploration work at the project throughout 2012 in order to consolidate resources and provide a more comprehensive picture of the complex vein structures in the area. The Volcan Gold deposit was acquired following the acquisition of Andina Minerals Inc in November 2012.

Inmaculada, Peru

Inmaculada is a 20,000 hectare gold-silver project located in the Company's existing operational cluster in southern Peru and is 60% owned and controlled by Hochschild following the acquisition of a controlling

stake in October 2010. The remaining 40% is held by the Company's joint venture partner at Pallancata, International Minerals Corporation (IMZ).

Following the substantial progress made by the Company during 2012 with regard to detailed engineering and also procurement and construction contracts for the Inmaculada project, the revised total capital expenditure estimate for the project is now expected to be approximately \$370 million for a 3,500 tonne per day (tpd) underground operation with average annual production of 12 million silver equivalent ounces (7 million attributable ounces). The project is due to be commissioned in the second half of 2014. During the year, the Company also continued to receive positive results from the exploration programme at the property which consists of 40 mining concessions with resources which are currently estimated at a total of 150 million silver equivalent ounces.

In August 2012, the Company awarded the contract for the construction of the plant at Inmaculada, within budget, for \$142 million, and in September the Environmental Impact Study (EIS) for the project was awarded, representing a key step in the project's permitting process.

Also during the year, the purchase of the main plant equipment was completed and the Company progressed with the detailed plant engineering, as well as the detailed engineering for the mine. In addition, engineering for the camp facilities and for the workshops, warehouses and offices was completed. Construction of the water treatment plant was also underway and construction of the exploration tunnels continued, with 2,920 metres completed during the year. Finally, the contract for the construction of the main access road to the site was granted, with completion due in H1 2013, and work also continued on the construction of the electricity transmission line during the year.

Exploration at Inmaculada in 2012 focused on the definition and incorporation of potential systems outside the current resource area. During the year, five drill rigs were in operation and a total of 45,942 metres of drilling was carried out, focused on the Tensional Lourdes, Tensional Lourdes II, Martha and Angela and Juliana veins, as well as the newly discovered Susana and Mirella veins where assay

INMACULADA PROGRESS CHART

View of the Inmaculada Advanced Project

1 Please note that all mineralised intersections in this report are quoted as down-hole lengths, not true widths.

Advanced Projects continued

results showed excellent mineralisation
Positive results included¹

- **Martha**
MAR12-006 0.85m at 51.77 g/t Au & 175 g/t Ag
- **Susana**
MAR12-004 1.03m at 17.15 g/t Au & 1.851 g/t Ag
MAR12-006 2.52m at 4.97 g/t Au & 531 g/t Ag
- **Lourdes**
LOU12-013 1.13m at 18.23 g/t Au & 155 g/t Ag
LOU12-001 3.50m at 7.12 g/t Au & 369 g/t Ag
- **Angela SW Cmoide**
ASW12-016 10.75m at 4.03 g/t Au & 188 g/t Ag includes
ASW12-016 5.70m at 1.41 g/t Au & 312 g/t Ag
- **Mirella**
LOU12-023 1.60m at 8.54 g/t Au & 81 g/t Ag
LOU12-024 1.23m at 8.26 g/t Au & 81 g/t Ag

In 2013 the 13,450 metre drilling campaign will continue with near mine and potential drilling to expand the current resources at Inmaculada

Crespo: Peru

Crespo is 100% owned by Hochschild and is located in the Company's existing operating cluster in southern Peru. This will be a relatively simple open pit project with high gold recovery rates and as with the Inmaculada project will benefit from operational synergies due to its proximity to the Company's existing operations. The project has an estimated total capital expenditure of approximately \$110 million for a 6,850 tpd operation with an average annual production of 2.7 million silver equivalent ounces from the second half of 2014.

In 2012 the Company made good progress at Crespo: the detailed engineering for the mine and the plant was in progress during the fourth quarter and is expected to be completed in the first half of 2013. In addition the final engineering for the camp design and construction was completed and work on the access road to the project commenced.

In April 2012 the Company held a successful public hearing in relation to the project's EIS permit and during the year the Company continued the process of responding to the relevant observations with regard to the EIS permit whilst community relations support programmes

also continued. Furthermore on 28 December 2012 the surface water study for the Crespo project was approved and subsequently on 11 January 2013 the surface land agreement for the project was approved by the local community. Both of these are key steps in the project's approval process and the Company is now in a position to submit the project's construction permit application.

The exploration programme at Crespo continued to deliver positive results in 2012. During the year lithological and alteration models were completed and a surface sampling campaign was concluded. Exploration and infill drilling at the Crespo and Queshca areas started in September with three drill rigs in operation. A total of 2,311 metres of exploration drilling was completed during the year as exploration focused on the transition of inferred resources into measured and indicated resources and to test the extension of gold mineralisation below the current pit. Positive results were received from superficial levels and in addition assay results from the

Queshca area confirmed a structural domain mineralisation. Positive intercepts included¹

- **Queshca area**
DDHQ5-1207 22.50m at 2.86 g/t Au & 29 g/t Ag
DDHQ5-1205 1.60m at 1.93 g/t Au & 10 g/t Ag
DDHQ5-1208 24.00m at 8.93 g/t Au & 45 g/t Ag

In 2013 a surface exploration programme will be carried out at Crespo.

Azuca: Peru

The 100% owned Azuca project is also located in the Company's southern Peru cluster. In January 2012 the Company took the decision to delay the feasibility study at Azuca and continue exploration work throughout 2012 in order to consolidate resources and to provide a more comprehensive picture of the vein structures present in the area.

Moreover the Company believes that the geological potential of the Azuca property may produce richer structures that could further support the investment required to develop the asset but could alter the design and location of future mine and

CRESPO PROGRESS CHART

View of the Crespo Advanced Project

¹ Please note that all mineralised intersections in this report are quoted as down-hole lengths not true widths

plant infrastructure tailings ponds and other key equipment

The focus of the exploration programme at Azuca in 2012 was on the exploration of new areas at the property with the potential for high grade mineral structures as opposed to the addition of resources. As of December 2012 the Azuca project has Measured & Indicated resources totalling 7.05 million tonnes at 0.77 g/t of gold and 188 g/t of silver containing 173 500 ounces of gold and 42.7 million ounces of silver.

Exploration at the site continued in 2012 with promising intercepts indicating the presence of new higher grade veins. Surface geology and detailed mapping were conducted at Azuca and drilling continued during the year with four drill rigs in operation. A total of 29 488 metres of drilling was carried out focused on the Azuca West Paralela Colombiana Yanamayo Esperanza and Prometida veins. Assay results from the Azuca West vein confirmed the continuity of a high grade mineral structure to the southwest. Furthermore the North-West Colombiana vein intercepts also yielded excellent results that indicate a new possible orientation or new structures towards the north. Positive results included¹

• Yanamayo

NE DAYA-A1204 120m at 3.65g/t Au & 764 g/t Ag
DAYA-A1205 0.90m at 4.11g/t Au & 513 g/t Ag

• Azuca West

DAAW-A1205 2.80m at 1.90g/t Au & 854 g/t Ag
DAAW-A1205 4.10m at 2.37g/t Au & 769 g/t Ag

• Paralela

DAYA-A1209 1.50m at 1.57g/t Au & 439 g/t Ag

The 2013 drilling programme at Azuca will focus on identifying new high grade potential mineral structures with a programme of 17 100 metres planned.

Volcan gold deposit

On 8 November 2012 the Company announced that it had made a recommended cash offer of C\$0.80 per share for all of the issued and outstanding common shares of Andina Minerals Inc ('Andina'). Andina owns the Volcan gold project located in the prolific Maricunga gold belt in Chile. Full details can be found in the announcement.

On 20 February 2013 the Company announced that it had completed the

acquisition of all of the outstanding Andina Minerals Inc shares and therefore indirectly owned 100% of the issued and outstanding Andina Minerals Inc shares. Andina Minerals Inc was delisted from the TSX Venture Exchange on 22 February 2013.

This acquisition adds to the Company's extensive project pipeline doubling the current resource base, and is located in Chile, one of the Company's key targeted mining jurisdictions. In addition it is in line with the Company's long standing criteria of acquiring highly value accretive early stage opportunities with strong geological conditions and with full control. During 2013 the Company will commence an

extensive technical and geological evaluation of the Volcan deposit and continue with the relevant permitting processes and applications.

In February 2011 Andina published details of a Pre-Feasibility Study carried out on the Volcan deposit disclosing initial Proven and Probable mineral reserves of 6.6 million ounces of gold. During the process of evaluation mentioned above Hochschild will re-classify the reported reserves as resources.

The exploration programme at the Volcan gold deposit in 2013 will focus on a re-logging campaign to characterise resource data and improve the geological model of the property.

According to Andina's February 2011 Pre-Feasibility Study the project has the following mineral resources:

Classification	Total In-pit resource		
	Tonnes	Gold grade (g/t Au)	Contained Gold Ounces
Measured	105 918 000	0.738	2 511 000
Indicated	283 763 000	0.698	6 367 000
Measured & Indicated	389,681,000	0.709	8,878,000
Inferred	41 553 000	0.502	671 000

a. All quantities are rounded to the appropriate number of significant figures; consequently sums may not add due to rounding.

b. The estimate of mineral resources may be materially affected by environmental, permitting, legal title, taxation, socio-political, marketing or other relevant issues.

c. The quantity and grade of reported Inferred Resources in this estimation are conceptual in nature and there has been insufficient exploration to define these Inferred Resources as an Indicated or Measured Mineral Resource. It is uncertain if further exploration will result in the upgrading of the Inferred Resources into an Indicated or Measured Mineral Resource category.

d. The Volcan mineral resource estimate is effective as of 16 September 2010.

A view of the Volcan gold project

¹ Please note that all mineralised intersections in this report are quoted as down-hole lengths, not true widths.

Exploration review

Exploration

The Company's exploration programme in 2012 delivered some excellent results, especially in the brownfield exploration at its current operations

2012 HIGHLIGHTS

- \$97.5 million invested in exploration in 2012: 33% brownfield, 17% Advanced Projects and 38% greenfield¹
- Resource life of 9.8 years
- Total resources of 527 million silver equivalent ounces²
- Increase in Company Maker pipeline from 13 to 16 projects
- 2013 exploration budget of \$77 million, 26% brownfield at current operations, 14% Advanced Projects, 44% greenfield, others and support 16%

Overview

In 2012, investment in exploration totalled \$97.5 million and 350,150 metres of drilling was completed at the Company's brownfield Advanced Projects, greenfield and copper projects. The 2013 budget, representing 154,700 metres, will be split between exploration work at the Company's existing operations, the Advanced Projects and greenfield opportunities in Peru, Argentina, Mexico and Chile.

The Company's exploration programme in 2012 delivered some excellent results, especially in the brownfield exploration at its current operations. The Company's greenfield exploration programme also produced positive results and its project pipeline was further expanded to include 16 Company Makers and 20 Medium Scale projects.

In 2013, exploration work at the Company's core operations will be mainly focused on identifying new potential and near mine high grade areas to further improve the resource quality. At the Inmaculada and Crespo Advanced Projects, exploration efforts will be focused on identifying new potential high grade areas, whilst at Azuca, Hochschild will concentrate on the exploration of high quality resources that better support a significant investment. At the Volcan gold deposit in Chile, the Company will commence an extensive technical and geological evaluation of the deposit.

Exploration at the Company Maker projects will include continued drilling and further analysis, and at the

A geologist at the Crespo Advanced Project

Samples at Pallancata

¹ Amount disclosed refers to expenditure from the Group's exploration budget and does not include expenditure from the operational budget.

² Total resources here exclude base metal resources, excluding Jasperite, San Felipe and Volcan.

Company's Medium Scale projects work will continue to develop those high quality early stage projects that have the potential to move through the pipeline to production. Work will also continue on the Company's generative programme to conduct further exploration on the Company's extensive land package of premium properties. In 2012 the number of geologists employed by the Company was 120.

Brownfield exploration

Approximately 33% of the exploration budget was invested in brownfield exploration in 2012.

The geological conditions at the Company's main operations continue to be extremely promising and during 2012 brownfield exploration results have been significant with high grade discoveries at all three operations. Having previously exceeded all of Hochschild's original

life-of-mine targets in 2012 the focus was shifted to improving the quality of the Company's resource base and the results received have confirmed the potential for continued high quality resource additions in the future. As part of this work a full review of the resource base was also completed and the Company has been able to optimise the geological models of the main operations. Furthermore in an effort to improve the resource to reserve conversion ratios the Company's mine plans have been optimised by removing resources that although economic at Hochschild's stringent cut-off threshold, are unlikely to be mined. These include resources that necessitate high capex inaccessible resources from previous mining campaigns or those that still require further evaluation before inclusion in the mine plan. As a result life-of-mine has been maintained

and is now supported by a more robust resource base.



For full reserve and resource tables

Greenfield exploration

In 2012 approximately 38% of the 2012 exploration budget was invested in the Company's greenfield programme and in 2013 the proportion will increase to 44%. In 2012 a total of 53 188 metres was drilled at the Company's greenfield projects.

The Company conducted minimum exploration work at its greenfield projects in Argentina in 2012. Although exploration and business development teams did remain active in the country throughout the year a decision has been made to suspend all exploration activities in Argentina for the foreseeable future.

Exploration review continued

Exploration

Drill targets – Company Makers

Overview

The Company currently has 16 potential Company Makers. These are projects with the potential to achieve production of 20-30 million silver equivalent ounces per year. They are typically high sulphidation disseminated or gold/copper porphyry deposits. In 2012 \$20.0 million was invested in finding and developing such deposits and the 2013 budget is \$17.9 million.

Valeriano: Chile

The Valeriano property in Chile is located 27 kilometres north of Barrick Gold Corporation's Pascua Lama project in close proximity to the border with Argentina and covers an area of 3,750 hectares. The property hosts both high-sulphidation as well as porphyry style disseminated copper and gold mineralisation. The property has been explored by a number of mining companies in the past including Phelps Dodge (1989-1991) and Barrick (1995-1997) which completed drill campaigns totalling 12,575 metres. Hochschild's initial programme in 2012 was the first significant exploration programme since 1997 and the Company has an option to earn in 100% of the Valeriano property through a mix of cash payments and work commitments.

In 2012 a total of 5,294 metres of drilling was carried out at Valeriano. Initial drill testing at the property in early 2012 encountered evidence of a mineralised porphyry copper system at depth with significant copper and gold mineralisation, capped by a mineralised lithocap. During 2012 drilling was conducted to test the upper epithermal and lower porphyry levels. Near surface epithermal mineralisation was encountered at the property and positive intercepts reported included^{1,2}

• VALDDH-12009

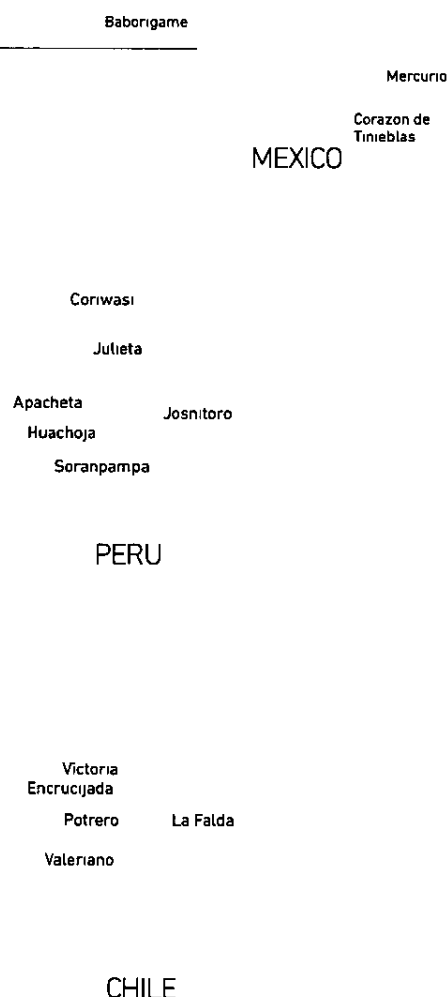
94.10m at 0.59% Cu Eq includes
28.00m at 1.02% Cu Eq
20.00m at 0.86% Cu Eq and
599.90m at 0.54% Cu Eq includes
284.00m at 0.66% Cu Eq

The current exploration programme at Valeriano has been extended into the first half of 2013 to further test the porphyry copper and gold mineralisation at depth.

Victoria: Chile

The Victoria project is located in northern Chile and is 66% owned by Hochschild with the remaining 34% held by Iron Creek Capital. The exploration programme is delivering positive results at the property which covers 46,100 hectares of continuous strike length at the highly productive Domeyko Fault Zone. A total of 7,586 metres of drilling was completed at the deposit in 2012 in the Picaron Exotic Victoria II and Incahuasi areas. During the year a surface exploration programme was carried out over the entire property and geological interpretation of historical exploration data was also completed with new drill targets being identified in the Victoria II and Incahuasi areas. In addition a detailed mapping programme commenced in order to define targets for the 2013 exploration season.

In 2013 additional compilation of geophysical studies will be carried out at Victoria and further mapping of the northern area of the property will be conducted to define drill targets for the year's exploration programme.



1 Please note that all mineralised intersections in this report are quoted as down-hole lengths not true widths

2 Results contain Au, Ag and Cu at current rates

Encrucijada Chile

Following the acquisition of Andina Minerals the Encrucijada property in Chile is now 100% owned by Hochschild. As a result of positive exploration results Encrucijada was re-categorised as a Company Maker project in Q1 2012. During the year historical geological data was compiled and integrated and a total of 1 674 metres was drilled at Encrucijada. In addition further geophysical interpretation and targeting of the porphyry style mineralisation below the San Bernardo tourmaline breccias and dome complex and in the surrounding area were carried out. At the end of the year mapping of target areas to the east and north east of the project commenced and initial results identified similar vein mineralisation to the San Bernardo dome with strongly anomalous copper porphyry style mineralisation. Results indicate that this controlling structure is part of a major caldera ring structure. Positive drilling results included the following intercepts^{1 2}

• ENCD11-026

68 00m at 0.20% Cu Eq
113 90m at 0.15% Cu Eq includes
21 90m at 0.18% Cu Eq

• ENCD12-030

241 20m at 0.13% Cu Eq includes
82 95m at 0.17% Cu Eq

In 2013 a mapping programme will be completed at Encrucijada to define further drill targets in the east and north east as well as throughout the south east extension of the property.

Mercurio: Mexico

Mercurio is a 100% owned 36 388 hectare property in Mexico located between two high grade mines Sombrerete and Fresnillo. In 2012 a total of 12 292 metres of drilling was completed at the property with results to date indicating strong base metal as well as moderate silver mineralisation associated with a large vein system similar to Fresnillo.

The exploration programme at Mercurio in 2012 focused on expanding the known mineralisation and identifying new mineralised structures. Geochemical sampling continued at the property and drilling was carried out on the Santa Rosa and Virginia vein systems and along the

A drill rig in operation

large north east structural zone which hosts a barite vein to define the extension and continuity of mineralisation in these silver-based vein corridors. Positive intercepts included^{1 2}

• DDHME 12-35

1 00m at 520.34 g/t Ag Eq

• DDHME 12-36

2 45m at 315.78 g/t Ag Eq

• DDHME 12-40

1 65m at 208.85 g/t Ag Eq

• DDHME 12-44

1 21m at 144.65 g/t Ag Eq

• DDHME 12-46

1 68m at 147.67 g/t Ag Eq

In 2013 drilling will continue at Mercurio and will concentrate on the barite structure zone.

Apacheta* Peru

At the 100% owned Apacheta project in Peru a total of 2 524 thousand metres of drilling was completed in 2012. The initial exploration programme at Apacheta 1 was completed with no positive results. Work continued on the process to obtain the necessary social permits for Apacheta 2 in order to initiate the planned drilling programme there.

Soranpampa: Peru

At the 100% owned Soranpampa project in Peru a total of 3 040 metres of drilling was carried out in 2012. Drilling was carried out on a geophysical anomaly area in order to identify economic near-surface gold mineralisation. In addition further detailed geophysical work carried out during the year identified targets in and adjacent to the primary target and exploration work was carried out on these targets. No further exploration work is planned for the Soranpampa project in 2013.

¹ Please note that all mineralised intersections in this report are quoted as down-hole lengths not true widths.

² Results contain Au, Ag and Cu at current rates.

Exploration review continued

*A geologist at the Inmaculada property***La Falda, Chile**

The La Falda property in northern Chile is located close to the Company's other projects in the area and was acquired in December 2011 as an earn-in project. The target is a porphyry gold-copper system, similar to other deposits in the Maricunga belt. The drilling programme at La Falda commenced in Q4 2012 and totalled 3 009 metres, testing both lithocap high sulphidation type mineralisation as well as porphyry style gold mineralisation. Drilling results indicated that gold mineralisation does exist and is related to the porphyry gold setting. Additional targets were identified following continued mapping and sampling programmes and will be developed for drill testing in the north west of the property. The target is characterised by porphyry with banded quartz veins. Positive intercepts from the drilling programme at La Falda included^{1,2}

• FLDR-12002

4 00m at 10.38% g/t Au Eq

• FLDR-12004

8 00m at 0.43% g/t Au Eq
3 00m at 1.13 g/t Au Eq
3 00m at 0.55 g/t Au Eq

• FLDR-12007

6 00m at 0.51% g/t Au Eq

Potrero, Chile

The Potrero property is located in northern Chile, close to the La Falda property. Potrero was added to the Company's exploration pipeline in Q1 2012. Following the completion of geochemical, geological and geophysical mapping programmes early in the year, a NE-SW

trend to mineralisation was confirmed. In addition, results of a geochemical sampling programme returned anomalies associated with the central anomaly and related to NE trending structures and an increase in sheeted veining. The magnetic survey also completed at the property defined lineaments trending NE and NW with the intersection of these lineaments defining the central area of the property where the porphyry crops out. In conjunction with this programme, a surface mapping programme was completed and identified mineralised porphyries extending to the NE. In 2013, a drill programme has been designed to test the porphyry target along the NE trend.

Baborigame, Mexico

The 51% owned Baborigame project is located in Mexico, in the Chihuahua district. The project was added to the project pipeline in Q3 2012 and is a series of low sulphidation veins with disseminated mineralisation. A detailed mapping and sampling programme was completed on the Cebollas target which is considered to be the most prospective area within the property, a mining district with more than 20 kilometres of quartz veins. Two gold anomalies were identified during the initial exploration works, and in 2013 a drilling programme will be carried out to test the Cebollas target as well as classic epithermal veins located elsewhere on the property.

Other Company Maker projects**Coriwasi, Peru**

This is a 9 800 hectare high sulphidation epithermal and porphyry copper-gold type

target in northern Peru, optioned from a private party. During 2012, the Company continued the process of completing the relevant permits and approvals process for the project and conducted an airborne magnetic survey of the property which identified a number of magnetic lineaments that correspond with surface gold anomalies.

Corazon de Tinieblas, Mexico

The Corazon de Tinieblas property is located in Southern Mexico. The Company is in the process of completing the relevant permits and approvals process for the property.

Huachoja, Peru

This is a 3 000 hectare high sulphidation epithermal target in southern Peru, optioned from Teck Peru SA. In 2012 a total of 2 278 metres of drilling was carried out at Huachoja to test four targets. No significant mineralisation was reported in 2012.

Josnitoro, Peru

The Josnitoro project is located in Southern Peru. The Company continued the process of obtaining the relevant permit and approvals for the project during 2012.

Julieta, Peru

The Julieta property is located in Northern Peru. During 2012, the Company conducted a geological survey of the property and subsequent target definition and commenced the relevant permit and approval processes for the drilling campaign.

¹ Please note that all mineralised intersections in this report are quoted as down-hole lengths, not true widths.

² Results contain Ag, Au and Cu at current rates.

Exploration

Drill targets – Medium Scale projects

Overview

The Company's project pipeline also contains various Medium Scale properties in the target delineation and drill testing categories. These are projects that each have the potential to contribute 5-10 million silver equivalent ounces of production per year and tend to be low sulphidation epithermal gold/silver type deposits with varying base metal content and are typically mined underground.

In 2012 the Company assigned \$7.8 million to finding and developing Medium Scale projects and in 2013 plans to invest \$5.4 million in this category. The Company continued to receive positive results from the exploration programmes at its Medium Scale projects in 2012 and in addition added the El Tanque property in Mexico to the pipeline.

Cuello Cuello, Peru

At the Cuello Cuello project in Peru the relevant government and community permits were received in December 2011 and at the end of H1 2012 the drilling programme commenced with a total of 2 407 metres drilled during the year. Four silica structures with high sulphide content were identified and near surface gold and silver structures were intersected in the drilling campaign. The Company plans to continue drilling at the property in 2013. Positive intercepts from the 2012 drilling campaign included¹

• DDH-CC-12003

0.8m at 0.39 g/t Au & 1 159 g/t Ag 1.1m at 0.16 g/t Au & 596 g/t Ag

• DDH-CC-12001

1.5m at 7.00 g/t Au & 56 g/t Ag

• DDH-CC-0712

2.3m at 1.4 g/t Au & 375 g/t Ag

• DDH-CC-0912

2.2m at 0.1 g/t Au & 861 g/t Ag

Astana/Farallón, Peru

Astana is a 100% owned project located in the Company's southern Peru cluster, with high sulphidation of disseminated gold/silver mineralisation. Historical drilling at superficial levels reported anomalous results in gold and silver associated to pyrite with values of 200 to 390 g/t Ag eq. Farallón is a 100% owned low sulphidation silver veins system located 1.5 km to the east of Astana. Previous drilling at superficial levels reported anomalous results in gold, silver, lead and zinc.

In 2012 the Company continued the process of attaining the relevant permits and approvals for both projects and received the necessary social permits. At the Astana property the testing of anomalies was carried out whilst at Farallón a drilling campaign commenced during the year and a total of 518 metres of drilling were carried out to test the economic potential of the property.

Historical drilling has already identified moderate silver and gold mineralisation with the current drilling programme expected to continue in the first half of 2013.

San Martín, Peru

Work at the San Martín project in Peru in 2012 was focused on obtaining the relevant government and community permits and approvals. In 2013 the Company will finalise the social permit application process and allow for the exploration work to commence with the focus on defining potential mineralisation.

Huaculco, Peru

At the Huaculco project in Peru in 2012 a surface mapping programme commenced to define the extension of the principal structures at the property where potential economic mineralisation in low to intermediate sulphidation veins were identified in previous drilling campaigns conducted by other companies. In 2013

Geological samples

¹ Please note that all mineralised intersections in this report are quoted as down-hole lengths not true widths.

Exploration review continued

A view of the Jasperoide property

the Company will finalise the relevant permits application process and continue exploration work at the property

Other Medium Scale projects

El Tanque Mexico

At the El Tanque project in Mexico, following a drilling campaign totalling 2 734 metres in 2012 no significant intercepts were reported to support a relevant mineralised body. The Company will not conduct further exploration work at the property in 2013.

Ibel, Peru

At the Ibel project in Peru, work in 2012 continued on the completion of the relevant government and community permits and approval process. Geological work and target definition were also carried out in order to test potential economic mineralisation in low to intermediate sulphidation veins and hydrothermal breccias located in sedimentary rocks.

Copper projects

Following the acquisition of Southwestern Resources in 2008, the Company currently

holds a number of copper projects located in the southern Andes in Peru within a highly prospective area for copper deposits.

Jasperoide Peru

In 2012 a total of 1 906 metres of drilling was carried out at Jasperoide focused on the already identified mineralised zone and surrounding area to locate new skarn blankets and to test for a potential associated porphyritic system. The Company is not planning to conduct further exploration work at the property in 2013.

Alpacocha, Peru

At the Alpacocha project an airborne geophysical magnetometer survey was completed and new targets were generated. A total of 3 012 metres of drilling was carried out during the year concentrated in the Paraiso target next to a known copper skarn porphyry target. Results have indicated a weak to moderately copper mineralised skarn and porphyry system with the potential for mineralisation to increase at depth. Positive intercepts from the

drilling programme at Alpacocha in 2012 included^{1,2}

• **PADDH12-01**
18 20m at 0.99% Cu Eq

• **PADDH12-05**
18 00m at 0.60% Cu Eq

• **PADDH12-03**
3 60m at 0.70% Cu Eq
3 20m at 0.84% Cu Eq

• **PADDH12-06**
2 00m at 0.66% Cu Eq

Antay, Peru

At the 100% owned Antay copper project in 2012 the Company continued the process of obtaining the necessary access permits for the project.

Generative

The Company holds over one million hectares of prime land in key geological regions across four countries and continues to commit resources to conduct further exploration in these premium areas.

¹ Please note that all mineralised intersections in this report are quoted as down-hole lengths, not true widths.

² Results contain Au, Ag and Cu at current rates.

Financial review continued

Gross average realised sales prices

The following table provides figures for average realised prices and ounces sold for 2012 and 2011

	Year ended 31 Dec 2012	Year ended 31 Dec 2011
Average realised prices		
Silver ounces sold (koz)	18,928	21,792
Avg realised silver price (\$/oz)	31.6	34.7
Gold ounces sold (koz)	159.8	182.0
Avg realised gold price (\$/oz)	1,684	1,582

Commercial discounts

Commercial discounts refer to refinery treatment charges, refining fees and payable deductions for processing concentrates and are discounted from gross revenue on a per tonne basis (treatment charge) per ounce basis (refining fees) or as a percentage of gross revenue (payable deductions). In 2012 the Group recorded commercial discounts of \$51.2 million (2011: \$56.0 million). This decrease resulted from a lower volume of concentrate sold in 2012, mainly due to the Arcata dore project. The ratio of commercial discounts to gross revenue in 2012 increased to 6% (2011: 5%).

Net revenue

Net revenue decreased by 17% to \$818.0 million (2011: \$987.7 million), comprising silver revenue of \$557.8 million and gold revenue of \$259.6 million. In 2012 silver accounted for 68% and gold 32% of the Company's consolidated net revenue compared to 72% and 28% respectively in 2011.

Revenue by mine

	Year ended 31 Dec 2012	Year ended 31 Dec 2011	% change
\$000 unless otherwise indicated			
Silver revenue			
Arcata	165,464	207,429	(20)
Ares	14,653	21,168	(31)
Selene	—	—	—
Pallancata	232,503	316,344	(27)
San Jose	184,635	208,579	(11)
Moris	1,315	2,273	(42)
Commercial discounts	(40,784)	(47,465)	(14)
Net silver revenue	557,786	708,328	(21)
Gold revenue			
Arcata	26,850	26,449	2
Ares	42,927	46,929	(9)
Selene	—	—	—
Pallancata	42,620	54,437	(22)
San Jose	142,151	129,994	9
Moris	14,616	30,025	(51)
Commercial discounts	(9,528)	(8,584)	11
Net gold revenue	259,636	279,250	(7)
Other revenue¹	530	84	531
Net revenue	817,952	987,662	(17)

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

Costs

Total pre-exceptional cost of sales increased 4% to \$420.3 million in 2012 (2011: \$404.3 million) resulting from an increase in the direct production cost, an increase in depreciation and from changes in inventory. These factors were partially offset by lower workers' profit sharing reflecting the decrease in production in

Peru and a lower silver price in 2012. The direct production cost increased by 15% in 2012 to \$301.5 million (2011: \$261.2 million) mainly as a result of an increase in the number of stopes, inflation in labour and supplies and rising oil prices in Peru and Argentina. Depreciation in 2012 was \$121.2 million (2011: \$103.7 million) with the increase mainly due to full depreciation of the Ares operation, depreciation of new tailings dams at Pallancata as well as a higher future capex depreciation resulting from the increasing cost to convert resources into reserves in all operating units and higher depreciation ratios. Other items which principally includes workers' profit sharing was \$15.4 million in 2012 (2011: \$32.4 million) and change in inventories which was \$(17.7) million in 2012 (2011: \$6.9 million).

Unit cost per tonne

The Company reported an overall increase in unit cost per tonne at its main operations of 13% in 2012 to \$103.2 (2011: \$91.4). The higher unit cost per tonne reported in 2012 includes the effect of the Arcata dore project which in turn provides significant savings on commercial expenses. For further explanation of the increase in unit cost per tonne please refer to page 22 of the Operating review.

Unit cost per tonne by operation (including royalties)¹

Operating unit (\$/tonne)	Year ended 31 Dec 2012	Year ended 31 Dec 2011	% change
Main operations	103.2	91.4	13
Peru	75.1	67.1	12
Arcata	86.3	77.0	12
Pallancata ²	67.2	60.4	11
Argentina	202.2	181.7	11
San Jose	202.2	181.7	11
Others	138.4	120.6	15
Ares ²	138.4	120.6	15
Total underground	107.8	95.3	13
Moris	—	17.9	—

Unit cost per tonne by operation (excluding royalties)²

Operating unit (\$/tonne)	Unit cost per tonne 2012	Unit cost per tonne 2011	% change
Main operations	99.1	83.8	18
Peru	73.3	60.8	21
Arcata	82.0	70.2	17
Pallancata ²	67.2	54.5	23
Argentina	190.4	169.6	12
San Jose	190.4	169.6	12
Others	138.4	118.0	17
Ares ²	138.4	118.0	17
Total underground	104.2	88.4	18
Moris	—	17.9	—

1. Unit cost per tonne is calculated by dividing mine and geology costs by extracted tonnage and plant and other costs by treated tonnage.

2. Following the revision of the mining royalty regime in Peru in 2011, the mine royalties levied on the output of the Pallancata and Ares units are now accounted for as income tax, whereas previously royalties for both units were treated as production costs. The effect of this change should be taken into account when comparing the units' production cost per tonne, cash costs and Adjusted EBITDA metrics in 2012 with those of 2011.

Cash costs

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

Co-product silver/gold cash costs are total cash costs multiplied by the percentage of revenue from silver/gold divided by the number of silver/gold ounces sold in the year. Silver and gold cash costs increased from \$130 to \$142 per ounce and from \$613 to \$781 per ounce respectively. Silver and gold cash costs from the Company's main operations (Arcata, Pallancata and San Jose) increased from \$120 to \$134 per ounce and from \$561 to \$735 per ounce respectively. The increase in silver cash costs resulted from higher production costs and lower average grades, partially offset by lower workers' profit sharing, lower commercial discounts and a lower proportion of costs allocated to silver as a result of lower silver prices.

By-product silver/gold cash costs are total cash costs less revenue from gold/silver divided by the number of silver/gold ounces sold in the year. By-product cash costs for the period were \$65 per silver ounce (2011 \$49 per silver ounce) and (\$1,293) per gold ounce (2011 \$1,987 per gold ounce).

Cash cost reconciliation¹

\$000 unless otherwise indicated	Year ended 31 Dec 2012	Year ended 31 Dec 2011	% change
Group cash cost	392,825	394,225	(0.4)
(+) Cost of sales	420,325	404,291	4
(-) Depreciation in cost of sales	(117,627)	(105,085)	12
(+) Selling expenses	39,460	38,970	1
(+) Commercial deductions	51,197	56,049	(9)
Gold	9,552	8,584	11
Silver	41,645	47,465	(12)
Revenue	817,952	987,662	(17)
Gold	259,636	279,250	(7)
Silver	557,786	708,328	(21)
Others	530	84	531
Ounces sold	19,088	21,974	(13)
Gold	159.8	182.0	(12)
Silver	18,928	21,792	(13)
Group cash cost (\$/oz)			
Co-product Au	781	613	27
Co-product Ag	14.2	13.0	9
By-product Au	(1,293)	(1,987)	(35)
By-product Ag	6.53	4.88	34

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

Cash costs are calculated based on pre-exceptional figures. Co-product cash cost per ounce is the cash cost allocated to the primary metal (allocation based on proportion of revenue) divided by the ounces sold of the primary metal. By-product cash cost per ounce is the total cash cost minus revenue and commercial discounts of the by-product divided by the ounces sold of the primary metal.

As detailed in the introduction to the Financial Review, in calculating 2012 cash costs royalties at Pallancata and Ares are now excluded from the cost of sales figure used.

Consequently for comparison purposes please see below 2011 Group cash costs adjusting the royalties effect.

	Year ended 31 Dec 2012	Restated Year ended 31 Dec 2011	% change
Group cash cost (\$/oz)			
Co-product Au	781	602	30
Co-product Ag	14.2	12.7	12
By-product Au	(1,293)	(2,026)	36
By-product Ag	6.53	4.56	43

Administrative expenses

Administrative expenses before exceptional items increased by 13% to \$73.0 million (2011 \$64.4 million) primarily due to rises in personnel expenses mainly resulting from local inflation and the appreciation of local currencies. An increase in the Company's Long-term Incentive Plan (LTIP) provision reflecting the Company's share price performance in 2012 also contributed to the increase. These increases were partially offset by the absence of voluntary contributions in 2012.

Exploration expenses

As a result of the Group's decision to focus on organic growth through exploration, exploration expenses, which primarily relate to greenfield exploration, increased by 36% to \$64.6 million in 2012 (2011 \$47.3 million). Further detail of the exploration programme can be found in the Exploration section on page 30.

In addition, the Group capitalises part of its brownfield exploration which mostly relates to costs incurred converting potential resource to the Inferred or Measured and Indicated category. In 2012, the Group capitalised \$15.9 million relating to brownfield exploration compared to \$13.2 million in 2011, bringing the total investment in exploration for 2012 to \$80.5 million (2011 \$60.6 million). In addition, \$17.0 million was invested in the Company's Advanced Projects.

Selling expenses

Selling expenses were in line with 2011 at \$39.5 million (2011 \$39.0 million) principally consisting of export duties at San Jose (export duties in Argentina are levied at 10% of revenue for concentrate and 5% of revenue for ore).

Other income/expenses

Other income before exceptional items was \$8.7 million (2011 \$7.1 million) mainly reflecting a \$2.4 million export tax credit in Argentina. Other expenses before exceptional items reached \$9.5 million (2011 \$15.8 million) which included a provision for obsolescence of supplies of \$2.5 million.

Profit from continuing operations

Profit from continuing operations before exceptional items, net finance costs, foreign exchange loss and income tax decreased to \$219.8 million (2011 \$424.0 million) as a result of the factors detailed above.

Adjusted EBITDA

Adjusted EBITDA decreased by 32% over the period to \$384.8 million (2011 \$563.4 million) driven primarily by lower silver prices, lower production and higher costs.

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

Financial review continued

Adjusted EBITDA

\$000 unless otherwise indicated	Year ended 31 Dec 2012	Year ended 31 Dec 2011	% change
Profit from continuing operations before exceptional items net finance cost foreign exchange loss and income tax	219,768	423,973	(48)
Operating margin	27%	43%	
Depreciation and amortisation in cost of sales	117,627	105,085	12
Depreciation and amortisation in administrative expenses	2,285	1,903	20
Exploration expenses	64,612	47,336	36
Personnel and other exploration related fixed expenses	(19,501)	(14,894)	31
Adjusted EBITDA	384,791	563,403	(32)
Adjusted EBITDA margin	47%	57%	

Impact of investment in associate

An associate is an entity in which Hochschild has significant influence but not control and is accounted for using the equity method

Hochschild's pre-exceptional share of the profit/(loss) after tax of associates totalled \$6.5 million in 2012 (2011: \$11.7 million) a result of the Group's share of the results of Gold Resource Corporation. After exceptional items the share of the profit/(loss) after tax of associates totalled \$5.1 million

Finance income

Finance income before exceptional items of \$2.0 million was lower than that of 2011 (2011: \$4.7 million) mainly due to the absence in 2012 of interest income received from McEwen Mining following the settlement of loans (2011: \$1.7 million)

Finance costs

Finance costs before exceptional items decreased by 40% to \$12.9 million in 2012 (2011: \$21.3 million) reflecting interest costs associated with the prepayment of a shareholder loan at San Jose during 2011 (\$3.4 million) total prepayment of short-term debt in Peru during 2011 (\$2.1 million) and the prepayment of a Syndicated loan in 2011 (\$1.3 million)

The Group has no outstanding positions on currency or commodity hedges

Foreign exchange losses

The Group recognised a foreign exchange loss of \$1.2 million (2011: \$1.6 million loss) as a result of exposures in currencies other than the functional currency

Income tax

The Group's pre-exceptional effective tax rate increased to 40.0% in 2012 (2011: 35.6%). This increase is partly due to the introduction of three new taxes in Peru in Q4 2011 – the New Mining Royalty, the Special Mining Tax and the Special Mining Assessment. Detailed information on these taxes (collectively referred to as the 'New Taxes') is provided in the Company's 2011 Preliminary Results announcement released on 20 March 2012

In 2012 income tax included \$8.1 million from the New Mining Royalty and Special Mining Tax. Excluding these impacts the effective tax rate was 36.2% compared to 34.3% in 2011. The increase in the tax rate mainly reflects lower profit before income tax in the operating companies (due to lower sales) and higher non-deductible expenses mainly related to increases in the exploration budget

Exceptional items

Exceptional items in 2012 totalled (\$1.7) million after tax (2011: \$3.4 million). This mainly comprises

Positive exceptional items

Main items	\$000	Description of main items
Other income	1,099	Relates to the provision of termination benefits due to workers as a result of the closure of the Moris mine accrued in 2011 and partially reversed in 2012
Income tax	141	Deferred taxation

Negative exceptional items

Main items	\$000	Description of main items
Impairment and write-off on assets	(245)	Corresponds to assets write-off in Ares and MH Mexico. Partially offset by the reversal of the write-off recorded in 2010 related to the 100% ore project at the San Jose mine
Share of post-tax losses of associates and joint ventures accounted under equity method	(1,376)	Loss resulting from dilution of holding in Gold Resource Corp
Finance cost	(1,334)	Mainly corresponds to the impairment of Iron Creek Capital Corp, Brionor Resources and Empire Petroleum Corp of US\$1,043,671, US\$1,105,000 and US\$8,000 respectively

Cash flow and balance sheet review

Cash flow

\$000 unless otherwise indicated	Year ended 31 Dec 2012	Year ended 31 Dec 2011	Change
Net cash generated from operating activities	254,879	464,110	(209,231)
Net cash used in investing activities	(427,869)	(139,898)	(287,971)
Cash flows generated/(used) in financing activities	(94,842)	(221,901)	127,059
Net (decrease)/increase in cash and cash equivalents during the period	(267,832)	102,311	(370,143)

Operating cashflow decreased by 44% to \$254.9 million from \$464.1 million in 2011, mainly due to lower silver prices and lower production. Net cash from investing activities increased to \$(427.9) million in 2012 from \$(139.9) million in 2011, primarily due to the acquisition of Andina Minerals Inc. (\$90.1 million) in 2012, the sale of Lake Shore Gold shares (\$80.5 million) in 2011 and higher capex during 2012. Finally, cash used in financing activities decreased to \$(94.8) million from \$(221.9) million in 2011, primarily as a result of the prepayment of the syndicated loan (\$114.3 million) and lower dividend payments to IMZ (\$22.0 million in 2012 compared to \$54.0 million in 2011), partially offset by higher dividends to McEwen Mining (\$19.8 million in 2012 compared to \$0.0 million in 2011). As a result, total cash generated decreased from \$102.3 million in 2011 to \$(267.8) million in 2012 (\$370 million difference).

Working capital

	Year ended 31 Dec 2012	Year ended 31 Dec 2011
\$000 unless otherwise indicated		
Trade and other receivables	174,786	175,672
Inventories	76,413	53,032
Net other financial assets/(liabilities)	(6,741)	(12,803)
Net income tax receivable/(payable)	(4,459)	(23,859)
Trade and other payables and provisions	(252,823)	(259,907)
Working capital	(12,824)	(67,865)

The Company's working capital position increased to \$(12.8) million in 2012 from \$(67.9) million in 2011. This was primarily explained by higher inventories (\$23.4 million) from stockpiles at San Jose and from ore in Peru (due to timing differences) as well as lower income tax payable (\$19.4 million) as a result of a lower current tax provision in 2012.

Net cash

	Year ended 31 Dec 2012	Year ended 31 Dec 2011
\$000 unless otherwise indicated		
Cash and cash equivalents	358,944	627,481
Long-term borrowings	(106,850)	(104,866)
Short-term borrowings ¹	(6,973)	(46,334)
Net cash	245,121	476,281

¹ Includes pre-shipment loans which were previously reported under working capital.

The Group reported net cash of \$245.1 million as at 31 December 2012 (2011: \$476.3 million). This was primarily driven by the net decrease in cash generated in 2012 as well as the acquisition of Andina Minerals Inc. partially offset by the repayment of short-term borrowings, mainly at San Jose.

The Company's long-term borrowings are only its convertible bond that has a current conversion price of £3.90. Under its terms, the Company is entitled to force conversion of the bonds at any time after 20 October 2012 if for a period of 20 out of 30 consecutive days the average share price calculated under the terms of the bonds exceeds 130% of the conversion price (£5.07).

Capital expenditure¹

	Year ended 31 Dec 2012	Year ended 31 Dec 2011
\$000 unless otherwise indicated		
Arcata	52,791	33,040
Ares	7,476	2,673
Selene	1,152	4,570
Pallancata	55,719	50,489
San Jose	71,188	62,994
Monis	846	555
Inmaculada	96,060	19,447
Crespo	17,984	10,232
Azuca	12,476	31,641
Other	18,062	2,306
Sub-total	333,754	217,947
Andina Minerals	86,631	-
Total	420,385	217,947

¹ Includes additions in property, plant and equipment and evaluation and exploration assets (confirmation of resources) and excludes increases in the closure of mine assets.

2012 capital expenditure of \$420.4 million (2011: \$217.9 million) includes operating capex of \$182.5 million, capitalised exploration costs of \$15.9 million in respect of the Group's operating mines, \$134.4 million capitalised in respect of the Advanced Projects (Inmaculada, Crespo and Azuca) and administrative capex of \$1.0 million. Capital expenditure in 2012 also included \$86.6 million relating to the acquisition of Andina Minerals Inc.

Capital expenditure at Arcata rose by \$19.8 million in 2012 due to the construction of the Dore project and the plant capacity increase.

Capital expenditure at San Jose increased by \$8.2 million in 2012, reflecting local inflation in mine development costs.

Other capex increased by \$15.8 million, mainly due to the acquisition of the Conenhua energy transmission line to improve the energy supply to our operations in Peru and the construction of the energy transmission line for Inmaculada.

Dividends

The directors recommend a final dividend of \$0.03 per ordinary share which, subject to shareholder approval at the 2013 AGM, will be paid on 4 June 2013 to those shareholders appearing on the register on 10 May 2013. If approved, this will result in a total dividend for the year of \$0.06 per share.

Dividends are declared in US dollars. Unless a shareholder elects to receive dividends in US dollars, they will be paid in pounds sterling with the US dollar dividend converted into pounds sterling at exchange rates prevailing at the time of payment. Our dividend policy takes into account the profitability of the business and the underlying growth in earnings of the Company, as well as its capital requirements and cash flow.

Dividend dates	2013
Ex-dividend date	8 May
Record date	10 May
Deadline for return of currency election forms	15 May
Payment date	4 June

Sustainability report

2012 HIGHLIGHTS

Hochschild safety day

see page 46

Digital Chalhuanca

see page 53

**The Group's first
carbon footprint study**

see page 55

IN THIS SECTION

Safety

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Health & hygiene

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Our people

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**Working together with
local communities**

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**Managing our
environmental impact**

see page 55

Dear shareholder

I am pleased to introduce this section of the 2012 Annual Report in which we highlight how our sustainability commitments have translated into actions during 2012, and the challenges we have set ourselves for the current financial year

Our stakeholder approach to business is something that we have always done, a long time before the concept of sustainability was widely adopted across the mining sector. This year, we have captured this foundation upon which our strategy is formulated through the phrase 'Operating Responsibly'

We are acutely aware of the perception of the industry and its potential impact on communities and the environment and we are therefore keen to engage with all interested groups so that expectations and needs can be managed and met

We consider safety to be no less important than our strategic business priorities. Despite our ongoing commitment, it is with deep regret that there were four fatalities at our operations during the year. We remain steadfast in our view that every fatality is avoidable and so we will continue to monitor and review our controls and invest in training as required.

Key developments in 2012

We are very proud that during 2012 the Group joined a select number of companies in Peru to have embedded sustainability policies and procedures within their businesses and, in doing so, have received the Socially Responsible Company accreditation.

Management felt that safety needed to be tackled with increased vigour and for this reason 14 November 2012 was designated the Group's Safety Day. All mining activity was suspended whilst briefings and training sessions were held across all sites.

For me personally nothing is more important than providing a safe workplace for all and so I was pleased to be able to participate in a video recording in which I reiterated the Group's commitment to the wellbeing of our people.

We launched a number of new initiatives during the year, most notably Digital Chalhuanca. This, our flagship project, led to the installation of internet facilities in the town of Chalhuanca in Apurímac close to our Selene and Pallancata operations. As detailed on page 53, the project aims to provide better communication facilities to facilitate education and commerce. I am very proud that this initiative has received recognition for its innovation and moreover has been replicated in other parts of Peru.

We commissioned the Group's first base line study to better understand our carbon footprint. We all have a part to play in conserving the limited resources we have access to and Hochschild Mining has started the process of understanding the level of greenhouse gases produced by the Group and identifying the sources of opportunity to reduce emissions.

We rely on the goodwill of the members of the local communities to be able to operate and so it is imperative that we involve them closely in our planning processes in order to address their needs and take account of their concerns. As stated in the Environmental section of this report, this type of engagement represented the critical milestones achieved during the year in the development of our Advanced Projects: Inmaculada and Crespo.

Priorities for 2013

We will continue to focus our efforts in pursuit of our objective of zero accidents and the elimination of fatalities. We have already embarked on this journey with a series of communications ensuring that the message of Safety First is adopted by all.

Reporting in this area will continue to evolve as this year we will be producing our first standalone Sustainability Report which will be compiled under the guidelines of the Global Reporting Initiative.

Whilst we continue in our endeavours, our progress to date is testimony to the teams of people who work across numerous functions and to them I wish to express my gratitude for their support and dedication.

Eduardo Hochschild

Executive Chairman and Chairman of the CSR Committee

Sustainability report continued

Governance

What is Hochschild Mining's approach to Sustainability?

To ensure that our values are adhered to we have adopted a number of policies which demonstrate our commitment to

- a safe and healthy workplace
- managing and minimising the environmental impact of our operations
- encouraging sustainability by respecting the communities in which we operate

We prioritise these three areas in terms of resource allocation with respect to governance, policy development and performance measurement. In our efforts to achieve the above objectives we seek to

- comply with all relevant legislation and leading international standards
- promote continuous improvement of our management systems with the aim of incorporating best practice
- adopt a proactive approach to preventing and managing the risks that may limit the achievement of our corporate responsibility objectives
- encourage employees to adopt the Group's values through the use of training and internal communications

Management of Sustainability

The Board has ultimate responsibility for establishing Group policies relating to sustainability and ensuring that national and international standards are met. The Corporate Social Responsibility (CSR) Committee has been established as a formal committee of the Board with delegated responsibility for various sustainability issues, focusing on compliance with national and international standards and ensuring that appropriate systems and practices are in place Group-wide to ensure the effective management of sustainability-related risks. Eduardo Hochschild has Board-level responsibility for sustainability issues.

A working group of relevant personnel meets on a monthly basis to support the work of the CSR Committee and is tasked

to consider at an operational level local health and safety policies, environmental programmes, community relations and employee matters. These meetings are also attended by members of the Group's Legal and HR functions.

Whilst each area has its dedicated area of focus, they often collaborate with each other as required, for example in the provision of health services to the communities.

Terms of Reference of the CSR Committee

Under its terms of reference, the CSR Committee is tasked with

- evaluating the effectiveness of the Group's policies and systems for identifying and managing health, safety and environmental risks within the Group's operations
- assessing the policies and systems within the Group for ensuring compliance with health, safety and environmental regulatory requirements
- assessing the performance of the Group with regard to the impact of health, safety, environmental and community relations decisions and actions upon employees, communities and other third parties. It shall also assess the impact of such decisions and actions on the reputation of the Group
- receiving reports from management concerning all fatalities and serious accidents within the Group and actions taken by management following each incident
- evaluating and overseeing, on behalf of the Board, the quality and integrity of any reporting to external stakeholders concerning health, safety, environmental and community relations issues, and
- reviewing the results of independent audits commissioned on the Group's performance in regard to health, safety, environmental or community relations matters, reviewing any strategies and action plans developed by management in response to issues raised and, where appropriate, making recommendations to the Board concerning the same.

GOVERNANCE STRUCTURE FOR SUSTAINABILITY

BOARD OF DIRECTORS

CSR COMMITTEE

HR

WORKING GROUP

LEGAL

COMMUNITY
RELATIONS

ENVIRONMENT

HEALTH & HYGIENE

SAFETY

The CSR Committee's work in 2012

During the year the CSR Committee

- reviewed the investigations into the four fatalities that occurred during the year and the action plans formulated by management to implement the associated recommendations
- approved the 2011 Corporate Responsibility Report
- monitored the execution of the yearly plan in each of the four key areas of focus
- considered the ongoing progress of the implementation of a number of internationally accredited management information systems to control and monitor sustainability related risks
- monitored the status of the Group-wide initiatives launched to raise the profile of safe working practices to assist with accident prevention and

- considered updates from the work done across the Group to manage community and labour relations

In addition during the year the full Board received presentations on

- the Group's HR function and looking ahead the medium to long term resourcing strategy to achieve our business goals and
- the social issues in Peru and their impact on the mining sector



Read more about how we mitigate social and environmental risks to our business



Our commitment to Sustainability is reflected in our Executive Remuneration policy For more details see the Directors' remuneration report

Sustainability report continued

Safety

2012 HIGHLIGHTS

Reduction in Accident
Frequency Index

9%

Launch of the
inaugural Hochschild
Safety Day across
entire operations**The Hochschild approach to safety**

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

The Group regrets that there were four fatalities during the year. In the first incident, a scoop operator at the Pallancata operation was fatally injured after a water pump exploded. The second fatality occurred also at Pallancata after a scoop operator lost control of his vehicle whilst reversing down a hill. The third incident occurred at Arcata where an assistant driller was overwhelmed by noxious fumes and the fourth occurred at Ares where a driller sustained injuries from a rockfall.

Circumstances leading to these tragic events have been investigated by management, reported to the Board and the resulting recommendations implemented.

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

Our achievements in 2012

- Continued implementation of the DNV safety management system at all operating units and Advanced Projects to support the Group's proactive approach to safety.
- Compliance with the international standard OHSAS 18001:2007 was certified in respect of the Peruvian and Argentinian operations.
- Training has been a key focus in 2012 with
 - the design and roll out in conjunction with DNV of a course entitled 'Internal Audits and OHSAS 18001:2007 for personnel at the operating units, Advanced Projects and exploration projects,'
 - the strengthening of the theoretical-practical training of brigades to intermediate level
 - the provision of the 'Training the Trainer' course at the Selene unit on hazard identification, risk assessment and control in conjunction with Expectra, a leading risk management consultancy based in South Africa.
- With Expectra's support, the Group commenced the implementation of the 'Control of Fatal Risks' software which will assist the Group in developing its safety strategy based on the integration of principles of changing organisational behaviour.
- The holding of the first Hochschild Safety Day on 14 November 2012 (see box below).
- The holding of the Luis Hochschild Safety Innovation Award which in 2012 aimed to raise the bar on the quality of proposals and, as a result, increase their impact on safety.

CASE STUDY HOCHSCHILD SAFETY DAY 14 NOVEMBER 2012

After the occurrence of the third fatality at the Group's operations, management felt that a concerted effort focused on safety was required to highlight its importance. Operations across the entire Group were stopped whilst a tailored programme of briefings, training sessions and roundtable discussions was held.

During the day, a video of the Chairman was shown in which he delivered a personal message in support of the initiative and emphasised the importance of safe working both to the employees and to their families.

Mine workers at a safety briefing session

HOW WE PERFORMED AGAINST OUR 2012 OBJECTIVES

Target	Status	Commentary
6% reduction in LTIFR	✓	A 9% reduction was achieved
The Company seeks to achieve the following with respect to the DNV safety management system		
- Maintain and further develop current levels of implementation at Peruvian and Argentinian units	✓	Ares – Level 5 Arcata & Pallancata – Level 7 San Jose – Level 6
- Level 3 at the Inmaculada Project	✓	
To launch a safety awareness campaign highlighting the potential impact on family life	✓	A campaign was launched highlighting the importance of safety to all employees (see details of the Hochschild Safety Day)
To evaluate the effectiveness of the Fatal Risk Control software at the Pallancata unit with a view to rolling it out to other operating units	✓	Initial evaluation was completed in 2012 with a further assessment being undertaken in 2013 to fully understand its impact on safety
To provide training to the Group's emergency brigades to advanced level	Partial	A training programme was commenced and practical steps taken to equip the Group's emergency teams

SAFETY INDICATORS

	2012	2011	2010	2009
Fatal accidents	4	3	2	2
Accidents leading to an absence of one day or more	81	81	66	79
LTIFR ¹	3.33	3.63	3.70	5.22
Accident Severity Index ²	1,058	910	777	1,485
Accidentability rate ³	3.52	3.30	2.88	7.76

1 Calculated as total number of accidents per million labour hours

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

3 Calculated as LTIFR x Accident Severity divided by 1,000

2013 TARGETS

- 5% reduction in LTIFR
- 20% reduction in Accident Severity Rate
- Achieve the following levels of implementation of the DNV software
 - Ares – Level 6
 - Arcata & Pallancata/Selene – Upper Level 7
 - San Jose – Upper Level 6
 - Inmaculada Project – Upper Level 3 (internal certification)

Sustainability report continued

Health & hygiene

2012 HIGHLIGHTS

Reduction in work-related incidences requiring medical attention¹

43%

¹ In Peru and San Jose

Continued focus on physical as well as psychological health

The Hochschild approach to health & hygiene

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

Whilst the Health team has been established to ensure that employees have access to the relevant services and infrastructure to ensure that treatment can be provided, the Hygiene team look to reinforce the importance of the quality of life at work and seek to work in the prevention of occupational illness

Given the nature of the work and the operation of two week shifts requiring mineworkers to spend extended periods away from their families, the Group recognises the importance of ensuring the mental wellbeing of its employees. For this reason, the Group's Health & Hygiene teams are also trained in occupational psychology

Our achievements in 2012

- The preparation of a baseline study to identify and evaluate the health risks at two of the Group's exploration projects in Peru
- Increased level of support provided to the Health & Safety Co-ordinator for Exploration & Geology
- A baseline study was completed to evaluate the psychological hazards present at exploration projects
- Supported the Community Relations team with a number of projects including the Medico de Cabecera initiative

HOW WE PERFORMED AGAINST OUR 2012 OBJECTIVES

Target	Status	Commentary
Complete the uploading of data onto the Health and Hygiene SAP module	✓	Data was uploaded with respect to the Peruvian and Argentinian operations and will serve as a useful monitoring tool
To establish a programme of monitoring occupational disease for research purposes and ultimately improving the provision of our service	✓	A programme to monitor occupational disease was established during the year in Peru and Argentina
To develop the psychology programme for our units and Advanced Projects	✓	Occupational psychology programmes were established at the units and Advanced Projects

HEALTH INDICATORS

	2012	2011	2010	2009
Average number of medical attendances at Peruvian operations and at San Jose per month	3,376	3 065	2 961	2 690
Average number of work-related incidences requiring medical attention at Peruvian operations and at San Jose per month	18	32	26	25
Average number of occupational health examinations at the Group's wholly-owned Peruvian operations and Moris per month	441	396	237	406

2013 TARGETS

- To redefine health services provided at San Jose
- To be prepared to ensure continued compliance with relevant requirements in light of new Health & Hygiene regulations expected to come into force in Peru in 2013
- To implement the Health & Hygiene SAP module at the Inmaculada Project

Sustainability report continued

Our people

2012 HIGHLIGHTS

Percentage of
workforce trained

90%

Average number of hours of
training per year per employee

52 hours

The Hochschild approach to our people**Training and development**

The quality of our people is key to the success of the business in achieving its strategic objectives and we therefore seek to attract and retain the best people. The Group's HR team adopts various techniques to ensure that our people contribute to the Company's success which include the provision of competitive remuneration a positive working environment (through the Organisational Climate Survey) and ongoing professional development

Group values and labour relations

One of the primary responsibilities of the HR team is to ensure the clear ongoing communication of the Group's corporate values Integrity Teamwork Quality and Excellence, Responsibility and Commitment to our People. These values are embodied in our Code of Conduct which amongst other things sets out our commitment to the fair treatment of all employees and the right to be free of harassment or intimidation in the workplace. We recognise the core labour rights principles and in this respect support the right to freedom of association and collective bargaining. Approximately 56% of our total workforce is represented by a trade union or similar body

Our achievements in 2012

The Group's team of HR professionals has undertaken a number of initiatives during 2012 to further their shared objective of ensuring the Group is appropriately resourced for the future challenges. The following highlights some of the work carried out during the year

Developing our people

The third leadership workshop for senior management took place in Lima facilitated by IAE Business School

For operational middle-management the second stage of the Developing Leaders programme was held in Peru and Argentina and for operational managers a tailored leadership workshop was designed for delivery in 2013

The exploration team continued with a programme entitled High Performance Team

Managing our talent

During the year development plans for those holding critical positions identified as part of the Group's Talent Inventory Review (TIR) were implemented

Creating a better place to work

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

The Company commissioned the 2012 OCS in collaboration with the Hay Group which showed an overall increase in employee satisfaction of 8%. The specific findings of the survey will after evaluation again result in an action plan for implementation during the year

Embedding a safety first culture

Whilst the focus in the early part of 2012 was on reinforcing the Group's core corporate values through training briefings and team events the focus later in the year changed to one of consolidating a safety first culture which is set to continue

Resourcing for the future

A global recruitment strategy was designed and established across the Group during 2012. Implementation of the strategy commenced in November 2012 with a visit to the University of Arizona to recruit future mining engineers which will be followed by similar initiatives in 2013

HOW WE PERFORMED AGAINST OUR 2012 OBJECTIVES

Target	Status
Implement the development plans designed as part of the Talent Inventory Review	✓
Continue with the entire leadership programme at all levels of management	✓
Start the second stage of the Developing Leaders programme for middle-management in Peru and Argentina	✓
Achieve a three point increase in the Organisational Climate Survey against the results of the last survey commissioned in 2010	✓
Establish a global recruitment strategy	✓

PEOPLE INDICATORS

	2012	2011	2010	2009
General				
Average number of Group employees and contractors	7,557	6,395	5,776	4,969
Training				
Average number of hours of training undertaken per employee during the year	52.03	37.86	16.86	14.03
Percentage of workforce trained during the year	90%	90%	87%	94%
Labour relations				
Number of production days lost as a result of industrial unrest	7	28	1	40.5

2013 TARGETS

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

Members of middle management at the San Jose mine participating in the Developing Leaders programme held during the year in collaboration with the Hay Group

Sustainability report continued

Working together with local communities

The Hochschild approach to working with our communities

We have since the Group's early days shaped our community-oriented activities to establish positive relationships with the local communities and to contribute to their development. We try to do this by applying the following principles:

- foster mutual respect and co-existence with local communities
- achieve mutually beneficial agreements
- improve the quality of life of community residents
- improve the health, education and nutrition of local community members
- encourage good relationships and co-ordination with stakeholders to promote sustainable development

Community Relations strategic review

Hochschild has medium and long term visions of its relationship with local communities focused on education, health and economic development, and to provide the residents of participating communities, especially of the younger generation, with the tools and skills to play a productive role and to enable them to chart their own paths.

Based on this goal, the Group developed several initiatives in 2012 which were designed to improve the quality of life of the people in the areas of direct and indirect influence of the Group's operations and projects as well as to improve relations with residents.

To complement this vision, a socio-economic study of the geographic areas where the Group's operations are present was commissioned in 2012 where, through interviews, surveys, ethnographies and research of the area, a profile of the needs of the communities and related trends was identified to fine-tune the Group's approach. Based on the findings, programmes are being designed for 2013 from the perspective of Family Units where tailored programmes will be developed taking into account the needs of the families and their physical location.

Our achievements in 2012

Significant progress was made in each of the key areas of our Community Relations strategy.

Education

Maestro Lider – Hochschild worked directly with over 300 primary and secondary school teachers to improve the education of children in the Group's areas of influence. These teachers received training and certification in basic skills programmes, entrepreneurship, leadership and digital inclusion.

Elementary & Secondary Education – We worked with over 50 local elementary schools and over 2,000 students with the goal of improving their basic literacy skills. We partnered with local NGOs to deliver their established programmes which also involved parents and community members in the education of their children. In secondary education, we delivered Training of Young Entrepreneurs in partnership with Junior Achievement Worldwide.

Leadership Skills for Teachers – in conjunction with the technical education institute TECSUP, workshops for teachers from Arequipa and Ayacucho were held on various subjects including social skills and effective communication to enhance their roles.

Digital Inclusion – Continuing the programme launched in 2011, where over 300 teachers were trained in the use of technology as an educational tool, 2012 saw the delivery of more advanced initiatives on class preparation. In addition, we supported students in implementing projects through the use of ICT for the benefit of their communities.

Health

Medico de Cabecera – Continuing the programme launched in 2011 to bring health services to the communities close to the Group's Peruvian operations, three mobile units served local communities during 2012. Through this initiative, we worked together with the Ministry of Health in organising promotional activities and health prevention campaigns.

Socio-economic development

Digital Chalhuanca – The Group's flagship project using technology and the internet to enhance education and promote economic development (see case study on opposite page).

Development of local skills – Through active participation, Community Development Plans were agreed, enabling local communities to prioritise projects that will lead to sustainable development with support from local and regional authorities.

Alpaca and trout programmes – To encourage revenue generation and therefore economic independence, the Group continued to provide technical support and infrastructure for the raising of alpacas. Technical assistance to local fish farms resulted in the Group sourcing local produce for the restaurants at its operations.

CASE STUDY **DIGITAL CHALHUANCA**

The first digital community in Peru. This project was launched to provide the community of Chalhuanca with access to new technology to promote education and economic development.

The town, situated 500 km south-east of Lima in the region of Apurímac, was selected because of its location in the Group's Area of Influence and its potential as a hub for surrounding communities.

Digital Chalhuanca was made possible through extensive public-private collaboration between numerous organisations including the provincial and regional authorities, the NGO *Empresarios por la Educación* (EPE) and companies including *Hochschild*, *Intel*, *HP* and *Lenovo*.

Together, they installed wired and wireless internet access and created a Digital Resource Centre equipped with the latest technology. In addition, funds were committed for educational programmes for students, teachers and the general public designed on sustainable strategies developed by EPE.

The project's initial two-year phase focuses on meeting the community's initial needs in using the new technology and launching initiatives in the following areas:

- **Education & Training** – promoting the use of ICT as a teaching resource for primary and secondary school students. Training will also be provided to the general public on basic IT literacy.
- **E-Government** – enhancing the website portal of the municipal authority and holding training workshops for local public sector employees.
- **Economic Sustainability** – training local producers and traders in various subjects to promote business and improve competitiveness.

The next phase will include the supply of IT equipment to schools, additional resources for teachers and the provision of support personnel.

Sustainability report continued

Working together with local communities continued

HOW WE PERFORMED AGAINST OUR 2012 OBJECTIVES

Target	Status	Commentary
Ongoing target Zero Loss of Production days resulting from community conflicts	✓	
Specific targets To conclude all agreements envisaged in the mutually approved annual plan	✓	All relevant agreements (comprising permissions and social licences negotiated with communities) were concluded
To make a measurable contribution to the improvement of the quality of life of the communities living close to the Group's operations	✓	The Group undertook numerous activities during the year with this objective. For further details see section on our achievements in 2012 (on previous page)

COMMUNITY RELATIONS INDICATORS

	2012	2011	2010	2009
Community investment ¹	\$6.5m	\$7.7m	\$6.7m	\$6.0m
Production days lost as a result of community conflict	0	1	0	15

¹ Figures represent only the portion of expenditure on social and community welfare activities surrounding the Company's mining units accounted for as administrative expenses

2013 TARGETS

- To continue making improvements to the literacy skills of primary and secondary school children
- To increase the level of engagement between the Group's mining operations and local businesses

CASE STUDY **PERITO MORENO**

The Group's San Jose joint venture in Argentina has continued to support the town of Perito Moreno located 80km from the mine in the Santa Cruz province

A total of \$2.2 million was invested in social and welfare activities during 2012 which included

- support for the construction of the New Hope integration centre for the disabled,
- ongoing support for the first technical Institute of the town dedicated to providing training in the use of technology in industrial activities,
- the donation of equipment to the local hospital (see picture opposite) and
- scholarships for participants in an introductory mining course

Equipment was donated during the year to the Dr Oscar Natale hospital in Perito Moreno

Managing our environmental impact

The Hochschild approach to environmental management

We are committed to ensuring the sustainability of the environment in which we develop our operations and new projects. The Company has established an environmental management system on a corporate level that seeks to apply the best international practices available, as demonstrated by the continued ISO 14001 certification of our operations.

The Company recognises the importance of water in the success of our operations and the ongoing sustainability of the environment. Through responsible management of the water resource we strive to assure efficient water usage, maximise use of recycled water and comply with Maximum Discharge Levels and Environmental Quality Standards.

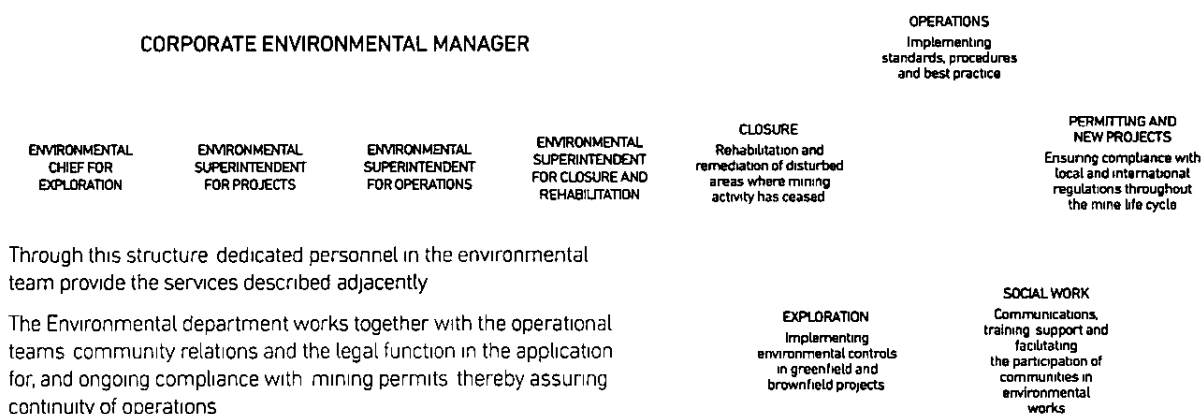
Hochschild Mining recognises that Environmental and Social Responsibility extends beyond the life of our operations. Mine Closure Plans are in place to restore disturbed areas where mining activity has ceased and to contribute to the socio-

economic sustainability of communities that have been influenced by the operations.

Our achievements in 2012

- Stemming from the Group's commitment to sustainability, the Environmental and Social Responsibility department was created by combining the Environmental and Community Relations teams.
- In May we joined the United Nations Global Compact embracing the Ten Principles of corporate responsibility.
- Approval of Inmaculada Environmental Impact Study (EIS) in September.
- Group Compliance Performance Indicators (CPI) above 90% validated by an external entity.
- Maintained ISO 14001 certification for the Group's operations in Ares, Arcata, Selene, Pallancata and San Jose.
- First carbon footprint study of the Group's operations (see case study below).

HOCHSCHILD ENVIRONMENTAL TEAM



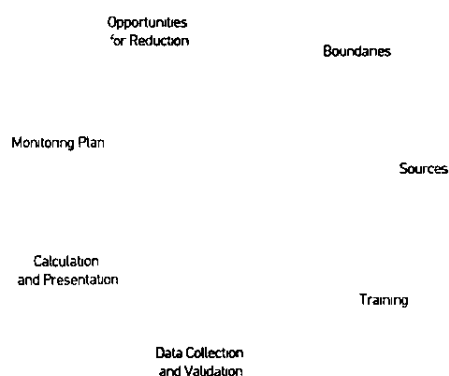
Through this structure, dedicated personnel in the environmental team provide the services described adjacently.

The Environmental department works together with the operational teams, community relations and the legal function in the application for, and ongoing compliance with, mining permits, thereby assuring continuity of operations.

CASE STUDY MEASURING OUR CARBON FOOTPRINT

We are committed to playing our part in mitigating the effects of global climate change and calculating our carbon footprint is the first step in achieving this goal.

This study will allow us to identify opportunities to reduce emissions, optimise efficiency as well as improve our operation and environmental performance.



In 2012 we carried out the first carbon footprint study in collaboration with A2G Carbon Partners, which was prepared in accordance with international guidelines and protocols, such as the Greenhouse Gas Protocol ISO14064.

Emissions sources within our activities were identified, classified and included within the scope and boundaries of our study. Awareness training was carried out and information regarding Tiers I, II, and III of carbon footprint accounting was gathered. These three tiers include direct emissions, emissions related to purchased energy and other indirect emissions. A verification process was implemented to assure data quality.

This will enable us to improve our environmental performance and focus our efforts to reduce emissions throughout the life cycle of our operations.

The results of the study are in the latter stages of evaluation and will be reported on in more detail in the Group's first standalone Sustainability Report.

Sustainability report continued

Managing our environmental impact continued

HOW WE PERFORMED AGAINST OUR 2012 OBJECTIVES

Target	Status	Commentary
Group Compliance Performance Indicator above 89%	✓	Performance above 90% was achieved for all our operations and was validated by a third party Verum SAC
Maintain ISO14001 certification for Ares, Arcata, Selene, Pallancata and San Jose	✓	We have maintained certification of our environmental management system for all our underground operations having been assessed by the certifying entity SGS del Peru
Submit Crespo and Inmaculada Environmental impact assessments	✓	Approval for the Inmaculada EIS was obtained in September 2012 With respect to Crespo, the necessary steps have been taken with the relevant authorities and approval of the EIS is expected in the second half of 2013

ENVIRONMENTAL INDICATORS¹

	2012 ²	2011	2010	2009
Average monthly fresh water consumption per metric tonne of treated ore (cubic metres)	0.18	0.24	0.21	0.63
Electricity consumption per metric tonne of treated ore (Kw-h)	88.69	53.29	57.75	53.32
Diesel consumption per metric tonne of treated ore (gallons)	1.53	1.29	0.97	1.23
Number of material environmental incidents across entire operations	0	0	0	0
Estimated volume of water withdrawn per day (cubic metres)	15,925	32,424	30,628	29,668
Estimated proportion of recycled water used	103%³	69%	32%	27%
Estimated volume of water discharged per day (cubic metres)	30,773	37,979	37,538	35,606

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

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

³ Estimated proportion of recycled water for 2012 is greater than 100% for the following reason: GRI guidelines state that if a process requires two cubic metres of water and this water is used for three cycles then total recycled water would be six cubic metres which for this example would result in a 300% recycle ratio.

2013 TARGETS

- Approval of Crespo EIS
- Implementation of improved environmental Compliance Performance Indicators
- Maintain ISO 14001 certification for Ares, Arcata, Selene, Pallancata and San Jose

Risk management

Overview

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

The Risk Committee is responsible for implementing the Group's policy on risk management and monitoring the effectiveness of controls in support of the Company's business objectives. It meets four times a year and more frequently if required. The Risk Committee comprises the CEO, the Vice Presidents and the head of the internal audit function. A live risk matrix is compiled and updated at each Risk Committee meeting and the most significant risks as well as potential actions to mitigate those risks are reported to the Group's Audit Committee which has oversight of risk management on behalf of the Board.

Further details of the Audit Committee's activities are provided in the Corporate governance report on pages 73 to 75.

The key business risks affecting the Group set out in this report differ from those disclosed in the 2011 Risk Management report in the following respects:

- foreign currency risks in respect of the cost impact that arises from changes in the value of local currencies (given that the Group's revenue is denominated in US dollars) has been removed as it is no longer considered to be a principal risk
- the risk previously disclosed as Costs has been re-categorised as Operational Performance to incorporate the risk of failure to meet the Group's production goals, and
- the addition of Delivery of Projects, which has become increasingly important to the Group in light of the advancement of the Inmaculada and Crespo projects.

RISK MANAGEMENT GOVERNANCE

BOARD

AUDIT COMMITTEE

RISK COMMITTEE

Risk management continued

FINANCIAL RISKS

Risk	Impact	Mitigation	2012 commentary
COMMODITY PRICE	Adverse movements in precious metals prices could have a material impact on the Group's results of operations	- Constant focus on maintaining low cost base and low leverage policy - Prices closely monitored by management with oversight by the Board <i>See Market & Geographic Overview on pages 20 and 21 for further details</i>	The Company maintained continued focus on cost controls, reduced debt and did not participate in any hedging activity
COUNTERPARTY CREDIT RISK	Loss of revenue resulting from defaulting customers	- Sales contracts for concentrate incorporate various protection measures including provision for advance payment, delaying transfer of title on non-payment - Parent company guarantees are sought where appropriate - Risk profiling of key and new customers and active review of accounts receivables	The Company completed the significant investment at its Arcata mine to convert its entire production into dore thereby reducing its exposure to counterparty risk (since the sale of dore, as opposed to concentrates is settled almost immediately)
	The Group may lose financial resources through the failure of financial institutions	- Surplus cash invested with a diverse list of select highly rated financial institutions within investment limits set by the Board - The Board receives regular reports on the management of cash	Management has continued to operate its policy with oversight by the Board without any change during the year
LIQUIDITY	The Group may be unable to raise funds to meet its financial commitments as they fall due	- Board and senior management continually monitor the Group's requirements for short- and medium-term liquidity - The Company maintains a cash position, strong banking relationships and access to credit lines and limits indebtedness to ensure an appropriate level of financing	The Company benefits from considerable balance sheet strength with a year-end cash balance of \$359 million ¹ and no debt except for the Convertible Bonds

OPERATIONAL RISKS

Risk	Impact	Mitigation	2012 commentary
OPERATIONAL PERFORMANCE	Failure to meet production targets and manage the cost base could adversely impact the Group's profitability	- Close monitoring by management of operational performance costs and capital expenditure - Negotiation of long-term supply contracts where appropriate - Exploration to increase high quality resources	As stated in the Operating and Financial Reviews there has been a considerable increase in unit costs during the year primarily due to the increasingly challenging geological conditions of ageing assets, labour inflation and the cost of raw materials

¹ Includes payment for 86.7% of Andina Minerals Inc

OPERATIONAL RISKS CONTINUED

Risk	Impact	Mitigation	2012 commentary
DELIVERY OF PROJECTS	Delays in delivering projects such as Inmaculada and Crespo could have several negative consequences including delaying cash inflows and increasing capital costs which could ultimately reduce profitability	- Teams comprising specialist personnel and world class consultants are involved in all aspects of project planning and execution including the commissioning of an Independent feasibility study and the securing of permits and financing - Project teams meet on a weekly basis to monitor on-going progress against project schedules with a Procurement Committee ensuring timely sourcing of materials and services to meet project schedules	Notable project milestones achieved for Inmaculada include the completion of the feasibility study approval of the Environmental Impact Study (EIS) awarding of the EPC contract and the start of construction of the necessary infrastructure for a dedicated electricity supply With respect to Crespo the feasibility study was completed the EIS was submitted and agreement reached for the requisite power supply Delivery of projects is also exposed to risks relating to Community Relations and the Political Legal & Regulatory environment <i>See how we mitigate these risks in the separate sections overleaf</i>
BUSINESS INTERRUPTION	Assets used in operations may break down and insurance policies may not cover all forms of risk	- Adequate insurance coverage - Management reporting systems to support appropriate levels of inventory - Annual inspections by insurance brokers and insurers with recommendations addressed in order to mitigate operational risks - Availability of contingency power supplies at all operating units	A third-party review was completed to ensure that appropriate and adequate property damage and business interruption insurance policies are in place for all operations Management reporting systems ensured that an appropriate level of inventory of critical parts is maintained Adequate preventative maintenance programmes supported by the SAP Maintenance Module are in place at the operating units
EXPLORATION & RESERVE AND RESOURCE REPLACEMENT	The Group's operating margins and future profitability depend upon its ability to find mineral and to replenish reserves	- Retain and incentivise world-class geologists <i>See mitigation in respect of Personnel risks overleaf for further details</i> - Implementing and maintaining an annual exploration drilling plan - Ongoing evaluation of acquisition and joint-venture opportunities to acquire additional ounces	The Group allocated \$90 million in 2012 to fund its exploration and geology activities The 2013 budget has been set at \$77 million The 2012 drilling plan was revised on a quarterly basis with exploration targets continually evaluated and new targets incorporated
	Reserves stated in this Annual Report are estimates	- Develop internal expertise and processes in managing mineral reserves and resources - Engagement of independent experts to undertake annual audit of mineral reserve and resource estimates	The Group engaged P&E Consultants to undertake the annual audit of mineral reserve and resource estimates <i>See page 175 for further details</i>

Risk management continued

OPERATIONAL RISKS CONTINUED

Risk	Impact	Mitigation	2012 commentary
PERSONNEL	Inability to retain or attract personnel either through a shortage of skilled personnel or the commencement of mining operations in the vicinity of the Group's core operations or projects	Implementation of the Group's HR recruitment and retention strategies which incorporate the provision of competitive compensation packages, well-defined career plans and training & development opportunities	In addition to the Long Term Incentive Plan the Group continued to operate the Exploration Incentive Plan which provides additional rewards for geologists based on the mineral content discovered at a given project A series of specially commissioned courses for employees across the organisation were conducted in 2012 to develop leadership and effective management skills
	Failure to maintain good labour relations with workers and/or unions may result in work slowdown, stoppage or strike	A tailored labour relations strategy focusing on profit sharing, working conditions, management style, development opportunities, motivation and communication	In addition to the annual negotiations with unions on pay and benefits, monthly meetings with workers and unions were held during 2012 to ensure a complete and accurate understanding of matters of concern and requirements <i>See pages 50 and 51 of the Sustainability report for specific examples of how the Group has invested in its people and plans to develop its recruitment strategy</i>

MACRO-ECONOMIC RISKS

Risk	Impact	Mitigation	2012 commentary
POLITICAL, LEGAL AND REGULATORY RISKS	Changes in the legal, tax and regulatory landscape could result in significant additional expense, restrictions on or suspensions of operations and may lead to delays in the development of current operations and projects. Implementation of exchange controls could impede the Group's ability to convert or remit hard currency out of its operating countries	Local specialised personnel continually monitor and react as necessary, to policy changes - Active dialogue with Governmental authorities - Participation in local industry organisations	Following the election of the new administration in Peru in 2011, new obligations impacting mining companies were enacted including: - a law requiring the prior consultation of indigenous communities as part of the planning of mining activities; and - the creation of new protected nature reserves Whilst the Company remains in dialogue with the relevant authorities, the procedures required to comply with these new requirements have not yet been officially established. The authorities of Argentina and Peru levied new taxes and royalties on mining companies during the year. In addition, in Argentina, the Federal Government imposed foreign exchange controls which have affected the Company's ability to access and remit hard currency abroad.

SUSTAINABILITY RISKS

Risk	Impact	Mitigation	2012 commentary
HEALTH AND SAFETY	Group employees working in the mines may be exposed to health and safety risks. Failure to manage these risks may result in accidents, a work slowdown, stoppage or strike and/or may damage the reputation of the Group and hence its ability to operate.	- Health & Safety operational policies and procedures reflect the Group's zero tolerance approach to accidents. - Use of world-class DNV safety management systems. - Dedicated personnel not only assure the safety of employees at the operations but through the Health & Hygiene team there is continued focus on the prevention of accidents and occupational illness. - Rolling programme of training, communication campaigns and other initiatives promoting safe working practices. - Use of reporting and management information systems to monitor the incidence of accidents and enable preventative measures to be implemented.	During the year the Group maintained Level 7 of the DNV safety management information system at Arcata and Pallancata-Selene and Level 6 at San Jose. In addition, Level 3 was achieved at the Inmaculada project. Following the occurrence of fatalities at the Group's mine, a Safety Day was held to raise awareness among employees of the importance of safety. A video recording of the Chairman addressing all employees on safety was produced and broadcast across all operating sites. The internal competition for the Luis Hochschild Safety Innovation Award was once again held in 2012.
ENVIRONMENTAL	The Group may be liable for losses arising from environmental hazards associated with the Group's activities and production methods, or may be required to undertake extensive remedial clean-up action or pay for governmental remedial clean-up actions or be subject to fines and/or penalties.	- The Group has a dedicated and specialised team of professionals with an allocated budget for environmental management. - Robust procedures and policies have been adopted to monitor and limit the Group's environmental impact. - Investment in leading environmental management information systems.	During the year: - the Group achieved compliance with over 90% of its internal Compliance Performance Indicators, which was validated by an external third party. - the operations in Peru and Argentina maintained their ISO14001 certification. - the Group obtained the approval of the Environmental Impact Study for the Inmaculada project, and - the Group completed the first carbon footprint study of its operations.
COMMUNITY RELATIONS	Communities living in the areas surrounding Hochschild's operations may oppose the activities carried out by the Group at existing mines or with respect to development projects and prospects may invoke their rights to be consulted under new laws enacted during the year. These actions may result in longer lead times and additional costs in bringing assets into production and lead to an adverse impact on the Group's ability to obtain the relevant permissions for current or future projects.	- Constructive engagement and management of relationships with local communities. - Community Relations strategy focuses on promoting education, health & nutrition and sustainable development. - Allocation of budget and personnel for the provision of community support activities. - Policy to actively recruit workers from local communities.	The Group launched the Digital Chalhuanca initiative in Apurímac. <i>See case study on page 53 for further details.</i> Other initiatives during the year include the continuation of the Maestro Lider campaign, a training programme for community teachers and Medico de Cabecera, a programme taking healthcare to the rural populations. A database of all agreements with communities was maintained and updated on a monthly basis to ensure that all social commitments were met. <i>Further details of the Group's activities to mitigate Sustainability risks can be found in the Sustainability report on pages 42 to 56.</i>

Exploring for growth
Azuca

*Our 100% owned Azuca Advanced Project is
located in our Southern Peru operating cluster.*

View more information on Exploring for Growth online www.hochschildmining.com

Governance

In this section

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95	Statement of Directors' responsibilities
96	Independent auditor's report

In January 2012 we took the decision to delay the feasibility study at Azuca in order to continue exploration work to consolidate resources and to provide a more comprehensive picture of the dispersed vein structures present in the area that we believe have considerable geological potential

In 2012 exploration work continued at Azuca and promising new intercepts were reported that suggest the presence

of further higher grade veins and the continuity of high grade mineral structures. In 2013 we will continue exploration at Azuca, focusing on identifying further high grade potential mineral structures

As of December 2011, the Azuca project has Measured and Indicated resources totalling 7.05 tonnes at 0.77 g/t of gold and 188 g/t of silver containing 173,500 ounces of gold and 42.7 ounces of silver

7.05tonnes
Measured and
Indicated resources

Board of Directors and Senior Management

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

Eduardo Hochschild

Executive Chairman

Eduardo Hochschild joined the Hochschild Group in 1987 as Safety Assistant at the Arcata unit, becoming Head of the Hochschild Mining Group in 1998 and Chairman in 2006. Eduardo has numerous directorships, amongst them Cementos Pacasmayo S.A.A., COMEX Peru, Banco de Crédito del Perú and a number of positions with non-profit entities such as TECSUP, the Sociedad Nacional de Minería y Petróleo and the Conferencia Episcopal Peruana. In addition, Eduardo serves as Chairman of the Board of the Universidad de Ingeniería y Tecnología.

Committee membership

CSR Committee (Chairman)

Nominations Committee (Chairman)

Ignacio Bustamante

Chief Executive Officer

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

Committee membership

None

Roberto Dañino

Deputy Chairman

Roberto Dañino joined the Board in 2006 as an Executive Director and became a Non-Executive Director on 1 January 2011. In 2001, Roberto served in the Peruvian Government as Prime Minister and thereafter as the country's Ambassador to the United States. Between 2003 and 2006, Roberto was Senior Vice President and General Counsel of the World Bank Group and Secretary General of ICSID. Previously, he was a partner of Wilmer, Cutler & Pickering in the US and founding General Counsel of the Inter-American Investment Corporation. Roberto is Chairman of Fosfatos del Pacífico S.A., part of the Cementos Pacasmayo Group of companies, among various other boards. He is a graduate of Harvard Law School and Universidad Católica.

Committee membership

CSR Committee

Sir Malcolm Field

Senior Independent Director

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

Committee membership

Audit Committee

CSR Committee

Nominations Committee

Remuneration Committee (Chairman)

Dr Graham Birch

Non-Executive Director

Dr Graham Birch joined the Board in July 2011. Prior to his retirement in 2009, Graham was a Director of BlackRock Commodities Investment Trust plc and manager of BlackRock's World Mining Trust and Gold and General Unit Trust. Previously, he worked at Kleinwort Benson Securities and Ord Minnett/Fleming Ord Minnett before joining Mercury Asset Management in 1993 where he launched a number of mining and natural resources funds. In 1997, Mercury Asset Management was acquired by Merrill Lynch Investment Managers which was itself eventually acquired by BlackRock in 2006. Graham has a PhD in mining geology from Imperial College, London and is currently Senior Non-Executive Director of Petropavlovsk Plc.

Committee membership

Audit Committee

The Board is collectively responsible for the long-term success of the Company by monitoring the implementation of the Group's strategic objectives and, through their collective experience, providing leadership and support to the senior management team to achieve sustainable added value for all stakeholders.

BOARD COMPOSITION

LENGTH OF TENURE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

- 1 Independent
- 2 Non-Independent

- 1 0-3 Years
- 2 3-6 Years
- 3 6 Years +

Enrico Bombieri
 Non-Executive Director

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

Committee membership
 Audit Committee

Jorge Born Jr
 Non-Executive Director

Jorge Born Jr. joined the Board in 2006. He is the President and Chief Executive Officer of Bomagra S.A. and a Director of Caldenes S.A., a Bomagra group company. Previously, Jorge served as Head of Bunge's European operations from 1992 to 1997 and as Head of Bunge's UK operations from 1989 to 1992. He acts as a Director and Deputy Chairman of Bunge Limited and Mutual Investment Limited. In addition, Jorge is a Director of Dufry AG, Zurich and President of the Bunge and Born Charitable Foundation.

Committee membership
 Nominations Committee
 Remuneration Committee

Nigel Moore
 Non-Executive Director

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

Committee membership
 Audit Committee (Chairman)
 Remuneration Committee

Rupert Pennant-Rea
 Non-Executive Director

Rupert Pennant-Rea joined the Board in September 2011. He is Chairman of Henderson Group plc and of the Economist Group and is a Non-Executive Director of Go-Ahead Group plc, Gold Fields Limited (South Africa) and Hoyal London Group. He was Deputy Governor of the Bank of England from 1993 to 1995 prior to which he spent 16 years with The Economist where he was editor from 1986 to 1993. Rupert served on the Board of First Quantum Minerals Limited between 2001 and 2011 and various other companies including British American Tobacco plc (between 1998 and 2007), Rio Narcea Gold Mines Ltd (between 2003 and 2007).

Committee membership
 Remuneration Committee

Fred Vinton
 Non-Executive Director

Fred was appointed to the Board in August 2009. He holds directorships of a number of companies including Unipart Group of Companies UK, CP Investments Ltd and Dinamia SCR S.A. He was a director of European Goldfields Limited until its acquisition by Eldorado Gold Corporation in February 2012. Between 1995 and 2006, Fred served as Chairman/Chief Executive Officer of Electra Partners Limited and prior to that as Chief Executive of Quilvest Ltd between 1992 and 1995. Over the course of his 25 year career with J.P. Morgan, Fred was responsible for the bank's business in the UK, Latin America and Scandinavia before joining N.M. Rothschild & Sons Ltd in 1988 as Chief Operating Officer.

Committee membership
 Audit Committee

SENIOR MANAGEMENT

César Aguirre
 Vice President,
 Exploration & Geology

César Aguirre joined Hochschild Mining as VP of Exploration & Geology in April 2011. César has over 20 years' experience in exploration and project management in South America, principally in Peru, Argentina and Chile. Prior to joining Hochschild, he worked for Newcrest Mining, Yanacocha, Noranda Inc. and Barrick Gold Corp. César holds a BSc in Geological Engineering from the Universidad Nacional de Ingeniería and an MSc in Economic Geology from the University of Tasmania.

Ramón Barúa
 Chief Financial Officer

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

Isac Burstein
 Vice President, Business
 Development

Isac Burstein joined the Group as a geologist in 1995. Prior to his current position, Isac served as Manager for Project Evaluation, Exploration Manager for Mexico and Exploration Geologist. He holds a BSc in Geological Engineering from the Universidad Nacional de Ingeniería, an MSc in Geology from the University of Missouri and an MBA from Krannert School of Management, Purdue University. Isac is on the Board of Gold Resource Corp.

Jose Augusto Palma
 Vice President, Legal &
 Corporate Affairs

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

Eduardo Villar
 Vice President,
 Human Resources

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

Directors' report

The Directors have pleasure in presenting their report for the year ended 31 December 2012

Principal activities

Hochschild is a leading precious metals company with a primary focus on the exploration, mining, processing and sale of silver and gold

Information incorporated by reference

This Directors' Report should be read in conjunction with the following parts of the Annual Report which are incorporated by reference to satisfy the relevant disclosure requirements

Business review

The information required to be disclosed in the Business Review can be located as summarised below

Section	Pages	Requirement
Chairman's statement	16 and 17	Main trends and factors likely to affect the Group
Chief Executive's review	18 and 19	
Market & geographic overview	20 and 21	
Operating review & Exploration review	22 to 36	Review of performance (with KPIs) development of the Group's business year-end position and prospects
Financial review	37 to 41	Information on employees environmental and social matters
Sustainability report	42 to 56	
Risk management	57 to 61	Principal risks and uncertainties

Corporate Governance Statement

The requirements for a Corporate Governance Statement are fulfilled by the Corporate Governance report on pages 69 to 78

Results and dividend

The Group's adjusted EBITDA¹ for the year amounted to \$384.8 million (2011: \$563.4 million). Revenue for the year was \$818.0 million (2011: \$987.7 million) and attributable profit to equity shareholders after tax (before exceptional items) was \$64.8 million (2011: \$165.9 million).

An interim dividend of \$0.03 per share was paid to shareholders of the Company on 20 September 2012. The Directors recommend the payment of a final dividend of \$0.03 per share (2011: \$0.03 per share). Subject to shareholders approving this recommendation at the forthcoming Annual General Meeting (AGM), the dividend will be paid in UK pounds sterling on 4 June 2013 to shareholders on the register at the close of business on 10 May 2013. Shareholders may elect to receive their dividend in US dollars. The US dollar dividend will be converted into UK pounds sterling at the exchange rate prevailing at the time of payment.

The trustee of the Hochschild Mining Employee Share Trust (the Employee Trust) has waived dividends declared by the Company on shares held by the Employee Trust.

Directors

The names and biographical details of the Directors serving at the date of this report are given on pages 64 and 65.

All Directors were in office for the duration of the year under review except for Enrico Bombieri who was appointed by the Board as a Non-Executive Director with effect from 1 November 2012. Dionisio Romero retired from the Board at the conclusion of the Annual General Meeting on 23 May 2012.

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

Directors' interests

Details of the interests of the Directors in the Company's shares are shown below.

	Ordinary shares as at 31 December 2012	Ordinary shares as at 1 January 2012 or date of appointment if later
Eduardo Hochschild ¹	182,415,206	182,415,206
Roberto Dañino ²	200,000	200,000
Ignacio Bustamante	26,944	14,054
Sir Malcolm Field	14,285	14,285
Graham Birch	10,000	0
Enrico Bombieri ³	0	0
Jorge Born Jr	0	0
Nigel Moore	14,285	14,285
Rupert Pennant-Rea	7,000	7,000
Fred Vinton	25,000	25,000

¹ Eduardo Hochschild holds an indirect interest in the Company through an intermediate holding company which he controls and which owns the entire issued share capital of Pelham Investment Corporation which in turn owns shares in the Company.

² Roberto Dañino's interest is held by Navajo International Holdings Ltd.

³ Enrico Bombieri was appointed a Director of the Company on 1 November 2012.

In addition, Fred Vinton has an interest in Convertible Bonds of the Company with a nominal value of \$500,000.

There have been no changes in the above interests in the period from 31 December 2012 to 13 March 2013.

Relationship Agreement

Prior to the Company's IPO, Pelham Investment Corporation, Eduardo Hochschild and the Company (amongst others) entered into a relationship agreement to regulate the ongoing relationship between them (the Relationship Agreement).

¹ Calculated as profit from continuing operations before exceptional items, net finance income/(cost) and income tax plus depreciation and exploration expenses other than personnel and other exploration related fixed expenses.

The principal purpose of the Relationship Agreement is to ensure that the Group is capable of carrying on its business for the benefit of the shareholders of the Company as a whole and that transactions and relationships with the Controlling Shareholders and any of their respective associates are at arm's length and on normal commercial terms.

Further details of the Relationship Agreement with regard to the conduct of the Major Shareholder are set out in the Corporate Governance report on page 70 and with regard to the right to appoint Directors to the Board are set out on page 72.

Supplier payment policy

It is the Company's policy that, subject to compliance with trading terms by the supplier, payments to suppliers are made in accordance with terms and conditions agreed in advance.

At 31 December 2012, the Company had an average of 22 days purchases owed to trade creditors (2011: 31 days).

Political and charitable donations

The Company does not make political donations. During the year, the Group expended \$6.5 million (2011: \$7.7 million)¹ on social and community welfare activities surrounding its mining units.

Related party transactions

Details of related party transactions undertaken during the year under review are given in note 30 to the Consolidated financial statements on pages 147 and 148.

Essential contractual and other arrangements

The Directors consider that the following are the contractual and other arrangements with customers, suppliers or contracts to which Group companies are a party and which are considered to be essential to the business:

- the mining concessions and operating permits granted by governmental authorities in the jurisdictions of the Group's operations; and
- the collective agreements with trade unions in respect of the workers at the Group's mines in Peru.

Policy on financial risk management

The Company's objectives and policies on financial risk management can be found in note 36 to the Consolidated financial statements. Information on the Company's exposures to foreign currency, commodity prices, credit, equity, liquidity, interest rate and capital risks can be found in this note.

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 Articles contain a provision whereby each of the Directors is indemnified by the Company in respect of liability in relation to: (i) any negligence, default, breach of duty or breach of trust relating to the Company or any associated company; (ii) execution of their duties as Directors of the Company; and (iii) the activities of the Company or any associated company as trustee of an occupational pension scheme. For these purposes, associated company has the meaning given to it by section 256 of the Companies Act 2006.

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

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

Conflicts of interest

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

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

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

Going concern

This Annual Report provides details of the Company's business activities, its financial position and a description of the Company's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities (with respect to interest rate risks) and its exposures to credit and liquidity risks.

The Company benefits from considerable financial resources and long-term relationships with a number of customers and suppliers across different geographic areas. These factors, together with the general macroeconomic outlook which supports gold and silver prices, provide the Directors with reassurance that the Company is well placed to manage its business risks successfully.

¹ Please refer to the Sustainability report for further details.

Directors' report continued

Having regard to the Financial Reporting Council's document entitled 'Going Concern and Liquidity Risk: Guidance for Directors of UK Companies 2009' the Directors have considered a five year cash flow forecast presented by management which amongst other things reflects the financial requirements of the Group's ongoing exploration programme and the Group's Advanced Projects Inmaculada and Crespo. Consequently the Directors have arrived at a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

AGM

The seventh AGM of the Company will be held at 9.30 am on 30 May 2013 at the offices of Linklaters LLP. The shareholder circular incorporating the Notice of AGM will be sent separately to shareholders or for those who have elected to receive electronic communications will be available for viewing at www.hochschildmining.com.

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

Auditors

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

Statement on disclosure of information to auditors

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

This confirmation is given, and should be interpreted, in accordance with the provisions of section 418(2) of the Companies Act 2006.

Statement of Directors' responsibilities

The Directors confirm that to the best of their knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit of the Company and the undertakings included in the consolidation taken as a whole; and
- the Management report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Disclaimer

Neither the Company nor the Directors accept any liability to any person in relation to this Annual Report except to the extent that such liability could arise under English law. Accordingly, any liability to a person who has demonstrated reliance on any untrue or misleading statement or omission shall be determined in accordance with section 90A of the Financial Services and Markets Act 2000.

The names and functions of the current Directors of the Company are set out on pages 64 and 65 of this Annual Report.

On behalf of the Board

Raj Bhasin
Company Secretary
12 March 2013



Corporate governance report

IN THIS REPORT

The Board, its workings and how it performed in 2012

see page 70

Audit Committee

see page 73

Nominations Committee

see page 76

Corporate Social

Responsibility Committee

see page 77

Remuneration Committee

see page 77

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

Dear shareholder

Your Board recognises the importance of applying the highest standards of governance as they establish strong foundations for the creation of shareholder value. We are committed to fulfilling our responsibilities for overseeing the Group's progress in achieving its strategic objectives through effective leadership and with the appropriate framework of internal controls and a managed level of risk.

I am pleased to be able to report on the governance developments that have taken place during 2012.

Continuous learning

As Chairman, it is my responsibility to ensure that we, as Directors, are equipped with the requisite knowledge and skills to fulfil our roles. This was achieved in various ways during 2012.

We sought to gain a better understanding of the ever-changing social landscape in which the Group operates by listening to regional academic experts. We learnt of the resourcing challenges faced by the Group's HR function and how it plans to steer a course through a fiercely competitive labour market. Market commentators gave us an insight into the demands of investors. In addition, and perhaps most crucially, the Board was given the opportunity to see a potential source of significant future growth, the Volcan project in Chile, following the Group's acquisition of Andina Minerals.

Board evaluation

The Board evaluation process continued to bring significant benefits to the way we are able to discharge our responsibilities. Amongst them was the addition to the annual Board calendar of two further meetings which ensured we remain close to relevant developments. We also improved the linkage between the Board and its Committees.

Board appointment

I am delighted that we were able to complement the skills represented on the Board through the appointment of Enrico Bombieri as a Non-Executive Director who brings a wealth of global capital markets experience.

I am pleased to be able to introduce and endorse this Corporate Governance report and would welcome your feedback.

Eduardo Hochschild
Executive Chairman

12 March 2013

Corporate governance report continued**Introduction and statement of compliance**

This report together with the Directors' Remuneration Report sets out how the Company has applied the Main Principles set out in the UK Corporate Governance Code (the Code) (2010 edition) a copy of which is available on the website of the Financial Reporting Council (FRC) at www.frc.org.uk

Disclosures to be included in the Corporate Governance report in relation to share structure, shareholder agreements and the Company's constitutional provisions pursuant to the Disclosure and Transparency Rules are provided in the Supplementary Information section on pages 79 to 81

The Board confirms that in respect of the year ended 31 December 2012 the Group has complied with the provisions contained in Section 1 of the Code except that a significant part of the Executive Chairman's remuneration is not performance-related

As previously disclosed, the remuneration arrangements for the Executive Chairman were reviewed in early 2010. In agreeing the structure, the Board felt that the arrangements should reflect the importance of the Chairman's contribution to the long-term strategic development of the Group and his current significant shareholding. For this reason, a package comprising fixed elements only was considered to be the most appropriate. The Board continues to be of this opinion.

The Board

The Board is responsible for approving the Company's strategy and monitoring its implementation, for overseeing the management of operations and for providing leadership and support to the senior management team in achieving sustainable added value for shareholders. It is also responsible for enabling the efficient operation of the Group by providing adequate financial and human resources and an appropriate system of financial control to ensure these resources are fully monitored and utilised.

There is an agreed schedule of matters reserved for the Board which includes the approval of annual and half-yearly results, the Group's strategy, the annual budget and major items of capital expenditure.

Composition

As at the date of this report, the Board comprises two Executive Directors, the Chairman and the Chief Executive Officer, and eight Non-Executive Directors.

Chairman and Chief Executive

The Company is jointly led by the Executive Chairman, Eduardo Hochschild, and the Chief Executive Officer, Ignacio Bustamante.

The division of responsibilities between the Chairman and the CEO has been set out in writing and has been approved by the Board.

The Chairman and the Chief Executive Officer are collectively responsible for the formulation of the vision and long-term corporate strategy of the Group, the approval of which is a matter for the Board.

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

Whilst the Chairman is not considered to be independent, the Board is satisfied that given its structure, decisions can be made without any one Director exercising undue influence. This matter is the subject of discussion as part of the annual Board Evaluation process which in 2012 reaffirmed this view.

Additional safeguards come in the form of the Relationship Agreement entered into by Eduardo Hochschild, Pelham Investment Corporation (the Major Shareholder) and the Company prior to the IPO in November 2006, which seeks to ensure that the Company and its subsidiaries are capable of carrying on their business independently of the Controlling Shareholders and any of their respective associates.

Furthermore, the Company and the Major Shareholder agree in the Relationship Agreement that they will comply with the applicable obligations under the Listing Rules and to exercise their powers so far as they are able to ensure the Company is managed in accordance with the Code.

Senior Independent Director

Sir Malcolm Field acts as Senior Independent Director and, as such, acts as a sounding board for the Chairman as necessary. Sir Malcolm is also available to meet with major shareholders if their concerns have not been resolved by the executive management team.

Non-Executive Directors

All of the Company's Non-Executive Directors hold, or have held, senior positions in the corporate sector and bring their experience and independent perspective to enhance the Board's capacity to help develop proposals on strategy and to oversee and grow the operations within a sound framework of corporate governance.

Details of the tenure of appointment of Non-Executive Directors are provided in the Directors' Remuneration Report.

Independence of the Non-Executive Directors

The Board considers that except Roberto Dañino in light of his previous role as an Executive Director and his ongoing role as Special Adviser to the Chairman and senior management team, all of the Non-Executive Directors are independent of the Company.

In reaching this conclusion, the Board took into account the following circumstances which were not considered to be of a nature to materially interfere with the exercise of the relevant director's independent judgement:

- Enrico Bombieri's previous employment with JP Morgan, one of the Company's corporate brokers
- Dr Graham Birch's previous positions until January 2009 as Director of BlackRock Commodities Investment Trust plc and manager of BlackRock's World Mining Trust and Gold and General Unit Trust given BlackRock's status as one of the Company's largest shareholders
- Dr Graham Birch and Sir Malcolm Field both serve on the Board of Petropavlovsk Plc and
- Roberto Dañino and Rupert Pennant-Rea both serve on the Board of Gold Fields Limited

Board Meetings held in 2012

There were ten Board Meetings held in 2012 comprising five scheduled meetings, four unscheduled meetings and one meeting which was convened at short notice to deal with a matter relating to the Andina Minerals acquisition.

Attendance at these meetings has been summarised in the following table:

	Maximum possible attendance	Actual attendance
Eduardo Hochschild	10	9
Roberto Dañino	10	8
Dr Graham Birch	10	9
Enrico Bombieri ¹	3	2
Jorge Born Jr	10	6
Ignacio Bustamante	10	10
Sir Malcolm Field	10	9
Nigel Moore	10	8
Rupert Pennant-Rea	10	8
Dionisio Romero ²	2	2
Fred Vinton	10	8

1 Enrico Bombieri was appointed a Director of the Company on 1 November 2012

2 Dionisio Romero retired from the Board on 23 May 2012

Of the unscheduled Board meetings, one meeting was convened to consider the feasibility studies of the Group's Advanced Projects and four were convened in connection with the acquisition of Andina Minerals.

Directors receive a full pack of papers for consideration at least five working days in advance of each Board meeting and in the event that a Director is unable to attend, comments are fed back to the Chairman who seeks to ensure that all views are represented on any given matter.

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

Principal matters considered by the Board during 2012 include:

Financial

- the 2011 Annual Report and the 2012 Half-Yearly Report
- dividend and cash management
- the 2013 Budget

Strategy

- the Group's strategic plan

Acquisitions

- the acquisition of Andina Minerals Inc

Business Performance

- status of the Group's portfolio of assets,
- approving the feasibility studies for the Group's Advanced Projects and receiving updates on its progression towards construction
- presentations on a number of business development initiatives
- a presentation on the Group's HR function and its strategy

Risk/Governance

- the strategic risks faced by the Group,
- in addition to the regular updates, the Board received a detailed presentation from the Company Secretary focusing on relevant developments in Corporate Governance and relevant obligations under the UK Listing Rules
- an update on the implementation of the 2011 Board Evaluation recommendations and the outcome of the 2012 Board Evaluation process
- the annual review of Directors' conflicts of interest and the assessment of independence of each of the Non-Executive Directors
- the appointment of Enrico Bombieri as a Non-Executive Director

Operating Responsibly

- a presentation by a speaker from the Institute for Peruvian Studies on the socio-political climate in Peru
- the results of the Organisational Climate Survey, and
- detailed reports on the fatalities occurring during the year

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

Corporate governance report continued

Appointments and re-election of Directors

Board nominations are recommended to the Board by the Nominations Committee which met during the year under review to consider the appointment of Enrico Bombieri as a Non-Executive Director of the Company

The Code recommends that directors of FTSE 350 companies seek re-election by shareholders on an annual basis a practice that was adopted by the Company in 2011 Biographies of the Directors can be found on pages 64 and 65

Under the terms of the Relationship Agreement the Major Shareholder has the right to appoint up to two Non-Executive Directors to the Board for so long as the Major Shareholder holds an interest of 30% or more in the Company and the right to appoint one Non-Executive Director for so long as it has an interest of 15% or more in the Company and in each case to remove any such Director(s) previously appointed The Relationship Agreement continues for so long as the Company's shares are traded on the London Stock Exchange or until such times as the Controlling Shareholders (including Eduardo Hochschild) cease to own or control in aggregate a minimum of 15% or more of the issued share capital or voting rights of the Company

To date the Major Shareholder has not exercised this right

Board development

It is the responsibility of the Chairman to ensure that the Directors update their skills and are provided with the necessary resources to continue to do so This is achieved through various means

Induction

New Board appointees are offered the opportunity to meet with key management personnel and the Company's principal advisers as well as undertake visits to the Group's operations This process is currently being reviewed to ensure the provision of a comprehensive and structured introduction to the Group

Briefings

The Directors receive regular briefings from the Company Secretary on their responsibilities as Directors of a UK listed company and on relevant developments in the corporate governance landscape In addition the Chairman has made arrangements to ensure that the Directors have ongoing access to the Company's officers and advisers

2012 Volcan visit

In November 2012 the Company organised a visit to the Volcan project acquired recently by the Group following the purchase of Andina Minerals The visit to the project located in the Maricunga belt in Chile incorporated a presentation from Andina's Vice President of Project Development and the opportunity to meet with personnel on-site

Advice

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

Company Secretary

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

Board evaluation

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

Implementation of 2011 Board evaluation

A number of steps were taken during the year to implement the recommendations arising from the 2011 Board evaluation process

These actions included

- the addition to the Board calendar of two further meetings with a view to ensuring that Directors were kept updated on developments between scheduled meetings,
- a more active role assumed by the Nominations Committee to support succession planning with respect to the Non-Executive Directors the CEO and senior management positions,
- enhancements to processes with the aim of improving linkages between the Board and its Committees,
- the introduction to the standing agenda for the May Board Meeting of a detailed Corporate Governance briefing
- changes in the form of reporting with respect to the Group's exploration activities and
- a Board visit to the Volcan project which was acquired after the year-end following the purchase of Andina Minerals

2012 Board evaluation

In keeping with past practice the 2012 Board Evaluation process was undertaken through one-to-one interviews conducted by the Senior Independent Director assisted by the Company Secretary Given the timing of his appointment to the Board, Enrico Bombieri did not participate in the process

The interviews were structured to seek Directors' views on a number of subject areas (see box below)

2012 Board Evaluation – Areas of focus**The Board**

- Composition of the Board focusing in particular on skills required to complete the Board profile
- Board process
- Topics for future Board discussion

The Committees

- Composition and general workings
- How effectively responsibilities under the respective Terms of Reference are discharged

Strategy

- With particular focus on
 - Reporting and monitoring of exploration strategy and
 - the Group's approach to strategic planning

In addition to the above Directors were requested to provide feedback on the performance of fellow Board members. A part of the evaluation was dedicated to the performance of Nigel Moore and Jorge Born, both of whom had completed two three-year terms as Non-Executive Directors. Sir Malcolm Field who has also been on the Board since 2006, was not included in this evaluation given his intention to retire from the Board at the end of 2012. Subsequent to the year end, however, Sir Malcolm agreed to postpone his retirement until the end of 2013 to oversee a smooth transition to those succeeding him as Senior Independent Director and Chairman of the Remuneration Committee.

The findings relating to the evaluation of the Board and the Committees were considered collectively by the Chairman and the Senior Independent Director and the resulting recommendations were discussed and, where appropriate, approved by the Board.

The outcome of the Chairman's performance evaluation was collated by the Senior Independent Director and considered by the Non-Executive Directors collectively before being relayed to the Chairman.

The principal recommendations arising from the 2012 Board Evaluation process are:

- the continued search for a Non-Executive Director with a relevant operational mining background
- enhancements to the annual strategy review including:
 - facilitating the participation of Non-Executive Directors in designing the framework for Board discussion
 - alternative means of monitoring the execution of exploration strategy and
- the scheduling of presentations on specific Group functions, precious metal markets and Investor Relations in the annual Board calendar.

External Board evaluation

The Directors consider that the annual internally-led evaluation process has resulted in many enhancements to the way the Board and its Committees discharge their responsibilities. The benefits of a periodic external evaluation as recommended by the Code are, however, acknowledged and, as a result, meetings were held with a number of evaluation firms subsequent to the year end with a view to agreeing engagement terms for the 2013 review.

The Board's committees

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

AUDIT COMMITTEE

Dear Shareholder

The functions of the Audit Committee are driven by two fundamental principles – preserving shareholder value and transparency. I am delighted to set out in this part of the Corporate Governance report, the activities undertaken by the Committee during the year and how management responded to specific objectives set for the first time in respect of 2012, with a view to ensuring that the Committee discharges its responsibilities fully and diligently.

Nigel Moore Committee Chairman

Members	Maximum possible attendance	Actual attendance
Nigel Moore (Committee Chairman)	4	4
Dr Graham Birch (Non-Executive Director)	4	4
Enrico Bombieri (Non-Executive Director)	1	1
Sir Malcolm Field (Non-Executive Director)	4	4
Fred Vinton (Non-Executive Director)	4	4

Key roles and responsibilities

- To monitor the integrity of the Company's financial statements
- To monitor the effectiveness of the Company's internal controls and risk management systems
- To review, on behalf of the Board, the Company's procedures for detecting fraud and the Company's systems and controls for the prevention of bribery and to receive reports on non-compliance
- Oversight of the internal audit function and review of its annual work plan
- To oversee the relationship with the Company's external auditors and
- To review the effectiveness of the external audit process

Corporate governance report continued

Membership

The Audit Committee is chaired by Nigel Moore who has extensive and substantial financial experience gained in his previous role as a partner with Ernst & Young. In addition Nigel acts as Audit Committee Chairman for a number of other listed companies.

Enrico Bombieri joined the Committee following his appointment to the Board on 1 November 2012.

All Committee members are considered to be independent Directors. Their biographical details can be found on pages 64 and 65.

Attendees

The lead partner of the external auditors, Ernst & Young LLP, the Chairman of the Company, the Chief Executive Officer, the Chief Financial Officer and the Head of Internal Audit attend each Audit Committee meeting by invitation.

The Company Secretary acts as Secretary to the Committee.

Activity during the year

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

- **Financial reporting** – The 2011 Annual Report and Accounts and the 2012 Half-Yearly Report were reviewed by the Committee before recommending their adoption to the Board. As part of its review, the Audit Committee reviewed accounting policies, estimates and judgements applied in preparing the relevant report and accounts and the transparency and clarity of disclosures contained within them.
 - **Audit plans** – In line with its usual practice, the Committee considered reports from the external auditors on the scope and structure of the forthcoming review of the half-yearly results and audit of the annual results.
 - **Risk management** – Consideration and challenge of risk management assessments which incorporate a risk matrix detailing (i) the most significant risks facing the Group, (ii) an evaluation reflecting the likelihood of the occurrence of the risk and the extent of the potential impact on the Group, and (iii) commentary on the steps taken to manage each specific risk. See pages 57 to 61 for a description of the principal risks and uncertainties faced by the Group.
 - **Internal audit** – The Audit Committee continued to oversee the Group's adoption of a risk-based approach to internal audit.
 - **Internal control** – Through the processes described on the following page, the Audit Committee reviewed the adequacy of the Group's internal control environment and risk management systems.
 - **Whistleblowing** – The Audit Committee reviewed the adequacy of the Group's Whistleblowing Policy which was given increased visibility during the year following the launch of an online whistleblowing tool accessible from the Company's corporate website.
 - **Fraud & Bribery Act** – The Audit Committee continued to review the actions taken by management to promote ethical and transparent working practices.
 - **External audit** – The Audit Committee considered the reappointment of the Company's external auditors before making a recommendation to the Board that a resolution seeking their reappointment be put to shareholders. The Audit Committee oversees the relationship with the external auditors and, as part of this responsibility, the Audit Committee reviewed the findings of the external auditors and management representation letters and reviewed and agreed audit fees.
- The Audit Committee evaluates the auditors' performance each year with reference to written feedback prepared by the CFO, the Group Financial Controller and relevant finance managers from the operations. The issues raised are considered in detail at the Audit Committee meeting held mid-year and results in an action plan, the execution of which is assessed in the following year's auditor evaluation.
- **Committee Objectives** – In late 2011, the Committee set management a number of objectives with the view of ensuring the diligent fulfilment of its responsibilities. These objectives included:
 - the preparation of an *Assurance Map* which prompted a review of the various internal and external assurance processes sought to be relied upon by the Audit Committee and which resulted in:
 - enhancements to the year-end reporting process on internal controls,
 - a review of the Group's anti-fraud audit approach, and
 - the commissioning of a review of the internal audit function.
 - a *review of the disclosures in the Group's Annual Report* in light of the FRC's discussion paper 'Cutting Clutter'. As a result, the Group's annual governance disclosures were redesigned and a number of financial disclosures identified as superfluous were eliminated from the 2011 Annual Report & Accounts.
 - closer *liaison between the external auditors and the internal audit function*, and
 - more extensive reporting of *whistleblowing and fraud*.
- During the year, the Committee members held meetings with the external auditors without executive management to discuss matters relating to the 2011 annual audit and the 2012 half-yearly report.

Auditor independence

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

Policy on the use of Auditors for non-audit services

This policy lists those non-audit services that the external auditor may provide (in the absence of any threat to its independence) which include support in relation to M&A and Joint Ventures and tax advisory services which are not incompatible with the auditors' statutory responsibilities. The policy also sets out those services which the auditors are prohibited from rendering (and where it is not in the best interests of the Group for the work to be undertaken by the external auditor). Such services include management of or significant involvement in internal audit services, advice to the Remuneration Committee and valuation services.

Safeguards

Additional safeguards to ensure auditor objectivity and independence include:

- Any permitted assignment over \$100,000 may only be awarded after competitive tender
- Six monthly reports to the Audit Committee from the auditors analysing the fees for non-audit services rendered, and
- An annual assessment by the Committee of the auditors' objectivity and independence in light of all relationships between the Company and the audit firm

2012 Audit and non-audit fees

Details of fees paid to the external auditors are provided in note 31 to the Consolidated financial statements

Internal control and risk management

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

These controls are managed by the use of formal procedures designed to highlight financial, operational, environmental and social risks and provide appropriate information to the Board enabling it to protect effectively the Company's assets and, in turn, maintain shareholder value.

The process used by the Audit Committee to assess the effectiveness of risk management and internal control systems includes:

- reports from the Head of the Internal Audit function
- review of accounting and financial reporting processes together with the internal control environment at Group level. This involves the monitoring of performance and the taking of relevant action through the monthly review of key performance indicators and, where required, the production of revised forecasts. The Group has adopted a standard accounting manual to be followed by all finance teams which is continually updated to ensure the consistent recognition and treatment of transactions and production of the consolidated financial statements
- review of budgets and reporting against budgets, and
- consideration of progress against strategic objectives

The system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives and it must be recognised that such a system can only provide reasonable and not absolute assurance against material misstatement or loss.

Based on its review of the process, the Audit Committee is reasonably satisfied that the internal controls are in place at the operational level within the Group.

In accordance with the Turnbull Guidance, the Board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Company, and that it has been in place for the year under review and up to the date of approval of this Annual Report. The Board, via the Audit Committee, continues to monitor the internal control environment of the Group alongside the development of risk management processes, further details of which are given in the risk management section of this Annual Report.

Overall, the Board acknowledges that the steps taken to initiate a risk management framework are appropriate to the Group's circumstances.

Corporate governance report continued

NOMINATIONS COMMITTEE

Dear Shareholder

During 2012, the Nominations Committee focused its efforts on ensuring that the Board is equipped with the right set of skills to oversee the implementation of the Group's strategy and on planning for the succession of Board and key senior positions

Eduardo Hochschild
Committee Chairman

Members	Maximum possible attendance	Actual attendance
Eduardo Hochschild (Committee Chairman)	3	3
Jorge Born ¹ (Non-Executive Director)	2	2
Sir Malcolm Field (Non-Executive Director)	3	3
Dionisio Romero ¹ (Non-Executive Director)	1	1

1. Jorge Born was appointed a member of the Committee following Dionisio Romero's retirement from the Board on 23 May 2012

Key roles and responsibilities

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

Membership

Jorge Born was appointed to the Committee following Dionisio Romero's retirement from the Board on 23 May 2012

The Company Secretary acts as Secretary to the Committee

Activity during the year

The principal matters considered during the year were

- **Succession Planning**

- a matrix detailing the skills brought to the Board by the Non-Executive Directors, identifying any gaps that currently exist and likely to arise in the future given the retirement of Directors and the need to refresh the composition of the Board

- succession to the roles of Senior Independent Director and the chairmanship of the Remuneration Committee as a result of Sir Malcolm Field's planned retirement from the Board,

- succession to the role of CEO and in particular the development plans in place to ensure the readiness of the identified successors

- **Board Appointment**

- the appointment of Enrico Bombieri to the Board as a Non-Executive Director

- **Performance Evaluation**

- the performance evaluations of Nigel Moore and Jorge Born (the Directors) both of whom completed two three-year terms as Non-Executive Directors. Having considered the unanimously positive feedback from the other members of the Board and the need for progressive refreshing of the composition of the Board, the Nominations Committee made a recommendation to the Board that the Directors be invited to serve a third three-year term

- **Board Evaluation Process**

- the format of the internally led review held during the year and
- a review of the firms shortlisted for interview to undertake an external evaluation of the Board and its Committees during 2013

Appointments to the Board*Policy*

In seeking candidates for appointment to the Board, regard is given to relevant experience and the skills required to complete the composition of a balanced Board. The benefits of Board diversity, including gender diversity, are acknowledged by the Directors, however decisions on appointments to the Board will continue to be taken on merit. For this reason, the Board does not consider the setting of specific measurable targets to be appropriate.

Enrico Bombieri

Enrico Bombieri's appointment as a Non-Executive Director was made in light of his significant and relevant global capital markets experience through having served in a number of senior management positions with JP Morgan.

For these reasons, neither open advertising nor external search consultancies were used in connection with his appointment.

CORPORATE SOCIAL RESPONSIBILITY COMMITTEE

Dear Shareholder

We take our commitments as a Responsible Operator extremely seriously – not least our aim to provide a safe workplace for all. We have undertaken numerous and wide-ranging initiatives during 2012 in acknowledgment of our social licence to operate, further details of which are set out in the Sustainability report on pages 42 to 56

Eduardo Hochschild
Committee Chairman

Members	Maximum possible attendance	Actual attendance
Eduardo Hochschild (Committee Chairman)	3	3
Sir Malcolm Field (Non-Executive Director)	3	3
Roberto Dañino (Non-Executive Director)	3	3

Key roles and responsibilities

- Evaluate the effectiveness of the Group's policies for identifying and managing health, safety and environmental risks within the Group's operations
- Assess the performance of the Group with regard to the impact of health, safety, environmental and community relations decisions and actions upon employees, communities and other third parties. It also assesses the impact of such decisions and actions on the reputation of the Group
- Receive reports from management concerning all fatalities and serious accidents within the Group and actions taken by management following each incident, and
- Evaluate and oversee, on behalf of the Board, the quality and integrity of any reporting to external stakeholders concerning health, safety, environmental and community relations issues

Membership

There were no changes to the Committee's membership during the year.

The CEO and VP of Operations attend each CSR Committee meeting by invitation.

The Company Secretary acts as Secretary to the Committee.

Activity during the year

Details relating to the CSR Committee and the Group's activities in this area are set out in the Sustainability report on pages 42 to 56.

REMUNERATION COMMITTEE

Dear Shareholder

We seek to implement a fair and responsible remuneration policy which incentivises value creation and aligns executive remuneration with the successful achievement of strategic objectives – all underpinned by our commitment to operate responsibly.

Sir Malcolm Field
Committee Chairman

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

Key roles and responsibilities

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

Membership

There were no changes to the Committee's membership during 2012.

Members of senior management attend meetings at the invitation of the Committee. During the year, such members included the Executive Chairman, the Chief Executive Officer and the Vice President of Human Resources. No Director or senior executive is present at meetings when his own remuneration arrangements are considered by the Committee.

Activity during the year

Details of the Remuneration Committee's activities during the year are provided in the Directors' Remuneration report on pages 82 to 94.

Corporate governance report continued

Shareholder relations**Overview**

The Company is fully committed to achieving an excellent relationship with shareholders

Responsibility for communications with shareholders on strategy and business performance rests with the Chief Executive Officer, the Chief Financial Officer and the Head of Investor Relations. Communications with shareholders with respect to the administration of shareholdings and matters of governance are co-ordinated by the Company Secretary

Shareholder contact in 2012

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

Date	Event
January, April, July, October	Conference calls following the Quarterly Production Reports (and Interim Management Statements when appropriate)
January	Advanced Projects Workshop & UK Roadshow
February	Consultation by the Remuneration Committee Chairman with major shareholders on the proposed CEO LTIP
March	2012 Annual Results presentation UK European and North American Roadshow
June	Annual General Meeting
August	2012 Half-Yearly results presentation
September	UK European and North American Roadshow

In addition, an extensive Investor Relations schedule resulted in management holding over 168 investor meetings as well as presenting at 11 sector specific conferences in Canada, the US, Europe and South America

Principal Shareholder Contacts

The Chairman, Deputy Chairman, Chief Executive Officer and the Chief Financial Officer are available to discuss the concerns of major shareholders. Alternatively, shareholders may discuss any matters of concern with Sir Malcolm Field, as the Company's Senior Independent Director.

The Chairman and the Chief Executive Officer in particular are responsible for discussing strategy with the Company's shareholders and conveying their views to the other members of the Board.

2012 AGM

Notice of the 2012 AGM was circulated to all shareholders at least 20 working days prior to the meeting and the Chairmen of the Board Committees were available at the meeting to answer questions. A poll vote was taken on each of the resolutions put to shareholders with results announced shortly after the meeting and published on the Company's website.

Further information on matters of particular interest to investors is available on page 184 and on the Company's website at www.hochschildmining.com

Supplementary information

Introduction

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

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

Share capital

Issued share capital

The issued share capital of the Company as at 1 January 2012 was 338 085 226 ordinary shares of 25 pence each. No shares were issued by the Company during the year to 31 December 2012.

The Hochschild Mining Employee Share Trust (the Trust) is an employee share trust established during the year to hold ordinary shares of the Company on trust for the benefit of employees within the Group. The Trustee of the Trust has absolute discretion to vote or abstain from voting in relation to the ordinary shares held by it from time to time and in doing so may take into account the interests of current and future beneficiaries and other considerations.

Substantial shareholdings

As at 31 December 2012 the Company had been notified of the following interests in the Company's ordinary share capital in accordance with Chapter 5 of the Financial Services Authority's Disclosure Rules and Transparency Rules:

	Number of ordinary shares	Percentage of voting rights (indirect)	Percentage of voting rights (direct)
Eduardo Hochschild	182 415 206		53.95%
Vanguard Group Inc	37 291 964		11.03%
Prudential plc Group of Companies*	22 277 961	0.18%	6.59%
BlackRock Global Funds**	15 200 000		4.49%
Altima Global Special Situations Master Fund Limited***	12 003 175	3.55%	n/a

In addition to the holding disclosed above, Prudential plc Group of Companies has notified the Company of an interest in 931 666 ordinary shares through a holding of the Company's Convertible Bonds.

In addition to the holding disclosed above, BlackRock Global Funds has notified the Company of an interest in 1 579 736 ordinary shares through a holding of the Company's Convertible Bonds.

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

The Company has not been notified of any changes in the above interests as at 12 March 2013.

Current share repurchase authority

The Company obtained shareholder approval at the AGM held in May 2012 for the repurchase of up to 33 808 522 ordinary shares which represents 10% of the Company's issued share capital (the 2012 Authority). Whilst no purchases were made by the Company pursuant to the 2012 Authority it is intended that shareholder consent will be sought on similar terms at this year's AGM when the 2012 Authority expires.

Additional share capital information

This section provides additional information as at 31 December 2012.

(a) Structure of share capital

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

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

(b) Rights and obligations attaching to shares

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

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

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

(c) Transfer of shares

The relevant provisions of the Articles state that:

- Registration of a transfer of an uncertificated share may be refused in the circumstances set out in the CREST Regulations and where, in the case of a transfer to joint holders, the number of joint holders to whom the uncertificated share is to be transferred exceeds four,
- The Directors may in their absolute discretion decline to register any transfer of any share which is not a fully paid share. The Directors may also decline to recognise any instrument of transfer relating to a certificated share unless the instrument of transfer (i) is duly stamped (if required) and is accompanied by the relevant share certificate(s) and such other evidence of the right to transfer as the Directors may reasonably require, and (ii) is in respect of only one class of share. The Directors may in their absolute discretion refuse to register a transfer if it is in favour of more than four persons jointly and

Supplementary information continued

- The Directors may decline to register a transfer of any or the Company's shares by a person with a 0.25% interest if such a person has been served with a notice under the Companies Act after failure to provide the Company with information concerning interests in those shares required to be provided under the Companies Act

(d) Restrictions on voting

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

(e) Deadlines for voting rights

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

Shareholder agreements

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

- Contains provisions restricting the Controlling Shareholders' rights to exercise their voting rights to procure an amendment to the Articles that would be inconsistent with the Relationship Agreement, and
- Contains an undertaking by the Controlling Shareholders that they will, and will procure that their Associates will, abstain from voting on any resolution to approve a transaction with a related party (as defined in the FSA Listing Rules) involving the Controlling Shareholders or their Associates.

Significant agreements

A change of control of the Company following a takeover bid may cause a number of agreements to which the Company or any of its trading subsidiaries is party to take effect, alter or terminate. Such agreements include commercial trading contracts, joint venture agreements and financing arrangements. Further details are given below of those arrangements where the impact may be considered to be significant in the context of the Group.

- Under the terms and conditions of the \$115 million 5.75% Convertible Bonds due 2014, condition 5(a) sets out the conversion rights of the holders of the bonds and the calculation of the conversion price payable. The conversion price will decrease if a Change of Control occurs. Change of Control is defined in Condition 3 and Condition 5(b)(x) sets out the consequential adjustment to the conversion price.

- In summary, a change of control occurs if (i) an offer is made to all (or as nearly as may be practicable all) shareholders other than the offeror and/or any of its associates to acquire all or a majority of the issued ordinary shares of the Company or if any person proposes a scheme with regard to such acquisition (other than an Exempt Newco Scheme (as defined)) and (such offer or scheme having become unconditional in all respects or having become effective) the right to cast more than 50% of the votes which may ordinarily be cast on a poll at a general meeting of the Company (Voting Rights) has or will become unconditionally vested in the offeror or and/or an associate (as defined) of the offeror or (ii) the right to cast more than 60% of the Voting Rights has or will become unconditionally vested in the ultimate controlling shareholder of the Company at the time of issue and/or an associate (as defined) or (iii) the right to cast more than 50% of the Voting Rights has or will become unconditionally vested in any person or persons acting together by reason of the acquisition of the Company's ordinary shares or Voting Rights from the ultimate controlling shareholder of the Company at the time of issue. Condition 6(d) of the terms and conditions of the bonds gives bondholders an early redemption option (early repayment at face value plus accrued interest) upon a change of control occurring.
- Awards made under the Group's Long Term Incentive Plan and Enhanced Long Term Incentive Plan shall, upon a change of control of the Company, vest early unless a replacement award is made. Vesting will be prorated to take account of the proportion of the period from the award date to the normal vesting date falling prior to the change of control and the extent to which performance conditions (and any other conditions) applying to the award have been met.
- Certain arrangements in respect of derivative instruments entered into by the Group would terminate on the occurrence of a change of control thereby triggering an event of default vis-à-vis the counterparty.

Summary of constitutional and other provisions

Appointment and replacement of Directors

Directors may be appointed by the Company by ordinary resolution or by the Board. A Director appointed by the Board holds office only until the next following AGM and is then eligible for election by shareholders but is not taken into account in determining the Directors or the number of Directors who are to retire by rotation at that meeting.

The Directors may from time to time appoint one or more of their body to be the holder of any executive office for such period (subject to the Companies Act) and on such terms as they may determine and may revoke or terminate any such appointment. Each Director is subject to periodic re-election by shareholders at intervals of no more than every three years. Each Director (other than the Chairman and any Director holding executive office) shall retire at each AGM following the ninth anniversary of the date on which he was elected by the Company. Under law the Company is entitled to adopt such practices which are no less stringent than those set out in the Articles. Accordingly notwithstanding the above, the Board has decided to adopt the recommendation of the UK Corporate Governance Code that all Directors should seek annual re-election by shareholders. The Company may in accordance with and subject to the provisions of the Companies Act by ordinary resolution of which special notice has been given remove any Director before the expiration of his term of office. The office of Director shall be vacated if: (i) he is prohibited by law from acting as a Director; (ii) he resigns or offers to resign and the Directors resolve to accept such offer; (iii) he becomes bankrupt or compounds with his creditors generally; (iv) a relevant order has been made by any court on the ground of mental disorder; (v) he is absent without permission of the Directors from meetings of the Board for six months and the Directors resolve that his office be vacated; (vi) his resignation is requested in writing by not less than three quarters of the Directors for the time being; or (vii) in the case of a Director other than the Chairman and any Director holding an executive office, if the Directors shall resolve to require him to resign and within 30 days of being given notice of such notice he so fails to do.

In addition, under the terms of the Relationship Agreement:

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

Amendment of Articles of Association

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

Powers of the Directors

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

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

Repurchase of shares

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

Dividends and distributions

Subject to the provisions of the Companies Act, the Company may by ordinary resolution from time to time declare dividends not exceeding the amount recommended by the Directors. The Directors may pay interim dividends whenever the financial position of the Company in the opinion of the Directors justifies its payment. If the Directors act in good faith, they are not liable to holders of shares with preferred or *pari passu* rights for losses arising from the payment of interim dividends on other shares.

Directors' remuneration report

Dear shareholder

"In 2012 we continued our focus on ensuring the implementation of a fair remuneration policy that incentivises value creation

I am pleased to present the Directors' remuneration report for 2012

The year saw the Remuneration Committee maintain its focus on ensuring that the Group continued to offer competitive remuneration arrangements and as a result reviews of the annual bonus plan and long-term incentive arrangements were commissioned

In addition to ensuring the appropriate level of remuneration at executive level the Committee is very keen to see that a consistent approach is taken across the wider organisation. This consistency is achieved through its oversight responsibilities with respect to the remuneration packages of members of management below Board level and in addition by seeking to implement incentive schemes where possible to as wide a group as possible. I am particularly proud that this alignment has been achieved with the Long Term Incentive Plan which has seen the number of award holders more than double since its introduction in 2007

Given the high-risk nature of the mining industry the Committee is resolute in ensuring that our commitments as a Responsible Operator flow through to our remuneration policy. For this reason clawback provisions operate in both the Annual Bonus and Long Term Incentive Plans in the event of an adverse occurrence in the areas of Health & Safety, the Environment and Community Relations

I have the utmost confidence in management's efforts to foster a culture of safety amongst our employees as evidenced by the year-on-year reduction in the annual accident frequency rate. However we are collectively disappointed by the four fatalities that occurred during 2012. As a sign of our determination to secure a safe working environment the Committee and the executive team have agreed that 2012 bonuses to senior management and relevant personnel will be reduced

As an organisation we are firmly committed to communicating with our stakeholders transparently and so I am pleased to report that we have decided to adopt early some of the changes currently being consulted on by the UK Government with respect to the reporting of executive remuneration. We hope that you find the additional information helpful

I welcome your thoughts on our report

Sir Malcolm Field
Chairman of the Remuneration Committee
12 March 2013

Overview

Introduction

This Directors' remuneration report sets out information on the remuneration of the Directors of Hochschild Mining plc for the year ended 31 December 2012. This report has been prepared in accordance with the relevant regulations made under the Companies Act 2006 and the requirements of the Financial Services Authority's Listing Rules.

As required by law, the information provided in the tables in the sections entitled 'CEO's LTIP awards' and 'CEO's Enhanced LTIP award' and the table on Directors' total remuneration and accompanying notes has been audited by Ernst & Young LLP as they contain the information upon which the auditors are required to report to the Company's shareholders.

Remuneration Committee

Membership

The Remuneration Committee is chaired by Sir Malcolm Field and its other members are Jorge Born Jr, Nigel Moore and Rupert Pennant-Rea. All of the members of the Remuneration Committee are independent Non-Executive Directors.

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

Members of senior management attend meetings at the invitation of the Committee. During the year, such members included the Executive Chairman, the Chief Executive Officer and the Vice President of Human Resources. No Director or senior executive is present when his own remuneration arrangements are considered by the Committee.

The Committee's Terms of Reference

The duties of the Remuneration Committee are to determine and agree with the Board the broad policy for the remuneration of the Executive Directors, the other members of senior management and the Company Secretary, as well as their specific remuneration packages including pension rights and, where applicable, any compensation payments. In determining such policy, the Remuneration Committee shall take into account all factors which it deems necessary to ensure that members of the senior executive management of the Group are provided with appropriate incentives to encourage strong performance and are rewarded in a fair and responsible manner for their individual contributions to the success of the Group.

Meetings & activities during the year

The Committee met twice during the year under review and undertook the items of business noted below.

March 2012

- Considered the 2011 performance evaluations of the CEO and CFO (who is not a member of the Board) and approved the associated bonus payments. In addition, the Committee noted the performance of, and bonus payments to, the Group's Vice Presidents.
- Approved the 2011 Directors' remuneration report.
- Considered and approved the 2012 objectives for the CEO and CFO.
- Reviewed alternative performance conditions to be incorporated in the Long Term Incentive Plan.
- Approved the grant of 2012 LTIP awards subject to an additional TSR-based performance condition, and
- With respect to a number of Peru-resident senior managers, including the CEO, the Committee approved the re-denomination of salaries (from US dollars to Peruvian Soles) and increases in those salaries by up to 8% as a result of the sustained appreciation of the Peruvian Sol.

November 2012

- Considered the outcome of a benchmarking study of the remuneration of the Company's senior executives, including the CEO, and approved salary increases with effect from 1 March 2013.
- Considered a provisional assessment of the CEO's and CFO's 2012 performance.
- Conducted a review of the Group's Annual Bonus Plan.
- Considered the proposed 2013 objectives for the CEO's and CFO.
- Noted an update with respect to the Company's TSR performance for the purposes of the LTIP awards made in 2010, 2011 and 2012.
- Considered a provisional proposal for the grant of 2013 LTIP awards, and
- Received an update on the proposals from the Department for Business, Innovation and Skills on changes to the reporting of executive remuneration.

Directors' remuneration report continued

Shareholder engagement

As part of the Group's policy of engaging actively with stakeholders, the Remuneration Committee consulted with shareholders during the year on matters within its scope of responsibilities.

In early 2012, the Committee Chairman wrote to the Company's largest shareholders to consult on the introduction of a new performance condition in the Long Term Incentive Plan. In addition, meetings were offered to discuss any matter arising out of the 2011 Directors' Remuneration Report (the 2011 DRR).

The table below shows the results of the advisory vote on the 2011 DRR at the May 2012 AGM.

	% of votes cast		% of issued share capital
	For	Against	Abstentions
Votes	99.02	0.98	4.2

Whilst the Company is not aware of the specific reasons for the level of abstentions, the Company can only surmise that they relate to the 8% increase in the CEO's salary due to currency re-denomination (discussed on the earlier page) and the changes to the structure of the LTIP in 2012 which, in addition to introducing a second TSR measure, reduced the threshold for full vesting in respect of 70% of the award from 90th to 80th percentile to be more in line with market practice.

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

Advisers

Kepler Associates, appointed in 2007, acted as the independent remuneration adviser to the Committee during the year. Kepler reports directly to the Committee Chairman and complies with the Code of Conduct for Remuneration Consultants (which can be found at www.remunerationconsultantsgroup.com). During the year, Kepler received payment totalling £30,286 (US\$47,852). Kepler also provided LTIP performance monitoring for the Company. Kepler provided no other services during the year.

Policy

Remuneration policy

The Remuneration Committee continued to apply its stated remuneration policy in the year under review, the principal objectives of which are to:

- attract, retain and motivate the Group's executives and senior management
- provide management incentives that align with and support the Group's business strategy, and
- align management incentives with the creation of shareholder value.

The Group seeks to achieve this alignment over both the short and long term through the use of annual performance-related bonuses which reward the achievement of a balanced mix of financial, operational and other relevant performance measures, and the use of a Long Term Incentive Plan (LTIP) which is linked to relative Total Shareholder Return (TSR).

This policy continued to be applied by the Committee in respect of the current financial year. However, as stated in the section entitled '2013 Bonus plan', below, the Committee has set fewer and more focused objectives for the senior management for 2013.

An additional incentive has been designed specifically for the Chief Executive Officer in the form of the Enhanced LTIP which was approved by shareholders at the 2011 Annual General Meeting.

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

Termination payments

The Company's policy is to limit severance payments on termination to pre-established contractual arrangements. In the event that the employment of an Executive Director is terminated, any compensation payable will be determined in accordance with the terms of the service contract between the Company and the employee, as well as the rules of any incentive plans.

In the event an executive leaves for reasons of ill-health, death, redundancy or retirement in agreement with the Company then the vesting of LTIP (and Enhanced LTIP in the case of the CEO) awards will be pro-rated for time and will vest on the normal vesting date subject to performance over the full performance period. Upon a change of control of the Company LTIP awards will be pro-rated for time and will vest early subject to performance to date, unless a replacement award is made.

For all other leavers outstanding LTIP awards will lapse. The Committee retains discretion to alter these provisions on a case-by-case basis following a review of circumstances and to ensure fairness for both shareholders and participants.

Details of maximum termination payments payable to the Executive Directors are provided in the Directors' contractual arrangements section below

Fixed and variable pay

The following chart illustrates the remuneration that the CEO could be expected to receive at below target, target and maximum levels of performance (as the only Executive Director eligible to receive variable elements of remuneration). His maximum annual bonus entitlement and LTIP and Enhanced LTIP awards have been set at such a level to ensure that the majority of his remuneration is performance-based.

CEO TOTAL REMUNERATION

(US\$000')

(US\$'000')				2,871	
					21%
				1,516	36%
				10% 17%	
	593			34%	22%
		6%		2%	1%
		94%		37%	20%
	Below target		Target		Maximum
Base salary ^a			\$558k		
Pension & benefits ^d			\$35k		
Annual bonus	0% of salary		100% of salary		125% of salary
LTIP	Nil vesting		25% vesting		100% vesting
Enhanced LTIP ^e	Nil vesting		25% vesting		100% vesting

Components of fixed pay for the Executive Directors are detailed in the following table

Director	Base salary ² US\$000	Pension supplement US\$000	Benefits ³ US\$000
Eduardo Hochschild	1 100	200	485
Ignacio Bustamante	558	0	35

1. Converted from PEN to USD using the 12 month average exchange rate over 2012 of USD \$1 = PEN 2.638
2. Inclusive of compensation for time services
3. Includes benefits in kind and profit share
4. Note that the Enhanced LTIP has been annualised over the vesting period and is calculated to have an equivalent face value of 117.5% of salary in 2013

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

Elements of remuneration – Objectives and strategic linkage

The Committee considers that the Remuneration Policy it seeks to apply to Executive Directors and senior management is well-aligned with the long-term interests of shareholders and supports the achievement of key strategic objectives. The following table indicates how this alignment is achieved with reference to each component of remuneration.

Directors' remuneration report continued

Component of Remuneration	Objectives	Details
Base salary	To support recruitment and retention	Aims to pay salaries that are competitive and relevant to the global mining sector with reference to the relative cost of living
Benefits	To provide benefits in line with market practice in relevant geographies	The Executive Directors receive compensation for time services and profit share both of which are provided for by Peruvian law as well as allowances for medical insurance the use of a car and driver and personal security. In addition a cash supplement in lieu of pension is paid to the Executive Chairman
Annual bonus <i>See pages 87 to 89 for further details</i>	To achieve alignment with the Group's strategy and commitment to operating responsibly Maximising core assets Optimisation of life-of-mine and production Exploration & project development To develop a pipeline of high quality projects Mergers & Acquisitions To seek early stage value accretive opportunities with strong geological potential with a clear path to control Committed to operating responsibly	- Numerous measures focusing on the delivery of sustainable production targets and levels of profitability (primarily through EBITDA) - Non-financial objectives rewarding quality and quantity of exploration pipeline (greenfields) and quantitative targets for the addition of resources and discovery of economic targets (brownfields) - Specific targets for managed progression of Advanced Projects - Non-financial objectives set requiring the identification and where appropriate execution of M&A opportunities - Stretching targets seeking to achieve reductions in the Group's accident frequency and severity rates - Non-financial objectives to minimise turnover in key positions - Remuneration Committee has discretion to reduce payment on occurrence of an adverse event related to health and safety the environment or community relations
Long Term Incentive Plan <i>See pages 89 to 91 for further details</i>	To directly incentivise sustained shareholder value creation through operational performance and to support the recruitment of senior positions and longer-term retention Committed to operating responsibly	- Underpinned by relative Total Shareholder Return the LTIP indirectly rewards sustained increases in operational performance relative to peers over three-year periods - The Committee can reduce or prevent vesting in the event of the occurrence of an adverse event related to health & safety the environment or community relations
Enhanced Long Term Incentive Plan <i>See pages 91 and 92 for further details</i>	To support retention over a longer-term horizon and to achieve stronger alignment with shareholder interests through the use of conditional shares	Underpinned by relative Total Shareholder Return the Plan indirectly rewards sustained increases in operational performance over four- five- and six-year periods
Shareholding guidelines	Alignment of executives' interests with those of shareholders through a sustained accumulation over time of the Company's shares	Senior executives in receipt of LTIP awards granted from 2011 are required to invest between 10% and 20% of the cash amount received on vesting in the Company's shares until a holding equivalent to a specified multiple of salary has been acquired

Single figure total remuneration

The following table illustrates the total single figure remuneration for each Executive Director calculated in accordance with the recommendations of the Financial Reporting Council

Executive	US\$000							Total remuneration
	Salary	Benefits	Pension	Annual bonus	LTIP	Enhanced LTIP	Profit share	
Eduardo Hochschild	1 100	477	200	–	–	–	8	1,785
Ignacio Bustamante	532	25	–	560	725	–	10	1,852

Elements of remuneration

Base salaries

Payment of base salaries

Eduardo Hochschild has service contracts with Hochschild Mining plc and Compañía Minera Ares S.A.C. (Ares) a Group subsidiary. Under these arrangements, one-fifth of his base salary is paid by the Company and four-fifths is paid by Ares.

Ignacio Bustamante has a service contract with Ares only and therefore his base salary is paid entirely by that company.

2013 Salary review

Following discussions with the Company Chairman and having regard to a benchmarking review commissioned by the Committee on senior executive remuneration, an increase in Ignacio Bustamante's base salary of 3.5% was agreed with effect from 1 March 2013 (to PEN 1 358 140 (US\$514 840)). No salary increase was awarded to the Company Chairman.

Short-term incentives

Overview

The Committee is responsible for setting the objectives for the CEO and the CFO based on individual roles and responsibilities which include the financial performance of the Group and achievement of key operational targets within the individual's scope of responsibilities. The level of bonus paid depends on performance against these objectives and is subject to the discretion of the Committee.

Adjustments to reflect underlying business performance

In line with the Committee's usual practice, a review of the quality of earnings is conducted to determine whether any adjustments should be made to the reported profit for the purpose of bonus outcomes. This ensures that bonus outcomes are not impacted by unbudgeted non-recurring or one-off items or circumstances outside of management's control such as increased commodity prices that could distort the overall quality of earnings.

Directors' remuneration report continued

CEO's 2012 Bonus award

Ignacio Bustamante being the only Executive Director entitled to an annual bonus has a maximum bonus opportunity of 125% of salary

Objectives for the 2012 bonus were set by the Committee at the beginning of the year and a provisional assessment of performance during the year was undertaken at the November 2012 Committee meeting

A summary of the objectives set for Ignacio Bustamante for the year, their weightings and performance against each one is given below

Objective	Target Weighting	Performance Assessment
Greenfields exploration	12%	Target
Production	10%	Maximum
Reduction in accident frequency rate	10%	Maximum
Championing leadership and development	10%	Maximum
Progress of specific projects	10%	Target
Capital expenditure	7%	Maximum
Assuring future growth through incorporation of mineral resources	7%	Maximum
Initiatives relating to investor relations	7%	Maximum
Business development initiatives	7%	Target
Adjusted cash cost	7%	Threshold
Adjusted EBITDA	7%	Threshold
Organisational improvements	6%	Maximum

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

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

The weighted average of the scores is calculated, which is translated into a bonus outcome of between 0% and 125% of salary. The Committee can exercise discretion to increase or decrease the actual bonus awarded.

The Committee assessed the CEO's performance in 2012 which resulted in an entitlement to the maximum bonus opportunity of 125% of salary. However, despite having achieved the maximum target set for reducing the accident frequency index, the Committee and the executive team agreed to reduce, by between 10% and 20%, bonus payments to senior management and relevant personnel in light of the four fatalities occurring during the year.

2013 Bonus plan

With respect to 2013 the Committee has approved a smaller number of objectives for the CEO focused on business growth profitability safety and leadership. As a result the weightings for the specific targets relating to production EBITDA and most notably safety have been increased. In addition specific targets have been set in respect of the Advanced Projects and minimising turnover within key positions in the organisation.

Pensions, statutory profit sharing and benefits-in-kind

The Group does not provide pension benefits to the Executive Directors though a cash supplement of \$200 000 is payable to Eduardo Hochschild in lieu of pension. Of this supplement \$160 000 is payable by Ares and \$40 000 by the Company.

In addition under Peruvian law mining companies with more than 20 employees must pay to employees an annual share of profits in an amount equal to 8% of the company's taxable income for the year. The amount receivable under this entitlement is determined with reference to seniority and length of service.

The Group provides the Executive Directors with medical insurance and allowances for the use of a car and driver and personal security.

Long Term Incentive Plan (LTIP)**Introduction**

As part of its policy to motivate the CEO and senior employees over the long term the Company has adopted a cash-based LTIP which helps align selected executives' long-term interests with those of shareholders.

LTIP Awards were initially granted in 2008 with the intention that awards would be made every three years. In 2010, the Committee reviewed the plan and it was felt that the retention and motivational aspects of the plan would be enhanced through the grant of annual awards. The rules of the plan provide that maximum cash payments to participating Executive Directors in any three-year period may not be more than six times salary or eight times salary in exceptional circumstances (excluding interest on the deferred proportion of the 2008 LTIP Award). The equivalents of these upper limits also apply to annual awards i.e. an annual grant limit of no more than two times salary in normal circumstances.

2012 LTIP Awards are subject to two TSR-based performance conditions: 70% of awards will vest based on the Company's TSR relative to a tailored comparator group of international mining companies and 30% will vest on TSR relative to the constituents of the FTSE350 Mining Index at the start of the performance period.

2010 LTIP awards

Subsequent to the year end the Committee considered the extent to which the performance condition attached to the 2010 LTIP Award has been satisfied. The Committee's advisers, Kepler Associates, confirmed that the Company's Total Shareholder Return in the performance period between 1 January 2010 and 31 December 2012 ranked third amongst the companies in the relevant comparator group which results in a vesting of 98% of an award holder's maximum entitlement. This entitlement arises on vesting of the award in May 2013 subject to any determination of the Remuneration Committee under the terms of the clawback and the award holder's continued employment on that date.

Directors' remuneration report continued

Summary of Terms of Subsisting Awards

The following is a summary of the performance targets and other information with respect to the LTIP awards subsisting as at the date of this report

	Plan		
	2010 LTIP	2011 LTIP	2012 LTIP
Performance period	1 January 2010 to 31 December 2012 (98% vested)	1 January 2011 to 31 December 2013	1 January 2012 to 31 December 2014
Date of grant of award	25 May 2010	28 April 2011	31 March 2012
Vesting¹	3 rd anniversary of date of grant	3 rd anniversary of date of grant	3 rd anniversary of date of grant
Performance condition(s)	100% of the Award Relative TSR Performance vs Tailored Peer Group ('the 2010 Comparator Group') ² Full Vesting Upper Decile 75% Vesting Upper Quartile 25% Vesting Median Straight line between lower and mid thresholds and mid and upper thresholds	100% of the Award Relative TSR Performance vs 2010 Comparator Group together with Fresnillo plc Centamin Egypt Limited African Barrick Gold plc and Randgold Resources Ltd Full Vesting Upper Decile 75% Vesting Upper Quartile 25% Vesting Median Straight line between lower and mid thresholds and mid and upper thresholds	70% of the Award Relative TSR Performance vs 2010 Comparator Group together with Fresnillo plc Centamin Egypt Limited African Barrick Gold plc and Randgold Resources Ltd Full Vesting Upper Quintile 75% Vesting Upper Tercile 25% Vesting Median Straight line between lower and mid thresholds and mid and upper thresholds 30% of the Award Relative TSR Performance vs Constituents of FTSE350 Mining Index Full Vesting Median TSR+ 10% p.a. 25% Vesting Median TSR Straight line between lower and upper thresholds
Other information			
-Basis of TSR calculation of Comparator Group	Common currency	Average of local and common currencies	Average of local and common currencies
-Clawback provision ³	Yes	Yes	Yes
-Shareholding requirement ⁴	No	Yes	Yes

1 Subject to meeting the relevant performance condition(s)

2 The 2010 Comparator Group comprised the following companies: Agnico Eagle Mines Ltd, Alamos Gold, AngloGold Ashanti Ltd, Barrick Gold Corp, Cia des Minas Buenaventura SA, Codelco, Eldorado Gold Corp, Gold Fields Ltd, Goldcorp Inc, Highland Gold Mining Ltd, Iamgold Corp, Kinross Gold Corp, Minera Andina Corp, Newmont Mining Corp, PAN American Silver Corp, Petropavlovsk Plc, Polymetal and Silver Standard Resources Inc.

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

4 In relation to the 2011 and 2012 LTIP awards, selected award holders are required to invest a designated percentage of any cash amount received on the vesting of an award in the Company's shares.

CEO's LTIP awards

Details of the LTIP awards held by Ignacio Bustamante being the only Executive Director eligible to participate in the plan are given in the table below

Plan	Value of maximum award held at 31 December 2011	Value of maximum award granted during the year	Value of awards vested during the year	Awards surrendered or lapsed during the year	Value of maximum award held at 31 December 2012
2008 LTIP ¹	\$0 376m	–	\$0 384m	–	–
2010 LTIP ²	\$0 74m	–	–	–	\$0 74m
2011 LTIP ³	\$0 9m	–	–	–	\$0 9m
2012 LTIP ⁴	–	\$0 9m	–	–	\$0 9m

- 1 The performance conditions attached to the 2008 LTIP award are summarised on page 82 of the 2011 Annual Report in the section entitled 'Subsisting awards'. The rules governing the award provide for equal vesting on the third and fourth anniversaries of the date of grant of the award with the latter subject only to continued employment with the Group. Accordingly, Ignacio Bustamante became entitled to receive \$376k on 9 May 2011 and to the same amount together with notional interest of \$7 956 on 9 May 2012. The figure representing the value of the award vesting during the year includes the notional interest.
- 2 The performance conditions attached to the 2010 LTIP award (summarised in the table on the previous page) have been satisfied to the extent that 98% of the maximum value of the award will vest in May 2013 and will be payable on that date subject to any determination of the Remuneration Committee under the terms of the clawback, and the CEO's continued employment.
- 3 The performance conditions attached to the 2011 LTIP award are summarised in the table on the previous page. Ignacio Bustamante is required to invest at least 20% of any amount paid to him upon vesting of the 2011 LTIP award in the Company's shares until such time as he has accumulated a shareholding with a value of two times salary.
- 4 The performance conditions attached to the 2012 LTIP award are summarised in the table on the previous page. Ignacio Bustamante is required to invest in the Company's shares at least 20% of any amount paid to him upon vesting of the 2012 LTIP award until such time as he has accumulated a shareholding with a value of two times salary.

Proposed 2013 LTIP awards

The Committee intends to grant awards under the LTIP to the CEO in line with the 2012 LTIP Award

Enhanced LTIP**Introduction**

In 2011, an enhancement was made to the CEO's 2011 LTIP award to reinforce his alignment with shareholder interests and to ensure his total remuneration package remains competitive.

The Enhanced LTIP award is in the form of Conditional Shares with a value on the date of grant equivalent to six times the CEO's salary that vests over an extended performance period of four, five and six years.

Summary of Terms

A summary of the performance targets and other information relating to the Enhanced LTIP award subsisting at the date of this report is given below.

Performance periods	1 January 2011 to 31 December 2014 in respect of 25% of the Award 1 January 2011 to 31 December 2015 in respect of 25% of the Award 1 January 2011 to 31 December 2016 in respect of 50% of the Award
Vesting¹	28 April 2015 in respect of 90,549 Shares 28 April 2016 in respect of 90,549 Shares 28 April 2017 in respect of 181,098 Shares
Performance condition	Relative TSR Performance Full Vesting: Upper Decile 75% Vesting: Upper Quartile 25% Vesting: Median Straight line between lower and mid thresholds and mid and upper thresholds
TSR comparator group	As for the 2011 LTIP Awards
Other information	
– Basis of TSR calculation of Comparator Group	Average of local and common currencies
– Clawback provision ²	Yes
– Shareholding requirement	50% of the after-tax vested shares is required to be retained until an overall beneficial shareholding equal to two times salary has been achieved

1 Subject to meeting the relevant performance condition.

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

Directors' remuneration report continued

CEO's Enhanced LTIP award

Details of the Conditional Shares held by Ignacio Bustamante under the Enhanced LTIP are provided in the table below

Number of Conditional Shares at 31 December 2011	Number of Conditional Shares granted during the year	Number of Conditional Shares vesting during the year	Number of Conditional Shares lapsing during the year	Number of Conditional Shares held at 31 December 2012	Exercise Price	Market Value of each share at date of award (pence)	Vesting of Awards
362,196	0	0	0	362,196	Nil	428	See note 2

1. Details of the performance conditions attached to the award of Conditional Shares are provided in the table on the previous page

2. Details on the timing of vesting of awards are provided in the table on the previous page

Change of control

Awards made under the Group's Long Term Incentive Plan and the Enhanced LTIP shall, upon a change of control of the Company, vest early unless a replacement award is made. Vesting will be pro-rated to take account of the proportion of the period from the award date to the normal vesting date falling prior to the change of control and the extent to which performance conditions (and any other conditions) applying to the award have been met.

Other information**Performance graph**

The following graph shows the TSR (Total Shareholder Return) for the Company compared to the FTSE350 Index, assuming £100 was invested on 31 December 2007. The Board considers that the FTSE350 Index currently represents the most appropriate of the published indices for these purposes as it provides a view of performance against the broad equity market index of which the Company is a constituent.

£100 INVESTED IN HOCHSCHILD AND FTSE350 INDEX ON 31 DECEMBER 2007

£180

£120

£60

0

31 Dec 07 31 Dec 08 31 Dec 09 31 Dec 10 31 Dec 11 31 Dec 12

— FTSE350 Index — Hochschild Mining plc

Source: Bloomberg

Directors' contractual arrangements**Executive Directors**

As previously described, the contractual arrangements for the Chairman who was appointed prior to the IPO in 2006 differ from those for the CEO who was subsequently appointed.

Eduardo Hochschild is employed under contracts of employment with the Company and Compañía Minera Ares S.A.C. (Ares), a Group company, dated 16 October 2006 (as subsequently amended). The contracts have no fixed terms and may be terminated on 12 months' notice in writing. In setting the notice period for termination at 12 months, the Committee reduced the likelihood of having to pay excessive compensation in the event of termination at the Company's behest and, to this end, a provision for immediate dismissal with no compensation payable in the event of unsatisfactory performance is included in the Director's contract.

Ignacio Bustamante was appointed a Director of the Company with effect from 1 April 2010 and is employed under a contract of employment with Ares dated 1 April 2007. The contract is subject to Peruvian law and, as such, has no fixed term and may be terminated (i) by the executive on 30 days' notice and (ii) by Ares without notice. Under Peruvian law, termination by Ares other than termination for certain prescribed reasons (such as gross negligence) gives rise to an entitlement to compensation of no less than 1.5 times the monthly base salary for each year of service completed, up to a maximum of 12 months' base salary.

Non-Executive Directors

The Group's Non-Executive Directors serve under Letters of Appointment as detailed in the table below in accordance with their terms, the Non-Executive Directors serve for an initial period of three years which is automatically extended for a further three years. Notwithstanding the foregoing, all Directors are subject to annual re-election by the Company in general meeting in line with the UK Corporate Governance Code and the appointments of Non-Executive Directors may be determined by the Board or the Director giving not less than three months' notice.

The Non-Executive Directors' fees have been set at a level to reflect the amount of time and level of involvement required in order to carry out their duties as members of the Board and its committees.

The fees payable to the Non-Executive Directors of the Company as at the date of this report are set out in the table below. Each of the Non-Executive Directors was in office for the entire year under review with the exception of Enrico Bombieri who was appointed during the year as detailed in the footnote accompanying the table below.

Director	Letter of Appointment dated	Director's fee per annum
Jorge Born Jr	16 October 2006	£100,000 (\$158,000)
Sir Malcolm Field ¹	16 October 2006	£120,000 (\$190,000)
Nigel Moore ¹	16 October 2006	£120,000 (\$190,000)
Fred Vinton	9 July 2009	£100,000 (\$158,000)
Roberto Dañino	11 January 2011	£100,000 (\$158,000)
Dr Graham Birch	20 June 2011	£100,000 (\$158,000)
Rupert Pennant-Rea	30 August 2011	£100,000 (\$158,000)
Enrico Bombieri ²	20 October 2012	£100,000 (\$158,000)

1 The fees payable to Sir Malcolm Field and Nigel Moore reflect the additional time commitment required given their positions as Chairman of the Remuneration Committee and the Audit Committee respectively.

2 Enrico Bombieri was appointed a Non-Executive Director of the Company with effect from 1 November 2012.

External appointments

The Board recognises that Executive Directors may in addition serve as directors of other companies which can bring benefits to the Group. The table below details the fees received by Eduardo Hochschild during the year in respect of his other directorships which are retained by him.

Name of Director	Company	Fees received
Eduardo Hochschild	Banco Crédito del Perú	PEN 263,225 (\$99,782)
	Inversiones Pacasmayo SA and affiliated companies	PEN 15,359,631 (\$5,822,453)
	Pacífico Peruano Suiza Cia. De Seguros	PEN 120,600 (\$45,716)

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

Directors' remuneration report continued

Table of Directors' total remuneration

The following table sets out the remuneration of the Directors serving during the year in respect of the years ended 31 December 2012 and 31 December 2011

Director	Base salary/fees US\$000	Pension supplement US\$000	Statutory profit share US\$000	Benefits-in-kind ¹ US\$000	Performance related bonus US\$000	LTIP US\$000	Other payments US\$000	Total remuneration from 1 January 2012 (or date of appointment if later) to 31 December 2012 (or date of resignation, if earlier) US\$000	Total remuneration from 1 January 2011 (or date of appointment if later) to 31 December 2011 US\$000
Eduardo Hochschild ^{2,3,4,5}	1 100	200	8	477	0	0	0	1,785	1 778
Roberto Dañino	158	0	0	54 ⁶	0	0	238 ⁷	450	456
Ignacio Bustamante ⁴	532	0	10	25	560	384 ⁸	0	1,511	1 120
Enrico Bombieri ⁹	26	0	0	0	0	0	0	26	–
Sir Malcolm Field	190	0	0	0	0	0	0	190	192
Dr Graham Birch	158	0	0	0	0	0	0	158	80 ¹⁰
Jorge Born Jr	158	0	0	0	0	0	0	158	160
Nigel Moore	190	0	0	0	0	0	0	190	192
Rupert Pennant-Rea	158	0	0	0	0	0	0	158	53 ¹¹
Fred Vinton	158	0	0	0	0	0	0	158	160
Former Director									
Dionisio Romero ¹²	63	0	0	0	0	0	0	63	160
Totals	2,891	200	18	556	560	384	238	4,847	4,351

1 Amounts disclosed include sums paid by way of expense allowances

2 Eduardo Hochschild has a service contract with both Hochschild Mining plc and Compañía Minera Ares S.A.C. a Group subsidiary

3 One fifth of Eduardo Hochschild's salary was paid by the Company with the balance paid by Compañía Minera Ares S.A.C. In addition US\$40 000 of his annual pension supplement was paid by the Company with the balance paid by Compañía Minera Ares S.A.C.

4 Salaries paid by Compañía Minera Ares S.A.C. include all legal labour benefits and compensation such as but not restricted to family allowance, vacation salaries and compensation for time services (ruled by Peruvian Legislative Decree 650) but exclude legal profit sharing

5 Following a review of Eduardo Hochschild's remuneration in 2010 it was agreed that he would not be entitled to participate in any Long Term Incentive Plan or Bonus Plans in respect of 2010 and subsequent years

6 Benefits-in-kind relate to the benefits provided to Mr Dañino pursuant to his engagement as a Special Adviser to the Chairman and Senior Management team (see note 7 below for further details) which include transportation and out of pocket expenses

7 The amount represents the fee of £150 000 per annum payable to Mr Dañino in respect of his engagement as Special Adviser to the Chairman and the Senior Management team pursuant to a contract between Mr Dañino and Compañía Minera Ares S.A.C. (Ares) dated 28 December 2010. The contract provides for a one-year term which renews automatically for further one year periods and can be terminated by either party on 30 days' written notice. In the event that Ares terminates the contract before 31 December 2015 Mr Dañino is entitled to receive 30% of the fee payable to him in the period from the date of termination until 31 December 2015.

8 Represents the amount received by Ignacio Bustamante in 2012 following the vesting of the 2008 LTIP award which under the relevant terms and conditions accrued notional interest of \$7 956

9 Enrico Bombieri was appointed a Director of the Company on 1 November 2012

10 Dr Graham Birch was appointed a Director of the Company on 1 July 2011

11 Rupert Pennant-Rea was appointed a Director of the Company on 1 September 2011

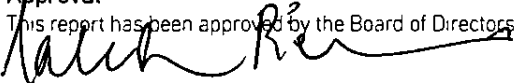
12 Dionisio Romero retired from the Board on 23 May 2012

Directors' interests in shares

The interests of the Directors in the Company's shares are set out in the Directors' report on page 66

Approval

This report has been approved by the Board of Directors of Hochschild Mining plc and is signed on its behalf by



Sir Malcolm Field

Chairman, Remuneration Committee

12 March 2013

Statement of Directors' responsibilities

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

The Directors are required to prepare Group and parent company financial statements for each financial year which present a true and fair view of the financial position of the Company and of the Group and the financial performance and cash flows of the Company and of the Group 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
- state that the Group and parent company has complied with IFRS, subject to any material departures disclosed and explained in the financial statements and
- prepare the accounts on a going concern basis unless, having assessed the ability of the Group and the parent company to continue as a going concern, management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and of the Group and enable them to ensure that the financial statements comply with the Companies Act 2006 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

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

We have audited the financial statements of Hochschild Mining plc for the year ended 31 December 2012 which comprise the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated statement of financial position, the Consolidated statement of cash flows, the Consolidated statement of changes in equity and the related notes 1 to 36. We have also audited the Parent company financial statements of Hochschild Mining plc for the year ended 31 December 2012 which comprise the Parent company statement of financial position, the Parent company statement of cash flows, the Parent company statement of changes in equity and the related notes 1 to 14. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and as regards the Parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body for our audit work, for this report or for the opinions we have formed.

Respective responsibilities of Directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 95, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Group's and the Parent company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the Directors and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report and Accounts 2012 to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies, we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent company's affairs as at 31 December 2012 and of the Group's profit for the year then ended
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union
- the Parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006, and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following

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

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

Under the Listing Rules we are required to review

- the Directors' statement set out on pages 67 and 68, in relation to going concern
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review and
- certain elements of the report to shareholders by the Board on Directors' remuneration

Ernst & Young LLP

Steven Dobson

Senior statutory auditor

for and on behalf of Ernst & Young LLP, Statutory Auditor

London

12 March 2013

Coverance

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Notes

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

Exploring for growth **Volcan**

*The Volcan gold deposit is located in Chile,
one of our key targeted mining jurisdictions.*

View more information on Exploring for Growth online www.hochschildmining.com

Financial statements

In this section

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In November 2012 the Company announced the acquisition of Andina Minerals, with the Volcan gold deposit located in the prolific Maricunga gold belt in Northern Chile. The acquisition not only met our disciplined criteria but also boosted our extensive project pipeline, doubling our current resource base and providing us with further long-term

optionality and increased geographical balance within our project pipeline.

We will commence a full geological and technical evaluation of the project in 2013 and we remain excited by the project and are confident that our experienced geological and operational teams will develop its significant potential.

9.5
million contained gold
ounces of resources

Financial statements

Consolidated income statement

For the year ended 31 December 2012

	Notes	Year ended 31 December 2012			Year ended 31 December 2011		
		Before exceptional items US\$000	Exceptional items US\$000	Total US\$000	Before exceptional items US\$000	Exceptional items US\$000	Total US\$000
Continuing operations							
Revenue	3 5	817,952	–	817,952	987 662	–	987 662
Cost of sales	6	(420,325)	–	(420,325)	(404 291)	–	(404 291)
Gross profit		397,627	–	397,627	583 371	–	583 371
Administrative expenses	7	(72,995)	–	(72,995)	(64 354)	–	(64 354)
Exploration expenses	8	(64,612)	–	(64,612)	(47 336)	–	(47 336)
Selling expenses	9	(39,460)	–	(39,460)	(38,970)	–	(38 970)
Other income	11	8,733	1,099	9,832	7 062	–	7 062
Other expenses	11	(9,525)	–	(9,525)	(15 800)	(1 408)	(17 208)
Impairment and write-off of assets (net)/(reversal)	11	–	(245)	(245)	–	1 210	1 210
Profit from continuing operations before net finance income/(cost), foreign exchange loss and income tax		219,768	854	220,622	423 973	(198)	423 775
Share of post-tax profit/(losses) of associates and joint ventures accounted under equity method	11 18	6,456	(1,376)	5,080	11,707	(261)	11 446
Finance income	11 12	1,988	–	1,988	4 689	5 989	10 678
Finance costs	11 12	(12,870)	(1,334)	(14,204)	(21 331)	(2 111)	(23 442)
Foreign exchange loss		(1,212)	–	(1,212)	(1 562)	–	(1 562)
Profit from continuing operations before income tax		214,130	(1,856)	212,274	417 476	3 419	420 895
Income tax (expense)/benefit	13	(85,549)	141	(85,408)	(148,557)	–	(148 557)
Profit for the year from continuing operations		128,581	(1,715)	126,866	268 919	3 419	272 338
Attributable to							
Equity shareholders of the Company		64,830	(1,759)	63,071	165 890	2 826	168 716
Non-controlling interests		63,751	44	63,795	103 029	593	103 622
		128,581	(1,715)	126,866	268 919	3 419	272 338
Basic earnings per ordinary share from continuing operations for the year (expressed in US dollars per share)	14	0 19	–	0 19	0 49	0 01	0 50
Diluted earnings per ordinary share from continuing operations for the year (expressed in US dollars per share)	14	0 19	–	0 19	0 49	0 01	0 50

Financial statements

Consolidated statement of comprehensive income

For the year ended 31 December 2012

	Notes	Year ended 31 December	
		2012 US\$000	2011 US\$000
Profit for the year		126,866	272 338
Other comprehensive income			
Exchange differences on translating foreign operations		268	(1 143)
Change in fair value of available-for-sale financial assets	19	(9,269)	(33 078)
Recycling of the loss/(gain) on available-for-sale financial assets		266	(6 836)
Recycling of the change in fair value of cash flow hedges taken to equity		—	1 930
Deferred income tax relating to components of other comprehensive income	13	615	7 164
Other comprehensive income for the period net of tax		(8,120)	(31 963)
Total comprehensive income for the year		118,746	240 375
Total comprehensive income attributable to			
Equity shareholders of the Company		54,951	136 689
Non-controlling interests		63,795	103 686
		118,746	240 375

Financial statements

Consolidated statement of financial position

As at 31 December 2012

	Notes	As at 31 December 2012 US\$000	As at 31 December 2011 US\$000
ASSETS			
Non-current assets			
Property plant and equipment	15	636,555	461 554
Evaluation and exploration assets	16	396,557	274 507
Intangible assets	17	43,903	18 772
Investments accounted under equity method	18	78,188	83 201
Available-for-sale financial assets	19	30,609	40 769
Trade and other receivables	20	8,613	8 741
Deferred income tax assets	28	856	-
		1,195,281	887 544
Current assets			
Inventories	21	76,413	53 032
Trade and other receivables	20	166,173	166 931
Income tax receivable		23,023	601
Other financial assets	22	150	28
Cash and cash equivalents	23	358,944	627,481
		624,703	848 073
Total assets		1,819,984	1 735 617
EQUITY AND LIABILITIES			
Capital and reserves attributable to shareholders of the Parent			
Equity share capital	27	158,637	158 637
Share premium	27	395,928	395 928
Treasury shares	27	(898)	(898)
Other reserves		(214,946)	(207 117)
Retained earnings		720,011	677 218
		1,058,732	1 023 768
Non-controlling interests		264,518	195 299
Total equity		1,323,250	1 219 067
Non-current liabilities			
Trade and other payables	24	-	8
Borrowings	25	106,850	104 866
Provisions	26	76,550	68 430
Deferred income tax liabilities	28	95,715	68 152
		279,115	241 456
Current liabilities			
Trade and other payables	24	149,585	117 037
Other financial liabilities	22	6,891	12 831
Borrowings	25	6,973	46 334
Provisions	26	26,688	74 432
Income tax payable		27,482	24 460
		217,619	275 094
Total liabilities		496,734	516 550
Total equity and liabilities		1,819,984	1 735 617

These financial statements were approved by the Board of Directors on 12 March 2013 and signed on its behalf by

Ignacio Bustamante
Chief Executive Officer

12 March 2013



HOCHSCHILD MINING PLC
COMPANY REGISTRATION NO
05777693

Financial statements

Consolidated statement of cash flows

For the year ended 31 December 2012

	Notes	Year ended 31 December	
		2012 US\$000	2011 US\$000
Cash flows from operating activities			
Cash generated from operations	32	344,119	520,262
Interest received		2,614	13,690
Interest paid		(9,987)	(29,474)
Payment of mine closure costs	26	(3,667)	(4,113)
Tax paid		(78,200)	(36,255)
Net cash generated from operating activities		254,879	464,110
Cash flows from investing activities			
Purchase of property plant and equipment		(297,537)	(140,004)
Purchase of evaluation and exploration assets		(46,903)	(73,010)
Acquisition of subsidiary	4(a)	(96,332)	(15,594)
Dividends received from associates		8,454	6,603
Purchase of available-for-sale financial assets		-	(491)
Proceeds from deferred income	24(3)	4,000	-
Proceeds from sale of available-for-sale financial assets		-	82,485
Proceeds from sale of property plant and equipment		449	113
Net cash used in investing activities		(427,869)	(139,898)
Cash flows from financing activities			
Proceeds from borrowings		53,500	117,670
Repayment of borrowings		(93,221)	(272,379)
Purchase of treasury shares		-	(898)
Dividends paid	29	(62,467)	(74,285)
Capital contribution from non-controlling interests		7,346	7,991
Cash flows used in financing activities		(94,842)	(221,901)
Net (decrease)/increase in cash and cash equivalents during the year		(267,832)	102,311
Exchange difference		(705)	(312)
Cash and cash equivalents at beginning of year		627,481	525,482
Cash and cash equivalents at end of year	23	358,944	627,481

Financial statements

Consolidated statement of changes in equity

For the year ended 31 December 2012

	Notes	Other reserves												Total equity US\$000	
		Equity share capital US\$000	Share premium US\$000	Treasury shares US\$000	Unrealised gain/(loss) on available-for-sale financial assets US\$000	Unrealised gain/(loss) on cash flow hedges US\$000	Bond equity component US\$000	Cumulative translation adjustment US\$000	Merger reserve US\$000	Share-based payment reserve US\$000	Total Other reserves US\$000	Retained earnings US\$000	Capital and reserves attributable to shareholders of the Parent US\$000		Non-controlling interests US\$000
Balance at 1 January 2011		158 637	395 928	-	37 808	(1 930)	8 432	(9 508)	(210 046)	-	(175 244)	528 788	908 109	147 120	1 055 229
Other comprehensive income/(loss)		-	-	-	(32 750)	1 930	-	(1 207)	-	-	(32 027)	-	(32 027)	64	(31 963)
Profit for the year		-	-	-	-	-	-	-	-	-	168 716	168 716	103 627		272 338
Total comprehensive income for 2011		-	-	-	(32 750)	1 930	-	(1 207)	-	-	(32 027)	168 716	136 689	103 686	240 375
Capital contribution from non-controlling interest		-	-	-	-	-	-	-	-	-	-	-	-	7 991	7 991
CEO LTIP		-	-	-	-	-	-	-	-	154	154	-	154	-	154
Treasury shares		-	-	(898)	-	-	-	-	-	-	-	-	(898)	-	(898)
Dividends declared during the year	29	-	-	-	-	-	-	-	-	-	(20 286)	(20 286)	(63 498)		(83 784)
Balance at 31 December 2011		158 637	395 928	(898)	5 058	-	8 432	(10 715)	(210 046)	154	(207 117)	677 218	1 023 768	195 299	1 219 067
Other comprehensive (loss)/income		-	-	-	(8 388)	-	-	268	-	-	(8 120)	-	(8 120)	-	(8 120)
Profit for the year		-	-	-	-	-	-	-	-	-	63 071	63 071	63 795		126 866
Total comprehensive income for 2012		-	-	-	(8 388)	-	-	268	-	-	(8 120)	63 071	54 951	63 795	118 746
Capital contribution from non-controlling interest		-	-	-	-	-	-	-	-	-	-	-	-	39 568	39 568
CEO LTIP		-	-	-	-	-	-	-	-	291	291	-	291	-	291
Expiration of dividends		-	-	-	-	-	-	-	-	-	-	-	-	733	733
Dividends declared during the year	29	-	-	-	-	-	-	-	-	-	(20 278)	(20 278)	(34 877)		(55 155)
Balance at 31 December 2012		158 637	395 928	(898)	(3 330)	-	8 432	(10 447)	(210 046)	445	(214 946)	720 011	1 058 732	264 518	1 323 250

Financial statements

Notes to the consolidated financial statements

1 Corporate information

Hochschild Mining plc (hereinafter the Company) is a public limited company incorporated on 11 April 2006 under the Companies Act 1985 as a Limited Company and registered in England and Wales with registered number 05777693. The Company's registered office is located at 46 Albemarle Street London W1S 4JL United Kingdom.

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

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

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

These consolidated financial statements were approved for issue by the Board of Directors on 12 March 2013.

The Group's subsidiaries are as follows:

Company	Principal activity	Country of incorporation	Equity interest at 31 December	
			2012 %	2011 %
Hochschild Mining (Argentina) Corporation S.A. (formerly Hochschild Mining (Argentina) Corporation)	Holding company	Argentina	100	100
MH Argentina S.A.	Exploration office	Argentina	100	100
Minera Santa Cruz S.A.	Production of gold & silver	Argentina	51	51
Southwestern Gold (Bermuda) Limited	Holding company	Bahamas	100	100
0848818 BC Ltd	Holding company	Canada	100	100
1710503 Alberta Ltd	Holding company	Canada	100	–
Andina Minerals Inc. ²	Holding company	Canada	86.7	–
Quintovac Mining Company Ltd. ²	Holding company	Canada	86.7	–
Andina Holdings Inc. ²	Holding company	Canada	86.7	–
Hochschild Mining Chile S.A.	Holding company	Chile	100	100
Minera Hochschild Chile S.C.M. (formerly Minera MH Chile Ltda.)	Exploration office	Chile	100	100
Andina Minerals Chile Ltd. ²	Exploration office	Chile	86.7	–
Sociedad Contractual Minera Victoria	Exploration office	Chile	60	–
Southwest Minerals (Yunnan) Inc.	Exploration office	China	100	100
Hochschild Mining Holdings Limited	Holding company	England & Wales	100	100
Hochschild Mining Ares (UK) Limited	Administrative office	England & Wales	100	100
Southwest Mining Inc.	Exploration office	Mauritius	100	100
Southwest Minerals Inc.	Exploration office	Mauritius	100	100
Hochschild Mining Mexico S.A. de C.V. (formerly Hochschild Mining (Mexico) Corporation)	Holding company	Mexico	100	100
HMX S.A. de C.V.	Service company	Mexico	100	100
Minera Hochschild Mexico, S.A. de C.V.	Exploration office	Mexico	100	100
Minas Santa Maria de Moris S.A. de C.V.	Production of gold & silver	Mexico	100	100

Financial statements

Notes to the consolidated financial statements continued

1 Corporate information (continued)

Company	Principal activity	Country of incorporation	Equity interest at 31 December	
			2012 %	2011 %
Hochschild Mining (Peru) S A (formerly Hochschild Mining (Peru) Corporation)	Holding company	Peru	100	100
Compañía Minera Ares S A C	Production of gold & silver	Peru	100	100
Compañía Minera Arcata S A	Production of gold & silver	Peru	99.1	99.1
Empresa de Transmisión Callalli S A C	Power transmission	Peru	100	100
Asociación Sumac Tarpuy ¹	Not-for-profit	Peru	–	–
Minera Suyamarca S A C	Production of gold & silver	Peru	60	60
Empresa de Transmisión Aymaraes S A C ⁴	Power transmission	Peru	50	–
Inmaculada Holdings S A C	Holding company	Peru	100	100
Liam Holdings S A C	Holding company	Peru	100	100
Minera del Suroeste S A C	Exploration office	Peru	100	100
Minera Minasnioc S A C ⁵	Exploration office	Peru	–	100
Hochschild Mining (US) Inc (formerly MH Nevada Inc)	Holding company	USA	100	100

1 On 5 November 2012 1710503 Alberta Ltd was incorporated as a subsidiary of the Group

2 The Group purchased an 86.7% interest (81.4% on a fully diluted basis) in Andina Minerals Inc on 28 December 2012

3 Asociación Sumac Tarpuy is an unincorporated entity which receives donations from Compañía Minera Ares S A C (Ares) and spends this money at the direction of Ares on the community and social welfare activities located close to its mine units. As a result the Group consolidates this entity

4 Although the Group does not have more than a 50% interest this company is considered as a subsidiary according to IAS 27 because its financial and operating policies are governed by the Group

5 On 12 July 2012 Minera Minasnioc S A C was wound up

2 Significant accounting policies

(a) Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted for use in the European Union (EU) and the Companies Act 2006. The 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 2012 and 2011 are set out below. These accounting policies have been consistently applied except for the effects of the adoption of new and amended accounting standards (refer to note 2(c)).

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

Standards, interpretations and amendments to existing standards that are not yet effective and have not been previously adopted by the Group

Certain new standards, amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2013 or later periods but which the Group has not previously adopted. Those that are applicable to the Group are as follows:

- IFRS 9 Financial Instruments: Classification and Measurement, applicable for annual periods beginning on or after 1 January 2015.

As part of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement, in November 2009 the IASB issued the first phase of IFRS 9 Financial Instruments, dealing with the classification and measurement of financial assets. In October 2010 the IASB updated IFRS 9 by incorporating the requirements for the accounting for financial liabilities. The Group has determined however that the effect shall be quantified in conjunction with the other phases, when issued, to present a comprehensive picture.

2 Significant accounting policies (continued)

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

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

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

IFRS 10 replaces the portion of IAS 27 Consolidated and separate financial statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation-special purposes entities. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. Based on the preliminary analysis, no material impact is expected.

- IFRS 11 Joint arrangements applicable for annual periods beginning on or after 1 January 2014

IFRS 11 replaces IAS 31 Interests in joint ventures and SIC-13 Jointly-controlled entities non-monetary contributions by venturers. Instead, jointly-controlled entities that meet the definition of a joint venture must be accounted for using the equity method. Based on the preliminary analysis, the application of this new standard has no impact on the Group's financial position or performance.

- IFRS 12 Disclosure of involvement with other entities applicable for annual periods beginning on or after 1 January 2014

IFRS 12 applies to an entity that has an interest in subsidiaries, joint arrangements, associates and/or structured entities. Many of the disclosure requirements of IFRS 12 were previously included in IAS 27, IAS 31 and IAS 28. A number of new disclosures are also required. The standard affects disclosure only and has no impact on the Group's financial position or performance.

- IFRS 13 Fair value measurement applicable for annual periods beginning on or after 1 January 2013

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. Based on the preliminary analysis, no material impact is expected.

- IAS 1 Financial statements presentation – Presentation of items in other comprehensive income applicable for annual periods beginning on or after 1 July 2012

The amendments to IAS 1 change the grouping of items presented in other comprehensive income. Items that could be reclassified (or recycled) to profit and loss at a future point in time would be presented separately from items that will never be reclassified. The amendment affects presentation only and has no impact on the Group's financial position and performance.

- IAS 19 Employee benefits (amendment) applicable for annual periods beginning on or after 1 January 2013

The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. Based on the preliminary analysis, the application of this new standard has no impact on the Group's financial position or performance.

- IFRIC 20 Stripping costs in the production phase of a surface mine applicable for annual periods beginning on or after 1 January 2013

This interpretation would apply to waste removal (stripping) costs incurred in surface mining activity, during the production phase of the mine. There can be two benefits accruing to the entity from the stripping activity: usable ore that can be used to produce inventory and improved access to further quantities of material that will be mined in future periods. When the benefit from the stripping activity is the production of inventory, an entity would be required to account for the stripping activity costs as part of the cost of inventory. When the benefit is the improved access to ore, the entity would recognise these costs as a non-current asset only if certain criteria are met, which is referred to as the stripping activity asset. The amendment has no material impact on the Group's financial position and performance.

Financial statements

Notes to the consolidated financial statements continued

2 Significant accounting policies (continued)

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

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

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

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

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

The IASB issued improvements to IFRSs including IAS 1 Presentation of Financial Statements, IAS 16 Property, Plant and Equipment, IAS 32 Financial Instruments: Presentation and IAS 34 Interim Financial Reporting. Based on the preliminary analysis no material impact is expected.

(b) Judgements in applying accounting policies and key sources of estimation uncertainty

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

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

Significant estimates

- Determination of useful lives of assets for depreciation and amortisation purposes – note 2(f)

Estimates are required to be made by management as to the useful lives of assets. For depreciation calculated under the unit-of-production method, estimated recoverable reserves are used in determining the depreciation and/or amortisation of mine-specific assets. This results in a depreciation/amortisation charge proportional to the depletion of the anticipated remaining life-of-mine production. Each item's life, which is assessed annually, has regard to both its physical life limitations and to present assessments of economically recoverable reserves of the mine property at which the asset is located. These calculations require the use of estimates and assumptions, including the amount of recoverable reserves. Changes are accounted for prospectively.

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

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

- Review of asset carrying values and impairment charges – notes 2(i), (k), (v) and note 15 and 16

The assessment of asset carrying values requires the use of estimates and assumptions such as long-term commodity prices, discount rates, future capital requirements, exploration potential and operating performance. Changes in these assumptions will affect the recoverable amount of the property, plant and equipment.

The impairment testing of goodwill is based on significant judgements and assumptions made by the management when performing the annual impairment testing. Changes to be made to these assumptions may alter the results of the impairment testing, the impairment charges recorded in profit or loss and the resulting carrying values of the non-current assets tested.

2 Significant accounting policies (continued)

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

The Group assesses its mine closure cost provision annually. Significant estimates and assumptions are made in determining the provision for mine closure cost as there are numerous factors that will affect the ultimate liability payable. These factors include estimates of the extent and costs of rehabilitation activities, technological changes, regulatory changes, cost increases, mine life and changes in discount rates. Those uncertainties may result in future actual expenditure differing from the amounts currently provided. The provision at the balance sheet date represents management's best estimate of the present value of the future closure costs required. Changes to estimated future costs are recognised in the balance sheet by adjusting the mine closure cost liability and the related asset originally recognised. If for mature mines the revised mine assets net of mine closure cost provisions exceed the recoverable value, that portion of the increase is charged directly to expense. For closed sites, changes to estimated costs are recognised immediately in the income statement.

Judgements

- Determination of functional currencies – note 2(e)

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

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

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

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

Judgement is required in determining when the future economic benefit of a project can reasonably be regarded as assured at which point evaluation and exploration expenses are capitalised. This includes the assessment of whether there is sufficient evidence of the probability of the existence of economically recoverable minerals to justify the commencement of capitalisation of costs, the timing of the end of the exploration phase and the start of the development phase and the commencement of the production phase. For this purpose, the future economic benefit of the project can reasonably be regarded as assured when the Board authorises management to conduct a feasibility study, mine-site exploration is being conducted to convert resources to reserves or mine-site exploration is being conducted to confirm resources, all of which are based on supporting geological information.

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

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

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

(c) Changes in accounting policy and disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of new and amended standards.

The Group has adopted the following new and amended IFRS and IFRIC interpretations during the year. Adoption of these revised standards and interpretations did not have any effect on the financial performance or position of the Group.

Financial statements

Notes to the consolidated financial statements continued

2 Significant accounting policies (continued)

- IAS 12 Income Taxes applicable for annual periods beginning on or after 1 January 2012

Under IAS 12 an entity is to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. The amendment introduces a presumption that recovery of the carrying amount will normally be through sale. The amendment is deemed to have no impact on the financial statements of the Group.

- IFRS 7 Financial Instruments Disclosures – Enhanced derecognition disclosure requirements applicable for annual periods beginning on or after 1 July 2011

The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition the amendment requires disclosures about the entity's continuing involvement in derecognised assets to enable the users to evaluate the nature of and risks associated with such involvement. The amendment affects disclosure only and has no impact on the Group's financial position or performance.

(d) Basis of consolidation

The consolidated financial statements set out the Group's financial position, performance and cash flows as at 31 December 2012 and 31 December 2011 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. However non-controlling interests' rights to safeguard their interest are fully considered in assessing whether the Group controls a subsidiary.

Basis of consolidation from 1 January 2010

Subsidiaries are consolidated from the date of their acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. Control comprises the power to govern the financial and operating policies of the investee so as to obtain benefit from its activities and is achieved through direct or indirect ownership of voting rights currently exercisable or convertible potential voting rights, or by way of contractual agreement.

A change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. If the Group loses control over a subsidiary it (i) derecognises the assets (including goodwill) and liabilities of the subsidiary, (ii) derecognises the carrying amount of any non-controlling interest (NCI), (iii) derecognises the cumulative translation differences recorded in equity, (iv) recognises the fair value of the consideration received, (v) recognises the fair value of any investment retained, (vi) recognises any surplus or deficit in profit or loss, (vii) reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings as appropriate.

NCI represent the equity in a subsidiary not attributable directly and indirectly to the parent company and is presented separately within equity in the consolidated balance sheet, separately from equity attributable to owners of the parent.

Losses within a subsidiary are attributable to the NCI even if that results in a deficit balance.

Business combinations from 1 January 2010

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value, and the amount of any NCI in the acquiree. The choice of measurement of NCI, either at fair value or at the proportionate share of the acquiree's identifiable net assets, is determined on a transaction by transaction basis. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with IAS 39 either in profit or loss or in other comprehensive income. If the contingent consideration is classified as equity it should not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the acquisition date fair value of the consideration transferred and the amount recognised for the NCI (and where the business combination is achieved in stages the acquisition date fair value of the acquirer's previously held equity interest in the acquiree) over the net identifiable amounts of the assets acquired and the liabilities assumed in exchange for the business combination. Assets acquired and liabilities assumed in transactions separate to the business combinations, such as the settlement of pre-existing relationships or post-acquisition remuneration arrangements, are accounted for separately from the business combination in accordance with their nature and applicable IFRSs. Identifiable intangible assets meeting either the contractual-legal or the separability criterion are recognised separately from goodwill. Contingent liabilities representing a present obligation are recognised if the acquisition date fair value can be measured reliably.

2 Significant accounting policies (continued)

If the aggregate of the acquisition date fair value of the consideration transferred and the amount recognised for the NCI (and where the business combination is achieved in stages the acquisition date fair value of the acquirer's previously held equity interest in the acquiree) is lower than the fair value of the assets, liabilities and contingent liabilities and the fair value of any pre-existing interest held in the business acquired, the difference is recognised in profit and loss.

(e) Currency translation

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

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

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

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

(f) Property, plant and equipment

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

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

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

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

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

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

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

Financial statements

Notes to the consolidated financial statements continued

2 Significant accounting policies (continued)

Mining properties and development costs

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

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

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

Construction in progress and capital advances

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

Subsequent expenditure

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

(g) Evaluation and exploration assets

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

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

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

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

(h) Determination of ore reserves and resources

The Group estimates its ore reserves and mineral resources based on information compiled by internal competent persons. Reports to support these estimates are prepared each year and are stated in conformity with the Joint Ore Reserves Committee (JORC) code. It is the Group's policy to have the report audited by a Competent Person.

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

(i) Investment in associates

The Group's investment in an associate is accounted for using the equity method of accounting. An associate is an entity in which the Group has significant influence.

Under the equity method, the investment in the associate is carried in the statement of financial position at cost plus post-acquisition changes in the Group's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is not amortised or separately tested for impairment. The income statement reflects the share of the results of operations of the associate and gains and losses arising on dilution of the Group's interest resulting from share issues by the associate. Where there have been other changes recognised directly in the statement of comprehensive income or statement of changes in equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the statement of comprehensive income or statement of changes in equity respectively. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

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

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

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associates. The Group determines at each statement of financial position date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of

2 Significant accounting policies (continued)

impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the income statement

(j) Intangible assets

Goodwill

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

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

Right to use energy transmission line

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

Water permits

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

Other intangible assets

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

(k) Impairment of non-financial assets

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

The carrying amounts of property, plant and equipment and evaluation and exploration assets are reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable. If there are indicators of impairment, an exercise is undertaken to determine whether the carrying values are in excess of their recoverable amount. Such review is undertaken on an asset-by-asset basis, except where such assets do not generate cash flows independent of other assets, and then the review is undertaken at the cash-generating unit level.

The assessment requires the use of estimates and assumptions such as long-term commodity prices, discount rates, future capital requirements, exploration potential and operating performance. Changes in these assumptions will affect the recoverable amount of the property, plant and equipment.

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

Calculation of recoverable amount

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

Reversal of impairment

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

(l) Inventories

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

For this purpose, the costs of production include:

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

Financial statements

Notes to the consolidated financial statements continued

2 Significant accounting policies (continued)

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

(m) Trade and other receivables

Current trade receivables are carried at the original invoice amount less provision made for impairment of these receivables

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

(n) Share capital

Ordinary shares are classified as equity. Any excess above the par value of shares received upon issuance of those shares is classified as share premium

(o) Provisions

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

Mine closure cost

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

Workers' profit sharing and other employee benefits

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

Other

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

(p) Share-based payments***Cash-settled transactions***

The fair value of cash-settled share plans is recognised as a liability over the vesting period of the awards. Movements in that liability between accounting dates are recognised as an expense. The fair value of the awards is taken to be the market value of the shares at the date of award adjusted by a factor for anticipated relative Total Shareholder Return (TSR) performance. Fair values are subsequently remeasured at each accounting date to reflect the number of awards expected to vest based on the current and anticipated TSR performance

Uncertainties in estimating the award include potential changes in the TSR, the number of participants in the plan and levels of interest rates

Equity-settled transactions

The cost of equity-settled transactions is recognised together with a corresponding increase in other reserves in equity over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that vest. The income statement expense for a period represents the movement in cumulative expense recognised as at the beginning and end of that period and is recognised in personnel expenses (note 10). During 2011, the Group approved an equity-settled scheme for its CEO

(q) Contingencies

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

Contingent assets are not recognised in the financial statements but are disclosed in the notes if their recovery is deemed probable

2 Significant accounting policies (continued)

(r) Revenue recognition

The Group is involved in the production and sale of gold and silver from dore and concentrate containing both gold and silver. Concentrate and dore bars are sold directly to customers. In addition, dore bars are sent to a third-party for further refining into gold and silver which is then sold.

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

Revenue associated with the sale of concentrate and gold and silver from dore is recognised in the income statement when all significant risks and rewards of ownership are transferred to the customer, usually when title has passed to the customer. Revenue excludes any applicable sales taxes.

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

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

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

(s) Finance income and costs

Finance income and costs comprise interest expense on borrowings, the accumulation of interest on provisions, interest income on funds invested, gains and losses from the change in fair value of derivative instruments and gains and losses on the disposal of available-for-sale investments.

Interest income is recognised as it accrues, taking into account the effective yield on the asset.

(t) Income tax

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

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted at the statement of financial position date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, with the following exceptions:

- where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

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

Financial statements

Notes to the consolidated financial statements continued

2 Significant accounting policies (continued)

Additionally future changes in tax laws in the jurisdictions in which the Group operates could limit the ability of the Group to obtain tax deductions in future periods

(u) Leases

Finance leases which transfer to the Group substantially all the risks and rewards incidental to ownership of the leased item are capitalised at the inception of the lease at the fair value of the leased asset or if lower at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and the reduction of the lease liability so as to achieve a constant periodic rate of interest on the remaining balance of the liability. Finance charges are reflected in the income statement. The depreciation policy for leased assets is consistent with that for similar assets owned.

A lease is classified as an operating lease if it does not transfer substantially all of the risks and rewards incidental to ownership. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

(v) Financial instruments

Financial assets and liabilities are recognised when the Group becomes party to the contracts that give rise to them and are classified as loans or borrowings, receivables, payables, financial instruments fair valued through profit and loss, available-for-sale financial assets or as derivatives designated as hedging instruments in an effective hedge (refer to note 2(aa)) as appropriate. The Group determines the classification of its financial assets and liabilities at initial recognition and where allowed and appropriate re-evaluates this designation at each financial year-end. When financial assets and liabilities are recognised initially they are measured at fair value, being the transaction price plus, in the case of financial assets not at fair value through profit or loss and borrowings, directly attributable transaction costs. The Group considers whether a contract contains an embedded derivative when the entity first becomes a party to it. The embedded derivatives are separated from the host contract if it is not measured at fair value through profit or loss and when the economic characteristics and risks are not closely related to those of the host contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required. All regular way purchases and sales of financial assets are recognised on the trade date, being the date that the Group commits to purchase or sell the asset. Regular way transactions require delivery and receipt of assets within the timeframe generally established by regulation or convention in the marketplace. The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit and loss

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

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

Loans and receivables

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

Available-for-sale financial assets

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

Loans and borrowings

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

2 Significant accounting policies (continued)

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

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

Fair values

The fair value of quoted investments is determined by reference to bid prices at the close of business on the statement of financial position date. Where there is no active market, fair value is determined using valuation techniques. These include using recent arm's length market transactions, reference to the current market value of another instrument which is substantially the same, discounted cash flow analysis and pricing models.

Impairment of financial assets

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

Assets carried at amortised cost

If there is objective evidence that an impairment loss on assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through the use of an allowance account.

If in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date. In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are derecognised when they are assessed as irrecoverable.

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

Available-for-sale financial assets

For available-for-sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost, where 'significant' is estimated to be around 30% of the original cost of the investment and 'prolonged' is no more than 12 months. In addition, the Group analyses any case taking into account the portfolio of projects of the Company, the key technical personnel and the viability of the Company to finance its projects. If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its fair value is transferred from equity to the income statement. Reversals of impairment losses on debt instruments are reversed through the income statement if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in profit or loss. Reversals in respect of equity instruments classified as available-for-sale are not recognised in the income statement.

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Notes to the consolidated financial statements continued

2 Significant accounting policies (continued)*Derecognition of financial instruments*

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

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

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

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

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

(w) Dividend distribution

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

(x) Cash and cash equivalents

Cash and cash equivalents are carried in the statement of financial position at cost. For the purposes of the statement of financial position, cash and cash equivalents comprise cash on hand and deposits held with banks that are readily convertible into known amounts of cash 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.

Liquidity funds are classified as cash equivalents if the amount of cash that will be received is known at the time of the initial investment and the risk of changes in value is considered insignificant.

(y) Exceptional items

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

- impairments of assets, including goodwill, assets held for sale, property, plant and equipment and evaluation and exploration assets
- gains or losses arising on the disposal of subsidiaries, investments or property, plant and equipment
- fair value gains or losses arising on financial instruments not held in the normal course of trading
- any gain or loss resulting from any restructuring within the Group, and
- the related tax impact of the above items

(z) Comparatives

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

(aa) Hedging

The Group has used interest rate swaps to hedge its interest rate risks. These derivative financial instruments are initially recognised at fair value on the date on which the derivative contract is entered into and are subsequently remeasured at fair value. The fair value of interest rate swap contracts is determined by reference to market values for similar instruments.

For the purpose of hedge accounting, these hedges are classified as cash flow hedges as they are hedging the Group's exposure to variability in cash flows that is attributable to a particular risk associated with a highly probable forecast transaction.

2 Significant accounting policies (continued)

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

Where the interest rate swaps meet the strict criteria for hedge accounting, the effective portion of the gain or loss on the hedging instrument is recognised directly in equity while any ineffective portion is recognised immediately in the income statement.

Amounts taken to equity are transferred to the income statement when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognised or when a forecast transaction or firm commitment occurs.

If the forecast transaction or firm commitment is no longer expected to occur, amounts previously recognised in equity are transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognised in equity remain in equity until the forecast transaction or firm commitment occurs.

3 Segment reporting

The Group's activities are principally related to mining operations which involve the exploration, production and sale of gold and silver. Products are subject to the same risks and returns and are sold through the same distribution channels. The Group undertakes a number of activities solely to support mining operations including power generation and services. Transfer prices between segments are set on an arm's length basis in a manner similar to that used for third parties. Segment revenue, segment expense and segment results include transfers between segments. Those transfers are eliminated on consolidation.

For internal reporting purposes, management takes decisions and assesses the performance of the Group through consideration of the following reporting segments:

- Operating unit – Ares, which generates revenue from the sale of gold and silver
- Operating unit – Arcata, which generates revenue from the sale of gold, silver and concentrate
- Operating unit – Pallancata, which generates revenue from the sale of concentrate
- Operating unit – San Jose, which generates revenue from the sale of gold, silver, concentrate and ore
- Operating unit – Moris, which generates revenue from the sale of gold and silver
- Exploration, which explores and evaluates areas of interest in brownfield and greenfield sites with the aim of extending the life-of-mine of existing operations and to assess the feasibility of new mines. The exploration segment includes expenses reflected through profit and loss and capitalised as assets
- Other – includes the profit or loss generated by Empresa de Transmision Callalli S.A.C. (a power generation company), HMX S.A. de C.V. (a service company in Mexico) and the Selene mine that closed in 2009 and which, as a consequence, is not considered to be a reportable segment.

The Group's administration, financing, other activities (including other income and expense) and income taxes are managed at a corporate level and are not allocated to operating segments.

Segment information is consistent with the accounting policies adopted by the Group. Management evaluates the financial information based on International Financial Reporting Standards (IFRS) as adopted for use in the European Union.

The Group measures the performance of its operating units by the segment profit or loss that comprises gross profit, selling expenses and exploration expenses.

Segment assets include items that could be allocated directly to the segment.

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3 Segment reporting (continued)

(a) Reportable segment information

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

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

2 Other revenue primarily relates to revenues earned by HMX S.A. de C.V. for services provided to the Moris mine and the Mexican exploration activities

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

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

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

6 Not reportable assets are comprised of investments accounted under the equity method of US\$78 188 000 available-for-sale financial assets of US\$30 609 000 other receivables of US\$6 351 000 income tax receivable of US\$23 023 000 deferred income tax assets of US\$856 000 other financial assets of US\$1 50 000 and cash and cash equivalents of US\$358 944 000

3 Segment reporting (continued)**(a) Reportable segment information (continued)**

	Ares US\$000	Arcata US\$000	Pallancata US\$000	San Jose US\$000	Mons US\$000	Exploration US\$000	Other ¹ US\$000	Adjustment and eliminations US\$000	Total US\$000
Year ended									
31 December 2011									
Revenue for									
external customers	68 097	209 239	352 642	325 302	32 298	–	84		987 662
Inter segment revenue	–	–	–	–	–	–	7 966	(7 966)	–
Total revenue	68 097	209 239	352 642	325 302	32 298	–	8 050	(7 966)	987 662
Segment profit/(loss)	20 297	125 209	230 281	160 017	9 086	(50,048)	6 864	(4 641)	497 065
Others ²									(76 170)
Profit from continuing operations before income tax									420 895
Other segment information									
Depreciation	(1 291)	(22 502)	(34 923)	(43 343)	(1 929)	(383)	(1 903)	–	(106 274)
Amortisation	–	–	–	(1 454)	–	–	(100)	–	(1,554)
Assets									
Capital expenditure	2 673	33 040	55 059	62 994	555	61,629	1 997	–	217 947
Current assets	4 798	31 826	62 348	59 064	7 338	276	2 761	–	168,411
Other non-current assets ⁴	10 971	94 583	141 635	231 757	–	255 473	20 414	–	754,833
Total segment assets	15 769	126 409	203 983	290 821	7 338	255 749	23 175	–	923 244
Not reportable assets ⁵	–	–	–	–	–	–	812,373	–	812 373
Total assets	15 769	126 409	203 983	290 821	7,338	255 749	835 548	–	1 735,617

1 Other revenue primarily relates to revenues earned by HMX S A de CV for services provided to the Moris mine and the Mexican exploration activities

2 Comprised of administrative expenses of US\$64 354 000 other income of US\$7 062 000 other expenses of US\$17 208 000 reversal of impairment of assets of US\$ 1 210 000 share of gains of associates and joint ventures of US\$11 446 000 finance income of US\$10 678 000 finance expense of US\$23 442 000 and foreign exchange loss of US\$1 562 000

3 Includes US\$28 000 of depreciation capitalised in Minera Hochschild Mexico S A de CV due to the San Felipe project

4 Includes goodwill in respect of San Jose amounting to US\$2 091 000

5 Not reportable assets are comprised of investments accounted under the equity method of US\$83 201 000 available for-sale financial assets of US\$40 769 000 other receivables of US\$60 293 000 income tax receivable of US\$601 000 deferred income tax assets of US\$Nil other financial assets of US\$28 000 and cash and cash equivalents of US\$627 481 000

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Notes to the consolidated financial statements continued

3 Segment reporting (continued)**(b) Geographical information**

Based on the entity-wide disclosure stated in IFRS 8 the revenue for the period based on the country in which the customer is located is as follows

	Year ended 31 December	
	2012 US\$000	2011 US\$000
External customer		
USA	118,409	153 301
Peru	63,769	82 223
Canada	104,509	148 023
Germany	75,202	185 447
Switzerland	154,200	152 612
United Kingdom	40,664	50 540
Korea	260,719	215 516
Mexico	480	–
Total	817,952	987 662
Inter-segment		
Peru	1,324	667
Mexico	5,177	7 299
Total	824,453	995 628

In the periods set out below certain customers accounted for greater than 10% of the Group's total revenues as detailed in the following table

	Year ended 31 December 2012			Year ended 31 December 2011		
	US\$000	% Revenue	Segment	US\$000	% Revenue	Segment
LS Nikko	234,066	29%	Pallancata and San Jose	176 397	18%	Pallancata and San Jose
Teck Metals Ltd (formerly Teck Cominco Metals Ltd)	104,509	13%	Pallancata and San Jose	148 023	15%	Pallancata and San Jose
Argor Heraeus	121,122	15%	San Jose	96 060	10%	San Jose
Aurubis AG (formerly Nordeutsche Affinerie AG)	75,202	9%	Pallancata and San Jose	185,447	19%	Pallancata and San Jose

3 Segment reporting (continued)

Based on the entity-wide disclosure requirements set out in IFRS 8 non-current assets, excluding financial instruments and income tax assets were allocated based on the geographical area where the assets are located as follows

	As at 31 December	
	2012 US\$000	2011 US\$000
Peru	684,471	496 395
Argentina	251,935	231 892
Mexico	27,075	26 224
Chile	113,387	146
United Kingdom	78,335	83 377
Total non-current segment assets	1,155,203	838 034
Available-for-sale financial assets	30,609	40 769
Trade and other receivables	8,613	8 741
Deferred income tax assets	856	–
Total non-current assets	1,195,281	887 544

4 Acquisitions and disposals

(a) Acquisition of assets

Minera Quellopata S A C

On 12 October 2010 the Group signed a Framework Agreement with International Minerals Corporation (IMZ) through which the Group acquired an additional 30% interest in the Inmaculada project (totaling 60%) in exchange for (i) the purchase of US\$20 000 000 of common shares in IMZ by way of a private placement (ii) a payment of US\$15 000 000 (iii) a commitment to fund the first US\$100 000 000 needed to plan develop and construct a mining operation within the Inmaculada property and (iv) the transfer of Minera del Suroeste S A C's ownership in Minas Pacapausa S A C to Minera Suyamarca S A C Minera Oro Vega which transferred to Minera Quellopata S A C (Quellopata) together with the Puquiopata project The Group is the operator of the new venture pursuant to a separate management agreement similar in form and substance to the Pallancata management agreement

This transaction has been accounted for as an asset acquisition on the basis that Quellopata has no existing processes

As a result of the acquisition, the Group obtained control over Quellopata and consolidated it as a subsidiary The net assets received in the asset acquisition were US\$91 782 000 and the IMZ interest generated by the transaction was US\$36 940 000 At 31 December 2010, the Group recognised a contingent consideration of US\$39 243 000 and an obligation to IMZ of US\$15 594 000

During 2011 the Group paid to IMZ its obligation of US\$15 594 000

Andina Minerals Inc

On 8 November 2012 the Group made a CAD\$0.80 per share all-cash offer for all of the issued and outstanding common shares of Andina Minerals Inc (Andina) a TSX-V listed gold exploration company with projects in Chile for a total consideration of C\$103 416 870 The Board of Directors of Andina unanimously recommended that their shareholders vote in favour of the transaction

Andina's major asset the 100% owned Volcan project includes the Dorado area Andina also has a 49% share in the Group's Encrucijada project and this acquisition would bring the Group's interest to 100%

Andina is based in Alberta Canada and is 100% owner of QuitoVac Mining Company Limited and Andina Holdings Inc both based in Canada Andina Holdings Inc owns 99.99% of Andina Minerals Chile Limitada based in Santiago Chile The Chilean company owns two properties Encrucijada and Volcan and 50% of Sociedad Contractual Minera Pampa Buenos Aires

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Notes to the consolidated financial statements continued

4 Acquisitions and disposals (continued)

At 31 December 2012 the Group had paid US\$90 156 869 for 112 124 252 common shares of Andina representing an 81.4% interest on a fully diluted basis (basic 86.7%). As a result of the acquisition the Group incurred directly attributable transaction costs of US\$11 441 742. The Group recognised a liability of US\$13 787 427 in respect of the Group's commitment to acquire 17 146 835 remaining shares as at 31 December 2012.

The fair value total cost of assets acquired and liabilities assumed comprise the following:

	US\$000
Cash and cash equivalents	3,190
Trade and other receivables	543
Evaluation and exploration assets	86,301
Property, plant and equipment	330
Water permits	26,583
Total assets	116,947
Accounts payable and other liabilities	1,559
Total liabilities	1,559
Net assets acquired	115,388
Cash consideration	90,157
Liability to acquire non-controlling interests	13,788
Transaction costs	11,443
Total	115,388
Cash paid to acquire controlling interest	90,157
Transaction costs paid	9,365
Less cash acquired	(3,190)
Net cash flow on acquisition	96,332

Based on the Group's ownership interest as at 31 December 2012, the Group was deemed to have control over Andina and has therefore consolidated it as a subsidiary undertaking. The transaction has been recognised as an asset acquisition. The fair value of the net assets received was US\$115 388 000.

The balance of US\$13 787 427 was paid between January (US\$4 268 605) and February 2013 (US\$9,518 822). The Group completed the acquisition on 20 February 2013. The total consideration was settled in cash.

(b) Disposal of shares**Lake Shore Gold Corp**

On 14 October 2010 the Group entered into an agreement with RBC Dominion Securities Inc., BMO Nesbitt Burns Inc. and CIBC World Markets Inc. to dispose of 109 000 000 common shares held in Lake Shore Gold (approximately 27.3%) pursuant to a bought deal transaction at a price of CAD\$3.60 per share. The sale was completed on 3 November 2010. After this transaction, the Group held an interest of approximately 5.4%, no longer had the right to Board representation and no longer exercised significant influence over Lake Shore Gold. On 2 December 2010 the Group entered into a Block Trade Letter Agreement (the Agreement) with RBC Capital Markets to dispose of the Group's remaining 21 540 992 common shares in Lake Shore Gold at a price of CAD\$3.70 per share raising total net proceeds of CAD\$79 701 670. Due to the size of the combined sales (the initial disposal of 27.3% of Lake Shore Gold in November 2010 and the subsequent disposal of the remaining 5.4%), the second transaction was subject to shareholder approval which was granted on 8 February 2011. The transaction closed on the same date and a gain of US\$6 385 878 was recognised in 2011 in respect of the disposal.

5 Revenue

	Year ended 31 December	
	2012 US\$000	2011 US\$000
Gold (from dore bars)	124,581	144 812
Silver (from dore bars)	153,509	155 122
Gold (from concentrate)	135,055	134 438
Silver (from concentrate)	404,277	553 206
Services	530	84
Total	817,952	987 662

Included within revenue is a loss of US\$4 015 265 relating to provisional pricing adjustments representing the change in the fair value of embedded derivatives (2011 gain of US\$12,395 086) arising on sales of concentrates and dore (refer to note 2(r) and footnote 1 of note 22)

6 Cost of sales

Included in cost of sales are

	Year ended 31 December	
	2012 US\$000	2011 US\$000
Depreciation and amortisation	124,387	105 897
Personnel expenses (note 10)	121,775	109 011
Mining royalty (note 35)	9,672	17 950
Change in products in process and finished goods	(17,708)	6 893

7 Administrative expenses

	Year ended 31 December	
	2012 US\$000	2011 US\$000
Personnel expenses	40,006	32 376
Professional fees	6,180	6 256
Social and community welfare expenses ¹	6,459	7 717
Lease rentals	1,510	1 088
Travel expenses	2,443	1 878
Communications	990	823
Indirect taxes	3,723	3 147
Depreciation and amortisation	2,285	1 903
Technology and systems	828	565
Security	991	457
Supplies	238	453
Other	7,342	7 691
Total	72,995	64 354

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

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8 Exploration expenses

	Year ended 31 December	
	2012 US\$000	2011 US\$000
Mine site exploration ¹		
Arcata	4,467	4,512
Ares	1,507	2
Sipan	1,415	–
Pallancata	4,062	2,917
San Jose	5,788	1,612
Moris	313	–
	17,552	9,043
Prospects ²		
Peru	4,795	2,952
Argentina	1,028	3,534
Mexico	6,605	2,419
Chile	9,580	6,558
	22,008	15,463
Generative ³		
Peru	4,798	7,093
Argentina	141	117
Mexico	497	562
Chile	115	164
	5,551	7,936
Personnel	13,865	10,882
Others	5,636	4,012
Total	64,612	47,336

1 Mine site exploration is performed with the purpose of identifying potential minerals within an existing mine site with the goal of maintaining or extending the mine's life

2 Prospects expenditure relates to detailed geological evaluations in order to determine zones which have mineralisation potential that is economically viable for exploration. Exploration expenses are generally incurred in the following areas: mapping, sampling, geophysics, identification of local targets and reconnaissance drilling

3 Generative expenditure is very early stage exploration expenditure related to the basic evaluation of the region to identify prospects areas that have the geological conditions necessary to contain mineral deposits. Related activities include regional and field reconnaissance, satellite images, compilation of public information and identification of exploration targets

The following table lists the liabilities (generally payables) outstanding at the year-end which relate to the exploration activities of Group companies engaged only in exploration. Liabilities related to exploration activities incurred by Group operating companies are not included since it is not possible to separate the liabilities related to the exploration activities of these companies from their operating liabilities

	As at 31 December	
	2012 US\$000	2011 US\$000
Liabilities related to exploration activities	2,082	1,808

Cash flows of exploration activities are as follows

	As at 31 December	
	2012 US\$000	2011 US\$000
Payments	27,285	22,708

9 Selling expenses

	Year ended 31 December	
	2012 US\$000	2011 US\$000
Transportation of dore concentrate and maritime freight	5,745	5 215
Sales commissions	2,264	3,300
Personnel expenses	374	340
Warehouse services	3,918	2 526
Taxes	23,323	24 625
Other	3,836	2 964
Total	39,460	38 970

10 Personnel expenses¹

	Year ended 31 December	
	2012 US\$000	2011 US\$000
Salaries and wages	129,208	90 061
Workers' profit sharing	18,487	31 444
Other legal contributions	21,084	17 780
Statutory holiday payments	7,600	6 202
Long Term Incentive Plan	7,891	2 574
Termination benefits	975	2 232
Other	13,079	12 170
Total	198,324	162 463

¹ Personnel expenses are distributed in cost of sales, administrative expenses, exploration expenses, selling expenses and capitalised as property, plant and equipment amounting to US\$121 775 000 (2011: US\$109 011 000), US\$40 006 000 (2011: US\$32 376 000), US\$13 865 000 (2011: US\$10 882 000), US\$374 000 (2011: US\$340 000) and US\$22 304 000 (2011: US\$9 854 000) respectively.

Average number of employees for 2012 and 2011 were as follows:

	As at 31 December	
	2012	2011
Peru	3,011	2,402
Argentina	1,226	1 188
Mexico	135	148
Chile	40	28
United Kingdom	12	11
Total	4,424	3 777

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Notes to the consolidated financial statements continued

11 Pre-tax exceptional items

	Year ended 31 December 2012 US\$000	Year ended 31 December 2011 US\$000
Other income		
Termination benefits ¹	1,099	-
Total	1,099	-
Other expenses		
Termination benefits ¹	-	(1,408)
Total	-	(1,408)
Impairment and write-off of assets (net)		
Impairment and write-off of assets	(484)	-
Reversal of write-off of assets ²	239	1,210
Total	(245)	1,210
Share of post-tax losses of associates and joint ventures accounted under equity method³	(1,376)	(261)
Total	(1,376)	(261)
Finance income		
Gain on sale and exchange of available-for-sale financial assets ⁴	-	5,989
Total	-	5,989
Finance costs		
Loss from changes in the fair value of financial instruments ⁵	(1,334)	(2,111)
Total	(1,334)	(2,111)

1 Relates to the provision of termination benefits due to workers as a result of the closure of Moris mine accrued in 2011 and reversed in 2012. As at 31 December 2012 the restructuring plan agreed at 31 December 2011 was not in effect as Moris is still in operation.

2 Corresponds to the reversal of the write-off recorded in 2010 related to the 100% core project at the San Jose mine.

3 Corresponds to the loss from dilution related to Gold Resource Corp. investment (note 18).

4 The 2011 amount corresponds to the gain on sale of the remaining Lake Shore Gold shares held of US\$6,386,000 net of the loss generated by the sale of Golden Minerals Company shares of US\$397,000.

5 Mainly corresponds to the impairment of Iron Creek Capital Corp. Brionor Resources and Empire Petroleum Corp of US\$1,043,671, US\$105,000 and US\$8,000 respectively. In 2011 mainly corresponds to the fair value adjustment of the Golden Minerals Company and Iron Creek Capital Corp warrants of US\$1,563,000 and US\$139,000 respectively. In addition the amount includes the impairment of Brionor Resources and Empire Petroleum Corp of US\$380,000 and US\$50,000 respectively.

12 Finance income and finance costs before exceptional items

	Year ended 31 December 2012 Before exceptional items US\$000	Year ended 31 December 2011 Before exceptional items US\$000
Finance income		
Interest on deposits and liquidity funds	1,429	2,225
Interest on loans to non-controlling interests (note 20)	123	2,352
Interest income	1,552	4,577
Other	436	112
Total	1,988	4,689
Finance costs		
Interest on secured bank loans and long-term debt (note 25)	(1,924)	(6,517)
Interest on convertible bond (note 25)	(8,956)	(8,760)
Interest expense	(10,880)	(15,277)
Unwind of discount rate	(731)	(1,684)
Loss from changes in the fair value of financial instruments	-	(1,810)
Other	(1,259)	(2,560)
Total	(12,870)	(21,331)

13 Income tax expense

	Year ended 31 December 2012			Year ended 31 December 2011		
	Before exceptional items US\$000	Exceptional items US\$000	Total US\$000	Before exceptional items US\$000	Exceptional items US\$000	Total US\$000
Current corporate income tax from continuing operations						
Current corporate income tax charge	48,285	–	48,285	86 154	–	86 154
Current mining royalty charge (note 35)	3,834	–	3,834	2 536	–	2 536
Current special mining tax charge (note 35)	4,256	–	4,256	3 002	–	3 002
Withholding taxes	1,571	–	1,571	4 963	–	4 963
	57,946	–	57,946	96 655	–	96 655
Deferred taxation						
Origination and reversal of temporary differences from continuing operations (note 28)	28,627	(141)	28,486	54 277	–	54 277
Recognition of deferred tax not previously recognised following a change in estimate/outlook (note 28)	(1,024)	–	(1,024)	(2,375)	–	(2 375)
	27,603	(141)	27,462	51 902	–	51 902
Total taxation charge in the income statement	85,549	(141)	85,408	148,557	–	148 557

The weighted average statutory income tax rate was 32.4% for 2012 and 31.8% for 2011. This is calculated as the average of the statutory tax rates applicable in the countries in which the Group operates, weighted by the profit/(loss) before tax of the Group companies in their respective countries as included in the consolidated financial statements.

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

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

	As at 31 December	
	2012 US\$000	2011 US\$000
Deferred taxation		
Deferred income tax relating to fair value gains on available-for-sale financial assets	(615)	(7 164)
Total tax charge in the statement of other comprehensive income	(615)	(7 164)

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13 Income tax expense (continued)

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

	As at 31 December	
	2012 US\$000	2011 US\$000
Profit from continuing operations before income tax	212,274	420 895
At average statutory income tax rate of 32.4% (2011: 31.8%)	68,814	133 881
Expenses not deductible for tax purposes	4,163	2 742
Non-taxable income ¹	(275)	(3 096)
Utilisation of losses in respect of deferred tax not previously recognised ²	(1,024)	(2,375)
Non-taxable share of gains of associates	(1,181)	(3 033)
Net deferred tax assets generated in the year not recognised	6,795	8 636
Deferred tax recognised on special investment regime	(2,481)	(2 092)
Derecognition of deferred income tax assets	615	5 981
Adjustment of tax base of Minera Queltopata S A C	-	(2 692)
Withholding tax	1,571	4 963
Special mining tax and mining royalty ³	8,090	5 538
Foreign exchange rate effect ⁴	(1,303)	4 532
Other	1,624	(4 428)
At average effective income tax rate of 40.2% (2011: 35.3%)	85,408	148 557
Taxation charge attributable to continuing operations	85,408	148 557
Total taxation charge in the income statement	85,408	148 557

1. Mainly corresponds to the reversal of accrued non deductible personnel expenses recorded in 2011 (2011: Mainly corresponds to the non-taxable gain on the sale of Lake Shore Gold shares of US\$1 692 000)

2. The amount for 2012 mainly corresponds to the utilisation of losses in Minas Santa Maria de Moris (2011: mainly corresponds to the recognition of a previously unrecognised mine closure provision of US\$8 278 000)

3. Corresponds to the impact of the new mining royalty and special mining tax (note 3b)

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

14 Basic and diluted earnings per share

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

The Company has dilutive potential ordinary shares

As at 31 December 2012 and 2011 EPS has been calculated as follows

	As at 31 December	
	2012	2011
Basic and earnings per share from continuing operations		
Before exceptional items (US\$)	0 19	0 49
Exceptional items (US\$)	–	0 01
Total for the year and from continuing operations (US\$)	0 19	0 50
Diluted earnings per share from continuing operations		
Before exceptional items (US\$)	0 19	0 49
Exceptional items (US\$)	–	0 01
Total for the year and from continuing operations (US\$)	0 19	0 50

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

	As at 31 December	
	2012	2011
Profit for the year from continuing operations (US\$000)	126,866	272 338
Less non-controlling interests (US\$000)	(63,795)	(103 622)
Profit attributable to equity holders of the parent – continuing operations (US\$000)	63,071	168 716
Exceptional items after tax – attributable to equity holders of the parent (US\$000)	1,759	(2 826)
Profit from continuing operations before exceptional items attributable to equity holders of the parent (US\$000)	64,830	165 890
Interest on convertible bond (US\$000) ¹	–	8 760
Diluted profit from continuing operations before exceptional items attributable to equity holders of the parent (US\$000)	64,830	174 650

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

	As at 31 December	
	2012	2011
Basic weighted average number of ordinary shares in issue (thousands)	338,022	338 022
Dilutive potential ordinary shares related to convertible bond (thousands)	–	18 161
Diluted weighted average number of ordinary shares in issue and dilutive potential ordinary shares (thousands)	338,022	356 183

¹ The potential ordinary shares related to the convertible bond have not been included in the calculation of diluted EPS for 2012 as they have an anti dilutive effect

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15 Property, plant and equipment

	Mining properties and development costs US\$000	Land and buildings US\$000	Plant and equipment ¹ US\$000	Vehicles US\$000	Mine closure asset US\$000	Construction in progress and capital advances US\$000	Total US\$000
Year ended 31 December 2012							
Cost							
At 1 January 2012	382 556	143 764	264 948	4 614	63 185	70 836	929 903
Additions	148 148	4 337	34 469	98		103 319	290 371
Change in discount rate	–	–	–	–	688	–	688
Disposals	–	(62)	(5 135)	(314)	–	–	(5,511)
Write-offs	–	–	(1 289)	(31)	–	–	(1 320)
Change in mine closure estimate	–	–	–	–	3 483	–	3 483
Transfers and other movements	455	31 901	20 429	991	–	(54 774)	(998)
Transfers from evaluation and exploration assets	9 165	–	–	–	–	–	9 165
Foreign exchange	–	–	35	2	–	–	37
At 31 December 2012	540,324	179,940	313,457	5,360	67,356	119,381	1,225,818
Accumulated depreciation and impairment							
At 1 January 2012	233 103	70 750	118 832	2 091	42 637	936	468 349
Depreciation for the year	73 340	16 975	31 974	701	2 171	–	125 161
Write-offs	–	–	(811)	(18)	–	–	(829)
Disposals	–	(46)	(3 190)	(200)	–	–	(3 436)
Foreign exchange	–	–	18	–	–	–	18
At 31 December 2012	306,443	87,679	146,823	2,574	44,808	936	589,263
Net book amount at 31 December 2012	233,881	92,261	166,634	2,786	22,548	118,445	636,555

1. The carrying value of plant and equipment held under finance leases at 31 December 2012 was US\$991 230 (2011: US\$5 741 000). Additions during the year included US\$Nil (2011: US\$900 000) of plant and equipment under finance leases. Leased assets are pledged as security for the related finance lease. There were no borrowing costs capitalised in property, plant and equipment as no significant qualifying assets were constructed during 2012 and 2011.

15 Property, plant and equipment (continued)

	Mining properties and development costs US\$000	Land and buildings US\$000	Plant and equipment ¹ 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 2011							
Cost							
At 1 January 2011	299 871	120 948	234 888	3 606	56 093	61 925	777 331
Additions	79 284	5 806	16 345	9	782	43 654	145 880
Change in discount rate	-	-	-	-	2 884	-	2 884
Disposals	-	-	(1 867)	(155)	-	-	(2 022)
Write-offs	(6 379)	-	(321)	(21)	-	-	(6 721)
Change in mine closure estimate	-	-	-	-	3,318	-	3 318
Transfers and other movements	509	17 040	16 028	1 192	-	(34 769)	-
Transfers from evaluation and exploration assets	9 269	-	-	-	-	-	9 269
Foreign exchange	2	(30)	(125)	(17)	108	26	(36)
At 31 December 2011	382,556	143,764	264,948	4,614	63,185	70,836	929,903
Accumulated depreciation and impairment							
At 1 January 2011	179,672	52 987	94 332	1 562	40 766	1 098	370 417
Depreciation for the year	59 830	17 763	26 329	664	1 871	(183)	106 274
Write-offs	(6 379)	-	(261)	(15)	-	-	(6 655)
Disposals	-	-	(1,500)	(104)	-	-	(1 604)
Transfers to evaluation and exploration assets	(22)	-	-	-	-	-	(22)
Foreign exchange	2	-	(68)	(16)	-	21	(61)
At 31 December 2011	233,103	70,750	118,832	2,091	42,637	936	468,349
Net book amount at 31 December 2011	149,453	73,014	146,116	2,523	20,548	69,900	461,554

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16 Evaluation and exploration assets

	Azucla US\$000	Crespo US\$000	Inmaculada US\$000	San Felipe US\$000	Dorado US\$000	Others US\$000	Total US\$000
Cost							
Balance at 1 January 2011	28 339	55 771	91 507	56 824	–	21 664	254 105
Additions	30 014	9 927	16 920	39	–	15 949	72 849
Foreign exchange	–	(280)	62	(913)	–	–	(1,131)
Transfers to property plant and equipment	–	–	188	–	–	(9 457)	(9 269)
Balance at 31 December 2011	58 353	65 418	108 677	55 950	–	28 156	316 554
Additions	12 326	1 777	8 085	–	86 301	21,525	130 014
Foreign exchange	–	276	–	–	–	–	276
Transfers from/(to) property plant and equipment	125	144	–	–	–	(8 509)	(8 240)
Balance at 31 December 2012	70,804	67,615	116,762	55,950	86,301	41,172	438,604
Accumulated impairment							
Balance at 1 January 2011	–	9,904	–	30 950	–	1 171	42 025
Transfers from property plant and equipment	22	–	–	–	–	–	22
Balance at 31 December 2011	22	9 904	–	30 950	–	1 171	42 047
Balance at 31 December 2012	22	9,904	–	30,950	–	1,171	42,047
Net book value as at 31 December 2011	58,331	55 514	108 677	25,000	–	26,985	274 507
Net book value as at 31 December 2012	70,782	57,711	116,762	25,000	86,301	40,001	396,557

There were no borrowing costs capitalised in evaluation and exploration assets

17 Intangible assets

	Goodwill US\$000	Transmission line ¹ US\$000	Water permits ² US\$000	Software licences US\$000	Total US\$000
Cost					
Balance at 1 January 2011	2 091	22 157	–	1 100	25 348
Additions	–	–	–	161	161
Foreign exchange difference	–	–	–	(1)	(1)
Balance at 31 December 2011	2 091	22 157	–	1 260	25 508
Additions	–	–	26,583	5	26,588
Transfer	–	–	–	72	72
Balance at 31 December 2012	2,091	22,157	26,583	1,337	52,168
Accumulated amortisation					
Balance at 1 January 2011	–	4 232	–	950	5 182
Amortisation for the year ³	–	1 454	–	100	1 554
Balance at 31 December 2011	–	5 686	–	1 050	6 736
Amortisation for the year ³	–	1 452	–	77	1,529
Balance at 31 December 2012	–	7,138	–	1,127	8,265
Net book value as at 31 December 2011	2 091	16 471	–	210	18 772
Net book value as at 31 December 2012	2,091	15,019	26,583	210	43,903

1 The transmission line is amortised using the units of production method. At 31 December 2012 the remaining amortisation period is 12 years.

2 Corresponds to the acquisition of water permits of Andina Minerals Group (refer to note 4(a)).

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

The carrying amount of goodwill is reviewed annually to determine whether it is in excess of its recoverable amount. The value-in-use is determined at the cash-generating unit level, in this case being the San Jose mine, by discounting the expected cash flows estimated by management over the life of the mine.

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

- **Commodity prices** – Commodity prices of gold and silver are based on prices considered in the Group's 2013 budget (2011–2012 budget) and external market consensus forecasts. The prices considered in the 2012 (2011) impairment tests were:

Year	2012	2013	2014	2015	2016	2017	2018	2019–2023
2012 – Gold – US\$/oz		1,823.0	1,723.0	1,550.0	1,411.0	1,411.0	1,411.0	1,411.0
2012 – Silver – US\$/oz		35.0	31.0	29.0	26.0	26.0	26.0	26.0
2011 – Gold – US\$/oz	1 825.0	1 750.0	1 500.0	1 400.0	1 324.6	1 323.1	1 300.0	1 300.0
2011 – Silver – US\$/oz	40.0	35.0	29.6	30.0	25.5	25.4	25.0	25.0

- **Estimation of reserves and resources** – Reserves and resources are based on management's estimates using appropriate exploration and evaluation techniques.
- **Production volumes and grades** – Tonnage produced was estimated at plant capacity with 12 days of maintenance per year (2011–12 days).
- **Capital expenditure** – The cash flows for each mining unit include capital expenditures to maintain the mine and to convert resources to reserves.
- **Operating costs** – Costs are based on historical information from previous years and current mining conditions.
- **Discount rates** – The cash flows are discounted at real pre-tax rates that reflect the current market assessments of the time value of money and the risks specific to the cash-generating unit. These rates are based on the weighted average cost of capital specific to each cash-generating unit. The pre-tax discount rate used in the 2012 impairment test was 25.59% (2011–24.18%).

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17 Intangible assets (continued)

Management believes that the following changes to the main assumptions would cause the carrying value of the cash-generating unit (including the goodwill) to equal its recoverable amount. Therefore, any higher deviation would cause the carrying value of goodwill to exceed its recoverable amount and an impairment provision would be required.

Assumption	2012 Variation	2011 Variation
Gold price	(19.3)%	(37.1)%
Silver price	(15.5)%	(27.1)%
Reserves and resources	(109.6)%	(67.9)%
Costs	17.7%	35.3%
Discount rates	99.4%	292.3%

Headroom for the 2012 and 2011 impairment tests were US\$92,349,000 and US\$193,591,000 respectively.

Cash flows used for impairment tests were based on the annual 2013 budget presented and approved by the Board, subject to a number of conditions, in November 2012. The starting point in all cases was January 2013. Individual cash flows are based on the annual 2013 budget and an estimated set of reserves and resources as of December 2012 provided by the Exploration and Operations teams. In addition, in respect of subsequent years, the Group makes the necessary conservative adjustments to accurately reflect the nature of each operation. In the case of revenue, production figures were estimated assuming reserve grade (after extracted tonnage) and full capacity. In the case of operating expenses, all figures are based on the 2013 budget. Future capital expenditure is based on the 2013 budget, excluding one-off expenses and considering the Operations team's view of developments and infrastructure according to the estimated set of reserves and resources.

18 Investments accounted under equity method**Gold Resource Corp**

The Group has a 24.8% interest on a fully diluted basis in Gold Resource Corp, which is involved in the exploration for and production of gold and silver in Mexico. The company is organised under the laws of the State of Colorado, USA, where the principal executive offices are located. The operations are conducted through two wholly-owned subsidiaries located in Mexico: Don David Gold S.A. de C.V. and Golden Trump Resources S.A. de C.V.

Based on publicly available information, at 31 December 2012, the capital and reserves were US\$112,254,000 (31.12.2011: US\$132,582,000) and US\$2,035,000 (31.12.2011: US\$3,978,000) (loss on currency translation) respectively.

The profit for the period was US\$26,056,000 (2011: US\$46,464,000).

The following table summarises the financial information of the Group's investment in Gold Resource Corp.

	Year ended 31 December	
	2012 US\$000	2011 US\$000
Share of the associate's statement of financial position		
Current assets	17,872	20,258
Non-current assets	51,002	57,919
Current liabilities	(3,742)	(7,605)
Non-current liabilities	(11,300)	(11,727)
Net assets	53,832	58,845
Goodwill on acquisition	24,356	24,356
Share of the associate's revenue, profit and loss		
Revenue	33,737	26,496
Profit ¹	5,080	11,446
Carrying amount of the investment	78,188	83,201

¹ Share of the associate's profit in 2012 includes (1) a pre-exceptional gain from the Group's share in the results of the period of Gold Resource Corp. of US\$6,456,000 (2011: US\$11,707,000) and (2) an exceptional loss from dilution of US\$1,376,000 (2011: US\$261,000).

19 Available-for-sale financial assets

	Year ended 31 December	
	2012 US\$000	2011 US\$000
Beginning balance	40,769	153 620
Additions ¹	–	2 910
Impairment	(891)	(198)
Fair value change recorded in equity	(9,269)	(33 078)
Disposals ²	–	(82 485)
Ending balance	30,609	40,769

1 The 2011 amount represents the fair value of shares at the date of acquisition and mainly includes: (i) the conversion of Golden Minerals Company warrants into shares of US\$2 419 000 (ii) the conversion of Iron Creek Capital Corp warrants into shares of US\$83 000 and the purchase of shares of Iron Creek Capital Corp for US\$408 000

2 Sale of (i) 71 540 992 shares of Lake Shore Gold Corp and (ii) 104 889 shares of Golden Minerals Company

Available-for-sale financial assets include the following

	Year ended 31 December	
	2012 US\$000	2011 US\$000
Equity securities – quoted Canadian companies ¹	17,800	27 175
Equity securities – quoted US companies	23	31
Equity securities – quoted British companies	777	1 722
Equity securities – unquoted ²	12,009	11 841
Total	30,609	40 769

1 Mainly includes International Minerals Corporation shares of US\$15 169 000 (2011: US\$21 414 000)

2 Includes Pembroke Mining Corp and ECI Exploration and Mining Inc. shares

During the period there were no reclassifications between quoted and unquoted investments

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

The investments in unlisted shares (Pembroke Mining Corp and ECI Exploration and Mining Inc.) were recognised at cost given that there is not an active market for these investments. The investment in ECI Exploration and Mining Inc. is fully impaired

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

	2012 US\$000	2011 US\$000
Canadian dollars	29,809	39 016
US dollars	23	31
Pounds sterling	777	1 722
Total	30,609	40 769

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20 Trade and other receivables

	As at 31 December			
	2012		2011	
	Non-current US\$000	Current US\$000	Non-current US\$000	Current US\$000
Trade receivables (note 36(c))	-	88,435	-	115 379
Advances to suppliers	-	17,916	-	13 008
Credit due from exports of Minera Santa Cruz	5,609	2,578	5 413	964
Due from non-controlling interests ¹	-	2,224	-	1 025
Receivables from related parties (note 30)	-	1,017	-	932
Loans to employees	2,276	1,608	2 051	1 350
Interest receivable	-	85	-	711
Receivable from Kaupthing Singer and Friedlander Bank	-	361	-	515
Other	102	6,575	23	1 986
Provision for impairment ²	-	(3,819)	-	(2 406)
Financial assets classified as receivables	7,987	116,980	7 487	133 464
Prepaid expenses	626	10,237	526	6 305
Value Added Tax (VAT) ³	-	38,956	728	27 162
Total	8,613	166,173	8 741	166 931

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

1 Corresponds to an amount receivable from Iron Creek Capital Corp. (2011: loan to International Minerals Corporation)

2 Includes the provision for impairment of trade receivable from a customer in Peru of US\$1 108 000 (2011: US\$1 108 000), the impairment of deposits in Kaupthing Singer and Friedlander of US\$361 000 (2011: US\$515 000) and other receivables of US\$2 350 000 (2011: US\$783 000)

3 This includes an amount of US\$18 736 000 (2011: US\$16 315 000) VAT paid related to the San Jose project that will be recovered through future sales of gold and silver by Minera Santa Cruz S.A. It also includes the VAT of Minera Suyamarca of US\$6 388 000 (2011: US\$3 010 000), Compania Minera Ares S.A.C. of US\$8 574 000 (2011: US\$6 503 000) and Minas Santa Maria de Moris of US\$2 445 000 (2011: US\$1 256 000). The VAT is valued at its recoverable amount.

Movements in the provision for impairment of receivables

	Individually impaired US\$000	Total US\$000
At 1 January 2011	2 533	2 533
Provided for during the year	76	76
Released during the year	(203)	(203)
At 31 December 2011	2,406	2,406
Provided for during the year	1,567	1 567
Released during the year	(154)	(154)
At 31 December 2012	3,819	3,819

As at 31 December, the ageing analysis of financial assets classified as receivables net of impairment is as follows

Year	Total US\$000	Neither past due nor impaired US\$000	Past due but not impaired				
			Less than 30 days US\$000	30 to 60 days US\$000	61 to 90 days US\$000	91 to 120 days US\$000	Over 120 days US\$000
2012	124,967	124,967	-	-	-	-	-
2011	140 951	140 951	-	-	-	-	-

21 Inventories

	As at 31 December 2012 US\$000	As at 31 December 2011 US\$000
Finished goods	4,874	1 791
Products in process	28,162	13 537
Raw materials	1	5
Supplies and spare parts	49,021	40 240
	82,058	55 573
Provision for obsolescence of supplies	(5,645)	(2,541)
Total	76,413	53 032

Finished goods include ounces of gold and silver dore and concentrate. Dore is an alloy containing a variable mixture of silver gold and minor impurities delivered in bar form to refiners and is considered a product in process. The refined products are then sold to the customers and/or refiners. Concentrate is a product containing sulphides with a variable content of base and precious metals and is sold to smelters.

The amount of dore on hand at 31 December 2012 included in products in process is US\$9,370 000 (2011 US\$1 379 000).

As part of the Group's short-term financing policies, it acquires pre-shipment loans which are guaranteed by the sales contracts.

The amount of expense recognised in profit and loss related to the consumption of inventory of supplies, spare parts and raw materials is US\$85 651 000 (2011 US\$72 105 000).

Movements in the provision for obsolescence comprise the amount of the expense related to the increase of the provision of US\$3 608 000 and the reversal of US\$504 000 relating to the sale of supplies and spare parts that had been provided for (2011 US\$695,000).

The amount of income relating to the reversal of the inventory provision is US\$nil (2011 US\$21 000).

22 Other financial assets and liabilities

	As at 31 December	
	2012 US\$000	2011 US\$000
Other financial assets		
Warrants in Iron Creek Capital Corp	1	28
Bonds	149	-
Total financial assets at fair value through profit or loss	150	28
Other financial liabilities		
Embedded derivatives ¹	6,891	12 831
Total financial liabilities at fair value through profit or loss	6,891	12 831

1. Sales of concentrate and certain gold and silver volumes are provisionally priced at the time the sale is recorded. The price is then adjusted after an agreed period of time (usually linked to the length of time it takes for the smelter to refine and sell the concentrate or for the refiner to process the dore into gold and silver) with the Group either paying or receiving the difference between the provisional price and the final price. This price exposure is considered to be an embedded derivative in accordance with IAS 39 Financial Instruments: Recognition and Measurement. The gain or loss that arises on the fair value of the embedded derivative is recorded in Revenue (refer to note 5).

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23 Cash and cash equivalents

	As at 31 December	
	2012 US\$000	2011 US\$000
Cash at bank	322	349
Liquidity funds	72,803	370,021
Current demand deposit accounts ²	61,654	45,030
Time deposits ³	224,165	212,081
Cash and cash equivalents considered for the statement of cash flows⁴	358,944	627,481

The fair value of cash and cash equivalents approximates their book value. The Group does not have undrawn borrowing facilities available in the future for operating activities or capital commitments.

1. The liquidity funds are mainly invested in certificates of deposit, commercial papers and floating rate notes with a weighted average maturity of 5 days as at 31 December 2012 (2011: average of 18 days). In addition, liquidity funds include US Treasury bonds amounting to US\$49,967,000 (2011: US\$199,924,000) (note 35(g)).
2. Relates to bank accounts which are freely available and bear interest.
3. These deposits have an average maturity of 36 days (2011: Average of 32 days) (refer to note 36(g)).
4. Funds deposited in Argentinean institutions are effectively restricted for transfer to other countries and are invested locally. Included within cash and cash equivalents at 31 December 2012 is US\$25,452,000 (2011: US\$nil) which is not readily available for use in subsidiaries outside of Argentina.

24 Trade and other payables

	As at 31 December			
	2012		2011	
	Non-current US\$000	Current US\$000	Non-current US\$000	Current US\$000
Trade payables	-	76,012	-	57,720
Salaries and wages payable ²	-	31,935	-	24,748
Dividends payable	-	2,242	-	9,797
Taxes and contributions	-	9,077	-	6,302
Accrued expenses	-	383	8	7,004
Guarantee deposits	-	6,325	-	4,197
Mining royalty (note 35)	-	1,630	-	1,205
Deferred income ³	-	4,000	-	-
Amount payable to non-controlling interest ⁴	-	13,787	-	-
Accounts payable to related parties (note 30)	-	-	-	32
Other	-	4,194	-	6,032
Total	-	149,585	8	117,037

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

1. Trade payables relate mainly to the acquisition of materials, supplies and contractors' services. These payables do not accrue interest and no guarantees have been granted.
2. Salaries and wages payable were as follows:

	2012 US\$000	2011 US\$000
Remuneration payable	26,404	21,039
Board members' remuneration	581	652
Executive Long Term Incentive Plan	4,950	3,057
Total	31,935	24,748

3. The deferred income represents an advance receipt in respect of an option granted to a third party to acquire the Group's San Felipe project in Mexico.
4. Amount payable to complete the purchase of Andina Minerals Inc. non-controlling shareholders' interests (note 4(a)).

25 Borrowings

	As at 31 December					
	2012			2011		
	Effective interest rate	Non-current US\$000	Current US\$000	Effective interest rate	Non-current US\$000	Current US\$000
Secured bank loans (a)						
• Pre-shipment loans in Minera Santa Cruz (note 21)	–	–	–	1.3% to 6.0%	–	38 500
• Leasing agreement with Banco de Credito del Peru	3.5%	–	336	3.25% to 3.5%	336	760
• Leasing agreement with Banco Interamericano de Finanzas	6%	–	24	5% to 6%	24	461
Convertible bond payable (b)	5.75%	106,850	6,613	5.75%	104 506	6 613
Total		106,850	6,973		104,866	46 334

(a) The following table demonstrates the present value and maturity of future minimum lease payments as at 31 December 2012 and 2011

	As at 31 December	
	2012 US\$000	2011 US\$000
Not later than one year	360	1 221
Between 1 and 2 years	–	360
Between 2 and 5 years	–	–
Total	360	1,581

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Notes to the consolidated financial statements continued

25 Borrowings (continued)

The following table reconciles the total minimum lease payments and their present values as at 31 December 2012 and 2011

	As at 31 December	
	2012 US\$000	2011 US\$000
Present value of leases	360	1 581
Future interest	4	40
Total minimum lease payments	364	1,621

The carrying amount of net lease liabilities approximate their fair value

(b) Convertible bond payable

Relates to the placement of US\$115 000 000 of senior unsecured convertible bonds due 2014 which are convertible into ordinary shares of Hochschild Mining plc. The bonds have a coupon of 5.75% per annum payable semi-annually on 28 January and 28 July of each year. The issuer has the option to call the bonds on or after 20 October 2012 until maturity in the event the trading price of the ordinary shares exceeds 130% of the conversion price over a certain period. In addition, the Group has the right to redeem the bonds if, at any time, the aggregate principal amount of the bonds outstanding is equal to or less than 15% of the aggregate principal amount of the bonds initially issued.

The following information has to be considered for conversion of the bonds into ordinary shares

- Conversion Price (before adjustment for the recommended 2012 final dividend) GBP 3.90
- Fixed Exchange Rate US\$1.59/GBP 1.00

The balance as at 31 December 2012 is comprised of the principal of US\$115 000 000 (2011: US\$115 000 000) plus accrued interest of US\$9 636 000 (2011: US\$7 292 000) net of transaction costs of US\$2 741 000 (2011: US\$2 741 000) and the bond equity component of US\$8 432 000 (2011: US\$8 432 000).

The maturity of non-current borrowings is as follows

	As at 31 December	
	2012 US\$000	2011 US\$000
Between 1 and 2 years	106,850	1 039
Between 2 and 5 years	–	103 827
Over 5 years	–	–
Total	106,850	104 866

The carrying amount of current borrowings approximates their fair value. The carrying amount and fair value of the non-current borrowings are as follows

	Carrying amount as at 31 December		Fair value as at 31 December	
	2012 US\$000	2011 US\$000	2012 US\$000	2011 US\$000
Secured bank loans	–	360	–	375
Convertible bond payable	106,850	104 506	112,867	116 413
Total	106,850	104 866	112,867	116 788

26 Provisions

	Provision for mine closure ¹ US\$000	Workers profit sharing ² US\$000	Contributions to Peruvian Government US\$000	Long Term Incentive Plan ³ US\$000	Contingent consideration ⁴ US\$000	Other US\$000	Total US\$000
At 1 January 2011	62 026	21 307	1 820	1 061	39 243	2 857	128 314
Additions	782	31 444	38	2 594	–	1 000	35 858
Accretion	533	–	–	–	204	–	737
Change in discount rate	3 541	–	–	–	313	–	3 854
Change in estimate ⁵	10,856	–	–	–	7	–	10 863
Payments	(4 113)	(23 398)	(1 776)	–	(7 389)	(484)	(37 160)
Foreign exchange	–	478	(82)	–	–	–	396
At 31 December 2011	73 625	29 831	–	3 655	32 378	3 373	142 862
Less current portion	(9 791)	(29 831)	–	–	(32 378)	(2 432)	(74 432)
Non-current portion	63 834	–	–	3 655	–	941	68 430
At 1 January 2012	73,625	29,831	–	3,655	32,378	3,373	142,862
Additions	–	18 487	–	7 322	–	1,041	26 850
Accretion	123	–	–	–	–	–	123
Change in discount rate	769	–	–	–	–	–	769
Change in estimate ⁵	3 362	–	–	–	–	–	3 362
Payments	(3 667)	(30 893)	–	–	(32 222)	–	(66 782)
Amounts transferred to payables	–	–	–	(4 950)	–	–	(4 950)
Foreign exchange	2	1 124	–	–	(156)	34	1 004
At 31 December 2012	74,214	18,549	–	6,027	–	4,448	103,238
Less current portion	(4 105)	(18 549)	–	(1 211)	–	(2 823)	(26 688)
Non-current portion	70 109	–	–	4 816	–	1 625	76 550

1 The provision represents the discounted values of the estimated cost to decommission and rehabilitate the mines at the expected date of closure of each of the mines. The present value of the provision has been calculated using a real pre-tax annual discount rate based on a US Treasury bond of an appropriate tenure adjusted for the impact of quantitative easing as at 31 December 2012 and 2011 respectively and the cash flows have been adjusted to reflect the risk attached to these cash flows. Uncertainties on the timing for use of this provision include changes in the future that could impact the time of closing the mines as new resources and reserves are discovered.

2 Corresponds to the legal and voluntary workers' profit sharing of the Group. Legal workers' profit sharing represents 8% of taxable income of Peruvian companies. Voluntary workers' profit sharing is determined by the Group taking into account the market conditions of employment. The balance of the provision as at 31 December 2012 is: (i) Legal US\$5 788 000 (2011: US\$21 584 000); (ii) Voluntary US\$12 761 000 (2011: US\$8 247 000).

3 Corresponds to the provision related to awards granted under the Long Term Incentive Plan to designated personnel of the Group. Includes the following benefits: (i) 2012 awards granted in March 2012 payable in March 2015; (ii) 2011 awards granted in April 2011 payable in April 2014; and (iii) Exploration incentive plan awards in respect of Brownfield projects granted in January 2011 payable 50% in March 2013 and 50% in March 2014. Only employees who remain in the Group's employment on the vesting date will be entitled to a cash payment subject to exceptions approved by the Remuneration Committee of the Board. The provision represents the discounted values of the estimated cost of the long term employee benefit. In 2012 there is a provision of US\$7 322 000 (2011: US\$2 594 000) that is disclosed under administrative expenses US\$5 420 000 (2011: US\$1 467 000), exploration expenses US\$843 000 (2011: US\$145 000) and capitalised as evaluation and exploration expenses US\$1 059 000 (2011: US\$981 000). The amount of US\$4 950 000 corresponds to the 2010 award and was transferred to salary and wages payable as the performance period ended at 31 December 2012 (note 24(2)).

4 This contingent consideration provision relates to International Minerals Corporation's discounted share of Hochschild's commitment to fund the first \$100 000 000 needed to plan, develop and construct mining operations within the Inmaculada property. The amount of US\$32 222 000 was settled as a capital contribution from non-controlling interest (refer to consolidated statement of changes in equity).

5 Based on the 2012 internal review of mine rehabilitation budgets an increase of US\$3 362 000 was recognised. During 2011 the Group conducted an external review of the provision for mine closure costs for all its mining units. Consequently at 31 December 2011 an increase of US\$10 856 000 in this provision was recognised.

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Notes to the consolidated financial statements continued

27 Equity**(a) Share capital and share premium***Issued share capital*

The issued share capital of the Company as at 31 December 2012 and 2011 is as follows

Class of shares	Issued	
	Number	Amount
Ordinary shares	338 085 226	£84 521 307

At 31 December 2012 and 2011, all issued shares with a par value of 25 pence each were fully paid (2012: weighted average of US\$0.469 per share; 2011: weighted average of US\$0.469 per share)

Rights attached to ordinary shares

At general meetings of the Company on a show of hands and on a poll, every member who is present in person or subject to the below by proxy has one vote for every share of which they are the holder/proxy. However, in the case of a vote on a show of hands where a proxy has been appointed by more than one member, the proxy has one vote for and one vote against if the proxy has been instructed by one or more members to vote for the resolution and by one or more members to vote against the resolution.

(b) Treasury shares

Treasury shares represent the cost of Hochschild Mining plc shares purchased in the market and held by the trustee of the Hochschild Mining Employee Share Trust to satisfy the award of conditional shares under the Group's Enhanced Long Term Incentive Plan granted to the CEO (note 2(p)). During 2011, the Group purchased 126 769 shares for the purposes of the plan for a total consideration of £561 477.91 (equivalent to \$898 000). No shares were purchased by the Group in 2012.

(c) Other reserves*Unrealised gain/loss on available-for-sale financial assets*

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

Unrealised gain/loss on cash flow hedges

Correspond to the effective portion of the gain or loss on the hedging instrument (refer to note 2(aa)).

Cumulative translation adjustment

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

Merger reserve

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

Bond equity component

Represents the equity component of the Convertible bond issued on 20 October 2009 (refer to note 25(b)). When the initial carrying amount of a compound financial instrument is allocated to its equity and liability components, the equity component is assigned the residual amount after deducting the fair value of the instrument as a whole, the amount separately determined for the liability component.

Share-based payment reserve

Is used to recognise the value of equity-settled share-based payment transactions provided to employees, as a part of their remuneration.

28 Deferred income tax

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

	As at 31 December	
	2012 US\$000	2011 US\$000
Beginning of the year	(68,152)	(23,305)
Income statement charge	(27,462)	(51,902)
Deferred income tax arising on net unrealised gains on available-for-sale financial assets recognised in equity	615	7,164
Foreign exchange effect	140	(109)
End of the year	(94,859)	(68,152)

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to the same fiscal authority

The movement in deferred income tax assets and liabilities before offset during the year is as follows

	Differences in cost of PP&E US\$000	Mine development US\$000	Financial instruments US\$000	Others US\$000	Total US\$000
Deferred income tax liabilities					
At 1 January 2011	15,554	34,952	11,615	905	63,026
Income statement charge/(credit)	16,433	38,289	(6,560)	280	48,442
Net deferred income tax from unrealised gain on available-for-sale financial assets	-	-	(5,055)	-	(5,055)
Foreign exchange	-	109	-	-	109
At 31 December 2011	31,987	73,350	-	1,185	106,522
Income statement (credit)/charge	(105)	35,210	2,724	(751)	37,078
Net deferred income tax from unrealised loss on available-for-sale financial assets	-	-	(615)	-	(615)
Foreign exchange	-	(140)	-	-	(140)
At 31 December 2012	31,882	108,420	2,109	434	142,845

	Differences in cost of PP&E US\$000	Provision for mine closure US\$000	Tax losses US\$000	Interest payable US\$000	Financial instruments US\$000	Others US\$000	Total US\$000
Deferred income tax assets							
At 1 January 2011	11,680	6,454	6,616	5,142	-	9,829	39,721
Income statement credit/(charge)	5,653	3,647	(5,973)	(5,142)	-	(1,645)	(3,460)
Net deferred income tax from unrealised loss on available-for-sale financial assets	-	-	-	-	2,109	-	2,109
At 31 December 2011	17,333	10,101	643	-	2,109	8,184	38,370
Income statement credit	6,082	1,079	92	-	1,039	1,324	9,616
At 31 December 2012	23,415	11,180	735	-	3,148	9,508	47,986

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Notes to the consolidated financial statements continued

28 Deferred income tax (continued)

The amounts after offset as presented on the face of the Statement of Financial Position are as follows

	As at 31 December	
	2012 US\$000	2011 US\$000
Deferred income tax assets	856	–
Deferred income tax liabilities	(95,715)	(68 152)

Tax losses expire in the following years

	As at 31 December	
	2012 US\$000	2011 US\$000
Recognised ¹		
Expire in one year		–
Expire in two years		–
Expire in three years		–
Expire in four years		–
Expire after four years	2,449	1 855
	2,449	1 855
Unrecognised		
Expire in one year	1,033	1 486
Expire in two years	1,993	3 428
Expire in three years	3,706	4 632
Expire in four years	4,260	6 384
Expire after four years	106,075	92 010
	117,067	107 940
Total tax losses (recognised and unrecognised)	119,516	109 795

1 Deferred tax assets have been recognised in respect of tax losses to the extent that they are expected to be offset against taxable profits arising in future periods based on the profit forecasts prepared by management

Other unrecognised deferred income tax assets comprise (gross amounts)

	As at 31 December	
	2012 US\$000	2011 US\$000
Provision for mine closure ¹	36,090	38 822
Impairments of assets ²	14,702	14 702

1 This relates to provision for mine closure expenditure which is expected to be incurred in periods in which taxable profits are not expected against which the expenditure can be offset

2 Corresponds to the impairment of the San Felipe project recognised in 2010

Unrecognised deferred tax liability on retained earnings

At 31 December 2012 there was no recognised deferred tax liability (2011 nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries or its associate or joint venture as the intention is that these amounts are permanently reinvested

29 Dividends paid and proposed

	2012 US\$000	2011 US\$000
Declared and paid during the year		
Equity dividends on ordinary shares		
Final dividend for 2011 US\$0.03 (2010 US\$0.03)	10,139	10 143
Interim dividend for 2012 US\$0.03 (2011 US\$0.03)	10,139	10 143
Dividends declared to non-controlling interests US\$0.18 and US\$0.08 (2011 US\$0.55)	32,690	53 999
Dividends declared and paid	52,968	74,285
Dividends declared to non-controlling interests US\$0.08 (2011 US\$0.06)	2,187	9 499
Dividends declared and not paid	2,187	9 499
Total dividends declared	55,155	83 784
Proposed for approval by shareholders at the AGM		
Final dividend for 2012 US\$0.03 (2011 US\$0.03)	10,139	10 139

Dividends per share

The dividends declared in August 2012 were US\$10 138 718 (US\$0.03 per share). A dividend in respect of the year ending 31 December 2012 of US\$0.03 per share amounting to a total dividend of US\$10 138 754 is to be proposed at the Annual General Meeting on 30 May 2013. These financial statements do not reflect this dividend payable.

30 Related-party balances and transactions**(a) Related-party accounts receivable and payable**

The Group had the following related-party balances and transactions during the years ended 31 December 2012 and 2011. The related parties are companies owned or controlled by the main shareholder of the parent company, joint ventures or associates.

	Accounts receivable as at 31 December		Accounts payable as at 31 December	
	2012 US\$000	2011 US\$000	2012 US\$000	2011 US\$000
Current related party balances				
Cementos Pacasmayo S.A.A.	139	222	–	32
Gold Resource Corp. (note 18)	878	710	–	–
Total	1,017	932	–	32

As at 31 December 2012 and 2011, all other accounts are or were non-interest bearing.

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

Principal transactions between affiliates are as follows:

	Year ended	
	2012 US\$000	2011 US\$000
Income		
Dividend recognised for Gold Resource Corp. investment (note 18)	10,093	7 313
Revenue recognised for services provided to Gold Resource Corp.	–	35
Expenses		
Expense recognised for the rental paid to Cementos Pacasmayo S.A.A.	(164)	(170)

Transactions between the Group and these companies are on an arm's length basis.

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Notes to the consolidated financial statements continued

30 Related-party balances and transactions (continued)**(b) Compensation of key management personnel of the Group**

	As at 31 December	
	2012 US\$000	2011 US\$000
Compensation of key management personnel (including Directors)		
Short-term employee benefits	6,742	6,504
Termination benefits	–	–
Long Term Incentive Plan	2,789	1,200
Workers' profit sharing	44	184
Others	556	950
Total compensation paid to key management personnel	10,131	8,838

This amount includes the remuneration paid to the Directors of the parent company of the Group of US\$5,467,700 (2011: US\$4,816,370) out of which US\$199,606 (2011: US\$199,660) relates to pension payments

31 Auditor's remuneration

The auditor's remuneration for services provided to the Group during the years ended 31 December 2012 and 2011 is as follows

	Amounts paid to Ernst & Young in the year ended 31 December		Amounts paid to others in the year ended 31 December	
	2012 US\$000	2011 US\$000	2012 US\$000	2011 US\$000
Audit fees pursuant to legislation ¹	1,372	1,292	20	1
Audit-related assurance services	160	156	–	–
Taxation compliance services	44	53	–	–
Taxation advisory services	118	141	–	–
Services relating to corporate finance transactions	–	110	–	–
Total	1,694	1,752	20	1

¹ The total audit fee in respect of local statutory audits of subsidiaries is US\$909,000 (2011: US\$844,000)

In 2012 and 2011, all fees are included in administrative expenses with the exception of 2011 fees related to the sale of shares in Lake Shore Gold which were deducted from the gain on the sale of Lake Shore Gold shares and not disclosed within administrative expenses (note 4(b))

32 Notes to the statement of cash flows

	As at 31 December	
	2012 US\$000	2011 US\$000
Reconciliation of profit for the year to net cash generated from operating activities		
Profit for the year	126,866	272,338
Adjustments to reconcile Group operating profit to net cash inflows from operating activities		
Depreciation (note 3(a))	125,143	106,246
Amortisation of intangibles	1,529	1,554
Impairment and write-off of assets (net)	491	31
Gain on sale of available-for-sale financial assets	—	(5,989)
Provision for obsolescence of supplies	3,608	1,270
Share of post-tax gains of associates and joint ventures accounted under equity method	(5,080)	(11,446)
Provision for mine closure	(4,171)	8,728
Finance income	(1,988)	(4,689)
Finance costs	14,204	23,442
Income tax expense	85,408	148,557
Other	1,786	(2)
Increase/(decrease) of cash flows from operations due to changes in assets and liabilities		
Trade and other receivables	3,869	(30,522)
Income tax receivable	—	2,717
Other financial assets and liabilities	(6,239)	27,125
Inventories	(26,989)	828
Trade and other payables	29,540	(22,919)
Provisions	(3,858)	2,993
Cash generated from operations	344,119	520,262

Transactions not affecting cash flows

The main transactions that did not affect cash flows and which are not disclosed elsewhere in the financial statements are

	As at 31 December	
	2012 US\$000	2011 US\$000
Offset of income tax payable with value added tax receivable	—	43,413

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33 Commitments**(a) Mining rights purchase options**

During the ordinary course of business the Group enters into agreements to carry out exploration under concessions held by third parties. Generally under the terms of these agreements the Group has the option to acquire the concession or invest in the entity holding the concession. In order to exercise these options the Group must satisfy certain financial and other obligations during the term of the agreement. The options lapse in the event that the Group does not meet its financial obligations. At any point in time the Group may cancel the agreements without penalty, except where specified below.

The Group continually reviews its requirements under the agreements and determines, on an annual basis, whether to proceed with its financial commitment. Based on management's current intention regarding these projects, the commitments at the Statement of financial position date are as follows:

	As at 31 December	
	2012 US\$000	2011 US\$000
Commitment for the subsequent 12 months	3,363	4,064
More than one year	32,188	19,200

Some of the significant transactions are explained below:

(i) Teck Peru S.A. (Huachojo Project)

On 9 August 2011 the Group entered into an option agreement with Teck Peru S.A. (Teck) to explore and develop minerals in the Huachojo property located in Peru.

Under the agreement the Group will have the right to acquire a 60% interest in the property by investing US\$4,000,000 and by drilling 4,000 metres at the property before 31 August 2015. The Group had a binding commitment for the first US\$500,000 (the Committed Expenditures) and for the first 1,500 metres of drilling (the Committed Drilling) before 31 August 2012. As at 31 December 2012 the Group has funded US\$1,591,000.

(ii) Minera Coriwasi S.A. (Incognitas Project)

On 27 June 2011 the Group entered into an exploration and option agreement with Minera Coriwasi S.A. (Minera Coriwasi) to explore and develop minerals in the Incognitas properties located in Peru. Upon signing of the agreement the Group paid US\$70,000 to Minera Coriwasi.

Under the agreement the Group will have the right to acquire a 100% interest in the property by making payments of US\$940,000 and by committing to spend US\$1,300,000 on exploration within four years. The Group can withdraw from the agreement at any time without incurring any further expenditures or penalties. As at 31 December 2012 the Group has funded US\$522,000.

(iii) Minera Zalamera S.A. de C.V. (Corazon de Tinieblas)

On 18 December 2010 the Group entered into a purchase option agreement with Minera Zalamera S.A. de C.V. (Minera Zalamera) to earn the right to purchase 100% of the properties in the Corazón de Tinieblas Project Area located in Guerrero, Mexico, currently owned by Minera Zalamera. Upon signing of the letter of intent the Group paid US\$10,000 and upon signing the purchase option agreement the Group paid US\$25,000 to Minera Zalamera.

In order to exercise the option, the Group is required to make a total payment of US\$2,100,000 and incur exploration expenditure of US\$4,000,000 within five years by 31 October 2015. The Group is entitled to withdraw from the agreement at any time prior to incurring the exploration expenditure necessary to vest the option. At 31 December 2012 the Group had invested US\$968,000 in the project.

(iv) Compañía Minera Terciario S.A. de C.V. & Minera Fumarola S.A. de C.V. (Baborigame)

On 6 August 2012 the Group entered into a purchase option agreement with Compañía Minera Terciaria S.A. de C.V. and Minera Fumarola S.A. de C.V. to earn the right to purchase 100% of the properties in the Baborigame Project Area located in Chihuahua, Mexico. Upon the signing of the purchase option agreement the Group paid US\$100,000 to Compañía Minera Terciaria S.A. de C.V. and Minera Fumarola S.A. de C.V.

In order to exercise the option, the Group is required to make a total payment of US\$1,900,000 and incur exploration expenditure of US\$3,700,000 within five years by 5 August 2015. The Group is entitled to withdraw from the agreement at any time prior to incurring the exploration expenditure necessary to vest the option. At 31 December 2012 the Group had invested US\$198,000.

33 Commitments (continued)**(v) Jorge Demetrio Tafich Canavati (El Tanque)**

On 2 February 2012 the Group entered into an exploration and purchase option agreement with Jorge Demetrio Tafich Canavati to explore and develop minerals in El Ramon, Cobriza del Ojo de Agua and Nuevo Monterrey properties located in Zacatecas, Mexico. Upon signing the purchase option agreement the Group paid US\$100,000 to Jorge Demetrio Tafich Canavati.

In order to exercise the option, the Group is required to make a total payment of US\$350,000 and incur exploration expenditure of US\$1,000,000 within four years by 31 December 2015. The Group is entitled to withdraw from the agreement at any time prior to incurring the exploration expenditure necessary to vest the option. At 31 December 2012 the Group had invested US\$697,000.

(vi) Ing. Miguel Jaime Orozco Fararoni (Elefante)

On 13 June 2012 the Group entered into an exploration and purchase option agreement with Miguel Jaime Orozco Fararoni to explore and develop minerals in MJSA 1 properties located in Veracruz, Mexico. Upon signing the purchase option agreement the Group paid US\$10,000 to Miguel Jaime Orozco Fararoni.

In order to exercise the option, the Group is required to make a total payment of US\$900,000 and incur exploration expenditure of US\$560,000 within five years by 13 June 2017. The Group is entitled to withdraw from the agreement at any time prior to incurring the exploration expenditure necessary to vest the option. At 31 December 2012 the Group had invested US\$10,000.

(vii) William Vicente Mendoza Cerna & Cesar Augusto Zafra (Julieta Oeste)

On 28 May 2012 the Group entered into an exploration and purchase option agreement with William Vicente Mendoza Cerna to earn the right to purchase 100% of the properties in the Apostol Santiago CCZ 3 area located in La Libertad.

In order to exercise the option, the Group is required to make a total payment of US\$770,000 and incur exploration expenditure of US\$1,000,000 within three years by 15 June 2015. The Group is entitled to withdraw from the agreement at any time prior to incurring the exploration expenditure necessary to vest the option. At 31 December 2012 the Group had invested US\$70,000.

(viii) Sociedad Hormazabal y Masso Limitada (La Falda)

On 21 December 2011 the Group entered into a purchase option agreement with Sociedad Hormazabal y Masso Ltda. to earn the right to purchase 100% of the properties and explore and develop minerals in the La Falda Project located in Chile. Upon signing the purchase option agreement the Group paid US\$100,000 to Sociedad Hormazabal y Masso Ltda.

In order to exercise the option, the Group is required to make a total payment of US\$10,300,000 and incur exploration expenditure of US\$6,600,000 within five years by 20 December 2016. The Group is entitled to withdraw from the agreement at any time prior to incurring the exploration expenditure necessary to vest the option. At 31 December 2012 the Group had invested US\$2,096,000.

(ix) Minera Caracal Gold Chile Ltda. (Potrero)

On 1 March 2012 the Group entered into an exploration and option to enter a joint venture agreement with Minera Caracal Gold Chile Ltda. to earn the right to purchase 70% of the properties in the Potrero area located in Chile.

In order to exercise the option, the Group is required to make a total payment of US\$2,800,000. The Group is entitled to withdraw from the agreement at any time prior to incurring the exploration expenditure necessary to vest the option. At 31 December 2012 the Group had invested US\$417,000.

(b) Operating lease commitments

The Group has a number of operating lease agreements, as lessee.

The lease expenditure charged to the income statement during the years 2012 and 2011 are included in production costs (2012 US\$9,688,000, 2011 US\$6,699,000), administrative expenses (2012 US\$1,510,000, 2011 US\$1,088,000) and selling expenses (2012 US\$115,000, 2011 US\$115,000).

As at 31 December 2012 and 2011 the future aggregate minimum lease payments under the operating lease agreements are as follows:

	For the year ended 31 December	
	2012 US\$000	2011 US\$000
Not later than one year	7,630	1,306
Later than one year and not later than five years	2,224	520

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Notes to the consolidated financial statements continued

33 Commitments (continued)**(c) Capital commitments**

	For the year ended 31 December	
	2012 US\$000	2010 US\$000
Peru	22,805	39,472
Mexico	5,665	51
Argentina	11,907	3,472
	40,377	42,995

34 Contingencies

As at 31 December 2012 the Group had the following contingencies

(a) Taxation

Fiscal periods remain open to review by the tax authorities for four years in Peru and five years in Argentina and Mexico preceding the year of review. During this time the authorities have the right to raise additional tax assessments including penalties and interest. Under certain circumstances, reviews may cover longer periods.

Because a number of fiscal periods remain open to review by the tax authorities coupled with the complexity of the Group and the transactions undertaken by it, there remains a risk that significant additional tax liabilities may arise. As at 31 December 2012 the Group had exposures totalling US\$42,245,000 (2011: US\$29,243,000) which are assessed as possible rather than probable. No amounts have been provided in respect of these items.

Notwithstanding this risk, the Directors believe that management's interpretation of the relevant legislation and assessment of taxation is appropriate and that it is probable that the Group's tax and customs positions will be sustained in the event of a challenge by the tax authorities. Consequently the Directors consider that they have made adequate provision for any future outflow of resources and no additional provision is required in respect of these claims or risks.

(b) Other

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

The assessment of contingencies inherently involves exercise of significant judgement and estimates of the outcome of future events. Uncertainties in estimating the liability includes changes in the legal interpretation that the authorities could make in respect of the Group's transactions.

35 Mining royalties**Peru**

In accordance with Peruvian legislation, owners of mining concessions must pay a mining royalty for the exploitation of metallic and non-metallic resources. Mining royalties have been calculated with rates ranging from 1% to 3% of the value of mineral concentrate or equivalent, based on quoted market prices.

In October 2011 changes came into effect for mining companies with the following features:

a) Introduction of a Special Mining Tax (SMT) levied on mining companies at the stage of exploiting mineral resources. The new tax is calculated by applying a progressive scale of rates ranging from 2% to 8.4% of the quarterly operating profit. This new tax is in addition to existing mining royalties.

b) Modification of the mining royalty calculation which consists of applying a progressive scale of rates ranging from 1% to 12% of the quarterly operating profit. The former royalty was calculated on the basis of monthly sales value of mineral concentrates.

The SMT and modified mining royalty are accounted for as an income tax in accordance with IAS 12.

c) For companies that have mining projects benefiting from tax stability regimes, mining royalties are calculated and recorded as they were previously applying an additional new special charge on mining that is calculated using progressive scale rates ranging from 4% to 13.12% of quarterly operating profit. This was the case for the Arcata mine unit.

35 Mining royalties (continued)

As at 31 December 2012 the amount payable as under the former mining royalty (for the Arcata mining unit) the new mining royalty (for the Ares and Pallancata mining units) and the SMT amounted to US\$835 000 (2011 US\$709 000) US\$1 089 000 (2011 US\$1 261 000) and US\$1 051 000 (2011 US\$1 394 000) respectively. The former mining royalty is recorded as Trade and other payables and the new mining royalty and SMT as Income tax payable in the Statement of Financial Position. The amount recorded in the income statement was US\$3 224 000 comprising the former mining royalty disclosed as cost of sales (2011 US\$11 921,000) and US\$3 834 000 (2011 US\$2 536 000) of new mining royalty and US\$4 256 000 (2011 US\$3 002 000) of SMT both disclosed as income tax.

Argentina

In accordance with Argentinian legislation Provinces (being the legal owners of the mineral resources) are entitled to request royalties from mine operators. For San Jose the mining royalty was originally fixed at 1.85% of the pit-head value of the production where the final product is dore and 2.55% where the final product is mineral concentrate or precipitates. In October 2012 a new provincial law was passed which increased the mining royalty applicable to dore and concentrate to 3% of the pit-head value. As of November 2012 Minera Santa Cruz S.A. is paying the increased 3% royalty although it has filed an administrative claim against the new law. As at 31 December 2012 the amount payable as mining royalties amounted to US\$795 000. The amount recorded in the income statement as cost of sales was US\$6 448,000.

36 Financial risk management

The Group is exposed to a variety of risks and uncertainties which may have a financial impact on the Group and which also impact the achievement of social, economic and environmental objectives. These risks include strategic, commercial, operational and financial risks and are further categorised into risk areas to facilitate consolidated risk reporting across the Group.

The Group has made significant developments in the management of the Group's risk environment which seeks to identify and where appropriate implement the controls to mitigate the impact of the Group's significant risks. This effort is supported by a Risk Committee with the participation of the CEO, the Vice Presidents and the head of the internal audit function. The Risk Committee is responsible for implementing the Group's policy on risk management and internal control in support of the Company's business objectives and monitoring the effectiveness of risk management within the organisation.

(a) Commodity price risk

Silver and gold prices have a material impact on the Group's results of operations. Prices are significantly affected by changes in global economic conditions and related industry cycles. Generally, producers of silver and gold are unable to influence prices directly, therefore the Group's profitability is ensured through the control of its cost base and the efficiency of its operations.

The Group is committed to remain hedge free. However, management continuously monitors silver and gold prices and reserves the right to take the necessary action where appropriate and within Board approved parameters, to mitigate the impact of this risk.

The Group has embedded derivatives arising from the sale of concentrate and dore which were provisionally priced at the time the sale was recorded (refer to notes 5 and 22(1)). For these derivatives the sensitivity of the fair value to an immediate 10% favourable or adverse change in the price of gold and silver (assuming all other variables remain constant) is as follows:

Year	Increase/ decrease price of ounces of	Effect on profit before tax US\$'000
2012	Gold +/-10%	+/-48
	Silver +/- 10%	+/-354
2011	Gold +/-10%	+/-523
	Silver +/-10%	+/-716

(b) Foreign currency risk

The Group produces silver and gold which are typically priced in US dollars. A proportion of the Group's costs are incurred in pounds sterling, Peruvian nuevos soles, Canadian dollars, Argentinian pesos and Mexican pesos. Accordingly, the Group's financial results may be affected by exchange rate fluctuations between the US dollar and the local currency. The long-term relationship between commodity prices and currencies in the countries in which the Group operates provides a certain degree of natural protection. The Group does not use derivative instruments to manage its foreign currency risks.

The following table demonstrates the sensitivity of financial assets and liabilities, at the reporting date, denominated in their respective currencies, to a reasonably possible change in the US dollar exchange rate, with all other variables held constant of the Group's profit before tax and the Group's equity.

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Notes to the consolidated financial statements continued

36 Financial risk management (continued)

Year	Increase/ decrease in US\$/other currencies rate	Effect on profit before tax US\$000	Effect on equity US\$000
2012			
Pounds sterling	+/-10%	-/+36	+/-78
Argentinian pesos	+/-10%	-/+2,622	-
Mexican pesos	+/-10%	+/-358	-
Peruvian nuevos soles	+/-10%	+/-4,107	-
Canadian dollars	+/-10%	+/-1,006	+/-2,942
Chilean pesos	+/-10%	+/-677	-
2011			
Pounds sterling	+/-10%	+/-1	+/-172
Argentinian pesos	+/-10%	-/+1,049	-
Mexican pesos	+/-10%	+/-110	-
Peruvian nuevos soles	+/-10%	-/+4,414	-
Canadian dollars	+/-10%	+/-22	+/-3,882

(c) Credit risk

Credit risk arises from debtors' inability to make payment of their obligations to the Group as they become due (without taking into account the fair value of any guarantee or pledged assets). The Group is primarily exposed to credit risk as a result of commercial activities and non-compliance by counterparties in transactions in cash which are primarily limited to cash balances deposited in banks and accounts receivable at the statement of financial position date.

Counterparty credit exposure based on commercial activities including trade receivables, embedded derivatives and cash balances in banks as at 31 December 2012 and 31 December 2011:

	As at 31 December 2012 US\$000	Credit rating or % collected as at 11 March 2013	As at 31 December 2011 US\$000	Credit rating or % collected as at 16 March 2012
Summary commercial partners – Trade receivables				
LS Nikko	32,001	A1	36,972	A1
Teck Metals Ltd (formerly Teck Cominco Metals Ltd)	16,186	BBB	22,025	BBB
Consorcio Minero S.A.	14,261	85%	1,475	80%
Argor Heraeus S.A.	12,975	100%	6,672	97%
Aurubis AG (formerly Nordeutsche Affinerie AG)	7,077	71%	18,848	90%
Standard Bank	4,591	100%	4,713	100%
Doe Run Peru S.R.L.	1,108	0%	1,108	0%
MRI Trading AG	78	100%	4,135	98%
Korea Zinc Co. Ltd	-	-	19,091	AA
Johnson Matthey Inc	-	-	318	100%
Others	158	-	22	0%
	88,435		115,379	

36 Financial risk management (continued)

Summary commercial partners Embedded derivatives	As at 31 December 2012 US\$000	Credit rating or % collected as at 11 March 2013	As at 31 December 2011 US\$000	Credit rating or % collected as at 16 March 2012
LS Nikko	(2,963)	A1	(5 097)	A1
Teck Metals Ltd (formerly Teck Cominco Metals Ltd)	(1,844)	BBB	(3 129)	BBB
Consortio Minero S A	(1,279)	85%	(461)	80%
Argor Heraus S A	(706)	100%	(200)	97%
Aurubis AG (formerly Nordeutsche Affinerie AG)	(99)	71%	(1 437)	90%
Korea Zinc Co Ltd	-	-	(2 447)	AA
MRI Trading AG	-	-	(61)	98%
	(6,891)		(12 832)	

Financial counterparties	As at 31 December 2012 US\$000	Credit rating ¹	As at 31 December 2011 US\$000	Credit rating ¹
Banco Bilbao Vizcaya Argentaria	89,094	BBB	3 101	AA- S&P
Banco de Credito del Peru	64,690	BBB	8 669	A-3 S&P
US Treasury bonds	49,967	-	199 924	-
JP Morgan	43,716	A	141 398	A-1 S&P
Citibank	49,502	A-	32 080	A S&P
HSBC	40,552	A+	186 883	A+ S&P
Royal Bank of Canada	3,046	LTLC	-	-
Banorte	1,940	BBB	1 298	BBB-
Deutsche Bank	-	-	40 000	A-1 S&P
Interbank	-	-	300	BBB S&P
Others (including cash in hand)	16,437	NA	13 828	NA
Total	358,944		627 481	

¹ The long term credit rating

To manage the credit risk associated with commercial activities, the Group took the following steps

- Active use of prepayment/advance clauses in sales contracts
- Delaying delivery of title and/or requiring advance payments to reduce exposure timeframe (potential delay in sales recognition)
- Obtaining parent guarantees or contracting directly with parent company to shore up the credit profile of the customer (where possible)
- Maintaining as diversified a portfolio of clients as possible

To manage credit risk associated with cash balances deposited in banks the Group took the following steps

- Increasing banking relationships with large established and well-capitalised institutions in order to secure access to credit and to diversity credit risk
- Limiting exposure to financial counterparties according to Board approved limits
- Investing cash in short-term highly liquid and low risk instruments (money market accounts term deposits US Treasuries)

Receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. The maximum exposure is the carrying amount as disclosed in note 20.

There are no exposures related to loans to non-controlling interest.

(d) Equity risk on financial instruments

The Group acquires financial instruments in connection with strategic alliances with third parties. The Group constantly monitors the fair value of these instruments in order to decide whether or not it is convenient to dispose of these investments. The disposal decision is also based on management's intention to continue with the strategic alliance, the tax implications and changes in the share price of the investee.

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Notes to the consolidated financial statements continued

36 Financial risk management (continued)

The following table demonstrates the sensitivity to reasonable movements in the share price of available-for-sale financial assets and derivative financial instruments (excluding embedded derivatives from provisionally priced sales) with all other variables held constant

Year	Increase/ decrease in prices	Effect on profit before tax US\$000	Effect on equity US\$000
2012	+25%	–	+7,652
	–25%	–9,285	–3,757
2011	+25%	–	+10 192
	–25%	–604	–9 867

(e) Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique

Level 1 quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2 other techniques for which all inputs which have a significant effect on the recorded fair value are observable either directly or indirectly

Level 3 techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data

As at 31 December 2012 and 2011 the Group held the following financial instruments measured at fair value

	31 December 2012 US\$000	Level 1 US\$000	Level 2 US\$000	Level 3 US\$000
Assets measured at fair value				
Equity shares (note 19)	30,609	18 600	–	12 009
Warrants	1	–	1	–
Bonds	149	–	149	–
Liabilities measured at fair value				
Embedded derivatives (note 22(1))	(6,891)	–	–	(6 891)

	31 December 2011 US\$000	Level 1 US\$000	Level 2 US\$000	Level 3 US\$000
Assets measured at fair value				
Equity shares (note 19)	40 769	28 928	–	11 841
Warrants	28	–	28	–
Liabilities measured at fair value				
Embedded derivatives (note 22(1))	12 831	–	–	12 831

During the period ending 31 December 2012 and 2011 there were no transfers between these levels

The reconciliation of the financial instruments categorised as level 3 is as follows

	Embedded derivatives assets US\$000	Embedded derivatives liabilities US\$000	Equity shares US\$000
Balance at 1 January 2011	16 512	–	13 581
Loss from the period recognised in revenue (note 22(1))	(16 512)	(12 831)	–
Fair value change through equity	–	–	(1 740)
Balance at 31 December 2011	–	(12,831)	11,841
Gain from the period recognised in revenue (note 22(1))	–	5 940	–
Fair value change through equity	–	–	168
Balance at 31 December 2012	–	(6,891)	12,009

36 Financial risk management (continued)

(f) Liquidity risk

Liquidity risk arises from the Group's inability to obtain the funds it requires to comply with its commitments including the inability to sell a financial asset quickly enough and at a price close to its fair value. Management constantly monitors the Group's level of short- and medium-term liquidity and their access to credit lines in order to ensure appropriate financing is available for its operations. In 2009 the Group increased its short-term bank lines by over 30% in addition to accessing further long-term financing through the issue of equity and convertible bonds. In 2012 the Group has maintained these short-term bank lines.

The table below categorises the undiscounted cash flows of Group's financial liabilities into relevant maturity groupings based on the remaining period as at the statement of financial position to the contractual maturity date. Interest cash flows have been calculated using the spot rate at year end.

	Less than 1 year US\$000	Between 1 and 2 years US\$000	Between 2 and 5 years US\$000	Over 5 years US\$000	Total US\$000
At 31 December 2012					
Trade and other payables	130,183	–	–	–	130,183
Embedded derivative liability	6,891	–	–	–	6,891
Borrowings	6,978	112,129	–	–	119,107
Provisions	1211	3,353	1,552	–	6,116
Total	145,263	115,482	1,552	–	262,297
At 31 December 2011					
Trade and other payables	106,538	8	–	–	106,546
Embedded derivative liability	12,831	–	–	–	12,831
Borrowings	46,660	6,977	112,129	–	165,766
Provisions	32,378	2,726	997	–	36,101
Total	198,407	9,711	113,126	–	321,244

(g) Interest rate risk

The Group has financial assets and liabilities which are exposed to interest rate risk. Changes in interest rates primarily impact loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). The Group does not have a formal policy of determining how much of its exposure should be at fixed or at variable rates. However at the time of taking new loans or borrowings management applies its judgement to decide whether it believes that a fixed or variable rate borrowing would be more favourable to the Group over the expected period until maturity. All currently existing financial obligations are at fixed rates.

As at 31 December 2012					
	Within 1 year US\$000	Between 1 and 2 years US\$000	Between 2 and 5 years US\$000	Over 5 years US\$000	Total US\$000
Fixed rate					
Cash at bank (note 23)	322	–	–	–	322
Time deposits (note 23)	224,165	–	–	–	224,165
Liquidity funds (note 23)	49,967	–	–	–	49,967
Secured bank loans (note 25)	(360)	–	–	–	(360)
Convertible bond payable (note 25)	(6,613)	(106,850)	–	–	(113,463)
Floating rate					
Liquidity funds (note 23)	22,836	–	–	–	22,836

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Notes to the consolidated financial statements continued

36 Financial risk management (continued)

As at 31 December 2011					
	Within 1 year US\$000	Between 1 and 2 years US\$000	Between 2 and 5 years US\$000	Over 5 years US\$000	Total US\$000
Fixed rate					
Cash at bank (note 23)	349	–	–	–	349
Time deposits (note 23)	212 081	–	–	–	212 081
Loans to non-controlling interests (note 20)	1 025	–	–	–	1,025
Liquidity funds (note 23)	199 924	–	–	–	199 924
Secured bank loans (note 25)	(39 721)	(360)	–	–	(40 081)
Convertible bond payable (note 25)	(6 613)	(679)	(103 827)	–	(111 119)
Floating rate					
Liquidity funds (note 23)	170 097	–	–	–	170 097

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

The following table demonstrates the sensitivity to a reasonable movement in the interest rate, with all other variables held constant, of the financial instruments with a floating rate. The Group is exposed to the fluctuation of rates expressed in US dollars. This assumes that the amount remains unchanged from that in place at 31 December 2012 and 2011 and that the change in interest rates is effective from the beginning of the year. In reality, the floating rate will fluctuate over the year and interest rates will change accordingly.

Year	Increase/ decrease interest rate	Effect on profit before tax US\$000
2012	+/-50bps	+/-114
2011	-/-50bps	+/-850

(h) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders, benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. Management considers as part of its capital, the financial sources of funding from shareholders and third parties (notes 25 and 27). Even though management aims to maintain the Group's debt free position in order to offer shareholders maximum exposure to commodity prices, other than for the use of short-term pre-shipment financing (financing of commercial accounts receivables and finished goods inventory), management reserves the right to raise financial debt in order to fund new future operations and/or mergers and acquisitions activity.

Management also retains the right to fund operations (fully owned and joint ventures) with a mix of equity and joint venture partners' debt.

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Parent company statement of financial position

As at 31 December 2012

	Notes	As at 31 December	
		2012 US\$000	2011 US\$000
ASSETS			
Non-current assets			
Property plant and equipment	4	147	176
Investments in subsidiaries	5	2,319,649	2,319,649
		2,319,796	2,319,825
Current assets			
Other receivables	6	13,995	3,903
Cash and cash equivalents	7	3,466	1,671
		17,461	5,574
Total assets		2,337,257	2,325,399
EQUITY AND LIABILITIES			
Equity share capital	8	158,637	158,637
Share premium	8	416,154	416,154
Treasury shares	8	(898)	(898)
Other reserves		1,324,273	1,323,982
Retained earnings		100,819	138,445
Total equity		1,998,985	2,036,320
Non-current liabilities			
Borrowings	10	106,850	104,506
Provisions	11	219	123
		107,069	104,629
Current liabilities			
Trade and other payables	9	224,590	177,837
Borrowings	10	6,613	6,613
		231,203	184,450
Total liabilities		338,272	289,079
Total equity and liabilities		2,337,257	2,325,399

The financial statements on pages 159 to 174 were approved by the Board of Directors on 12 March 2013 and signed on its behalf by

Ignacio Bustamante
Chief Executive Officer
 12 March 2013



HOCHSCHILD MINING PLC
 COMPANY REGISTRATION NO.
 05777693

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Parent company statement of cash flows

For the year ended 31 December 2012

	Notes	Year ended 31 December	
		2012 US\$000	2011 US\$000
Reconciliation of loss for the year to net cash used in operating activities			
Loss for the year		(17,348)	(18 930)
Adjustments to reconcile Company operating profit to net cash outflows from operating activities			
Depreciation	4	29	47
Income tax expense		–	1
Finance income		(116)	(10)
Finance costs (excluding impairment of available-for-sale financial assets)		8,980	11 917
Foreign exchange loss/(gain)		349	(197)
Increase/(decrease) of cash flows from operations due to changes in assets and liabilities			
Other receivables		193	(3 314)
Trade and other payables		(3,461)	815
Provision for Long Term Incentive Plan		387	233
Cash used in operating activities		(10,987)	(9 438)
Interest received		9	64
Interest paid		(6,612)	(8 869)
Net cash used in operating activities		(17,590)	(18 243)
Cash flows from investing activities			
Loans to subsidiaries		(10,178)	2 485
Net cash (used in)/generated from investing activities		(10,178)	2 485
Cash flows from financing activities			
Proceed of borrowing		50,190	151,545
Repayment of borrowings		–	(114 320)
Dividends paid	13	(20,278)	(20 286)
Purchase of treasury shares	8	–	(898)
Cash flows generated from financing activities		29,912	16 041
Net increase in cash and cash equivalents during the year		2,144	283
Foreign exchange (loss)/gain		(349)	197
Cash and cash equivalents at beginning of year		1,671	1 191
Cash and cash equivalents at end of year	7	3,466	1 671

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Parent company statement of changes in equity

For the year ended 31 December 2012

						Other reserves						
	Notes	Equity share capital US\$000	Share premium US\$000	Treasury Shares US\$000	Unrealised gain/ (loss) on available for-sale financial assets and valuation of cash flow hedges US\$000	Bond equity component US\$000	Share-based payment reserve US\$000	Merger reserve US\$000	Total other reserves US\$000	Retained earnings US\$000	Total equity US\$000	
Balance at 1 January 2011		158 637	416 154	–	(1 930)	8 432	–	1 315 396	1 321 898	177 661	2 074 350	
Recycling of the change in fair value of cash flow hedges		–	–	–	1 930	–	–	–	1 930	–	1 930	
Other comprehensive income					1 930				1 930	–	1 930	
Loss for the year		–	–	–	–	–	–	–	–	(18 930)	(18 930)	
Total comprehensive loss for 2011		–	–	–	1 930	–	–	–	–	(18 930)	(17 000)	
Treasury shares	8	–	–	(898)	–	–	–	–	–	–	(898)	
CEO LTIP		–	–	–	–	–	154	–	154	–	154	
Dividends	13	–	–	–	–	–	–	–	–	(20 286)	(20,286)	
Balance at 31 December 2011		158 637	416 154	(898)	–	8 432	154	1 315,396	1 323 982	138 445	2,036,320	
Other comprehensive income		–	–	–	–	–	–	–	–	–	–	
Loss for the year		–	–	–	–	–	–	–	–	(17 348)	(17 348)	
Total comprehensive loss for 2012		–	–	–	–	–	–	–	–	(17 348)	(17 348)	
CEO LTIP		–	–	–	–	–	291	–	291	–	291	
Dividends	13	–	–	–	–	–	–	–	–	(20,278)	(20 278)	
Balance at 31 December 2012		158,637	416,154	(898)	–	8,432	445	1,315,396	1,324,273	100,819	1,998,985	

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Notes to the parent company financial statements

For the year ended 31 December 2012

1 Corporate information

Hochschild Mining plc (hereinafter 'the Company') is a public limited company incorporated on 11 April 2006 under the Companies Act 1985 as a Limited Company and registered in England and Wales with registered number 05777693

The Company's registered office is located at 46 Albemarle Street London W1S 4JL United Kingdom. The Company was incorporated to serve as a holding company to be listed on the London Stock Exchange. The Company acquired its interest in a group of companies to constitute the Hochschild Mining Group ('the Group') pursuant to a share exchange agreement ('Share Exchange Agreement') dated 2 November 2006.

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

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

2 Significant accounting policies

(a) Basis of preparation

The Company's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and are also consistent with IFRS issued by the IASB as applied in accordance with the Companies Act 2006.

The financial statements of the Company have been prepared on a historical cost basis. The financial statements are presented in US dollars (US\$) and all monetary amounts are rounded to the nearest thousand (\$000) except when otherwise indicated.

The ability for the Company to continue as a going concern is dependent on Hochschild Mining Holdings Limited providing additional funding to the extent that the operating inflows of the Company are insufficient to meet future cash requirements. As Hochschild Mining Holdings Limited has committed to provide this support, it itself a going concern and can provide financial support if necessary, the Directors have prepared the financial statements for the Company on the going concern basis.

(b) Exemptions

The Company's financial statements are included in the Hochschild Mining Group consolidated financial statements for the years ended 31 December 2012 and 31 December 2011. As permitted by section 408 of the Companies Act 2006, the Company has not presented its own profit and loss account.

(c) Judgements in applying accounting policies and key sources of estimation uncertainty

Certain amounts included in the financial statements such as the impairment in subsidiaries involve the use of judgement and/or estimation. These judgements and estimates are based on management's best knowledge of the relevant facts and circumstances having regard to prior experience, but actual results may differ from the amounts included in the financial statements. Information about such judgements and estimation is contained in the accounting policies and/or the notes to the financial statements.

(d) Changes in accounting policy and disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of new and amended standards:

- IAS 12 'Income Taxes' applicable for annual periods beginning on or after 1 January 2012.

Under IAS 12, an entity is to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. The amendment introduces a presumption that recovery of the carrying amount will normally be through sale. The amendment is deemed to have no impact on the financial statements of the Company.

- IFRS 7 'Financial Instruments: Disclosures' – Enhanced derecognition disclosure requirements applicable for annual periods beginning on or after 1 July 2011.

The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about the entity's continuing involvement in derecognised assets to enable the users to evaluate the nature of and risks associated with such involvement. The amendment affects disclosure only and has no impact on the Company's financial position or performance.

Certain new standards, amendments and interpretations to existing standards have been published and are mandatory for the Company's accounting periods beginning on or after 1 January 2013 or later periods but which the Company has not early adopted. A list of these items is included in note 2(a) of the Group financial statements.

1 Corporate information (continued)

(e) Currency translation

The functional currency of the Company is the US dollar and is determined by the currency of the primary economic environment in which it operates

Transactions denominated in currencies other than the functional currency of the Company are initially recorded in the functional currency using the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are remeasured at the rate of exchange ruling at the statement of financial position date. Exchange gains and losses on settlement of foreign currency transactions which are translated at the rate prevailing at the date of the transactions or on the translation of monetary assets and liabilities which are translated at period-end exchange rates are taken to the income statement. Non-monetary assets and liabilities denominated in foreign currencies that are stated at historical cost are translated to the functional currency at the foreign exchange rate prevailing at the date of the transaction.

(f) Property, plant and equipment

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

The cost less residual value of each item of property, plant and equipment is depreciated over its useful life. Each item's estimated useful life has been assessed with regard to its own physical life. Estimates of remaining useful lives are made on a regular basis for all buildings, machinery and equipment, with annual reassessments for major items. Depreciation is charged to administrative expenses over the estimated useful life of the individual asset on a straight-line basis. Changes in estimates are accounted for prospectively. Depreciation commences when assets are available for use. Land is not depreciated.

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

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

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

Subsequent expenditure

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

(g) Investments in subsidiaries

Subsidiaries are entities over which the Company controls operating and financial policies, generally by owning more than 50% of voting rights. Investments in subsidiaries are recognised at acquisition cost less any provision for impairment. The Company assesses investments for impairment whenever events or changes in circumstances indicate that the carrying value of an investment may not be recoverable. If any such indication of impairment exists, the Company makes an estimate of its recoverable amount. Where the carrying amount of an investment exceeds its recoverable amount, the investment is considered impaired and is written down to its recoverable amount. If in subsequent periods the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the profit and loss account, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

Financial statements

Notes to the parent company financial statement continued

For the year ended 31 December 2012

2 Significant accounting policies (continued)

(h) Dividends receivable

Dividends are recognised when the Company's right to receive payments is established. Dividends received are recorded in the income statement.

(i) Other receivables

Current receivables are carried at the original amount less provision made for impairment of these receivables. A provision for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivable. The amount of the provision is the difference between the original carrying amount and the recoverable amount and this difference is recognised in the income statement.

(j) Cash and cash equivalents

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

(k) Share capital

Ordinary shares 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.

(l) Provisions

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

(m) Share-based payments

Cash-settled transactions

The fair value of cash-settled share plans is recognised as a liability over the vesting period of the awards. Movements in that liability between accounting dates are recognised as an expense. The fair value of the awards is taken to be the market value of the shares at the date of award, adjusted by a factor for anticipated relative Total Shareholder Return (TSR) performance. Fair values are subsequently remeasured at each accounting date to reflect the number of awards expected to vest based on the current and anticipated TSR performance.

Uncertainties in estimating the award include potential changes in the TSR, the number of participants in the plan, and levels of interest rates.

Where the Company is remunerating employees of its subsidiaries through a share-based payment, the costs of the transactions are recorded as capital contributions in the subsidiaries.

Equity-settled transactions

The cost of equity-settled transactions is recognised, together with a corresponding increase in other reserves in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that vest.

The income statement expense for a period represents the movement in cumulative expense recognised as at the beginning and end of that period and is recognised in personnel expenses. During 2011, the Company approved an equity-settled scheme for its CEO.

2 Significant accounting policies (continued)

(n) Finance income and costs

Finance income and costs mainly comprise interest income on funds invested, interest expense on borrowings, foreign exchange gains and losses, gains and losses from the change in fair value of derivative instruments and gains and losses on the disposal of available-for-sale investments. Interest income and costs are recognised as they accrue, taking into account the effective yield on the asset and liability respectively.

(o) Income tax

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

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted at the statement of financial position date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes:

- where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(p) Financial instruments

Financial assets and liabilities are recognised when the Company becomes party to the contracts that give rise to them and are classified as loans or borrowings, receivables, payables, financial instruments at fair value through profit and loss or as available-for-sale financial assets, as appropriate. The Company determines the classification of its financial assets and liabilities at initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year end. When financial assets and liabilities are recognised initially, they are measured at fair value, being the transaction price plus, in the case of financial assets, not at fair value through profit or loss and borrowings, directly attributable transaction costs. The Company considers whether a contract contains an embedded derivative when the entity first becomes a party to it. The embedded derivatives are separated from the host contract if it is not measured at fair value through profit or loss and when the economic characteristics and risks are not closely related to those of the host contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

All regular way purchases and sales of financial assets are recognised on the trade date, being the date that the Company commits to purchase or sell the asset. Regular way transactions require delivery and receipt of assets within the timeframe generally established by regulation or convention in the marketplace.

A detailed description of this policy is included in the Group's financial statements (note 2(v)).

(q) Dividends distribution

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

(r) Convertible bond

The relevant standards within the accounting framework governing the treatment of this transaction are:

(a) IAS 32 – Financial Instruments: Presentation and (b) IAS 39 – Financial Instruments: Recognition and Measurement.

Financial statements

Notes to the parent company financial statement continued

For the year ended 31 December 2012

2 Significant accounting policies (continued)

The convertible bond is a compound financial instrument that includes a financial liability and an equity instrument

At initial recognition the Company determines the fair value of the liability component and the equity component as a residual amount that is never remeasured after initial recognition

Derecognition of the convertible bond issued by the Company will be done when the debt is cancelled

3 Profit and loss account

The Company made a loss attributable to equity shareholders of US\$17 348 000 (2011: loss of US\$18 930 000)

4 Property, plant and equipment

	Office building US\$000	Equipment US\$000	Total US\$000
Year ended 31 December 2011			
Cost			
At 1 January 2011 and 31 December 2011	277	267	544
Accumulated depreciation			
At 1 January 2011	74	247	321
Depreciation	28	19	47
At 31 December 2011	102	266	368
Net book value at 31 December 2011	175	1	176
Year ended 31 December 2012			
Cost			
At 1 January 2012 and 31 December 2012	277	267	544
Accumulated depreciation			
At 1 January 2012	102	266	368
Depreciation	28	1	29
At 31 December 2012	130	267	397
Net book value at 31 December 2012	147	-	147

5 Investments in subsidiaries

	Total US\$000
Year ended 31 December 2011	
Cost	
At 1 January 2011	2 319 649
At 31 December 2011	2 319 649
Accumulated impairment	
At 1 January 2011	-
At 31 December 2011	-
Net book value at 31 December 2011	2 319 649
Year ended 31 December 2012	
Cost	
At 1 January 2012	2 319 649
At 31 December 2012	2 319 649
Accumulated impairment	
At 1 January 2012	-
At 31 December 2012	-
Net book value at 31 December 2012	2,319,649

5 Investments in subsidiaries (continued)

The breakdown of the investments in subsidiaries is as follows

Name	As at 31 December 2012			As at 31 December 2011		
	Country of incorporation	Equity interest %	Carrying value US\$000	Country of incorporation	Equity interest %	Carrying value US\$000
Hochschild Mining Holdings Limited	England & Wales	100%	2,319,649	England & Wales	100%	2,319,649
Total			2,319,649			2,319,649

The list of subsidiaries of the Group is presented in note 1 (Corporate information) of the notes to the consolidated financial statements

6 Other receivables

	Year ended 31 December	
	2012 US\$000	2011 US\$000
Amounts receivable from subsidiaries (note 12)	13,792	3,479
Prepayments	70	324
Receivable from Kaupthing Singer and Friedlander	330	421
Other debtors	133	100
	14,325	4,324
Provision for impairment ¹	(330)	(421)
Total	13,995	3,903

The fair values of other receivables approximate their book values

1 Corresponds to the balance of the impairment of cash deposits with Kaupthing Singer and Friedlander of US\$330,000 accrued in 2008 and partially recovered in 2012 (2011: US\$421,000)

Movements in the provision for impairment of receivables

	Total US\$000
At 1 January 2011	461
Amounts recovered	(40)
At 31 December 2011	421
Amounts recovered	(91)
At 31 December 2012	330

As at 31 December the ageing analysis of other receivables is as follows

Year	Past due but not impaired						Total US\$000
	Total US\$000	Neither past due nor impaired US\$000	Less than 30 days US\$000	30 to 60 days US\$000	61 to 90 days US\$000	91 to 120 days US\$000	
2012	13,995	13,995	–	–	–	–	–
2011	3,903	3,903	–	–	–	–	–

Financial statements

Notes to the parent company financial statement continued

For the year ended 31 December 2012

7 Cash and cash equivalents

	Year ended 31 December	
	2012 US\$000	2011 US\$000
Bank current account ¹	588	850
Time deposits ²	2,878	821
Cash and cash equivalents considered for the cash flow statement	3,466	1,671

¹ Relates to bank accounts which are freely available and bear interest.² These deposits have an average maturity of 1 day (2011: 3 days)**8 Equity****(a) Share capital and share premium***Issued share capital*

The issued share capital of the Company as at 31 December 2012 and 2011 is as follows

Class of shares	Issued	
	Number	Amount
Ordinary shares	338 085 226	£84 521 307

At 31 December 2012 and 2011 all issued shares with a par value of 25 pence (2012: weighted average of US\$0.469; 2011: weighted average of US\$0.469 per share) each were fully paid

Rights attached to ordinary shares

At general meetings of the Company on a show of hands and on a poll every member who is present in person or subject to the below by proxy has one vote for every share of which they are the holder/proxy. However in the case of a vote on a show of hands where a proxy has been appointed by more than one member the proxy has one vote for and one vote against if the proxy has been instructed by one or more members to vote for the resolution and by one or more members to vote against the resolution.

(b) Treasury shares

Treasury shares represent the cost of Hochschild Mining plc shares purchased in the market and held by the trustee of the Hochschild Mining Employee Share Trust to satisfy the award of conditional shares under the Company's Enhanced Long Term Incentive Plan granted to the CEO (note 2(m)). During 2011 the Company purchased 126 769 shares for the purposes of the plan for a total consideration of £561 477.91 (equivalent to \$898 000). No shares were purchased by the Company in 2012.

(c) Other reserves*Merger reserve*

The merger reserve represents the difference between the fair value of the net assets of the Cayman Holding Companies acquired under the Share Exchange Agreement and the nominal value of the shares issued in consideration of such acquisition.

Bond equity component

Represents the equity component of the Convertible bond issued on 20 October 2009. When the initial carrying amount of a compound financial instrument is allocated to its equity and liability components the equity component is assigned the residual amount after deducting the fair value of the instrument as a whole the amount separately determined for the liability component.

Share-based payment reserve

Is used to recognise the value of equity-settled share-based payment transactions provided to employees as a part of their remuneration.

9 Trade and other payables

	As at 31 December			
	2012		2011	
	Non-current US\$000	Current US\$000	Non-current US\$000	Current US\$000
Trade payables	-	1,710	-	28
Payables to subsidiaries (note 12)	-	222,216	-	176,619
Professional fees	-	-	-	102
Remuneration payable	-	430	-	358
Audit fees	-	-	-	403
Accrued expenses	-	-	-	138
Taxes and contributions	-	234	-	189
Total	-	224,590	-	177,837

Trade payables mainly relate to the purchase of third-party services. These payables do not accrue interest and no guarantees have been granted. The fair value of trade and other payables approximate their book values.

10 Borrowings

	As at 31 December			
	2012		2011	
	Non-current US\$000	Current US\$000	Non-current US\$000	Current US\$000
Convertible bond payable	106,850	6,613	104,506	6,613
Total	106,850	6,613	104,506	6,613

Convertible bond payable

This relates to the placement of US\$115,000,000 of senior unsecured convertible bonds due 2014, which are convertible into ordinary shares of Hochschild Mining plc. The bonds have a coupon of 5.75% per annum payable semi-annually on 28 January and 28 July of each year. The issuer has the option to call the bonds on or after 20 October 2012 and until maturity, in the event the trading price of the ordinary shares exceeds 130% of the conversion price over a certain period. In addition, the Group has the right to redeem the bonds if, at any time, the aggregate principal amount of the bonds outstanding is equal to or less than 15% of the aggregate principal amount of the bonds initially issued.

The following information has to be considered for the conversion into ordinary shares:

Conversion Price (before adjustment for the recommended 2012 Final Dividend): GBP 3.90

- Fixed Exchange Rate: US\$1.59/GBP 1.00

The balance as at 31 December 2012 is comprised of the principal of US\$115,000,000 (2011: US\$115,000,000) plus accrued interest of \$9,636,000 (2011: US\$7,292,000) net of transaction costs of US\$2,741,000 (2011: US\$2,741,000) and the bond equity component of US\$8,432,000 (2011: US\$8,432,000).

The maturity of non-current borrowings is as follows:

	As at 31 December	
	2012 US\$000	2011 US\$000
Between 1 and 2 years	106,850	679
Between 2 and 5 years	-	103,827
	106,850	104,506

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 at 31 December		Fair values As at 31 December	
	2012 US\$000	2011 US\$000	2012 US\$000	2011 US\$000
Bank loans				
Convertible bond payable	106,850	104,506	112,867	116,413
Total	106,850	104,506	112,867	116,413

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Notes to the parent company financial statement continued

For the year ended 31 December 2012

11 Provisions

	As at 31 December	
	2012 US\$000	2011 US\$000
Beginning balance	123	44
Increase in provision	96	79
At 31 December	219	123
Less current portion	-	-
Non-current portion	219	123

1 Corresponds to the provision related to awards granted under the Long Term Incentive Plan to designated personnel of the Company. Includes the following benefits: (i) Long Term Incentive Plan granted March 2012 payable March 2015 and (ii) Long Term Incentive Plan granted April 2011 payable April 2014. Only employees who remain in the Company's employment until the vesting date will be entitled to a cash payment subject to exceptions approved by the Remuneration Committee of the Board. The provision represents the discounted values of the estimated cost of the long term employee benefit.

12 Related-party balances and transactions

(a) Related-party accounts receivable and payable

The Company had the following related-party balances and transactions during the years ended 31 December 2012 and 31 December 2011

	As at 31 December 2012		As at 31 December 2011	
	Accounts receivable US\$000	Accounts payable US\$000	Accounts receivable US\$000	Accounts payable US\$000
Subsidiaries				
Compañía Minera Ares S.A.C. ¹	122	1,218	117	2,631
0848818 BC (formerly Southwestern Resources) ²	-	-	-	3,182
Southwestern Gold Bermuda ³	-	600	-	600
1710503 Alberta Ltd. ⁴	4,632	-	-	-
Andina Minerals Chile Ltd. ⁵	5,635	-	-	-
Hochschild Mining Holdings Ltd. ⁶	3,361	220,373	3,338	170,183
Other subsidiaries	42	25	24	23
Total	13,792	222,216	3,479	176,619

1 Mainly relates to the services performed by Compañía Minera Ares S.A.C. to Hochschild Mining plc during 2012 of US\$1,258,000 (2011: US\$1,284,000).

2 Mainly relates to the purchase of 38,100,000 shares of Zincore Metals Inc. made on 10 September 2009. The amount outstanding at 31 December 2012 and 2011 was CAD\$Nil and CAD\$2,651,544 respectively equivalent to US\$ Nil and US\$2,607,263 respectively. In addition, during 2011, 0848818 BC made payments on behalf of Hochschild Mining plc amounting to US\$507,464.

3 Relates to collection of an account receivable by Hochschild Mining plc on behalf of Southwestern Gold Bermuda.

4 Relates to the payments made by Hochschild Mining plc on behalf of 1710503 Alberta Ltd. for the acquisition of Andina Minerals Inc. shares (4(a)).

5 Corresponds to a loan to Andina Minerals Chile Ltd. under the agreement regarding the acquisition of Andina Minerals Inc. shares.

6 Relates to loans receivable by and payable to Hochschild Mining Holdings Ltd. The loan payable is repayable on demand and is free of interest.

The fair values of the receivables and payables approximate their book values. Transactions between the Company and these companies are on an arm's length basis.

12 Related-party balances and transactions (continued)**(b) Compensation of key management personnel of the Company**

Key management personnel include the Directors who receive remuneration. The amount of this remuneration totals US\$1 811 894 (2011 US\$1 567 083) out of which US\$39,935 (2011 US\$39,900) relates to cash supplements in lieu of pension contributions.

	As at 31 December	
	2012 US\$000	2011 US\$000
Compensation of key management personnel (including directors)		
Short-term employee benefits	1,521	1,413
Long Term Incentive Plan	291	154
Total compensation	1,812	1 567

13 Dividends paid and proposed

	2012 US\$000	2011 US\$000
Declared and paid during the year		
Equity dividends on ordinary shares		
Final dividend for 2011 US\$0.03 (2010 US\$0.03)	10,139	10 143
Interim dividend for 2012 US\$0.03 (2011 US\$0.03)	10,139	10 143
Dividends paid	20,278	20 286
Proposed for approval by shareholders at the AGM		
Final dividend for 2012 US\$0.03 (2011 US\$0.03)	10,139	10 139

Dividends per share

The dividends declared in August 2012 were US\$10 138 718 (US\$0.03 per share). A dividend in respect of the year ending 31 December 2012 of US\$0.03 per share, amounting to a total dividend of US\$10 138 754 is to be proposed at the Annual General Meeting on 30 May 2013. These financial statements do not reflect this dividend payable.

14 Financial risk management

The Company is exposed to a variety of risks and uncertainties which may have an impact on the achievement of financial and economic objectives. These risks include strategic, operational and financial risk and are further categorised into risk areas to facilitate risk assessment.

(a) Foreign currency risk

Due to the operations of the Company, it has cash and cash equivalents and trade payables denominated in pounds sterling and Canadian dollars. Accordingly the financial results of the Company may be affected by exchange rate fluctuations. The Company does not use derivative instruments to manage its foreign currency risks. The following table demonstrates the sensitivity of financial assets and liabilities at the reporting date denominated in their respective currencies to a reasonably possible change in the US dollar exchange rate with all other variables held constant of the Company's profit before tax and the Company's equity.

Year	Increase/ decrease in US\$/other currencies rate	Effect on profit before tax US\$000	Effect on equity US\$000
2012			
Pound sterling	+/-10%	-/+566	-
Canadian dollar	+/-10%	+/-951	-
2011			
Pound sterling	+/-10%	-/+503	-

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Notes to the parent company financial statement continued

For the year ended 31 December 2012

14 Financial risk management (continued)**(b) Credit risk**

Credit risk arises from debtors' inability to meet their payment obligations to the Company as they become due (without taking into account the fair value of any guarantee or pledged assets). The Company is primarily exposed to credit risk in transactions in cash which are primarily limited to cash balances deposited in banks and accounts receivable at the statement of financial position date.

The Company evaluated and introduced additional efforts to try to mitigate credit risk exposure.

To manage credit risk associated with cash balances deposited in banks, the Company is using the following options:

- increasing banking relationships with large, established and well-capitalised institutions in order to secure access to credit and to diversify credit risk;
- investing cash (to the extent possible) with counterparties with whom the Company has debt outstanding;
- investing cash in short-term, highly liquid and low risk instruments (money market accounts);
- maintaining excess cash abroad in hard currency.

Credit risk concentrations exist when changes in economic, industrial or geographic factors take place affecting in the same manner the Company's counterparties whose added risk exposure is significant to the Company's total credit exposure. Receivable balances are monitored on an ongoing basis with the result that the Company's exposure to bad debts is not significant. The maximum exposure is the carrying amount as disclosed in note 6.

(c) Liquidity risk

Liquidity risk arises from the Company's inability to obtain the funds it requires to comply with its commitments, including the inability to sell a financial asset quickly enough and at a price close to its fair value. Management constantly monitors the Company's level of short- and medium-term liquidity and their access to credit lines on reasonable terms in order to ensure appropriate financing is available for its operations.

The Company is funded by Hochschild Mining Holdings Ltd. through loans in order to meet its obligations. Liquidity is supported by the balance of cash in the Company and Hochschild Mining Holdings at 31 December 2012 of US\$3 466 000 (2011: US\$1 671 000) and US\$90 849 000 (2011: US\$526 247 000) respectively. The Company also serves as principal funding conduit for the Group's capital raising activities such as equity and debt issuances.

The table below analyses the Company's financial liabilities into relevant maturity groupings based on the remaining period to the contractual maturity date.

	Less than 1 year US\$000	Between 1 and 2 years US\$000	Between 2 and 5 years US\$000	Over 5 years US\$000	Total US\$000
At 31 December 2012					
Trade and other payables	224,356	–	–	–	224,356
Borrowings	6,613	112,129	–	–	118,742
Provisions	–	145	79	–	224
At 31 December 2011					
Trade and other payables	177 648	–	–	–	177 648
Borrowings	6 613	6 613	112 129	–	125 355
Provisions	–	97	29	–	126

14 Financial risk management (continued)**(d) Interest rate risk**

The Company has financial assets which are exposed to interest rate risk. Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). The Company does not have a formal policy of determining how much of its exposure should be at fixed or at variable rates. However, at the time of taking new loans or borrowings management uses its judgement to decide whether it believes that a fixed or variable rate borrowing would be more favourable to the Company over the expected period until maturity. It is important to note that currently all existing financial obligations are either at fixed rates or have been fixed with the use of derivatives.

As at 31 December 2012					
	Within 1 year US\$000	Between 1 and 2 years US\$000	Between 2 and 5 years US\$000	Over 5 years US\$000	Total US\$000
Fixed rate					
Bank current account (note 7)	588	–	–	–	588
Time deposits (note 7)	2,878	–	–	–	2,878
Convertible bond payable (note 10)	(6,613)	(106,850)	–	–	(113,463)

As at 31 December 2011					
	Within 1 year US\$000	Between 1 and 2 years US\$000	Between 2 and 5 years US\$000	Over 5 years US\$000	Total US\$000
Fixed rate					
Bank current account (note 7)	850	–	–	–	850
Time deposits (note 7)	821	–	–	–	821
Convertible bond payable (note 10)	(6,613)	(679)	(103,827)	–	(111,119)

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

The table below demonstrates the sensitivity to a reasonably possible change in the interest rate, with all other variables held constant, of the financial instruments with a floating rate. This assumes that the amount remains unchanged from that in place at 31 December 2012 and 2011 and that the change in interest rates is effective from the beginning of the year. In reality, the floating rate will fluctuate over the year and interest rates will change accordingly.

Year	Increase/ decrease in interest rate	Effect on profit before tax US\$000
2012	+/-50bps	–
2011	+/-50bps	–

(e) Capital risk management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. Management considers as part of its capital the financial sources of funding from shareholders and third-parties. In order to ensure an appropriate return for shareholders, capital invested in the Company management monitors capital thoroughly and evaluates all material projects and potential acquisitions before submission to the Board for ultimate approval where applicable.

Further information

Profit by operation¹

(Segment report reconciliation) as at 31 December 2012

Company (US\$000)	Ares	Arcata	Pallancata	San Jose	Moris	Consolidation adjustment and others	Total/HOC
Revenue	57 580	175 802	257 725	310 384	15 931	530	817 952
Cost of sales (Pre consolidation)	(48 846)	(91 401)	(121 863)	(149 912)	(8 234)	(69)	(420 325)
Consolidation adjustment	674	2 459	(2 878)	(186)	–	(69)	–
Cost of sales (Post consolidation)	(49 520)	(93 860)	(118 985)	(149 726)	(8 234)	–	(420 325)
Production cost excluding depreciation	(47 191)	(65 522)	(72 101)	(106 621)	(7 811)	(2 230)	(301 476)
Depreciation in production cost	(3 744)	(25 129)	(40 298)	(51 978)	(7)	–	(121 156)
Other items	(4 024)	(6 691)	(4 686)	–	–	–	(15 401)
Change in inventories	5 439	3 482	(1 900)	8 873	(416)	2 230	17 708
Gross profit	8 734	84 401	135 862	160 472	7 697	461	397,627
Administrative expenses	–	–	–	–	–	(72 995)	(72 995)
Exploration expenses	–	–	–	–	–	(64 612)	(64 612)
Selling expenses	(99)	(2 381)	(3 557)	(33 457)	–	34	(39 460)
Other income/expenses	–	–	–	–	–	307	307
Operating profit before impairment	8 635	82 020	132 305	127,015	7 697	(136 805)	220,867
Impairment of assets	–	–	–	–	–	(245)	(245)
Investments under equity method	–	–	–	–	–	5 080	5 080
Finance income	–	–	–	–	–	1 988	1 988
Finance costs	–	–	–	–	–	(14 204)	(14 204)
FX loss	–	–	–	–	–	(1,212)	(1,212)
Profit/(loss) from continuing operations before income tax	8 635	82,020	132 305	127,015	7 697	(145 398)	212 274
Income tax	–	–	–	–	–	(85 408)	(85 408)
Profit/(loss) for the year from continuing operations	8 635	82 020	132 305	127 015	7 697	(230 806)	126 866

¹ On a post exceptional basis

Further information

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 176 to 180 were prepared by or under the supervision of Competent Persons (as defined in the JORC Code). Competent Persons are required to have sufficient relevant experience and understanding of the style of mineralisation, types of deposits and mining methods in the area of activity for which they are qualified as a Competent Person under the JORC Code. The Competent Person must sign off their respective estimates of the original mineral resource and ore reserve statements for the various operations and consent to the inclusion of that information in this report, as well as the form and context in which it appears.

Hochschild Mining plc employs its own Competent Person who has audited all the estimates set out in this report. Hochschild Mining Group companies are subject to a comprehensive programme of audits which aim to provide assurance in respect of ore reserve and mineral resource estimates. These audits are conducted by Competent Persons provided by independent consultants. The frequency and depth of an audit depends on the risks and/or uncertainties associated with that particular ore reserve and mineral resource, the overall value thereof and the time that has lapsed since the previous independent third-party audit.

The JORC Code requires the use of reasonable economic assumptions. These include long-term commodity price forecasts (which, in the Group's case, are prepared by ex-house specialists largely using estimates of future supply and demand and long-term economic outlooks).

Ore reserve estimates are dynamic and are influenced by changing economic conditions, technical issues, environmental regulations and any other relevant new information and therefore these can vary from year to year. Mineral resource estimates can also change and tend to be influenced mostly by new information pertaining to the understanding of the deposit and secondly the conversion to ore reserves.

The estimates of ore reserves and mineral resources are shown as at 31 December 2012, unless otherwise stated. Mineral resources that are reported include those mineral resources that have been modified to produce ore reserves. All tonnage and grade information has been rounded to reflect the relative uncertainty in the estimates; there may therefore be small differences. The prices used for the reserves calculation were: Au Price: US\$1,200 per ounce and Ag Price: US\$20 per ounce.

Further information

Reserves and resources continued

Attributable metal reserves as at 31 December 2012

Reserve category	Proved and probable (t)	Ag (g/t)	Au (g/t)	Ag (moz)	Au (koz)	Ag Eq (moz)
MAIN OPERATIONS¹						
Arcata						
Proved	885 968	304	10	8.7	27.5	10.3
Probable	1 368 615	294	0.9	12.9	39.7	15.3
Total	2 254 583	298	0.9	21.6	67.2	25.6
Pallancata						
Proved	1 332 846	276	13	11.8	56.3	15.2
Probable	631 282	269	13	5.5	25.6	7.0
Total	1,964 128	273	13	17.3	81.9	22.2
San Jose						
Proved	423 482	470	6.7	6.4	91.6	11.9
Probable	480,408	471	6.2	7.3	95.5	13.0
Total	903 890	470	6.4	13.7	187.2	24.9
Main operations total						
Proved	2,642,296	316	2.1	26.9	175.5	37.4
Probable	2,480,305	322	2.0	25.6	160.9	35.3
Total	5,122,601	319	2.0	52.5	336.4	72.7
OTHER OPERATIONS						
Ares						
Proved	200 844	127	3.1	0.8	20.0	2.0
Probable	70 992	175	1.6	0.4	3.7	0.6
Total	271 836	140	2.7	1.2	23.8	2.6
ADVANCED PROJECTS						
Inmaculada²						
Proved	2 304 000	106	3.4	7.9	254.8	23.2
Probable	2 376 000	134	3.3	10.2	254.7	25.5
Total	4 680 000	120	3.4	18.1	509.5	48.7
Group total						
Proved	5,147,140	215	2.7	35.6	450.3	62.6
Probable	4,927,297	229	2.6	36.3	419.3	61.4
TOTAL	10,074,437	222	2.7	71.8	869.6	124.0

Note: Where reserves are attributable to a joint venture partner, reserve figures reflect the Company's ownership only. Includes discounts for ore loss and dilution.

1. Main operations were audited by P&E Consulting.

2. Inmaculada reserves as published in the Feasibility Study released on 11 January 2012. Prices used for reserves calculation: Au \$1 100/oz and Ag \$18/oz.

Attributable metal resources as at 31 December 2012

Resource category	Tonnes (t)	Ag (g/t)	Au (g/t)	Zn (%)	Pb (%)	Cu (%)	Ag Eq (g/t)	Ag (moz)	Au (koz)	Ag Eq (moz)	Zn (kt)	Pb (kt)	Cu (kt)
MAIN OPERATIONS													
Arcata													
Measured	1 299 637	464	1 45	-	-	-	551	19 4	60 7	23 0	-	-	-
Indicated	1 658 155	407	1 25	-	-	-	483	21 7	66 8	25 8	-	-	-
Total	2 957 792	432	1 34	-	-	-	513	41 1	127 6	48 8	-	-	-
Inferred	4 239 373	342	1 35	-	-	-	423	46 6	183 8	57 6	-	-	-
Pallancata													
Measured	1 984 973	358	1 69	-	-	-	459	22 8	107 6	29 3	-	-	-
Indicated	715 484	338	1 58	-	-	-	433	7 8	36 4	10 0	-	-	-
Total	2 700 457	352	1 66	-	-	-	452	30 6	144 0	39 2	-	-	-
Inferred	2 000 762	338	1 41	-	-	-	422	21 7	90 7	27 2	-	-	-
San Jose													
Measured	657 578	559	8 15	-	-	-	1 049	11 8	172 4	22 2	-	-	-
Indicated	1 579 868	453	6 56	-	-	-	847	23 0	333 3	43 0	-	-	-
Total	2 237 446	484	7 03	-	-	-	906	34 8	505 8	65 2	-	-	-
Inferred	1 070 352	476	7 37	-	-	-	918	16 4	253 5	31 6	-	-	-
Main operations total													
Measured	3,942,188	426	2 69	-	-	-	588	54 0	340 7	74.5	-	-	-
Indicated	3,953,507	413	3 44	-	-	-	619	52 5	436 6	78 7	-	-	-
Total	7,895,695	420	3 06	-	-	-	603	106 5	777 3	153 2	-	-	-
Inferred	7,310,487	360	2 25	-	-	-	495	84 7	528 0	116 4	-	-	-
OTHER OPERATIONS													
Ares													
Measured	522 495	173	5 85	-	-	-	524	2 9	98 3	8 8	-	-	-
Indicated	174 308	191	2 92	-	-	-	367	1 1	16 4	2 1	-	-	-
Total	696 803	177	5 12	-	-	-	484	4 0	114 6	10 8	-	-	-
Inferred	381 185	170	3 93	-	-	-	405	2 1	48 1	5 0	-	-	-
Other operations total													
Measured	522,495	173	5 85	-	-	-	524	2.9	98.3	8 8	-	-	-
Indicated	174,308	191	2 92	-	-	-	367	1.1	16.4	2.1	-	-	-
Total	696,803	177	5 12	-	-	-	484	4.0	114 6	10.8	-	-	-
Inferred	381,185	170	3 93	-	-	-	405	2 1	48 1	5.0	-	-	-
ADVANCED PROJECTS													
Inmaculada¹													
Measured	1,970,058	128	4 10	-	-	-	374	8 1	259 7	23 7	-	-	-
Indicated	2 269 691	159	4 05	-	-	-	402	11 6	295 4	29 3	-	-	-
Total	4,239 749	144	4 07	-	-	-	389	19 7	555 0	53 0	-	-	-
Inferred	2 962 666	152	3 91	-	-	-	387	14 5	372 0	36 8	-	-	-

¹ Inmaculada resources as published in the Feasibility Study released on 11 January 2012. Prices used for resources calculation: Au \$1 100/oz and Ag \$18/oz

Further information

Reserves and resources continued

Attributable metal resources as at 31 December 2012 (continued)

Resource category	Tonnes (t)	Ag (g/t)	Au (g/t)	Zn (%)	Pb (%)	Cu (%)	Ag Eq (g/t)	Ag (moz)	Au (koz)	Ag Eq (moz)	Zn (kt)	Pb (kt)	Cu (kt)
ADVANCED PROJECTS CONTINUED													
Crespo²													
Measured	5 211 058	47	0.47	–	–	–	75	79	78.6	12.6	–	–	–
Indicated	17 298 228	38	0.40	–	–	–	62	21.0	222.5	34.3	–	–	–
Total	22 509 286	40	0.42	–	–	–	65	28.8	301.0	46.9	–	–	–
Inferred	775 429	46	0.57	–	–	–	80	1.1	14.2	2.0	–	–	–
Azuca													
Measured	190,602	244	0.77	–	–	–	290	15	4.7	1.8	–	–	–
Indicated	6 858 594	187	0.77	–	–	–	233	41.2	168.8	51.3	–	–	–
Total	7 049 197	188	0.77	–	–	–	234	42.7	173.5	53.1	–	–	–
Inferred	6 946 341	170	0.89	–	–	–	223	37.9	199.5	49.9	–	–	–
Volcan³													
Measured	105 918 000	–	0.738	–	–	–	44	–	2 511.0	150.7	–	–	–
Indicated	283 763 000	–	0.698	–	–	–	42	–	6 367.0	382.0	–	–	–
Total	389 681 000	–	0.709	–	–	–	43	–	8 878.0	532.7	–	–	–
Inferred	41 553 000	–	0.502	–	–	–	30	–	671.0	40.3	–	–	–
Advanced Projects total													
Measured	113,289,719	5	0.78	–	–	–	52	17.5	2,853.9	188.7	–	–	–
Indicated	310,189,513	7	0.71	–	–	–	50	73.7	7,053.7	496.9	–	–	–
Total	423,479,232	7	0.73	–	–	–	50	91.2	9,907.6	685.7	–	–	–
Inferred	52,237,436	32	0.75	–	–	–	77	53.6	1,256.7	129.0	–	–	–
OTHER PROJECTS													
Jasperoide⁴													
Measured	–	–	–	–	–	–	–	–	–	–	–	–	–
Indicated	–	–	–	–	–	–	–	–	–	–	–	–	–
Total	–	–	–	–	–	–	–	–	–	–	–	–	–
Inferred	12 187 270	–	0.32	–	–	1.32	147	–	126.8	57.6	–	–	161.2
San Felipe													
Measured	1 393 716	69	0.02	7.12	3.10	0.39	315	3.1	0.9	14.1	99.3	43.1	5.5
Indicated	1 354 261	82	0.06	6.14	2.73	0.31	295	3.6	2.4	12.9	83.2	37.0	4.2
Total	2 747 977	76	0.04	6.64	2.92	0.35	305	6.7	3.3	27.0	182.4	80.1	9.7
Inferred	1 257 731	84	0.05	6.18	2.26	0.19	283	3.4	1.9	11.5	77.8	28.5	2.3
Other projects total													
Measured	1,393,716	69	0.02	7.12	3.10	0.39	315	3.1	0.9	14.1	99.3	43.1	5.5
Indicated	1,354,261	82	0.06	6.14	2.73	0.31	295	3.6	2.4	12.9	83.2	37.0	4.2
Total	2,747,977	76	0.04	6.64	2.92	0.35	305	6.7	3.3	27.0	182.4	80.1	9.7
Inferred	13,445,001	8	0.30	0.58	0.21	1.22	160	3.4	128.6	69.0	77.8	28.5	163.6
GRAND TOTAL													
Measured	119,148,118	20	0.86	0.08	0.04	0.00	75	77.5	3,293.8	286.1	99.3	43.1	5.5
Indicated	315,671,590	13	0.74	0.03	0.01	0.00	58	130.9	7,509.1	590.6	83.2	37.0	4.2
Total	434,819,708	15	0.77	0.04	0.02	0.00	63	208.4	10,802.9	876.7	182.4	80.1	9.7
Inferred	73,374,109	61	0.83	0.11	0.04	0.22	135	143.8	1,961.4	319.3	77.8	28.5	163.6

2 Prices used for resources calculation: Au \$1 300/oz and Ag \$23/oz

3 Resources reported in the NI 43-101 Technical Report published by Andina Minerals January 2011. Price used for resources calculation: Au \$950/oz

4 The silver equivalent grade (147 g/t Ag Eq) has been calculated applying the following ratios: Cu/Ag=96.38 and Au/Ag=60

Change in total reserves and resources

Ag equivalent content (million ounces)	Category	December 2011	Production ¹	Movements ²	December 2012	Net difference	% change
Arcata	Resource	112.3	–	(5.9)	106.4	(5.9)	(5.3)
	Reserve	29.3	8.0	4.3	25.6	(3.7)	(12.6)
Pallancata	Resource	116.0	–	(5.3)	110.7	(5.3)	(4.6)
	Reserve	41.0	11.3	7.3	37.0	(4.0)	(9.8)
San Jose	Resource	172.1	–	17.6	189.7	17.6	10.2
	Reserve	42.9	13.2	19.1	48.8	5.9	13.8
Main operations total	Resource	400.4	–	6.4	406.8	6.4	1.6
	Reserve	113.2	32.4	30.6	111.4	(1.8)	(1.6)
Ares	Resource	14.3	–	1.5	15.8	1.5	10.2
	Reserve	2.4	2.4	2.7	2.6	0.2	10.4
Other operations total	Resource	14.3	–	1.5	15.8	1.5	10.2
	Reserve	2.4	2.4	2.7	2.6	0.2	10.4
Inmaculada	Resource	149.7	–	–	149.7	–	–
	Reserve	–	–	81.1	81.1	81.1	–
				(9.4)	48.9	(9.4)	(16.1)
Crespo	Resource	58.3	–	–	–	–	–
	Reserve	–	–	–	–	–	–
Azuca	Resource	103.0	–	–	103.0	–	–
	Reserve	–	–	–	–	–	–
Volcan	Resource	–	–	572.9	572.9	572.9	–
	Reserve	–	–	–	–	–	–
Advanced Projects total	Resource	310.9	–	563.5	874.5	563.5	181.2
	Reserve	–	–	81.1	81.1	81.1	–
Jasperoide	Resource	57.6	–	–	57.6	–	–
	Reserve	–	–	–	–	–	–
San Felipe	Resource	38.5	–	–	38.5	–	–
	Reserve	–	–	–	–	–	–
Other projects total	Resource	96.0	–	–	96.0	–	–
	Reserve	–	–	–	–	–	–
TOTAL	Resource	821.7	–	571.4	1,393.1	571.4	69.5
	Reserve	115.6	34.9	114.4	195.1	79.5	68.8

1. Depletion: reduction in reserves based on ore delivered to the mine plant

2. Variation in reserves and resources due mainly to mine site exploration but also to price changes

Further information

Reserves and resources continued

Change in attributable reserves and resources

Ag equivalent content (million ounces)	Category	Percentage attributable December 2012	December 2011 Att. ¹	December 2012 Att. ¹	Net difference	% change
Arcata	Resource	100%	112.3	106.4	(5.9)	(5.3)
	Reserve		29.3	25.6	(3.7)	(12.6)
Pallancata	Resource	60%	69.6	66.4	(3.2)	(4.6)
	Reserve		24.6	22.2	(2.4)	(9.8)
San Jose	Resource	51%	87.8	96.8	9.0	10.2
	Reserve		21.9	24.9	3.0	13.8
Main operations total	Resource		269.7	269.5	(0.1)	(0.0)
	Reserve		75.8	72.7	(3.1)	(4.1)
Ares	Resource	100%	14.3	15.8	1.5	10.2
	Reserve		2.4	2.6	0.2	10.4
Other operations total	Resource		14.3	15.8	1.5	10.2
	Reserve		2.4	2.6	0.2	10.4
Inmaculada	Resource	60%	89.8	89.8	–	–
	Reserve		–	48.7	48.7	–
Crespo	Resource	100%	58.3	48.9	(9.4)	(16.1)
	Reserve		–	–	–	–
Azuca	Resource	100%	103.0	103.0	–	–
	Reserve		–	–	–	–
Volcan	Resource	100%	–	572.9	572.9	–
	Reserve		–	–	–	–
Advanced Projects total	Resource		251.1	814.6	563.5	224.4
	Reserve		–	48.7	48.7	–
Jasperoide	Resource	100%	57.6	57.6	–	–
	Reserve		–	–	–	–
San Felipe	Resource	100%	38.5	38.5	–	–
	Reserve		–	–	–	–
Other projects total	Resource		96.0	96.0	–	–
	Reserve		–	–	–	–
TOTAL	Resource		631.1	1,196.0	564.9	89.5
	Reserve		78.2	124.0	45.8	6.3

¹ Attributable reserves and resources based on the Group's percentage ownership of its joint venture projects

Further information

Production

2012 Total Group production¹

	Year ended 31 December 2012	Year ended 31 December 2011	% change
Silver production (koz)	19,443	21 363	(9)
Gold production (koz)	164 34	180 51	(9)
Total silver equivalent (koz)	29,304	32 193	(9)
Total gold equivalent (koz)	488 40	536 56	(9)
Silver sold (koz)	18,928	21 792	(13)
Gold sold (koz)	159 8	182 0	(12)

¹ Total production includes 100% of all production including production attributable to joint venture partners at San Jose and Pallancata

Attributable Group production²

	Year ended 31 December 2012	Year ended 31 December 2011	% change
Silver production (koz)	13,550	14 980	(10)
Gold production (koz)	111.82	127 29	(12)
Attributable silver equivalent (koz)	20,260	22 617	(10)
Attributable gold equivalent (koz)	337 7	377 0	(10)

² Attributable production includes 100% of all production from Arcata, Ares and Mons, 60% from Pallancata and 51% from San Jose

Production by mine

Arcata

	Year ended 31 December 2012	Year ended 31 December 2011	% change
Ore production (tonnes)	773,498	687 966	12
Average head grade silver (g/t)	271	312	(13)
Average head grade gold (g/t)	0 83	0 88	(6)
Silver produced (koz)	5,526	6 081	(9)
Gold produced (koz)	17 27	17 38	(1)
Silver equivalent produced (koz)	6,562	7 124	(8)
Silver sold (koz)	5,236	5 979	(12)
Gold sold (koz)	15 9	16 7	(5)

Ares

	Year ended 31 December 2012	Year ended 31 December 2011	% change
Ore production (tonnes)	336,426	344,085	(2)
Average head grade silver (g/t)	54	61	(11)
Average head grade gold (g/t)	2 65	2 90	(9)
Silver produced (koz)	481	581	(17)
Gold produced (koz)	26 28	29 03	(9)
Silver equivalent produced (koz)	2,058	2 323	(11)
Silver sold (koz)	473	598	(21)
Gold sold (koz)	25 8	29 7	(13)

Further information

Production continued

Pallancata¹

	Year ended 31 December 2012	Year ended 31 December 2011	% change
Ore production (tonnes)	1,094,250	1 070 466	2
Average head grade silver (g/t)	256	301	(15)
Average head grade gold (g/t)	1.09	1.33	(18)
Silver produced (koz)	7,441	8 767	(15)
Gold produced (koz)	26.23	33.88	(23)
Silver equivalent produced (koz)	9,014	10 800	(17)
Silver sold (koz)	7,280	9 064	(20)
Gold sold (koz)	25.1	33.9	(26)

¹ The Company has a 60% interest in Pallancata

San Jose²

	Year ended 31 December 2012	Year ended 31 December 2011	% change
Ore production (tonnes)	509,851	462 825	10
Average head grade silver (g/t)	417	444	(6)
Average head grade gold (g/t)	5.79	5.86	(1)
Silver produced (koz)	5,953	5 870	1
Gold produced (koz)	85.77	80.95	6
Silver equivalent produced (koz)	11,099	10 727	3
Silver sold (koz)	5,897	6 087	(3)
Gold sold (koz)	84.3	92.4	2

² The Company has a 51% interest in San Jose

Moris

	Year ended 31 December 2012	Year ended 31 December 2011	% change
Ore production (tonnes)	–	858 028	–
Average head grade silver (g/t)	–	5.02	–
Average head grade gold (g/t)	–	0.96	–
Silver produced (koz)	42	64	(34)
Gold produced (koz)	8.79	19.26	(54)
Silver equivalent produced (koz)	570	1 220	(53)
Silver sold (koz)	42	64	(34)
Gold sold (koz)	8.7	19.3	(55)

Further information

Glossary

Ag

Silver

Adjusted EBITDA

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

Attributable after tax profit

Profit for the year before dividends attributable to the equity shareholders of Hochschild Mining plc from continuing operations before exceptional items and after minority interest

Au

Gold

Average head grade

Average ore grade fed into the mill

Board

The Board of Directors of the Company

CAD\$

Canadian dollar

Company

Hochschild Mining plc

CSR

Corporate social responsibility

Cu

Copper

Directors

The Directors of the Company

DNV

Det Norske Veritas is an independent foundation with the purpose of safeguarding life property and the environment

Dore

Dore bullion is an impure alloy of gold and silver and is generally the final product of mining and processing the dore bullion will be transported to be refined to high purity metal

Dollar or \$

United States dollars

Effective Tax Rate

Income tax expense as a percentage of profit from continuing operations before income tax

EPS

The per-share (using the weighted average number of shares outstanding for the period) profit available to equity shareholders of the Company from continuing operations after exceptional items

eq

equivalent

Exceptional item

Events that are significant and which due to their nature or the expected infrequency of the events giving rise to them need to be disclosed separately

g/t

Grammes per tonne

GAAP

Generally Accepted Accounting Principles

Group

Hochschild Mining plc and subsidiary undertakings

IAS

International Accounting Standards

IASB

International Accounting Standards Board

IFRS

International Financial Reporting Standards

JV

Joint venture

koz

Thousand ounces

kt

Thousand tonnes

ktpa

Thousand tonnes per annum

Listing or IPO (Initial Public Offering) or Global Offer

The listing of the Company's ordinary shares on the London Stock Exchange on 8 November 2006

LTI

Lost Time Injury meaning an occupational injury or illness that results in days away from work

LTIFR

Lost Time Injury Frequency Rate = $LTI \times 1\,000\,000 / \text{hours worked}$

moz

Million ounces

Ordinary shares

Ordinary shares of 25 pence each in the Company

Pb

Lead

Spot or spot price

The purchase price of a commodity at the current price normally this is at a discount to the long-term contract price

t

tonne

tpa

tonnes per annum

tpd

tonnes per day

Zn

Zinc

Shareholder information

Annual General Meeting ('AGM')

The AGM will be held at 9.30am on 30 May 2013 at the offices of Linklaters LLP, One Silk Street London EC2Y 8HQ

Company website

Hochschild Mining plc Interim and Annual Reports and results announcements are available via the internet on our website at www.hochschildmining.com. Shareholders can also access the latest information about the Company and press announcements as they are released together with details of future events and how to obtain further information.

Registrars

The Registrars can be contacted as follows for information about the AGM, shareholdings, dividends and to report changes in personal details:

By post

Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU

By telephone

If calling from the UK: 0871 664 0300 (Calls cost 10p per minute plus network extras, lines are open 8.30am – 5.30pm Mon to Fri)

If calling from overseas: +44 20 8639 3399

By fax

+44 (0)1484 600 911

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 15 May 2013.

The Company's Registrars can also arrange for the dividend to be paid directly into a shareholder's UK bank account. To take advantage of this facility, a dividend mandate form also available from the Company's Registrars should be completed and returned to the registrars by 15 May 2013. 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 our Investor Relations team by writing to the London Office address (see below) by phone on 020 7907 2933 or via the website by visiting the 'Contact Us' section.

Financial calendar

Ex-dividend date	8 May 2013
Record date	10 May 2013
Deadline for return of currency election form	15 May 2013
Final dividend payable	4 June 2013
Half-yearly results announced	August 2013

London Office and Registered Office address

46 Albemarle Street
London
W1S 4JL
United Kingdom

Company Secretary

R D Bhasin

Advice to shareholders concerning Boiler Room Scams

In recent years many companies have become aware that their shareholders have received unsolicited phone calls or correspondence concerning investment matters. These are typically from overseas based brokers who target UK shareholders, offering to sell them what often turn out to be worthless or high risk shares in US or UK investments. These operations are commonly known as 'boiler rooms'. These brokers can be very persistent and extremely persuasive, and a 2006 survey by the Financial Services Authority (FSA) has reported that the average amount lost by investors is around £20,000.

It is not just the novice investor that has been duped in this way; many of the victims had been successfully investing for several years. Shareholders are advised to be very wary of any unsolicited advice, offers to buy shares at a discount or offers of free company reports. If you receive any unsolicited investment advice:

- Make sure you get the correct name of the person and organisation
- Check that they are properly authorised by the FSA before getting involved by visiting www.fsa.gov.uk/register/home.do and contacting the firm using the details on the register
- Report the matter to the FSA either by calling 0845 606 1234 or by visiting www.moneyadviceservice.org.uk
- If the calls persist, hang up

If you deal with an unauthorised firm, you will not be eligible to receive payment under the Financial Services Compensation Scheme. The FSA can be contacted by completing an online form at www.fsa.gov.uk/pages/doing/regulated/law/alerts/overseas.shtml

Details of any share dealing facilities that the Company endorses will be included in Company mailings.

More detailed information on this or similar activity can be found on the Money Advice Services website at www.moneyadviceservice.org.uk

FORWARD-LOOKING STATEMENTS

The constituent parts of this Annual Report, including those that make up the Directors Report, contain certain forward-looking statements, including such statements within the meaning of Section 27A of the US Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. In particular, such forward-looking statements may relate to matters such as the business strategy, investments, production, major projects and their contribution to expected production and other plans of Hochschild Mining plc and its current goals, assumptions and expectations relating to its future financial condition, performance and results.

Forward looking statements include, without limitation, statements typically containing words such as "intends", "expects", "anticipates", "targets", "plans", "estimates" and words of similar import. By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that will or may occur in the future. Actual results, performance or achievements of Hochschild Mining plc may be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Factors that could cause or contribute to differences between the actual results, performance or achievements of Hochschild Mining plc and current expectations include, but are not limited to, legislative, fiscal and regulatory developments, competitive conditions, technological developments, exchange rate fluctuations and general economic conditions. These factors, risks and uncertainties are further discussed elsewhere in this Annual Report in the section entitled Risk Management. 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 construed as a profit forecast.

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