

Registration Number 5777693

HOCHSCHILD MINING PLC
ACHIEVING
TRANSFORMATIONAL
GROWTH

Annual Report & Accounts 2015

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OUR KEY PERFORMANCE INDICATORS

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

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ACHIEVING TRANSFORMATIONAL GROWTH

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

Our Company has over half a century's experience in the mining of precious metal vein deposits. We are headquartered in Lima, Peru and currently have four underground mines in operation, with three located in southern Peru and one in southern Argentina.

We have recently completed construction of our new Inmaculada operation in Peru, a large gold and silver

deposit which is expected to produce approximately 13 million silver equivalent ounces per year and is transforming the cost position and profitability of the Company. We also have extensive exploration optionality across premium geological locations throughout the Americas.

DISCOVER MORE ONLINE ABOUT HOW WE ARE ACHIEVING TRANSFORMATIONAL GROWTH

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

www.hochschildmining.com

WHERE WE OPERATE

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

MINING OPERATIONS¹

①	Arcata Peru	Silver equivalent production All-in sustaining costs	6.8 moz \$14.3/oz Ag Eq
②	Inmaculada Peru	Silver equivalent production All-in sustaining costs	8.3 moz \$7.3/oz Ag Eq
③	Pallancata Peru	Silver equivalent production All-in sustaining costs	4.9 moz \$15.7/oz Ag Eq
④	San Jose² Argentina	Silver equivalent production All-in sustaining costs	13.9 moz \$14.1/oz Ag Eq

GROWTH PROJECTS¹

⑤	Crespo Peru	Estimated silver equivalent production pa	2.7 moz
⑥	Volcan Chile	Estimated silver equivalent production pa	n/a
⑦	Azuca Peru	Estimated silver equivalent production pa	3.5 moz

OTHER ASSETS

Selene	Peru
Corina	Peru
Ares	Peru

¹ Silver equivalent production equals total gold production multiplied by 74 (average gold/silver ratio for 2015) and added to the total silver production

² The Company has a 51% interest in San Jose

KEY STRENGTHS

We believe the following strengths will allow the Group to successfully fulfil our strategy for delivering value creative growth

Our investment proposition

We believe that the following qualities of Hochschild Mining set us apart

OPERATIONAL & GEOLOGICAL EXPERTISE

We are a leading precious metals producer mining primarily underground epithermal deposits. We have more than 50 years of experience successfully operating precious metal mines allowing us to develop in-depth knowledge of the business environment and legislative framework in the markets where we operate. Historically the Group has been able to consistently meet its annual production

targets, increase its resource base and achieve positive results from brownfield exploration at existing mines throughout periods of significant volatility in precious metal prices as well as significantly changing political and economic environments

WORLD CLASS ASSET INMACULADA IN FULL PRODUCTION

Inmaculada is a world class gold and silver mine located in the Group's Southern Peru Cluster, an area in the Southern Andes where several of our other mining assets are also located. The presence of high grades of gold and silver in a single vein, Angela, characterised by its impressive width and favourable rock quality, allows the mine to achieve a highly competitive cost position. A state-of-the-art processing facility was completed in 2015 to treat mineral from the

deposit. Inmaculada's production will represent almost half of our 2016 attributable production. Inmaculada has more than six years of reserve life and more than 11 years of resource life-of-mine with geological conditions supporting further resource growth. Significant exploration potential in the area is expected, with other gold and silver veins already intercepted through drilling as well as other vein systems identified in the Company's concession area.

FOCUS ON EXPLORATION

The Group has continuously placed a strong emphasis on exploration as a key component of its business model to secure long-term sustainability of the core producing assets as well as finding new projects to expand its portfolio. The Group has a comprehensive brownfield exploration programme aimed at continuously extending

the lives of its mines and the quality of its resources. For example, the Company recently announced the discovery of the Pablo vein at the Pallancata mine, which has led to an expansion of the mine's mineral resources and improved the mine's operational outlook.

CONSISTENT FINANCIAL STRATEGY

The Group's financing initiatives are part of a funding strategy that underpins its business strategy. The Group has flexible financial relationships, allowing it to invest in near-term low cost growth, manage the current operations in volatile commodity markets and provide access to further liquidity should the need arise. In addition,

to better manage the Group's operations in a volatile commodity, the Group has recently utilised a focused hedging strategy to maintain cash flow stability whilst allocating project capital expenditure and paying down debt.

EXPERIENCED MANAGEMENT TEAM

The Group's management team has extensive experience in the mining industry and a proven track record of sustainable mining, developing successful projects and adding economic mineral reserves. This experience has enabled the Group to manage its

operations efficiently and to maintain profitability through volatile commodity price cycles for more than 50 years. The Group's management team has also managed joint venture operations and successfully integrated several acquisitions and business expansions.

COMMITMENT TO SUSTAINABILITY

We seek to achieve successful operations adhering to our historical commitment to safety as well as social and environmental sustainability, with operational safety being one of our core values. In addition, the Group considers its surrounding communities as its long-term business partners and commits skilled professionals as

well as financial resources to support programmes in three different categories: health, safety and sustainable development. As a result of these programmes, the Group has been able to operate collaboratively with its neighbours in the Southern Peru Cluster for more than 50 years.

OUR STRATEGY

Our Strategy

The Group's strategy is to create value for shareholders by optimising current operations, focusing on exploration and pursuing opportunistic early-stage acquisitions. This strategy is underpinned by the Group's commitment to all of its employees' safety, to manage and minimise the environmental impact of its operations and to encourage sustainability by respecting the communities surrounding the Group's operations.

OPERATIONAL EXCELLENCE

► Improve productivity	We focus on improving operational productivity reducing costs, optimising the life-of-mine and ensuring long-term sustainability at all our assets.	of attention have been designing and executing a cash flow optimisation programme, reprogramming mine production plans to ensure positive cash flow generation at each of the assets, focusing on brownfield exploration to improve the quality of the resource base and completing construction of the flagship Inmaculada mine.
► Optimise life-of-mine	Since our IPO we have achieved all of our annual production targets and have expanded the resource base both by replacing the mined resources and by consistently increasing the Group's resource life-of-mine. This has allowed us to improve its mine planning process a key step to achieving efficient and flexible operations. Since 2013, the main areas	

GROWTH THROUGH EXPLORATION

► Land package	We believe that significant value can be created by discovering economic mineral resources. We have an experienced geological team and have developed processes utilising technical models to generate geological theories which, together with extensive on-site prospecting, have allowed us to build a land package of promising geological sites across the Americas. Furthermore, we have developed disciplined and stringent internal processes to evaluate and prioritise our pipeline of projects	in order to adequately allocate financial resources based on conservative financial policies, to drill and develop exploration projects. We believe this disciplined strategy will allow us to access attractive mineral resources for the long-term sustainability of our mining business.
► People		

EARLY-STAGE ACQUISITIONS

► Early stage	Our business development team is dedicated to pursuing early-stage opportunities that demonstrate strong geological potential, value accretion and a clear path to control. We have a proven track record of identifying such opportunities, such as the 2013 acquisition of International Minerals Corporation and the 2012 acquisition of Andina Minerals Inc., which added the Volcan Growth Project to the pipeline. We believe that acquisitions will continue to be	beneficial as long as there is opportunity for discovering further resources to those already known, through applying our operational expertise and through the progression of mineral deposits into operating mines.
► Geological potential		
► Highly accretive		
► Control		

For more information please see our Sustainability report on page 16

OUR MARKET OVERVIEW

Gold summary

Gold prices continued to drift lower in 2015, albeit at a slower pace than in 2014, and performed better than most other commodities

On an annual average basis the price of gold slipped to \$1,158, down 8.5% from 2014. Strength in the US dollar, an overall negative sentiment toward commodity markets, reduced investor perceptions of the short-term risks and the overhanging threat of a US interest rate hike kept up the downward pressure on prices. On 16 December, the Fed finally announced an interest rate increase with gold prices holding up fairly well on the announcement and in subsequent weeks in large part because an interest rate hike already had been factored into the price.

Investors were net buyers of gold over the course of 2015, but their purchases declined from 2014 levels. In 2015 investors added 16.9 million ounces of gold to their holdings on a net basis, down 13.3% from 2014. Recently, shorter term investors have been

other commodities. However, throughout the downturn, a number of investors have continued to add gold to their long-term holdings, taking advantage of the lower prices and buying and holding gold as a long-term form of savings, portfolio diversifier, currency diversification and hedge against perceived global economic crises.

Central banks also remained net buyers of around 10 million ounces of gold during 2015. At the end of October, reported net purchases by central banks had reached 22 million ounces, although this number was skewed by the People's Bank of China's (PBOC) announcement in June that it had added 19 million ounces of gold to its holdings since 2009. It is estimated that the PBOC purchased around 6.2 million ounces of gold over the course of 2015. The other major buyer was the central bank of Russia, which is estimated to have purchased just over 6 million ounces last year whilst purchases by other central banks are estimated at around 2.5 million ounces. Among the sellers of gold, the biggest was the Bank of International Settlements (BIS), which is estimated to have reduced its official gold holdings by a little less than 5 million ounces during 2015.

Total gold supply, which is made up of mine production and scrap supply, fell during 2015 to 124 million ounces, down 2.4% from 2014, driven entirely by a decline in scrap supply. Mine supply meanwhile, is estimated to have continued rising during 2015, reaching a record 92 million ounces with new capacity coupled with a strong dollar helping to boost mine supply.

Gold fabrication demand rose to 97 million ounces in 2015, the highest level of gold use in jewellery, electronics and other fabricated products since 2007, when total fabrication demand was 98 million ounces. The weakness in gold prices has been an important factor driving gold fabrication demand higher.

Silver summary

Silver prices continued to decline during 2015, ending the year at \$13.80, down 12.5% from the end of 2014 and closely tracing gold's price pattern during 2015.

While there has been some investor negativity on silver, many have continued to be net buyers of historically large volumes of the metal for several years, including 2015. In particular, there has been a large increase in investors buying silver coins over the past two years, contrasting with the period between 1990 and 2005, when investors were net sellers of silver. Overall silver investment demand, however, slipped to 108 million ounces, down around 25% from 144 million ounces in 2014.

Shorter term trend-following investors stayed away from silver and other commodity markets in 2015. But longer term investors did purchase silver, especially following price declines, which should continue to provide downside support for prices. Investors purchased record volumes of silver coins in 2014 and 2015 amid the decline in prices with US Mint coin sales reaching a record 47 million ounces. Global coin fabrication reached 139 million ounces in 2015 but investors did sell 19 million ounces of silver from exchange traded funds and an additional 12 million ounces in bar form during the year.

Total silver supply declined during 2015 to 983 million ounces, the result of reductions in both mine production and secondary supply. Global silver mine supply is estimated to have slipped lower during 2015 due to scheduled closures and planned production cut-backs such as the closure of MMG's Century mine in Australia and cut-backs at Glencore's Mount Isa and McArthur River mines in late 2015. Silver price weakness also played an important role in reducing the amount of silver that was recovered from scrap.

Fabrication demand has been rising since 2013 and is estimated to have reached 875 million ounces in 2015, driven largely by the weakness in silver prices, but also due to the numerous growing uses of silver. This was the highest level of demand since 2005, when demand was at a record 945 million ounces. The price sensitive jewellery sector has been an important driver of total fabrication demand with not only silver price weakness boosting demand from this use but also the growing trend of lighter carat gold jewellery has been helping to boost demand for silver in the gold jewellery market.

Demand for silver from the electronics sector has also been an important driver of silver fabrication demand over the past few years. Silver demand from the solar industry rose strongly in 2015 to 62 million ounces, up 24% from 2014 with many countries beginning to aggressively pursue programmes to increase their solar power output.

For more information visit www.hochschildmining.com

Source: CPM Group LLC

CHAIRMAN'S STATEMENT

Hochschild Mining has ended 2015 in a significantly enhanced operational and financial position compared to twelve months ago

Hochschild Mining has ended 2015 in a significantly enhanced operational and financial position compared to twelve months ago. The Company's key investment in the low cost Inmaculada project is now complete and I am delighted by the first six months of strong operational performance. Together with the encouraging geological results achieved at our existing mines and further cost reductions, the expected improved profitability is now a reality. In addition, the Company has taken decisive steps to reduce the debt position via the equity capital raise in the autumn and has taken a conservative approach to protect cashflows through a series of precious metal hedges. With these measures, the leverage ratios have materially improved and are reflecting the enhanced financial health of the business.

We were able to achieve first dore production at Inmaculada in early June 2015, marking the final stage for a project that has taken approximately six years from discovery to commissioning, a notable accomplishment in these turbulent times for the industry. The subsequent ramp-up process was smoothly executed with key operational metrics running according to or above design capacity. During the last quarter, our long-held confidence in the world class characteristics of this deposit was supported by production, costs and ultimately cashflows that surpassed our expectations. The Board believes that the entire process has been to the great credit of our management and operational and project teams who have efficiently dealt with the geological, operational and financial challenges of a new mining operation while ensuring the safety of our workforce and with due respect to the surrounding environment.

Precious metals once again experienced a volatile period with both silver and gold reaching new five year lows whilst other commodities such as oil, copper and iron ore also experienced sharp declines. Despite this difficult environment, our existing operations generated positive cashflows under revised operational plans and I was particularly encouraged by the success of our brownfield exploration programme which not only yielded the discovery of the Pablo vein thus reinvigorating Pallancata but also allowed Arcata to continue to prove its resilience. Later on in the year, there were positive macroeconomic and political developments in Argentina which have led us to believe that we are entering a new era of stronger cashflow generation at our high grade San Jose mine. In short, lower prices have once again been compensated by lower costs, rising production and new higher grade resources at key operations.

The careful management of our financial position was of paramount importance during the year so the success of several Company initiatives has been crucial. Firstly, the Company ensured the full financing of the Inmaculada project via a combination of short and long term debt. Secondly, a target of positive cashflow generation was set at all of our operations (before the effect of hedging) resulting in a high level of cost discipline at each operating asset. Finally, with the new mine having commenced production smoothly we were able to raise \$100 million via a rights issue with the proceeds used to pre-pay and renegotiate debt. We now have a comfortable debt amortisation profile and a solid cash position. However, despite these positive results, the Board remains alert to price volatility and is maintaining its focus on continuing to repay debt and consequently is not recommending reinstating a dividend payment. We remain committed to delivering shareholder returns and the Board intends to review the position again once the Company can sustainably achieve strong margins and the debt position is further reduced.

OPERATING RESPONSIBLY

I am delighted to report that 2015 was unprecedented in that it represented the second consecutive year in which we achieved our long-term aim of zero fatalities. In addition, the Group succeeded in reducing the year-on-year frequency of accidents as well as their severity by approximately 40% and 25% respectively. This is to the great credit of the many teams who, despite the limitation of resources, have worked relentlessly to ensure that we provide a safe workplace for all and to convey the non-negotiable message that safety comes first. As to our efforts to minimise our impact on the environment, I am pleased to report that we maintained our ISO 14001 certification, adopted a new and more robust Corporate Environmental Policy and KPI dashboard to strengthen the Group's environmental culture and made significant strides in water management. In relation to our interaction with local communities, we have continued to run the many programmes designed around our core themes of education, health and socio-economic development. Further details on the individual projects we have supported during the year can be found in our Sustainability Report and online.

BOARD

I wish to thank my fellow Board members for their valuable insight during the year. As reported last year, we suspended our Non-Executive succession plan to provide continuity at Board level given the difficult

trading climate. The status of the plan was kept under review during 2015 and, in recognition of the benefits of a refreshed Board, resulted in the appointment of Michael Rawlinson as a Non-Executive Director with effect from 1 January 2016. I am very pleased that we have been able to secure someone with Michael's experience and knowledge of the mining sector which will undoubtedly prove invaluable during our Board deliberations. In line with our succession plan, Sir Malcolm Field will be retiring from the Board at the conclusion of the forthcoming AGM. Sir Malcolm has served on the Board since the Company's IPO in 2006 with tireless dedication and on behalf of my fellow Directors, I wish to express my profound gratitude for his support and wise counsel.

OUTLOOK

We enter 2016 with renewed optimism. Inmaculada is a flagship producing asset operating at highly competitive costs and is expected to provide the financial stability necessary for targeting future growth plans. The operating environment in Argentina is rapidly improving and we believe that our high grade resource at San Jose will soon generate stronger cashflows. And finally, the optionality that the Arcata and Pallancata assets offer us in terms of geological potential as well as leverage to prices is a key feature that we expect to develop in this coming year.

EDUARDO HOCHSCHILD

Chairman
8 March 2016

CHIEF EXECUTIVE'S REVIEW

In a year when careful management of the balance sheet was crucial, in particular with respect to the completion of our Inmaculada project, we believe we have taken substantial steps in our aim of de-risking the Company

At the start of last year I noted that the Company's key objectives for 2015 were the commissioning of our new flagship mine, success from our brownfield exploration programme and achieving a stronger overall financial position by the year end. We are pleased to report that we have largely succeeded in our priorities and that we enter 2016 with confidence that whilst the outlook for natural resources remains volatile, the prospects for the Company have substantially improved.

INMACULADA

Construction at the Inmaculada site continued into its final stages in the first half of the year with the result that commercial production was declared in August following a near faultless ramp-up period. All key metrics including tonnage, grades and recoveries proved to be in line with or above expectations and although there was a disagreement with our plant contractor over construction delays and a number of submitted change orders, the dispute was resolved amicably and in the final few months of the year the mine delivered on its world class promise. Production for the year beat the higher end of our forecast range and Inmaculada's all-in sustaining cost per silver equivalent ounce for 2015 was at a very competitive \$7.3 per ounce. We can now look forward to a full year of production at costs of between \$9 to \$10 per silver equivalent ounce which we believe will place the operation in the first quartile of the global cost curve and will ensure strong cashflow for the Company for the foreseeable future. We remain positive about the mine's expansion potential in the medium term and will begin a drill programme in the surrounding district in 2016.

COST REDUCTION

With commodity prices experiencing a third year of declines, Hochschild continued its cashflow optimisation programme in order to ensure that all our operations were mining profitable ounces and are cashflow positive. The mine plans at Arcata and Pallancata were revised with the focus placed on accessible ore areas requiring reduced capital expenditure and assuming stringent cut off grades. The effect of these measures was somewhat mitigated during the year as both operations delivered successful brownfield exploration programmes allowing additional higher grade tonnage to be processed at Arcata in particular. At Pallancata, the discovery of the Pablo vein in August delivered the prospect of a transition to significantly lower cost feed for the Selene plant with our team expecting to have initial production from the vein towards the end of 2016. Overall, we were able to reduce all-in sustaining costs by 26% versus 2014, which

is strong evidence of the Company's ability to operate flexibly in a difficult industry environment. Furthermore, the positive developments in Argentina towards the end of the year indicate the potential to continue to move our operations down the cost curve.

FINANCIAL POSITION

In a year when careful management of the balance sheet was crucial, in particular with respect to the completion of our Inmaculada project, we believe we have taken substantial steps in our aim of de-risking the Company. Forming the first part of our three pronged financial strategy, the smooth progress of the new mine's ramp-up to full production started to bear fruit in the final two quarters with the generation of strong cashflow from this low cost operation. Secondly, in October we announced a \$100 million rights issue, the success of which allowed us to begin the process of strengthening our balance sheet and by the end of the year we had already paid down just over \$100 million of mid to long term debt. And thirdly, we supplemented this initiative throughout the year by taking advantage of short periods of price strength to hedge around 40% of our production to ensure a degree of cashflow stability. This prudent policy has continued with approximately half of our 2016 production also protected at around the current spot prices. With net debt significantly reduced versus our peak position at the half year and with the maturities of the remaining debt adequately profiled, the Company is in a substantially healthier financial position than at the end of 2014.

2015 OVERVIEW

One of the most pleasing aspects of the Company's ongoing response to the industry downturn has been the strength of our operations. Once again we exceeded the production target for the year, delivering 27.0 million silver equivalent ounces with both San Jose and Arcata especially, recording better than expected production. Pallancata's performance reflects an operation in a transitional period until new low cost material from the Pablo vein is introduced towards the end of the year. However, when also considering Inmaculada's maiden contribution, we believe the flexibility of the Hochschild portfolio has been amply demonstrated.

The average price achieved once again fell in 2015, by 12% for silver and by almost 10% for gold and consequently our revenue was lower despite total production increasing by almost 12%. However, pleasingly, pre-exceptional EBITDA rose by 2% to \$139m reflecting the higher margin contribution from Inmaculada and solid cost control

across our operations. The cashflow from the new mine is beginning to offset the finance costs arising from our bond issue in January 2014 to fund its construction but this still affected the underlying earnings. Pre-exceptional EPS was \$(0.14) per share. The cash balance at the end of the year was \$84 million with the fourth quarter debt repayment programme resulting in net debt of approximately \$351 million.

OUTLOOK

We expect that 2016 will mark the fourth year of increasing production and reducing costs. Attributable production for the Company is expected to rise to 32.0 million silver equivalent ounces (assuming the average silver to gold ratio for 2015 of 74:1), boosted by the first full year of output from Inmaculada. The all-in sustaining cost per silver equivalent ounce is expected to once again be reduced to between \$12.0 to \$12.5 which includes almost 14 million ounces of production from Inmaculada at between \$9 to \$10 per silver equivalent ounce. The focus of our capital expenditure budget of approximately \$100 million will be on sustaining and development expenditure for our current mines but also included is an allocation of approximately \$10 million for the development of the Pablo vein – a project which initial Company economics estimate has a net asset value of approximately \$40 million.

The recent regulatory and economic policy changes in Argentina also offer a promising future for our high grade San Jose mine. Changes including the significant devaluation of the Argentine peso and the new government's cancellation of the export taxes along with management's solid operational track record now place the mine in a good position to improve its cashflow contribution.

2015 has been a year of transformation for the Company. Whilst the industry downturn has necessitated a continued strong focus on cost efficiency, we are extremely encouraged by the positive attitude displayed by all our employees. We have entered 2016 with a renewed sense of confidence, a fourth consecutive year of production increases and reduced costs, a new mine, renewed resources at Arcata and Pallancata, a stronger balance sheet, and several brownfield exploration targets with the potential to continue improving the quality and quantity of our existing resources.

IGNACIO BUSTAMANTE
Chief Executive Officer
8 March 2016

OPERATING REVIEW

In 2015, Hochschild once again successfully exceeded its full-year production target, delivering 27 million attributable silver equivalent ounces

Operations

Production

In 2015, Hochschild once again exceeded its full year production target, delivering attributable production of 27.0 million silver equivalent ounces (24.7 million ounces using the Company's previous gold/silver ratio of 60:1), including 14.8 million ounces of silver and 166 thousand ounces of gold. The overall production target for 2016 is 32.0 million silver equivalent ounces assuming the average silver-to-gold ratio for 2015 which consists of just over 14 million ounces from

Inmaculada approximately 7 million attributable ounces from the 51% owned San Jose and the balance from the remaining two Peruvian operations. 2016 production is expected to be equally weighted between gold and silver.

Costs

The Company's all-in sustaining cost was reduced by 26% in 2015 to \$12.9 per silver equivalent ounce driven by Inmaculada with a very competitive \$7.3 per silver equivalent ounce.¹ Operational initiatives (cashflow optimisation programme) devaluation of

local currencies and grade improvements at all operating units also contributed to the reduction. Please see page 12 of the Financial Review for further details on costs.

The all-in sustaining cost per silver equivalent ounce in 2016 is now expected to be between \$12.0 and \$12.5 with Inmaculada costs forecast to be between \$9 and \$10 per ounce, the remaining Peruvian mines at approximately \$14.5 per ounce and San Jose at approximately \$13 per ounce although ongoing Argentinean peso devaluation and a series of tax cancellations may reduce the target further.

INMACULADA (PERU)

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

Inmaculada summary	Year ended 31 Dec 2015
Ore production (tonnes)	659,737
Average silver grade (g/t)	115
Average gold grade (g/t)	436
Silver produced (koz)	2,055
Gold produced (koz)	84.64
Silver equivalent produced (koz)	8,318
Silver sold (koz)	1,638
Gold sold (koz)	67.51
Unit cost (\$/t)	63.3
Total cash cost (\$/oz Ag co-product) ²	4.6
All-in sustaining cost (\$/oz)	7.3

Production

Commercial production was declared at the new flagship mine in August 2015 and the Company subsequently announced on 22 September that it had received the final mill operating permit from the Peruvian government with sales of ore commencing soon afterwards. Overall production in 2015 improved on the targeted range, coming in at 8.3 million silver equivalent ounces consisting of 84.6 thousand ounces of gold and 2.1 million ounces of silver. This was primarily driven by solid gold and silver grades and increased tonnage as the processing plant operated at closer to 3,850 tonnes per day during the last quarter of the year compared to its design capacity of 3,500 tonnes per day.

Costs

The all-in sustaining costs were low at \$7.3 per silver equivalent ounce. This was driven by better than expected extraction costs, operational efficiencies versus the plan and by the processing of the significant ore stockpile which incurred a low cost in the plant's ramp-up phase and increased tonnage overall when mining operations commenced. The original cost of mining this stockpile was capitalised over the previous few periods. Overall all-in sustaining costs are expected to increase to the normalised forecast level of between \$9 to \$10 in 2016.

Brownfield exploration

In 2016, a geological mapping programme is planned for the Inmaculada and Hualhua areas along with a 7,000 metre drilling programme in the Palca zone.

ARCATA (PERU)

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

Production

At Arcata, total silver equivalent production for 2015 was 6.8 million ounces (2014: 7.1 million ounces). Despite introducing an adjusted mine plan at the start of 2015 to ensure the extraction of profitable ounces, Arcata has delivered a much stronger year than expected. A successful brownfield exploration programme has ensured considerable tonnage at higher silver grades than expected.

Arcata summary	Year ended 31 Dec 2015	Year ended 31 Dec 2014	% change
Ore production (tonnes)	648,051	701,947	(8)
Average silver grade (g/t)	323	286	13
Average gold grade (g/t)	0.99	0.85	16
Silver produced (koz)	5,613	5,827	(4)
Gold produced (koz)	15.67	16.89	(7)
Silver equivalent produced (koz)	6,772	7,077	(4)
Silver sold (koz)	5,653	5,621	1
Gold sold (koz)	15.29	15.66	(2)
Unit cost (\$/t)	109.1	89.1	22
Total cash cost (\$/oz Ag co-product)	11.7	12.6	(7)
All-in sustaining cost (\$/oz)	14.3	17.7	(19)

¹ All-in sustaining cash cost per silver equivalent ounce. Calculated before exceptional items includes cost of sales less depreciation and change in inventories administrative expenses, brownfield exploration, operating capex and royalties divided by silver equivalent ounces produced using a ratio of 74:1 (Au/Ag). Also includes commercial discounts and selling expenses divided by silver equivalent ounces sold using a ratio of 74:1 (Au/Ag).

² Cash costs are calculated to include cost of sales, treatment charges and selling expenses before exceptional items less depreciation included in cost of sales.

Costs

In 2015, all-in sustaining costs fell by 19% to \$14.3 per silver equivalent ounce (2014: \$17.7 per ounce) due to a substantial decline in capital expenditure resulting from the announced adjusted mine plan as well as improved grades.

Brownfield exploration

During 2015, the Arcata exploration programme has focused on the incorporation of resources from the Stephani, Cristina, Soledad, Macarena and Nicole veins as well as further exploration of the Tunnels 3 and 4 vein systems. Just over 10,000 metres of drilling were executed. Significant intercepts are included in the table to the right.

The focus of 2016 will be a 7,000 metre drilling programme to incorporate additional resources from the Tunnel 4, Marion and Alexia veins.

Vein	Results
North-South	DDH027-LM11 2.12m @ 0.43 g/t Au & 719 g/t Ag DDH768-LM14 1.27m @ 2.46 g/t Au & 549 g/t Ag DDH802-GE15 1.58m @ 0.56 g/t Au & 659 g/t Ag DDH990-GE11 0.82m @ 0.15 g/t Au & 1,667 g/t Ag
Lucero	DDH777-LM15 1.35m @ 1.35 g/t Au & 593 g/t Ag DDH792-GE15 1.01m @ 1.85 g/t Au & 395 g/t Ag DDH800-LM15 0.97m @ 1.49 g/t Au & 533 g/t Ag
Soledad	DDH800-LM15 1.00m @ 4.05 g/t Au & 1,015 g/t Ag
Tunnel 3	DDH871-GE15 1.2m @ 1.04 g/t Au & 1,135 g/t Ag DDH872-GE15 1.3m @ 2.09 g/t Au & 1,196 g/t Ag
Tunnel 4	DDH878-GE15 1.0m @ 2.4 g/t Au & 3,479 g/t Ag DDH883-GE15 1.7m @ 1.6 g/t Au & 1,729 g/t Ag

PALLANCATA (PERU)

The 100% owned Pallancata silver/gold property is located in the Department of Ayacucho in southern Peru, approximately 160 kilometres from the Arcata operation. Pallancata commenced production in 2007. Ore from Pallancata is transported 22 kilometres to the Selene plant for processing.

Production

At Pallancata, total production for the year was 4.9 million silver equivalent ounces (2014: 8.3 million ounces). Tonnage throughout the year was significantly lower than 2014 due to the adjusted mine plan's approximate halving of capacity, although silver and gold grades rose gradually throughout the year to partially compensate. The operation remains in a transitional phase with the Selene plant expected to transition to the new Pablo vein later in 2016. See table right for further details of the Pablo vein.

Costs

All-in sustaining costs fell by 6% to \$15.7 per silver equivalent ounce (2014: \$16.7 per ounce) due to the scheduled decline in capex as well as better grades. These improvements were partially offset by incremental capex approved to develop the newly discovered Pablo vein. See details below of the Pablo vein's preliminary economics.

Brownfield exploration

The exploration team at Pallancata began a 19,100 metre exploration and drilling programme in May 2015 with the aim of focusing on inferred resource exploration at surface. In mid August, whilst pursuing the west extension of the Yurka vein to the north west of the main Pallancata vein, a new blind structure at a depth of 200 metres below surface was discovered. The Pablo vein has

Pallancata summary	Year ended 31 Dec 2015	Year ended 31 Dec 2014	% change
Ore production (tonnes)	522,431	1,051,068	(50)
Average silver grade (g/t)	259	238	9
Average gold grade (g/t)	1.28	1.03	24
Silver produced (koz)	3,664	6,527	(44)
Gold produced (koz)	16.42	24.34	(33)
Silver equivalent produced (koz)	4,879	8,329	(41)
Silver sold (koz)	3,632	6,502	(44)
Gold sold (koz)	15.80	24.03	(34)
Unit cost (\$/t)	98.9	69.3	43
Total cash cost (\$/oz Ag co-product)	12.5	11.0	14
All-in sustaining cost (\$/oz)	15.7	16.7	(6)

been recognised along an east-west strike for 700 metres and dips 50-75° south. The structure's significant thickness (greater than 10m wide) is associated with dilation zones in flexures and fault jogs. The Pablo vein is a fine-to-medium grain white quartz vein and shows a banded texture and multiple brecciation events filled with adularia and quartz crystals. It is part of a major regional structure, currently extending to about 2 km, which will be explored over the medium term.

Following the initial discovery of the Pablo vein, drilling continued and an initial inferred resource was achieved. The Company's preliminary economics for a two-year mine life for the Pablo vein are detailed below. Resources (unaudited) are estimates based on a cut-off grade of 103g/t silver equivalent.

Work has started on mine development to access the vein and the Company currently expects to have initial production from Pablo towards the end of 2016.

Pablo	Year ended 31 Dec 2015
Inferred resources (kt) (unaudited)	1,251
Ag grade (g/t)	344
Au grade (g/t)	1.3
LOM production (M oz Ag Eq)	12.6
LOM AISC (\$/oz Ag Eq)	10.6
LOM Cashflows (\$m)	Year ended 31 Dec 2015
Revenue	161.4
Costs	(108.5)
Selling expenses	(3.0)
Capital expenditure	(19.7)
Taxes (SMT & Royalties)	(2.4)
Pre-tax total	27.9
NAV @5% (spot metal prices) (illustrative)	40.5

Spot metal prices: \$15.5/oz Ag, \$1,230/oz Au

OPERATING REVIEW CONTINUED

Drilling has continued at the deposit and 7,242 metres were drilled at the Pablo and Yurika veins during the last quarter of the year. Preliminary results are shown in the table right.

The focus of the brownfield exploration programme for 2016 will be a 5,500 metre drilling programme to add resources in from the Pablo and Yurika veins. Geological mapping of the Pallancata-Selene area will also be carried out.

Vein	Results
Pablo	DLEP-A21 9.0m @0.68 g/t Au & 225 g/t Ag DLEP-A23 7.1m @1.09 g/t Au & 389 g/t Ag DLEP-A24 2.9m @1.34 g/t Au & 334 g/t Ag DLEP-A25 9.0m @1.20 g/t Au & 324 g/t Ag DLEP-A26 4.7m @0.73 g/t Au & 290 g/t Ag
Yurika	DLYU-A97 2.8m @1.66 g/t Au & 438 g/t Ag
Yurika ceiling	DLYU-A97 1.5m @ 3.94 g/t Au & 748 g/t Ag DLYU-A99 1.0m @ 0.89 g/t Au & 231 g/t Ag

SAN JOSE (ARGENTINA)

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

Production

The San Jose operation once again delivered another consistent year with operation producing a record 13.9 million silver equivalent ounces (2014 13.4 million ounces) driven by better than projected silver and gold grades.

On 17 December 2015, the Argentinean peso fell by approximately 40% against the dollar following the decision by the government to lift capital controls. With approximately 70% of operating costs at San Jose incurred in pesos, the effect of this significant devaluation is already having a material impact on the mine's cost position.

The Argentinean government published a decree on 2 November 2015 restoring the right to receive a rebate from goods exported through Patagonian ports (previously cancelled in 2009). This benefit is applicable to Hochschild at a rate of approximately 9% of the FOB value of its exports which amounts to approximately \$15 million per annum. The current estimate for collection is approximately two years.

San Jose summary*	Year ended 31 Dec 2015	Year ended 31 Dec 2014	% change
Ore production (tonnes)	532,488	571,017	(7)
Average silver grade (g/t)	448	404	11
Average gold grade (g/t)	6.36	5.77	10
Silver produced (koz)	6,706	6,469	4
Gold produced (koz)	96.64	94.16	3
Silver equivalent produced (koz)	13,857	13,437	3
Silver sold (koz)	6,340	6,316	—
Gold sold (koz)	88.79	91.28	(3)
Unit cost (\$/t)	210.4	197.8	6
Total cash cost (\$/oz Ag co-product)	10.8	12.1	(11)
All-in sustaining cost (\$/oz)	14.1	17.8	(21)

The Company has a 51% interest in San Jose.

In late December 2015, following an announcement by the new government that they would remove export taxes on agricultural and industrial products, it was subsequently confirmed that the decree included removal of the 5% export tax on finished mining products such as dore (approximately 50% of the mine's output). Subsequently in 2016 it was confirmed that the additional 10% export tax on concentrate would also be removed from February 2016.

Finally it was also confirmed recently that the 1% tax on the market value of reserves that was imposed by the Province of Santa Cruz in 2013 has been removed with the resulting positive effect amounting to approximately \$3 million per annum.

The effect of all the above-mentioned changes in Argentina is that the Company expects the overall economic and operating environment in Argentina to improve significantly.

Costs

At San Jose, unit cost per tonne increased by 6% versus 2014 to \$210.4. However, all-in sustaining costs were reduced by 21% to \$14.1 per silver equivalent ounce (2014 \$17.8 per ounce) driven by cost reduction initiatives, lower capex and better grades.

Brownfield exploration

Whilst no drilling was carried out in 2015, a 3,500 metre programme is planned for 2016 in the Los Pinos and Colorado Grande areas as well as a comprehensive mapping programme of other areas such as Agua Vivas to the south of the mine.

Project Review

Hochschild's portfolio currently includes three Growth Projects: Crespo, Azuca and Volcan. The continuing weakness of the precious metal markets during 2015, following the initial price declines in 2013, led to the focus on completing construction of Hochschild's flagship Inmaculada project.

The strategy with regards to Crespo, Azuca and Volcan was revised in late 2013 with work on these deposits remaining on hold throughout 2014 and 2015. Despite the above-mentioned prioritisation of Inmaculada, all three projects remain an important component of the Company's portfolio of development assets. It is management's intention that in the event

that precious metals markets show sustained improvement, this would allow the Company to assess capital re-allocation to these assets and potentially re-initiate development.

INMACULADA

During the first half of 2015, construction of the plant continued with first dore production achieved on 3 June 2015. The ramp-up phase was ongoing throughout the third quarter with tonnes per day reaching the forecast capacity of 3,500 in mid August and operating at just above that level for the remainder of the year. Gold and silver recoveries trended to close to their target of 93.7% in gold and 87.9% in silver.

The Hochschild team also continued underground mine development throughout the first half and a stockpile of approximately 270,000 tonnes began to be processed following commissioning of the plant whilst stope mining activities (utilising long hole and breasting methods) were being initiated. Following the declaration of commercial production at the mine in August, the Company subsequently announced on 22 September that it had received the final mill operating permit from the Peruvian government and consequently sales of dore were able to commence.

Construction of the paste backfill plant also continued throughout the year with the mine's laboratories, warehouses and workshops also completed.

During the year, the contractor Graña y Montero (GyM), made a number of requests for additional costs from the Company under the Engineering, Procurement and Construction Contract ("EPC"). In addition, Hochschild made certain claims against GyM as a result of delays in the construction of the plant and related components of the project. In September, following discussions, the Company and GyM settled their mutual claims and agreed that the total amount payable by the Company to GyM for all works under the EPC Contract (including pending work) would be fixed at approximately \$159.1 million, of which \$20 million represented additional amounts payable in settlement of all claims made by GyM for additional costs under the EPC Contract. In addition, it was agreed that GyM would bear all risks and costs resulting from the completion of all pending work under the EPC Contract and therefore, subject to certain limited exceptions, GyM would not be entitled to request further adjustments to the amounts agreed to be paid.

To date Hochschild has paid to GyM approximately \$136 million under the EPC Contract. It was agreed that the above mentioned amount of \$20 million would be paid in four instalments every six months starting in September 2017, with interest accruing at an annual rate of 5% of the outstanding balance. The remaining approximately \$4 million will be paid following completion of the outstanding work.

Total construction capital expenditure for the Inmaculada mine was \$455 million, of which \$449 million had already been incurred by the end of the year with the remaining construction capital expenditure of \$6 million expected to be spent during 2016 (to be funded from existing cash resources).

FINANCIAL REVIEW

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

REVENUE

Gross revenue

Gross revenue from continuing operations decreased by 5% to \$469.2 million in 2015 (2014: \$493.0 million) primarily driven by another substantial fall in precious metal prices.

Silver

Gross revenue from silver decreased 23% in 2015 to \$275.3 million (2014: \$358.2 million) as a result of lower prices as well as a 9% decrease in the total amount of silver ounces sold to 17,263 koz (2014: 18,981 koz) driven by the fall in ounces produced from Pallancata due to the imposition of the adjusted mine plan.

Gold

Gross revenue from gold increased 19% in 2015 to \$217.2 million (2014: \$182.7 million) as a result of a 31% rise in the total amount of gold ounces sold in 2015 (187.4 koz) offsetting the 9% fall in the average price received. The increase in gold sales came from the first output from the new Inmaculada operation.

Gross average realised sales prices

The following table provides figures for average realised prices (which are reported before the deduction of commercial discounts and include the effects of the existing hedging agreements) and ounces sold for 2015 and 2014.

	Year ended 31 Dec 2015	Year ended 31 Dec 2014
Silver ounces sold (koz)	17,263	18,981
Avg. realised silver price (\$/oz)	16.0	18.9
Gold ounces sold (koz)	187.39	142.77
Avg. realised gold price (\$/oz)	1,159	1,279

Commercial discounts

Commercial discounts refer to refinery treatment charges, refining fees and payable deductions for processing concentrates, and are deducted from gross revenue on a per tonne basis (treatment charge), per ounce basis (refining fees) or as a percentage of gross revenue (payable deductions). In 2015, the Group recorded commercial discounts of \$23.6 million (2014: \$48.1 million). This decrease is explained by the decision to switch the majority of production from Arcata back to dore in 2015 as opposed to the previous year when most was sold as concentrate due to favourable commercial terms. The ratio of commercial discounts to gross revenue in 2015 decreased to 5% (2014: 9%).

FINANCIAL REVIEW CONTINUED

Net revenue

Net revenue decreased by 5% to \$469.1 million (2014: \$493.0 million), comprising silver revenue of \$258.4 million and gold revenue of \$210.5 million. In 2015 silver accounted for 55% and gold 45% of the Company's consolidated net revenue with a 10 percentage point change from 2014 due to commencement of contributions from the Inmaculada mine.

Revenue by mine

\$000 unless otherwise indicated	Year ended 31 Dec 2015	Year ended 31 Dec 2014	% change
Silver revenue			
Arcata	93,445	103,963	(10)
Ares	–	10,896	–
Inmaculada	25,223	–	–
Pallancata	59,803	129,042	(54)
San Jose	96,837	114,276	(15)
Moris	–	30	–
Commercial discounts	(16,929)	(37,369)	(55)
Net silver revenue	258,379	320,838	(19)
Gold revenue			
Arcata	19,124	20,040	(5)
Ares	–	14,993	–
Inmaculada	77,080	–	–
Pallancata	19,929	31,984	(38)
San Jose	101,046	115,211	(12)
Moris	–	441	–
Commercial discounts	(6,688)	(10,713)	(38)
Net gold revenue	210,491	171,956	22
Other revenue³	276	157	76
Net revenue	469,146	492,951	(5)

3 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 was steady at \$403.7 million in 2015 (2014: \$404.6 million). The direct production cost was flat at \$265.1 million (2014: \$265.6 million) with the positive effects of Inmaculada's lower costs offsetting the additional production delivered. Depreciation in 2015 was \$139.5 million (2014: \$126.0 million) with the increase mainly due to Inmaculada capex depreciation. Other items which principally include the costs associated with stoppages in Argentina, was \$9.3 million in 2015 (2014: \$4.4 million). Change in inventories was \$10.3 million in 2015 (2014: \$8.6 million).

\$000	Year ended 31 Dec 2015	Year ended 31 Dec 2014	% change
Direct production cost excluding depreciation	265,107	265,637	–
Depreciation in production cost	139,533	125,955	11
Other items	9,272	4,406	110
Change in inventories	(10,255)	8,641	(219)
Pre-exceptional cost of sales	403,657	404,639	–

Unit cost per tonne

The Company reported unit cost per tonne at its main operations of \$118.4 in 2015 slightly up on 2014 (2014: \$106.6).

Unit cost per tonne by operation (including royalties)⁴

Operating unit (\$/tonne)	Year ended 31 Dec 2015	Year ended 31 Dec 2014	% change
Peru	90.7	77.3	17
Arcata	109.1	89.1	22
Inmaculada	63.3	–	–
Pallancata	98.9	69.3	43
Argentina			
San Jose	210.4	197.8	6
Others			
Ares	–	119.3	–
Total	118.4	107.4	10

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

Cash costs

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

Cash cost reconciliation⁵

\$000 unless otherwise indicated	Year ended 31 Dec 2015	Year ended 31 Dec 2014	% change
Group cash cost	313,939	353,736	(11)
(+) Cost of sales	403,657	404,639	–
(-) Depreciation and amortisation in cost of sales	(135,645)	(128,480)	(5)
(+) Selling expenses	21,729	28,697	(24)
(+) Commercial deductions	24,198	48,880	(50)
Gold	6,714	10,752	(38)
Silver	17,484	38,128	(54)
Revenue	469,146	492,951	(5)
Gold	210,491	171,956	22
Silver	258,379	320,838	(19)
Others	276	157	76
Ounces sold			
Gold	187.4	142.8	31
Silver	17,263	18,981	(9)
Group cash cost (\$/oz)			
Co-product Au	752	865	(13)
Co-product Ag	10.0	12.1	(17)
By-product Au	203	(37)	648
By-product Ag	5.6	9.0	(38)

5 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.

ALL-IN SUSTAINING COST RECONCILIATION**All-in sustaining cash costs per silver equivalent ounce⁶**

Year ended 31 Dec 2015

\$000 unless otherwise indicated	Arcata	Inmac	Pallancata	San Jose	Main Operations	Other Operations	Corporate & Others	Total
(+) Production cost excluding depreciation	71 128	32 765	51 599	108 101	263 593	—	—	263,593
(+) Other items in cost of sales	2 133	1 544	1 610	5 499	10 786	—	—	10,786
(+) Operating and exploration capex for units	14,600	13,704	10,683	38,451	77,438	—	1,193	78 631
(+) Brownfield exploration expenses	62	6	2 457	1 463	3,988	—	1 990	5 978
(+) Administrative expenses (excl depreciation and before exceptional items)	2 641	2 515	1 796	7 095	14 046	—	22 569	36 614
(+) Royalties	—	1 037	741	—	1 778	—	—	1,778
Sub-total	90,564	51,571	68,885	160,609	371,629	—	25,751	397,380
Au Ounces produced	15 670	72 226	16 419	96 638	200 953	—	—	200,953
Ag Ounces produced (000s)	5 613	1 746	3 664	6 706	17 728	—	—	17,728
Ounces produced (Ag Eq oz)	6 772	7,090	4 879	13 857	32 599	—	—	32,599
Sub-total (\$/oz)	13 4	7 3	14 1	11 6	11 4	—	—	12 2
(+) Commercial deductions	5 144	4	6,687	12 363	24,198	—	—	24 198
(+) Selling expenses	962	12	1 048	19 707	21,729	—	—	21 729
Sub-total	6 106	16	7,735	32 070	45 927	—	—	45 927
Au Ounces sold	15 289	67,513	15,795	88 793	187 390	—	—	187,390
Ag Ounces sold (000s)	5 653	1 638	3 632	6 340	17 263	—	—	17,263
Ounces sold (Ag Eq oz)	6 784	6 634	4 801	12 910	31,130	—	—	31 130
Sub-total (\$/oz)	0 9	—	1 6	2 5	1 5	—	—	1 5
All-in sustaining costs (\$/oz Ag Eq)	14 3	7 3	15 7	14 1	12 9	—	—	13 7

Year ended 31 Dec 2014

\$000 unless otherwise indicated	Arcata	Inmac	Pallancata	San Jose	Main Operations	Other Operations	Corporate & Others	Total
(+) Production cost excluding depreciation	62,644	—	71,742	110,089	244 475	17 853	—	262 328
(+) Other items in cost of sales	1 301	—	834	1 724	3,859	546	—	4 406
(+) Operating and exploration capex for units	28 867	—	34 657	51 350	114 874	—	1,613	116,487
(+) Brownfield exploration expenses	2 038	—	1,728	1 003	4 769	42	3 232	8 043
(+) Administrative expenses (excl depreciation and before exceptional items)	5 266	—	7 317	8 270	20,853	362	20 049	41,263
(+) Royalties	—	—	1,370	—	1,370	241	—	1,611
Sub-total	100,116	—	117,648	172,436	390,200	19,044	24,894	434,138
Au Ounces produced	16 892	—	24,345	94 161	135 398	11 633	—	147,031
Ag Ounces produced (000s)	5 827	—	6,527	6,469	26 947	534	—	19 357
Ounces produced (Ag Eq oz)	6 841	—	7 988	12 119	26 947	1 232	—	28 179
Sub-total (\$/oz)	14 6	—	14 7	14 2	14 5	15 5	—	15 4
(+) Commercial deductions	18 016	—	13 666	17 198	48 880	—	—	48 880
(+) Selling expenses	1 987	—	1 995	24 648	28 630	67	—	28 697
Sub-total	20,003	—	15 661	41,846	77,510	67	—	77 577
Au Ounces sold	15 663	—	24 025	91,277	130 965	11 449	—	142,770
Ag Ounces sold (000s)	5 621	—	6 502	6 316	18 439	540	—	18,981
Ounces sold (Ag Eq oz)	6 560	—	7 944	11 793	26 297	1 250	—	27 547
Sub-total (\$/oz)	3 0	—	2 0	3 5	2 9	0 1	—	2 8
All-in sustaining costs (\$/oz Ag Eq)	17 7	—	16 7	17 8	17 4	15 5	—	18 2

6 All-in sustaining cash cost per silver equivalent ounce. Calculated before exceptional items includes cost of sales less depreciation and change in inventories administrative expenses brownfield exploration, operating capex and royalties divided by silver equivalent ounces produced using a ratio of 60 1 (Au/Ag) for 2014 and 74 1 for 2015. Also includes commercial discounts and selling expenses divided by silver equivalent ounces sold using a ratio of 60 1 (Au/Ag).

FINANCIAL REVIEW CONTINUED

ADMINISTRATIVE EXPENSES

Administrative expenses before exceptional items decreased by 12% to \$38.1 million (2014 \$43.3 million) primarily due to the continuing impact of the cashflow optimisation programme

EXPLORATION EXPENSES

In 2015, pre-exceptional exploration expenses decreased by 46% to \$9.3 million (2014 \$17.3 million). In addition, the Group capitalises part of its brownfield exploration, which mostly relates to costs incurred converting potential resource to the Inferred or Measured and Indicated category. In 2015, the Company capitalised \$2.6 million relating to brownfield exploration compared to \$1.5 million in 2014, bringing the total investment in exploration for 2015 to \$11.8 million (2014 \$18.8 million).

SELLING EXPENSES

Selling expenses decreased by 24% versus 2014 at \$21.7 million (2014 \$28.7 million) mainly due to lower prices impacting the export taxes in Argentina and the decision to switch the majority of production from Arcata back to dore.

OTHER INCOME/EXPENSES

Other income before exceptional items was \$8.0 million (2014 \$4.1 million) mainly due to incremental revenue from logistic services provided to third parties and an export credit from dore bars in Argentina. Other expenses before exceptional items reached \$15.3 million (2014 \$17.5 million) mainly due to an increase in mine closure provisions of \$7.6 million (2014 \$9.1 million).

ADJUSTED EBITDA

Adjusted EBITDA increased by 2% over the period to \$138.8 million (2014 \$135.6 million) driven primarily by the positive effects of the new low cost Inmaculada contribution but largely offset by significantly lower precious metal prices.

Adjusted EBITDA is calculated as profit from continuing operations before exceptional items, net finance costs and income tax plus non-cash items (depreciation and changes in mine closure provisions) and exploration expenses other than personnel and other exploration related fixed expenses.

\$000 unless otherwise indicated	Year ended 31 Dec 2015	Year ended 31 Dec 2014	% change
Profit from continuing operations before exceptional items, net finance cost, foreign exchange loss and income tax	(10,886)	(14,374)	24
Depreciation and amortisation in cost of sales	135,645	128,480	6
Depreciation and amortisation in administrative expenses	1,534	2,072	(26)
Exploration expenses	9,255	17,254	(46)
Personnel and other exploration related fixed expenses	(4,301)	(6,934)	38
Other non cash expenses ¹	7,590	9,088	(16)
Adjusted EBITDA	138,837	135,586	2
Adjusted EBITDA margin	30%	28%	

¹ In 2014 Adjusted EBITDA has been presented before the effect of significant non-cash expenses related to changes in mine closure provisions for those mines which have already closed as these were material.

FINANCE INCOME

Finance income before exceptional items of \$1.9 million reduced slightly from 2014 (\$2.2 million) mainly due to lower interest received on deposits partially offset by income generated from the repurchase of bonds below par value.

FINANCE COSTS

Finance costs before exceptional items decreased from \$33.1 million in 2014 to \$31.4 million in 2015, principally due to the repurchase of \$55.2 million of Senior Notes with a coupon rate of 7.75% and the \$50.0 million prepayment of the medium term loan, both in the fourth quarter.

FOREIGN EXCHANGE LOSSES

The Group recognised a foreign exchange loss of \$5.6 million (2014 \$5.0 million loss) as a result of exposures in currencies other than the functional currency specifically the Peruvian Nuevo Sol and Argentinean Peso both of which depreciated in the year against the US Dollar.

INCOME TAX

The Company's pre-exceptional income tax charge was \$20.4 million (2014 \$6.5 million). The increase is mainly explained by the impact of local currency devaluation in Peru and Argentina which significantly reduced the tax basis of PP&E and therefore generating a deferred tax liability.

EXCEPTIONAL ITEMS

Exceptional items in 2015 totalled \$(173.3) million losses after tax (2014 \$(14.1) million). The tables below detail the exceptional items excluding the exceptional tax effect that amounted to \$36.9 million (2014 \$3.8 million).

Negative exceptional items

Main items	\$000	Description of main items
Cost of sales	(1,514)	Termination benefits
Impairment and write-off of non-financial assets (net)	(207,146)	Impairment of Arcata unit (\$72.4 million), Volcan unit (\$57.1 million), Pallancata unit (\$39.0 million), Crespo project (\$14.4 million), Azuca project (\$12.8 million), San Felipe project (\$10.9 million), PP&E write-off (\$0.6 million)
Finance cost	(1,486)	Interest on disputed tax charge

CASH FLOW & BALANCE SHEET REVIEW

Cash flow

\$000 unless otherwise indicated	Year ended 31 Dec 2015	Year ended 31 Dec 2014	Change
Net cash generated from operating activities	133,256	93,779	39,477
Net cash used in investing activities	(223,319)	(263,007)	39,668
Cash flows generated in financing activities	61,027	5,039	55,988
Net decrease in cash and cash equivalents during the period	(29,036)	(164,189)	(135,153)

Operating cash flow increased from \$93.8 million in 2014 to \$133.3 million in 2015, mainly due to the maiden cash contribution from the new Inmaculada mine, partially offset by lower prices. Net cash used in investing activities decreased to \$(223.3) million in 2015 from \$(263.0) million in 2014, mainly due to moderately lower pre-operating capex incurred at the Inmaculada project in 2015 as well as reduced sustaining capex at the other operations. Finally, cash generated from financing activities increased to \$61.0 million from \$5.0 million in 2014, primarily as a result of the proceeds from the equity rights issue and short-term debt raised in Peru (\$75 million) offset by the significant repayment of \$105 million of debt in the second half of the year. As a result, total cash outflow decreased from \$(164.2) million in 2014 to \$(29.0) million in 2015 (\$135.2 million difference).

Working capital

\$000 unless otherwise indicated	Year ended 31 Dec 2015	Year ended 31 Dec 2014
Trade and other receivables	135,014	173,526
Inventories	70,286	58,417
Net other financial assets	20,126	2,809
Net income tax receivable	17,628	20,467
Trade and other payables and provisions	(249,788)	(226,603)
Working capital	(6,734)	28,616

The Group's working capital position improved by \$35.4 million to \$(6.7) million in 2015 from \$28.6 million in 2014. This was primarily explained by lower trade and other receivables (\$(38.5) million) due to higher proportion of dore sales (lower collection period) at Arcata and lower prices, and higher trade and other payables and provisions (\$(23.2) million), in line with improved payment terms obtained from vendors. These effects were partially offset by higher net financial assets (\$17.4 million) and by higher inventories (\$11.9 million), mainly resulting from accumulation of concentrate in Argentina in December 2015.

Net debt

\$000 unless otherwise indicated	Year ended 31 Dec 2015	Year ended 31 Dec 2014
Cash and cash equivalents	84,017	115,999
Long-term borrowings	(339,778)	(440,834)
Short-term borrowings ⁸	(94,760)	(27,882)
Net debt	(350,521)	(352,717)

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

The Group reported net debt position was \$350.5 million as at 31 December 2015 (2014: \$(352.7) million). The reduction includes the net effect of the equity rights issue (\$95 million), the prepayment of the Scotiabank medium-term loan ((\$50) million), the repurchase of senior notes ((\$55) million), the withdrawal of short-term pre-shipment loans in Peru (\$75 million) and the cash outflow required to complete the construction of Inmaculada.

2015 capital expenditure of \$238.2 million (2014: \$321.1 million) mainly comprised of operational capex of \$63.9 million (2014: \$114.9 million) and Inmaculada capital expenditure of \$166.3 million (2014: \$198.1 million).

Capital expenditure⁹

\$000 unless otherwise indicated	Year ended 31 Dec 2015	Year ended 31 Dec 2014
Arcata	14,600	28,867
Ares	25	–
Selene	139	497
Pallancata	10,683	34,160
San Jose	38,451	51,350
Moris	–	–
Operations	63,898	114,874
Inmaculada	166,336	198,112
Crespo	2,842	4,206
Volcan	958	1,463
Azuca	211	853
Other	3,914	1,613
Total	238,159	321,121

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

SUSTAINABILITY REPORT

2015 proved to be another challenging year which has demanded even greater efforts on the part of our many teams at Hochschild to ensure that resources are targeted and that stakeholder benefits are maximised

Dear Shareholder

I am delighted to introduce Hochschild Mining's 2015 Sustainability Report

ANOTHER CHALLENGING YEAR

2015 proved to be another challenging year for the Company with continued volatility in precious metal prices which trended lower as the year progressed. As a result, management maintained its focus on managing costs which has demanded even greater efforts on the part of our many teams at Hochschild to ensure that resources are targeted and that stakeholder benefits are maximised

CONTINUING OUR EXCELLENT SAFETY RECORD

It gives me great pleasure to report that we have succeeded in achieving our long term goal of Zero Fatalities for an unprecedented second consecutive year. This together with the year-on-year reductions in the frequency and severity of accidents are testament not only to our Safety team but also to those tasked with ensuring that we embed a

safety-first culture at Hochschild. Reducing our focus on this area has not been and will not be an option as we continue to ensure that those who work with us are secure in the knowledge that their physical welfare is being safeguarded. This is perfectly demonstrated by the in-house development, during the year, of a bespoke suite of behaviour-based procedures which aims to develop a sense of collective responsibility for safety and recognition of safe practices. For further details please refer to the Safety section of this report.

OUR COMMUNITIES AND THE ENVIRONMENT

In 2015, we continued to prioritise the resources committed to our communities with the ongoing focus on our three core areas: education, health and socio-economic development. Whilst the trading conditions did not allow us to launch any new programmes, we built on the significant achievements to date by increasing the reach of the medical services we are offering to our rural communities as well as our IT

infrastructure project. Further details on these initiatives, as well as those of our Argentina operations, can be found in this report and on our website.

We have also made significant enhancements to the way the Group measures its environmental footprint. The considerable work in this area has resulted in the adoption of a new set of Environmental Key Performance Indicators which will measure our performance in a more meaningful way and will require our operational teams to work to more rigorous environmental targets going forward.

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

ROBERTO DAÑINO

Chairman, CSR Committee
8 March 2016

Governance of CSR

The Board has ultimate responsibility for establishing Group policies relating to sustainability and the CSR Committee has been established with the responsibility of focusing on compliance and ensuring that appropriate systems and practices are in place.

WHAT IS HOCHSCHILD MINING'S APPROACH TO SUSTAINABILITY?

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

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

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

MANAGEMENT OF SUSTAINABILITY

The Board has ultimate responsibility for establishing Group policies relating to sustainability and ensuring that appropriate standards are met. The CSR Committee has been established as a formal committee of the Board with delegated responsibility for

various sustainability issues, focusing on compliance and ensuring that appropriate systems and practices are in place. Group-wide to ensure the effective management of sustainability-related risks.

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

THE CSR COMMITTEE'S WORK IN 2015

During the year, the CSR Committee

- approved the 2014 Sustainability report for inclusion in the 2014 Annual Report,
- monitored the execution of the yearly plan in each of the four key areas of focus including progress updates,
- considered a presentation on the status of community relations related issues at a proposed exploration project in Peru,
- considered the status of the Group's various community relations projects including the Travelling Doctor programme and Digital Chalhuanca,
- reviewed the environmental and community relations related risks and related work plans, and
- reviewed the 2016 budgets for the Environment and Community Relations functions.

Given the vulnerability of the Group's strategy to Sustainability Risks (comprising Health & Safety, Community Relations and Environmental risks), the full Board received a presentation on the potential impact of the change in Government in Argentina and 2016 elections in Peru on community relations. In addition, the Board considered a presentation from management on the lessons learnt following the community-led blockades at the access roads to Inmaculada and the Selene plant.

REPORTING OF TARGETS AND INDICATORS

As part of the Company's strategy to make more information available online, detailed sustainability related performance indicators as well as targets for 2016 are available on the Company's website.

Safety

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

2015 HIGHLIGHTS

- Zero fatalities for an unprecedented 2nd consecutive year
- Almost 40% reduction in Accident Frequency Index to 1.85 (2014 3.07)
- 25% reduction in Accident Severity Rate to 112 (2014 149)

THE HOCHSCHILD APPROACH TO SAFETY

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

OUR ACHIEVEMENTS IN 2015

- Zero fatalities across all operations – for an unprecedented second consecutive year
- Continued implementation of the Group's Safety Management System (designed by the risk management firm DNV GL) at all operating units to support the Group's

proactive approach to safety. All operating units achieved a Level 7 rating under the International Safety Rating System (ISRS) (6th edition) except for the Inmaculada project which achieved a Level 5 rating under the same rating system.

- The implementation of a bespoke suite of behaviour-based safety procedures at the Peruvian operations. These procedures incorporate the use of a 5 step process to observe and register safety checks. Positive reinforcement is a core part of this observation which is undertaken through weekly awards events at the operating units to acknowledge those who have demonstrated safety excellence in their operational activities.

HOW WE PERFORMED AGAINST OUR 2015 SAFETY OBJECTIVES

Target	Status	Commentary
To fully transition to the 8th edition of DNV GL's International Safety Rating System which will incorporate the additional training for supervisors under the Behaviour Based Safety programme	X	The transition began in 2015 but was not fully completed. DNV GL is in the process of providing training to the programme's auditors and instructors.
To commission and implement the first five modules of a safety software tool which will facilitate document sharing, legal compliance, hazard identification and risk assessment, accident investigation and inspections	✓	Final testing of the software tool was successful and training for users is scheduled to take place in Q1 2016.

Health & Hygiene

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

2015 HIGHLIGHTS

- Design of a work plan on health, hygiene and psychology for the Exploration and Geology function
- Design and implementation of a software system to closely monitor levels of gas in the mine for the hygiene team

THE HOCHSCHILD APPROACH TO HEALTH AND HYGIENE

Underlining the importance we place on our people and their wellbeing, the Group's Health & Hygiene department is tasked with providing an integrated approach to employee welfare. Whilst the Health team is focused on ensuring that employees have access to the relevant services and infrastructure to ensure

that treatment can be provided, the Hygiene team looks to reinforce the importance of the quality of life at work through the prevention of occupational illness.

Given the nature of the work and the two-week shift patterns which result in frequent periods of absence from families, the Group recognises the importance of ensuring the mental wellbeing of its employees. For this reason, the Group's Health & Hygiene teams are also trained in occupational psychology.

Our Health & Hygiene teams undertake their work in line with the following guiding principles:

- Prevention comes first
- Maximising quality of life
- Adopting measures for the long-term benefit of our people
- Proactively identifying and controlling hazards at source
- Contributing to the continuous improvement in the Group's Health & Safety culture

OUR ACHIEVEMENTS IN 2015

2015 was the year in which the Corporate Health team focused on enhancing the quality of its processes. In addition, the team has widened its remit from the traditional areas of "curing" and "prevention" to a wider role of influencing the way the Group operates.

During the year:

- the health team reviewed and designed medical care protocols which were uploaded onto our online health record management system, Sisalud,
- senior members of the team participated in discussions with respect to new legal requirements and provided training to team members, and
- following a risk assessment, a series of actions were taken to improve the control of emissions within the mine.

HOW WE PERFORMED AGAINST OUR HEALTH AND HYGIENE 2015 OBJECTIVES

Target	Status	Commentary
To continue the department's active participation in national discussions on new regulation in the area of occupational health	✓	This was accomplished during the year. All doctors in the Group have participated in a structured training programme on new requirements and procedures have been implemented to ensure that they are kept updated on new developments.
To improve the offering of services to ensure the mental well-being of our workers	✓	The provision of services to ensure the mental well-being of our workers has been enhanced and is now aligned with DNV's 12th stage.
To review our corporate audit procedures on the provision of employee health data to our insurance partners	✓	After review, joint annual audits have been organised in conjunction with our insurance partners to ensure good practice in the management of data relating to occupational health and industrial hygiene.

Our people

2015 HIGHLIGHTS

- Workforce trained 79% (2014 61%)
- Average number of hours of training per year per employee 33.3 hours (2014 27.31 hours)

THE HOCHSCHILD APPROACH TO OUR PEOPLE

Training and development

The quality of our people is key to the success of the business in achieving its strategic objectives and our ongoing objective is therefore to attract and retain high quality personnel. The Company's Human Resource team seeks to achieve this by providing competitive remuneration, a positive working environment through the promotion of social and recreational activities, and ongoing professional development.

Group values, labour relations and human rights

Amongst the primary responsibilities of the HR team is the clear communication of the Group's corporate values: Integrity, Teamwork, Quality and Excellence, Responsibility and Commitment to our People. These values are embodied in our Code of Conduct which, amongst other things, sets out our undertakings to treat all employees fairly and to respect the right to be free of harassment or intimidation in the workplace. We recognise the core labour rights principles and, in this respect, support the right to freedom of association and collective bargaining.

Approximately 56% of our total workforce is represented by a trade union or similar body. As a signatory of the Global Compact of the United Nations, Hochschild Mining respects the human rights of all of the Company's stakeholders including those of our employees, our contractors and suppliers, as well as the members of our local communities.

The importance placed by the Company on human rights is reflected in the Group's training programme which seeks to ensure that all employees are aware of their rights and the Company's commitments.

ACTIVITIES IN 2015

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

Developing our people

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

Managing our talent

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

Creating a better place to work & Enhancing the Working Environment

The Group continues to make use of an Organisational Climate Survey which has been widely acknowledged as a key tool to measure levels of satisfaction amongst employees and to identify opportunities for further development. The latest survey was initiated in December 2015 and its findings will be considered in Q1 2016. The Group continually reviews its offering of non-financial benefits which currently comprise flexible working hours for Head Office staff over the summer period and the holding of regular social events.

PEOPLE INDICATORS

	2015	2014	2013	2012
Gender diversity statistics¹				
<i>Number of employees</i>				
Male	3,492	3,468	4,080	—
Female	237	229	276	—
<i>Number of senior managers²</i>				
Male	34	31	23	—
Female	2	2	2	—
<i>Number of Board Members</i>				
Male	8	8	8	—
Female	0	0	0	—

1 As at 31 December

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

Working with our communities

2015 HIGHLIGHTS

- Formation of partnerships with local communities and the State to develop synergies and leverage social projects focused on education, health and economic development
- Restructuring the way we implement and manage our Community Relations strategy to best serve the needs of all stakeholders

For more information visit
www.hochschildmining.com/our-sustainability-indicators

OUR VIEW OF WORKING WITH OUR COMMUNITIES

With the experience of operating in different parts of the Americas, the Group has adopted a culture of collaborating with the local communities surrounding our projects and operations. This desire to promote the development of the communities, respect for their human rights and their environment form the core of our corporate strategy that we describe as "Operating Responsibly".

COMMUNITY RELATIONS IN PRACTICE

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

OUR ACHIEVEMENTS IN 2015

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

Education

Elementary Education – For the third consecutive year, the Company has supported approximately 200 students in 12 schools close to the new Inmaculada mine by enhancing their offering in literacy and numeracy and by providing IT equipment.

Secondary Education – The third year of the Secondary Programme has been particularly successful, with efforts focused during the year on classes promoting entrepreneurship and the benefits of further education. In addition, we continued to facilitate the Friends Club, which provided over 450 students with the necessary personal skills to enable them to deal effectively with the demands and challenges of everyday life.

The Company's joint-venture in Argentina has also been active with the provision of training in various disciplines such as environmental welfare, traffic management etc. In addition, the operation has organised visits to the mine for young people who are about to finish school.

Scholarships – Through the Group's Argentinian and Peruvian operations, Hochschild has provided scholarships so that students can benefit from further technical studies or college. In addition, the Group has sponsored a number of students on various mining courses which has resulted in job opportunities being offered.

Health

Medico de Cabecera (the Travelling Doctor programme)
We have continued to work closely with the local offices of the Peruvian Ministry of Health to provide free access to medical care workshops for health prevention and health education for those communities close to our operations, which comprise approximately 5,000 people.

Socio-economic development

Digital Chalhuanca
In the fourth year of the project's implementation, the Group made significant progress beyond the provision of wi-fi to the

population of Chalhuanca. The purpose-built digital centre established by the Group achieved Cisco Networking Academy status during the year and, with the support of staff who have been trained to internationally recognised standards, the Group looks to build upon the technical skills that have already benefited the local community.

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

HOW WE PERFORMED AGAINST OUR 2015 COMMUNITY OBJECTIVES

Target	Status	Commentary
Continue the development of socio-economic programmes and validate proposals for future innovative initiatives	✓	See below for details on the specific programmes supported by the Group
Review and restructure, as necessary, the Community Relations team to maximise the efficient delivery of services	✓	This was completed during the year. The CR team was relocated and refocused its functions in line with the objectives of each operation.
Maximise employment opportunities to members of the community	✓	Standard procedures have been adopted across the Group in the recruitment and selection of community workers which were put to use during the year.
Enhance sustainability in the communities living close to our Inmaculada project	✓	See further details on the specific projects close to Inmaculada available on the Group's website.

Managing our environmental impact

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

2015 HIGHLIGHTS

- Launched new Corporate Environmental Policy and new KPI dashboard as part of re-inforcement of an environmentally conscious culture
- Significant improvement in water management at mining operations

THE HOCHSCHILD APPROACH TO ENVIRONMENTAL MANAGEMENT

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

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

OUR ACHIEVEMENTS IN 2015

- Continued resourcing of the environmental team with more than 100 people working in related operational roles and environmental management
- Installed more efficient and effective environmental controls in mining operations
- Implemented a more rigorous framework of audits to provide assurance on the adequacy of environmental controls
- Supported the business by securing the approval of Inmaculada's revised Environmental Impact Assessment ("EIA") and Mine Closure Plan, approval of Arcata's updated EIA to reflect new components, environmental permits for the Arcata exploration project, and necessary permits and approval of the execution and closure-related activities for the Yanacochita exploration project

HOW WE PERFORMED AGAINST OUR 2014 OBJECTIVES

Target	Commentary
Launch new corporate environmental KPIs	Completed. New monthly KPI dashboard launched during the year.
Review and update corporate environmental policy, environmental management system and organisation of the department	In progress
Implement efficiencies on waste water and drinking water treatment plants across all units	Completed. Installed new waste water treatment plants at Pallancata and Inmaculada, overhauled existing waste water treatment plants at Arcata and Sipan. New drinking water treatment plant at Arcata and improvements to existing plants at Selene and Sipan. Reduced water consumption overall at mining operations.

Greenhouse gas emissions data¹ (tonnes of CO₂e)

	2015	2014 ²	2013	2012
Emissions from combustion of fuel and operation of facilities (tCO ₂ e)	46,790	73,244	56,234	41,756
Emissions from purchased electricity (tCO ₂ e)	78,163	69,933	72,946	76,637
Emissions intensity, per thousand ounces of total silver equivalent produced (CO ₂ e/k oz) ³	5,531	5,533	4,890	–

1 Includes data for the whole year for Ares, Arcata, Selene, Pallancata, San Jose and office locations and for the period from June to December 2015 for Inmaculada.

2 Restated following a review of underlying data.

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

RISK MANAGEMENT & VIABILITY

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

INTRODUCTION

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

The Risk Committee is responsible for implementing the Group's policy on risk management and monitoring the effectiveness of controls in support of the Group's business objectives. It meets four times a year and more frequently if required. The Risk Committee comprises the CEO, the

Vice Presidents and the head of the internal audit function. A 'live' risk matrix is compiled and updated at each Risk Committee meeting and the most significant risks as well as potential actions to mitigate those risks are reported to the Group's Audit Committee which is responsible for the oversight of risk management on behalf of the Board, taking into account its risk appetite.

2015 RISKS

The key business risks affecting the Group set out in this report remain largely unchanged compared to those disclosed in the 2014 Risk Management report, with the exception that

- Counterparty Credit Risk, meaning the risks associated with the failure of a financial institution, is no longer considered to be a principal risk for the Company, and

- Refinancing risk has been identified as a new risk following the ongoing weakness of the commodities sector and its potential impact on the Group in light of its outstanding debt.

The year-on-year change in the profile of

- the risks associated with the Delivery of Projects reflects the fact that the Inmaculada mine was successfully brought into operation in August 2015, and
- Macroeconomic risks and the risks relating to Community Relations reflect the fact that 2015 was pre-electoral year in Peru and therefore public sentiment to mining related issues has been heightened in electoral campaigns in advance of elections in April 2016.

Financial risks

Risk	Impact	Mitigation	2015 Commentary
Commodity Price <i>Change in risk profile vs 2014 UNCHANGED</i>	Adverse movements in precious metal prices could materially impact the Group in various ways beyond a reduction in the results of operations. These include impacts on the feasibility of projects, the economics of the mineral resources and heightened personnel and sustainability related risks.	Constant focus on maintaining a low cost of production and an efficient level of administrative expense. Flexible hedging policy that allows the Group to contract hedges to mitigate the effect of price movements taking into account the Group's asset mix and forecast production. <i>See Our Market Overview on page 5 for further details</i>	Having achieved substantial savings through the Cash Optimisation Programme, the Group maintained its focus during 2015 on conserving capital and optimising cash flow through: further reducing operating and administrative costs minimising sustaining capital expenditure reducing debt via an equity raise, and optimising working capital. In addition to the above, the Inmaculada mine, which started commercial production in H2 2015, has started to reduce average production costs and dilute fixed costs, the extent of which will accelerate as the mine operates for a full financial year. The Group hedged part of its 2015 and 2016 silver and gold production to protect cashflow. <i>For further details see page 11 of the Financial Review</i>
Refinancing Risk <i>Change in risk profile vs 2014 NEW</i>	Failure to renew debt facilities (whether long-term or shorter term credit facilities) on existing terms could result in higher finance expense and reduce the Group's profitability. The likelihood of this risk increases in the event that the outlook for the sector deteriorates.	Close monitoring of cash generation with a focus on operational performance, costs and capital expenditure. Flexible hedging policy that allows the Group to contract hedges to mitigate the effect of price movements taking into account the Group's asset mix and forecast production. • On-going dialogue with local and international financial institutions and securing informal and non-binding credit approvals.	Given the deterioration of the commodities sector during the year, mitigation of this risk has included: Conserving capital and optimising cashflow as described above, Hedging a part of 2015 and 2016 production. Securing credit commitments from five banks. Maintaining an active dialogue with local and international banks through a series of meetings and organising site visits.

Operational risks

Risk	Impact	Mitigation	2015 Commentary
Operational Performance <i>Change in risk profile vs 2014</i> UNCHANGED	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	2015 budgets across the Group focused on maintaining controlled levels of administrative expenses and sustaining capex Production goals at all operations were met with the focus on the extraction of profitable ounces Increased operational flexibility also resulted from the commencement of production at Inmaculada Going forward management closely monitors specific risks that could affect operational performance
Delivery of Projects <i>Change in risk profile vs 2014</i> REDUCED	Unanticipated delays in delivering projects could have negative consequences including delaying cash inflows and increasing capital costs which could ultimately reduce profitability	Teams comprising specialist personnel and world class consultants and contractors are involved in all aspects of project planning and execution Project teams meet with senior management on a weekly basis to monitor ongoing progress against project schedules	Commissioning at the plant at Inmaculada started in Q2 2015 with commercial production declared in the following quarter Despite certain delays in commissioning, the ramping up of production has occurred in a shorter than expected time frame with the mine producing consistently at above design capacity <i>Further details on Inmaculada can be found on pages 8 and 11</i>
Business Interruption <i>Change in risk profile vs 2014</i> HIGHER	Assets used in the Group's operations and, in particular at Inmaculada, given the Group's reliance on that asset may break down and insurance policies may not cover against all forms of risks	Insurance coverage to protect against major risks Management reporting systems to support appropriate levels of inventory Annual inspections by insurance brokers and insurers with recommendations addressed in order to mitigate operational risks	Insurance advisors conducted site visits and completed a full review of operational risks to ensure that adequate property damage and business interruption risk management processes and insurance policies are in place at our operations Management reporting systems ensured that an appropriate level of inventory of critical parts is maintained Adequate preventative maintenance programmes supported by the SAP Maintenance Module are in place at the operating units
Exploration and Reserve and Resource Replacement <i>Change in risk profile vs 2014</i> HIGHER	The Group's operating margins and future profitability depend upon its ability to find mineral resources and to replenish reserves	Implementing and maintaining an annual exploration drilling plan Ongoing evaluation of acquisition and joint venture opportunities to acquire additional ounces High-end software programmes implemented to statistically estimate mineral resources	In 2015 all brownfield exploration goals were achieved including the discovery of the Pablo vein at Pallancata The continued focus on cost control has resulted in our exploration activity being primarily focused on current operations In 2016 exploration activity will be primarily focused on brownfield exploration in order to maintain or improve our resource base As a direct consequence of the continued low price environment the level of exploration of new projects and appraisal of acquisition/joint venture opportunities has been reduced substantially and will affect our ability to replace ageing operations The substantial reduction in sustaining capital expenditure in 2016 could affect the Group's ability to replace reserves at its historic rates
	Reserves stated in this Annual Report are estimates	Engagement of independent experts to undertake annual audit of mineral reserve and resource estimates Adherence to the JORC Code and guidelines therein	The Group has engaged P&E Consultants to undertake the annual audit of mineral reserve and resource estimates. <i>See page 122 for further details</i>
Personnel Recruitment and retention <i>Change in risk profile vs 2014</i> UNCHANGED	Inability to retain or attract personnel through a shortage of skilled personnel	The Group's approach to recruitment and retention provides for the payment of competitive compensation packages well defined career plans and training and development opportunities	The Group has continued to implement a number of low cost/high impact initiatives to improve the retention of employees These include the use of non-financial benefits (e.g flexible working arrangements for Head Office staff)
Personnel Labour relations <i>Change in risk profile vs 2014</i> UNCHANGED	Failure to maintain good labour relations with workers and/or unions may result in work slowdown, stoppage or strike	Development of a tailored labour relations strategy focusing on profit sharing, working conditions, management style development opportunities, motivation and communication	The reduction in profitability due to lower precious metal prices has resulted in no statutory profit sharing for Peruvian mineworkers Management has conducted monthly meetings with mineworkers and unions during 2015 to ensure complete understanding of their requirements and concerns and to keep all parties updated on the Group's financial performance with the aim of preparing the groundwork for the 2016 union negotiations

Sustainability risks

Risk	Impact	Mitigation	2015 Commentary
Health and safety <i>Change in risk profile vs 2014</i> UNCHANGED	Group employees working in the mines may be exposed to health and safety risks Failure to manage these risks may result in occupational illness accidents, a work slowdown stoppage or strike and/or may damage the reputation of the Group and hence its ability to operate	Health & Safety operational policies and procedures reflect the Group's zero tolerance approach to accidents Use of world class DNV safety management systems Dedicated personnel to ensure the safety of employees at the operations via stringent controls training and prevention programmes Rolling programme of training, communication campaigns and other initiatives promoting safe working practices Use of reporting and management information systems to monitor the incidence of accidents and enable preventative measures to be implemented	In 2015 the Group achieved its on-going objective of Zero Fatalities for the second consecutive year In addition, there have been reductions year-on-year in the accident frequency rate and accident severity index of c 40% and c 25% respectively
Environmental <i>Change in risk profile vs 2014</i> UNCHANGED	The Group may be liable for losses arising from environmental hazards associated with the Group's activities and production methods ageing infrastructure, or may be required to undertake corrective actions or extensive remedial clean-up action or pay for governmental remedial clean-up actions or be subject to fines and/or penalties	The Group has a team responsible for environmental management The Group has adopted a number of policies and procedures to limit and monitor its environmental impact	Relevant developments in 2015 include - the continued resourcing of an environmental team with over 100 people working in related operational roles and environmental management, - the launch of a new Corporate Environmental Policy and redesigned Key Performance Indicators as part of an effort to reinforce an environmentally-conscious culture, - Improvements in the treatment and consumption of water at the mining units, - Enhanced environmental controls at mining units and - Improved performance in external audits
Community Relations <i>Change in risk profile vs 2014</i> HIGHER	Communities living in the areas surrounding Hochschild's operations may oppose the activities carried out by the Group at existing mines or with respect to development projects and prospects, may invoke their rights to be consulted under new laws These actions may result in loss of production increased costs and decreased revenues and in longer lead times and additional costs for exploration and in bringing assets into production, and lead to an adverse impact on the Group's ability to obtain the relevant permissions for current or future projects.	Constructive engagement with local communities Community Relations strategy focuses on promoting education health and nutrition and sustainable development Allocation of budget and personnel for the provision of community support activities Policy to actively recruit workers from local communities	During H2 2015 protests by communities close to Inmaculada resulted in a 25-day blockade preventing use of the main access road to the Inmaculada mine. The blockade did not affect the Group's production target for the year however the conflict disrupted normal operations increased costs and led to the intervention by the government to lift the blockade by facilitating an informal mediation between the Group and the relevant communities Working groups continue to meet periodically In addition, the Group has (i) actively engaged with other local communities to fully understand their needs and to implement an action plan, and (ii) secured access to alternative roads to Inmaculada and Pallancata The risk of additional stoppages or blockades will continue to be present if the working groups do not reach long-term agreements between the parties involved <i>Further details on the Group's activities to mitigate sustainability risks can be found in the Sustainability report on pages 16 to 19</i>

Macro-economic risks

Risk	Impact	Mitigation	2015 Commentary
Political, legal and regulatory <i>Change in risk profile vs 2014</i> HIGHER	Changes in the legal, tax and regulatory landscape could result in significant additional expense, restrictions on or suspensions of operations and may lead to delays in the development of current operations and projects Implementation of exchange controls could impede the Group's ability to convert or remit hard currency out of its operating countries	- Local specialist personnel continually monitor and react, as necessary, to policy changes - Active dialogue with governmental authorities - Participation in local industry organisations	The measures adopted by the Peruvian authorities in 2014 continued to impact the mining sector in 2015 These include - the prioritisation of remediation orders over fines for breach of environmental regulations - new permitting requirements which will lead to longer permitting periods and additional costs, - implementation of the "Prior Consultation" law requiring the approval of indigenous communities before certain mining activities can be undertaken 2016 is an electoral year in Peru and therefore the mining sector is expected to be subject to heightened political debate with consequences for, amongst other things, labour and community relations and the regulatory regime The change in government in July 2016 will inevitably lead to a transitional period during which permitting periods will be further extended In Argentina, the year was dominated by the change of government following elections in October 2015 Relevant developments since then include - partial removal of currency controls resulting in a marked devaluation of the Peso, and - abolition of the tax on the export of ore Following the implementation of a new regional tax on mining companies' reserves in 2013, the Group launched a challenge regarding the constitutionality of the provincial law. The Supreme Court has decided to hear the case and, in the interim, has granted an injunction in favour of the Group's subsidiary entity Minera Santa Cruz

Further information on financial risk can be found in note 36 to the Consolidated Financial Statements

VIABILITY STATEMENT

In accordance with provision C 2.2 of the UK Corporate Governance Code (September 2014 Edition), the Directors have assessed the viability of the Group over a three-year period taking into account the Group's current position and the potential impact of the principal risks outlined earlier in this report

Time Horizon

The Directors have concluded that a three-year period is the appropriate period over which the viability statement can be given. This is the case even though the Board considers five-year operational and financial forecasts as part of its financing projections and annual strategic review. However, given the increased volatility of precious metal prices and the uncertainty overall with respect to the underlying assumptions, it is the Board's view that a five-year forecast would be of limited value.

Approach to Assessing Viability

In assessing the Group's viability, the Directors have considered the principal risks to which

the Group is exposed as set out in the earlier part of this report. In particular, the Directors have considered forecasts which reflect the impact of

- various precious metal price scenarios,
- risks that could threaten forecast production levels, restricted access to the financial markets, and
- plausible future contingencies resulting from, for example, governmental/regulatory action such as environmental liabilities

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

- hedging the price at which sales contracts are concluded,
- operational strategies to anticipate, minimise and overcome production-related risks
- ongoing investment commitment to replace and potentially improve mineral resources,
- the implementation of cost and capital expenditure reduction programmes, and
- liability management to actively deal with the Group's financial obligations

For examples of the mitigating actions taken by the Board during the year under review, please refer to the 2015 Commentary in the Risk Management section of this report

CONCLUSION

While it is always possible that combinations of weak precious metal prices and adverse operational risks could threaten the solvency and liquidity of the Company over the next three years, the Directors believe that in their view the business remains viable over the next three years in each of the plausible scenarios tested, after the effect of mitigation is considered.

The Strategic Report, as set out between the inside front cover and page 23, has been reviewed and approved by the Board of Directors and signed on its behalf by

IGNACIO BUSTAMANTE
 Chief Executive Officer
 8 March 2016



BOARD OF DIRECTORS AND SENIOR MANAGEMENT

The Board's role is to provide leadership to the senior management team through its collective experience and to monitor progress against the Group's strategic objectives within a prudent framework of controls and a managed level of risk.

Board of directors

Eduardo Hochschild
Chairman

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

Committee membership
Nominations Committee (Chairman)

Roberto Dañino
Deputy Chairman

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

Committee membership
CSR Committee (Chairman)

Ignacio Bustamante
Chief Executive Officer

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

Committee membership
CSR Committee

Enrico Bombieri
Senior Independent Director

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

Committee membership
Nominations Committee
Remuneration Committee (Chairman)

Dr Graham Birch
Independent Non-Executive Director

Dr Graham Birch joined the Board in July 2011. Prior to his retirement in 2009, Graham was a Director of BlackRock Commodities Investment Trust plc and manager of BlackRock's World Mining Trust and Gold and General Unit Trust. Previously, he worked at Kleinwort Benson Securities and Ord Minnett/Fleming Ord Minnett before joining Mercury Asset Management in 1993 where he launched a number of mining and natural resources funds. In 1997, Mercury Asset Management was acquired by Merrill Lynch Investment Managers which was itself eventually acquired by BlackRock in 2006. Graham has a PhD in mining geology from Imperial College London. Between 2010 and 2015, Graham acted as a Non-Executive Director of Petropavlovsk Plc.

Committee membership
CSR Committee
Remuneration Committee

Senior management

Ramón Barúa
Chief Financial Officer

Ramón Barúa was appointed CFO of Hochschild Mining on 1 June 2010. Prior to his appointment, he served as CEO of 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 CEO and CFO of Cementos Pacasmayo. Prior to joining Hochschild, Ramón was a Vice President of Debt Capital Markets with Deutsche Bank in New York for four years and a sales analyst with Banco Santander in Peru. Ramón is an economics graduate of Universidad de Lima and holds an MBA from Columbia Business School.

Isac Burstein
Vice President,
Exploration & Business Development

Isac Burstein joined the Group as a geologist in 1995. Prior to his current position, Isac served as Manager for Project Evaluation, Exploration Manager for Mexico and Exploration Geologist. Isac assumed responsibility for the Group's exploration activities in February 2014. Isac holds a BSc in Geological Engineering from the Universidad Nacional de Ingeniería, an MSc in Geology from the University of Missouri and an MBA from Krannert School of Management, Purdue University.

Eduardo Landín
Chief Operating Officer

Eduardo Landín was appointed COO of Hochschild Mining on 25 March 2013, having previously served as General Manager of the Company's operations in Argentina. In 2011, he became General Manager of Projects with direct responsibility over the development of Inmaculada and Crespo. Before joining the Company, Eduardo held the position of Corporate Development Manager at Cementos Pacasmayo and prior to that, he served in the Government of Peru's Ministry of Energy and Mines. Eduardo holds a BEng in Mechanical Engineering from Imperial College London and an Executive MBA from the Universidad de Piura, Peru.

Jose Augusto Palma
Vice President, Legal & Corporate Affairs

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

Eduardo Villar
Vice President,
Human Resources

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

Sir Malcolm Field
Independent
Non-Executive Director

Sir Malcolm Field joined the Board in 2006. He serves as a Non-Executive Director of Ray Berntson. Between 2009 and 2015 Sir Malcolm served as a Director of Petropavlovsk Plc. Prior to that, 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
Remuneration Committee

Jorge Born Jr
Independent
Non-Executive Director

Jorge Born Jr joined the Board in 2006. He is the President and Chief Executive Officer of Consult & Co. and a Director of Caldenes S.A. Jorge is also a Director of Dufry AG Zurich and President of the Bunge and Born Charitable Foundation. Previously Jorge served as a Director and Deputy Chairman of Bunge Limited having served as Head of European operations from 1992 to 1997 and as Head of UK operations from 1989 to 1992.

Committee
membership
Nominations Committee

Nigel Moore
Independent
Non-Executive Director

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

Committee
membership
Audit Committee
(Chairman)

Michael Rawlinson
Independent
Non-Executive Director

Michael Rawlinson joined the Board on 1 January 2016. He is the Global Co-Head of Mining and Metals at Barclays investment bank where he has worked since 2013 having joined from the boutique investment bank, Liberum Capital, a business he helped found in 2007. Michael worked at Flemings in 1991 and joined Cazenove in 1996 until 2007. He has been employed as both a corporate financier and research analyst specialising in the mining sector. Michael served as a Non-Executive Director of Talvivaara Mining Company Plc between April 2012 and November 2013.

Committee
membership
Audit Committee
CSR Committee

DIRECTORS' REPORT

The Directors present their report for the year ended 31 December 2015

DIVIDEND

The Directors did not declare a dividend in respect of the year ended 31 December 2015 and a final dividend is not being recommended (2014 total dividend nil)

DIVIDEND WAIVER

The trustee of the Hochschild Mining Employee Share Trust (the Employee Trust) has waived, on an ongoing basis, the right to dividend payments on shares held by the Employee Trust.

DIRECTORS

The names, functions and biographical details of the Directors serving at the date of this report are given on pages 24 and 25

With the exception of Michael Rawlinson, who was appointed to the Board on 1 January 2016, all Directors were in office for the duration of the year under review

With the exception of Sir Malcolm Field who will be retiring at the conclusion of the forthcoming Annual General Meeting ("AGM"), each of the Directors will be retiring at the AGM and seeking re-election by shareholders in line with the recommendation of the UK Corporate Governance Code

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

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

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

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

POLITICAL AND CHARITABLE DONATIONS

The Company does not make political donations. During the year, the Group spent c.\$597,000¹ on social and community welfare activities surrounding its mining units (2014 \$1.94 million)

CORPORATE GOVERNANCE STATEMENT

The requirements for a Corporate Governance Statement are fulfilled by the Corporate Governance report on pages 28 to 37

GREENHOUSE GAS EMISSIONS

Disclosures relating to the Group's greenhouse gas emissions can be found in the Sustainability report on page 19

RELATIONSHIP AGREEMENT

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

The principal purpose of the Relationship Agreement is to ensure that the Group is capable of carrying on its business for the benefit of the shareholders of the Company as a whole and that transactions and relationships with the Controlling Shareholders and any of their

respective associates including Inversiones ASPI S.A. (the recipient of the Major Shareholder's entitlement to new ordinary shares under the rights issue undertaken in 2015) 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 29 and, with regard to the right to appoint Directors to the Board, are set out on page 30

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

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

CONFLICTS OF INTEREST

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

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

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

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

GOING CONCERN

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report from the Inside Front Cover to page 23. The financial position of the Group, its cash flows, liquidity position and borrowings are described in the Financial Review on pages 11 to 15. In addition, note 36 to the financial statements includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposure to credit risk and liquidity risk

As described in the Our Market Overview on page 5, the trading environment in 2015 continued to be challenging with volatile precious metal prices which trended lower over the course of the year

Following the significant reduction in costs resulting from the Cash Optimisation Plan, the Company retained its focus in 2015 on maintaining a low cost base to counter the impact of further downturns in precious metal prices. In addition, the Board took decisive action to minimise the pressure on financial liquidity by the

¹ Figure represents only the portion of administrative expenditure (excluding corporate support) on social and community welfare activities surrounding the Company's operating units. Total social expenditure in 2015 amounted to \$3.0 million (2014 \$6.7 million)

successful completion of the \$100m rights issue and, to a lesser extent, the hedging arrangements in respect of 6 million ounces of silver and 100 000 ounces of gold of 2016 production

During 2015 and, most recently in the process of considering these financial statements, the Board has reviewed the actions that could be pursued as part of a contingency plan in the event that price conditions deteriorate further

In conclusion, having considered financial forecasts and projections which take into account (i) possible changes in the price of silver and gold, (ii) the Group's expenditure including its capital commitments at its operations, and (iii) the lower average cost of production and the dilution of fixed costs brought about by a sustained period of production at the Inmaculada mine, the Directors have a reasonable expectation that the Group and the Company have adequate resources, including access to contingent resources, that would see it continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements

AGM

The tenth AGM of the Company will be held at 8 30 am on 20 May 2016 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

As detailed later in the Audit Committee Report the Company is currently undertaking a formal tender for the external audit of the Group. Further details on the outcome of the tender will be provided in the documentation for the AGM and, in particular, on the resolution concerning the appointment of the Auditors

STATEMENT ON DISCLOSURE OF INFORMATION TO AUDITORS

Having made enquiries of fellow Directors and of the Company's Auditors, each Director confirms that, to the best of his knowledge and belief, there is no relevant audit information of which the Company's Auditors are unaware. Furthermore each Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's Auditors are aware of that information. This confirmation is given, and should be interpreted, in accordance with the provisions of Section 418(2) of the Companies Act 2006

STATEMENT OF DIRECTORS WITH RESPECT TO THE ANNUAL REPORT AND FINANCIAL STATEMENTS

As required by the UK Corporate Governance Code the Directors confirm that they consider that the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors confirm that to the best of their knowledge

- the financial statements, prepared in accordance with the applicable set of accounting standards give a true and fair view of the assets, liabilities, financial position and profit of the Company and the undertakings included in the consolidation taken as a whole, and
- the Management Report (which comprises the Strategic report, this Directors' Report and the other parts of this Annual Report incorporated therein by reference) includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face

DISCLAIMER

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

On behalf of the Board

RAJ BHASIN
Company Secretary
8 March 2016



CORPORATE GOVERNANCE REPORT

Dear shareholder

As Chairman, it is my key responsibility to ensure that the Board implements an effective framework of controls and processes that demonstrate good practice and safeguard shareholders' interests. These aspects are of crucial importance given the challenges that we have faced during the ongoing low commodity price environment.

Since listing in 2006, the Board has endeavoured to implement good market practice in terms of the way the Company's governance structure is designed and managed. As we approach the 10th anniversary of the listing, the Directors remain resolute in this commitment. At the beginning of the year, I assumed a non-executive chairmanship of the Company. As stated at the time, this was not a signal of any reduced interest in the Group's activities but a reflection of a desire to conform to a Board structure that has been proven to serve shareholders well. The move prompted the Board to review the division of responsibilities between the CEO and me which, among other things, now reflects the fact that as well as managing the day-to-day responsibility for the business, the CEO is charged, with the support of his executive team, in formulating the Group's long-term strategy for approval by the full Board.

With regards to the composition of the Board, our Non-Executive succession plan was re-initiated during 2015 which, in light of Sir Malcolm Field's planned retirement later in the year, led to the

appointment of Michael Rawlinson as an Independent Non-Executive Director. Michael brings a wealth of sector specific experience to the Board amassed during his career as a mining analyst and investment banker. As described later in this report, the Nominations Committee continues to oversee the process of identifying candidates to succeed Nigel Moore as Chairman of the Audit Committee, who will also be retiring from the Board.

The Board Evaluation process in 2015, overseen by Enrico Bombieri as the Senior Independent Director, conducted its annual in-depth review of not only how the way the Board and its Committees have performed but, in addition, looked at how the key projects during the year were implemented. The process also adds value to the way the Board undertakes its role in the form of the Directors' suggestions on Board process enhancements and areas of focus for future discussion with management. Further details on this process can be found on pages 30 and 31.

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

EDUARDO HOCHSCHILD

Chairman

8 March 2016

INTRODUCTION

This report, together with the Directors' remuneration report, describes how the Company has applied the Main Principles of the UK Corporate Governance Code ('the Code') (2014 edition) in respect of the year ended 31 December 2015. A copy of the Code is available on the website of the Financial Reporting Council ('FRC') at www.frc.org.uk.

Disclosures to be included in the Corporate Governance report in relation to share structure, shareholder agreements and the Company's constitutional provisions pursuant to the Disclosure and Transparency Rules are provided in the Supplementary Information section on pages 38 to 40.

STATEMENT OF COMPLIANCE

The Board confirms that, in respect of the year under review, the Group has complied with the provisions contained in the Code with the exception that the Company did not fully comply with the requirement that performance-related incentive schemes should include arrangements to recover or withhold variable pay when appropriate to do so (ie clawback or malus). As stated in the introductory letter to the Directors' Remuneration Report, the Company does not operate clawback but does operate a form of malus in its incentive schemes under which any vested award may be reduced in the event of failures relating to safety, environment, community and legal compliance. The Remuneration Committee has undertaken to review the inclusion of any wider form of malus and clawback in the current year.

THE BOARD

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

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

Composition

During 2015, the Board comprised the Chairman, the Chief Executive Officer, and six Non-Executive Directors. Michael Rawlinson was appointed to the Board as an Independent Non-Executive Director with effect from 1 January 2016.

Chairman and Chief Executive

The Board is led by the Chairman, Eduardo Hochschild who, as reported in last year's Annual Report, assumed a Non-Executive position with effect from 1 January 2015.

The Board has approved a document which sets out the division of responsibilities between the Chairman and CEO. This document was reviewed and amended by the Board during 2015 in light of the change in Eduardo Hochschild's role.

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

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

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

Whilst the Chairman is not considered to be independent as the majority shareholder of the Company, the Directors are satisfied having specifically considered the matter as part of the Board evaluation process, that, given the structure of the Board, decisions can be made without any one Director exercising undue influence.

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

The Relationship Agreement was reviewed by the Board in 2014 following the implementation of new Listing Rules applicable to listed companies with controlling shareholders (the 'New Listing Rules'). As a result, an amended and restated Relationship Agreement was approved and adopted which, in addition to being the subject of a general update, incorporates revised independence provisions reflecting the language of the New Listing Rules.

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

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

The confirmations required to be given by the Board under the New Listing Rules can be found in the Directors' Report on page 26.

Senior Independent Director

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

Although no such meetings were held, Mr Bombieri was available to meet with major shareholders during the year if their concerns were not resolved by the executive management team.

Non-Executive Directors

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

Details of the tenure of appointment of Non-Executive Directors are provided in the Directors' remuneration report.

Independence of the Non-Executive Directors

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

In reaching this conclusion, the Board has taken into account the fact that Jorge Born, Sir Malcolm Field and Nigel Moore (the 'IPO Non-Executive Directors') were appointed to the Board in 2006 shortly before the Company's IPO and have therefore served as Directors for more than nine years. This being the case, however, the Board felt that, with respect to each of the IPO Non-Executive Directors, his tenure is not considered to be of a nature to materially interfere with the exercise of his independent judgment.

As previously stated, Sir Malcolm Field will be retiring as a Non-Executive Director at the conclusion of the forthcoming Annual General Meeting. Nigel Moore will also be retiring from the Board but has agreed to continue in his role until a successor to the Chair of the Audit Committee has been identified and appointed.

Board meetings held in 2015

Six Board meetings were held in 2015 comprising four scheduled meetings and two ad hoc meetings. The first ad hoc meeting was convened to consider the alternative financing proposals from management and the second was called to consider and approve matters in connection with the rights issue.

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

	Maximum possible attendance	Actual attendance
Eduardo Hochschild	6	6
Roberto Dañino	6	5 ¹
Dr Graham Birch	6	6
Enrico Bombieri	6	6
Jorge Born Jr	6	5 ²
Ignacio Bustamante	6	6
Sir Malcolm Field	6	6
Nigel Moore	6	6

- 1 Roberto Dañino was unable to attend the December 2015 Board meeting due to medical treatment.
- 2 Jorge Born Jr was unable to attend the December 2015 Board meeting due to an unavoidable diary conflict.

Directors usually receive a full pack of papers for consideration at least five working days in advance of each scheduled Board meeting. In the event a Director is unable to attend a Board or Committee meeting, comments are encouraged to be fed back to the Chairman of the relevant meeting who ensures that the absent Director's views are represented.

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

In addition to the regular updates from across the business, the principal matters considered by the Board during 2015 were

Financial

the recommendations of the Audit Committee to adopt the 2014 Annual Report and Accounts and the 2015 Half-Yearly Report revised financial forecasts reflecting lower precious metal prices including analysis of compliance with debt covenants alternative financing options

- the rights issue
- the 2016 budget benchmarking of the Group's projected performance relative to peers in light of lower precious metal prices

Strategy

the Group's strategic plan which incorporated a presentation from a precious metals analyst hedging strategy

CORPORATE GOVERNANCE REPORT CONTINUED

Business performance

- detailed updates on the progress of, and subsequent commencement of production at, the Inmaculada mine. In addition, the Board reviewed the performance of the EPC contractor and monitored the status of ongoing discussions with regards to a number of disputed change orders
- assessment of the level of resources in the Pablo vein located close to Pallancata as well as more general updates on the exploration potential at existing operations
- a limited number of earn-in opportunities as future sources of inorganic growth

Risk

review of the strategic risks faced by the Group and the corresponding mitigation plans

Governance

- regular updates from the Company Secretary on relevant developments in corporate governance including the regulatory framework governing listed companies
- an update on the implementation of the 2014 Board evaluation recommendations, the outcome of the 2015 Board evaluation and the form of the 2016 process
- the annual reviews of Directors' conflicts of interest and independence of Non-Executive Directors
- the adoption of updated terms of reference for the Audit Committee

Sustainability

- presentations on the social and political climate in Peru and Argentina and the potential impact on the Group
- a review of the circumstances leading to a community-led blockade which temporarily prevented access to the Inmaculada mine and Selene plant and the implications for the Group's Community Relations strategy
- an evaluation of the alternative courses of action with regards to the closure of the Group's former Sipan mine

Personnel

- a presentation on the Talent Inventory Review, the Group's programme for developing and retaining senior talent

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

Appointments and re-election of Directors

Board nominations are recommended to the Board by the Nominations Committee

The Company adopted the practice of seeking the annual re-election of Directors in 2011 which it intends to continue even though the relevant Code provision applies only to constituents of the FTSE 350. Biographies of the Directors can be found on pages 24 and 25

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

To date, the Major Shareholder has not exercised this right

BOARD DEVELOPMENT

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

Induction

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

Briefings

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

Advice

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

2015 BOARD EVALUATION

In keeping with past practice, the 2015 Board evaluation process was undertaken through one to-one interviews conducted by the Senior Independent Director assisted by the Company Secretary

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

The Committees

- Composition and overall workings
- Specific aspects of each Committee's role and scope of responsibilities
- The role of the Hedging Committee (which is not a formal Board Committee)

The Board

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

Specific matters arising during the year

- A review of the Company's response to the low precious metal environment
- An evaluation of the planning for, and implementation of the rights issue

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

Company Secretary

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

BOARD EVALUATION

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

Implementation of 2014 Board evaluation

A number of actions were taken during the year as a consequence of the findings from the 2014 Board evaluation process. These included:

- improving the flow of information between the Remuneration Committee and the Board,
- the re-initiation of the Board's Non-Executive Succession Plan
- the implementation of practical suggestions to maximise the time available to the Board to discuss key strategic issues, and
- a presentation on the specific contingency actions to be taken in the event of lower commodity prices.

2015 Board evaluation

Evaluation of the Board and Committees

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

Evaluation of the Chairman

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

Outcome

The principal recommendations arising from the 2015 Board evaluation process can be summarised as follows:

- detailed enhancements to the reporting of Sustainability risks, the provision of support to the Board Committees following the change in their membership in light of the appointment of Michael Rawlinson and the forthcoming retirement of Sir Malcolm Field and, in due course, of Nigel Moore
- given its increased importance, the formalisation of the Hedging Committee, which is a non-Board Committee,
- future Non-Executive appointments to the Board to take into account the need for increased gender diversity and an experienced former mining executive
- continuation of the practice whereby the Non-Executive Directors meet collectively after each Board meeting with feedback,
- suggested areas to be covered in management presentations, and
- specific suggestions for the annual strategic planning session in May 2016.

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. Given the extent of the steps taken by management during the year to mitigate the impact of falling precious metal prices and the fact that the recommendation of the Code to undertake a third-party led evaluation applies only to FTSE 350 companies, the Board will continue to monitor the need for such an evaluation for implementation at the appropriate time.

THE BOARD'S COMMITTEES

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

AUDIT COMMITTEE

Dear Shareholder

I am pleased to introduce the report of the Audit Committee for 2015.

AREAS OF FOCUS FOR THE YEAR

The year continued to be a difficult one for the sector with ongoing volatility in precious metal prices which trended lower over the course of the year. The Committee has therefore focused its efforts on challenging the effectiveness of internal controls and the framework of risk management, which are two crucial aspects of the Committee's role in preserving shareholder value.

Both the Committee and the Board have also spent a considerable amount of time analysing the financial liquidity of the Group caused by pricing pressures which have been alleviated to a significant extent by the rights issue concluded in the latter part of 2015 and also mitigated by the contracts that have been entered into to mitigate price volatility in order to protect cashflow.

AUDIT TENDER

The UK Corporate Governance Code requires the Company to state whether it anticipates tendering its external audit. Ernst & Young LLP were appointed as Auditors in 2006 in preparation for the Company's Initial Public Offering and, accordingly, under the relevant EU regulations and transitional provisions, the Company is obliged to tender its 2017 external audit.

As a regular point of discussion, the Committee considered the merits of aligning the timing of the tender with the rotation of the current audit partner. Following these discussions, it was decided to proceed with a tender process, which is currently in progress. I would hasten to add that the decision to tender is one driven by good practice and should not be taken as a reflection of any dissatisfaction with Ernst & Young, who have provided a high quality audit and level of service that both management and the Committee much appreciate. The Committee anticipates making a recommendation to the Board in time for the proposed audit firm to be voted on at the Company's AGM in May 2016.

NIGEL MOORE

Committee Chairman

CORPORATE GOVERNANCE REPORT CONTINUED

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

during the year ended 31 December 2015

There were four meetings of the Audit Committee during the year

Key roles and responsibilities

- To monitor the integrity of the Company's financial statements
- To monitor the effectiveness of the Company's internal controls and risk management systems
- To review, on behalf of the Board, the Company's procedures for detecting fraud and the Company's systems and controls for the prevention of bribery, and to receive reports on non-compliance
- Oversight of the Internal Audit function and review of its annual work plan
- To oversee the relationship with the Company's external Auditors
- To review the effectiveness of the external audit process
- To report to shareholders annually on the Committee's activities including details of the significant audit issues encountered during the year and how they have been addressed

Membership

The Audit Committee is chaired by Nigel Moore, who has extensive and substantial financial experience gained in his previous role as a partner with Ernst & Young between 1973 and 2003 where he was responsible for services to a number of significant companies including audit responsibilities. In addition, Nigel has been Audit Committee Chairman for a number of other listed companies for the last 10 years

All Committee members who served during the year under review are considered to be independent Directors. Their biographical details can be found on pages 24 and 25

Following a review of the composition of the Board Committees at the end of the year, Graham Birch, Enrico Bombieri and Sir Malcolm Field stepped down as members of the Audit Committee and Michael Rawlinson was appointed as a member, effective 1 January 2016

Attendees

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

The Company Secretary acts as Secretary to the Committee

Activity during the year

The following matters featured amongst those considered by the Committee during the year

- Financial reporting** – The 2014 Annual Report and Accounts and the 2015 Half-Yearly Report were reviewed by the Committee before recommending that they be adopted by the Board. In its review of these financial reports, the Audit Committee reviewed accounting policies, estimates and judgements applied in preparing the relevant statements and the transparency and clarity of disclosures contained within them
- Review of audit plans** – In line with its usual practice, the Committee considered reports from the external Auditors on the scope and structure of the review of the half-yearly results and audit of the annual results

- Risk management** – Consideration and challenge of risk management assessments which incorporate a risk matrix detailing (i) the most significant risks facing the Group, (ii) an evaluation reflecting the likelihood of the occurrence of the risk and the extent of the potential impact on the Group, and (iii) commentary on the steps taken to manage each specific risk. See pages 20 to 23 for a description of the principal risks and uncertainties faced by the Group during the year
- Internal audit** – The Audit Committee continued to oversee and challenge the Group's adoption of a risk-based approach to internal audit. The Audit Committee Chairman receives a report from the Head of the Internal Audit every three months which sets out specific areas covered, improvements being recommended and introduced and proposals for the programme over the following three months. The CEO and CFO also receive copies of this report and robustly support the activities of the Internal Audit function
- Internal control** – Through the processes described on the following page, the Audit Committee reviewed the adequacy of the Group's internal control environment and risk management systems
- Whistleblowing** – The Audit Committee reviewed the adequacy of the Group's Whistleblowing Policy taking into account the reports received through the various online and offline channels established by the Group
- Fraud and bribery** – The Audit Committee continued to review and challenge 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 letters and reviewed and agreed audit fees. The Audit Committee evaluates the Auditors' performance each year taking into account written feedback prepared by the CFO, the Group Financial Controller and relevant finance managers from the operations. The issues raised are considered in detail at the Audit Committee meeting held mid-year which result in an action plan the execution of which is assessed in the following year's auditor evaluation
- Governance** – The Audit Committee received presentations from the Auditors and the Company Secretary on regulatory and other developments impacting the Committee's role, such as the Viability Statement and the requirements on audit tendering. In addition, the Committee reviewed its terms of reference during the year, which were revised to take into account good market practice
- Committee objectives** – The Audit Committee has continued its initiative of setting specific objectives for itself and management with a view to ensuring the diligent fulfilment of its responsibilities

The objectives for 2015 resulted in

- more detailed reporting on the Internal Audit function's testing of the control environment for weaknesses resulting from the Cash Optimisation Plan (the Group's cost-reduction programme), closer interaction with the external Auditors to ensure the continued efficient conduct of the annual audit and half-yearly review, and
- monitoring, in conjunction with the CFO, of the resourcing of the Central Finance team to ensure that the robustness of the financial reporting process is maintained

During the year, the Committee members held meetings with the external Auditors without executive management to discuss matters relating to the 2014 annual audit and the 2015 half-yearly report. There were no matters of significance to report from these meetings

SIGNIFICANT AUDIT ISSUES

As recommended by the Code, the following is a summary of the significant issues considered by the Committee in relation to the 2015 financial statements and how these issues have been addressed

Impairments

This continued to be the singularly most significant audit issue in 2015 given the decline in and volatility of precious metal prices

The Audit Committee assessed management's analysis of the recoverable value of each of the Group's cash-generating units ('CGUs') by

- reviewing the methodology applied in preparing the recoverable value models, considering the Auditors' opinion on the models' appropriateness
- taking into account the sensitivity analyses on significant inputs, and
- challenging the appropriateness of key assumptions

In light of these assessments, the Audit Committee agreed with management's conclusion that impairments be recorded with respect to the Arcata and Pallancata operating units, the Volcan and Azuca projects and San Felipe and that all impairment-related disclosures made in the Group financial statements are complete, sufficient and appropriate

Revenue Recognition

The Audit Committee has reviewed management's approach to accounting for revenue and considered the Auditors' procedures which focused on

testing the key controls around the revenue recognition process to confirm that they are designed and operating effectively, supporting the prevention and detection of material errors in the reported revenue figures,

- the timing of sales, and
- the appropriate treatment of provisional pricing

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

Going Concern Assessment

Due to the pressure on financial liquidity from the low and increasingly volatile commodity prices, the Board and the Committee (under its delegated authority) regularly considered the resources available to the Group and thereby its ongoing status as a going concern

Even though the Group's potential future funding needs were alleviated by the rights issue in the fourth quarter of 2015, the Board has considered cash flow forecasts, undertaken sensitivity analysis of the key assumptions and tested forecast covenant compliance

The Audit Committee considered the processes undertaken by the auditors to obtain reassurance that supports the continued application of the going concern methodology which included (a) the testing of key assumptions, (b) the appropriateness of stress testing and (c) the review of contractual and lending arrangements

In conclusion, the Committee is content that the financial statements are in accordance with relevant accounting standards and guidance

Please refer to the Directors' Report on page 26 for its confirmation to shareholders on the appropriateness of the Going Concern assumption and the Risk Management section of the Directors' approach to the longer term Viability Statement.

Hedging Contracts

The Committee considered periodic reports from the CFO and the Group Finance team on the financial treatment of the contracts intended to hedge the Group against commodity price volatility risk ('Hedging Contracts')

In addition, the Committee considered the work undertaken by the Auditors including

- confirmation from the firm's derivatives experts on, among other things, the effectiveness calculations for each arrangement,
- review of the calculation of the realised gain on the Hedging Contracts that were fully settled in 2015 and recognised within revenue for the year
- review of the fair value calculation in respect of the unsettled Hedging Contracts and the corresponding unrealised gain recognised within other comprehensive income, and
- consideration of the disclosures in the Group financial statements in respect of the significant hedging arrangements entered into after the year-end

The Audit Committee has concluded that the accounting for the Hedging Contracts is in accordance with relevant standards, that management estimates were appropriate, and that the contracts have been correctly reflected in the financial statements which contain all necessary disclosures

Adequacy of Tax Provisions

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

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

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

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

Mine Rehabilitation Provisions

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

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

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

The Audit Committee concluded that the provision is appropriate

Auditor Independence

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

CORPORATE GOVERNANCE REPORT CONTINUED

Policy on the use of Auditors for non-audit services

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

Safeguards

Additional safeguards to ensure auditor objectivity and independence include

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

2015 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 in the context of a risk appetite that is under continuous review.

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

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

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

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

Audit Committee's assessment

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

Board's assessment

Risk Management

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

Internal Control

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

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

NOMINATIONS COMMITTEE

Dear Shareholder

One of the key responsibilities of the Nominations Committee is to oversee the Board's succession planning requirements including the identification and assessment of potential Board candidates and making recommendations to the Board for approval. After the decision was taken to suspend our Non-Executive succession plan in 2014, we were able to make progress in 2015 with the search of candidates in anticipation of the planned retirements from the Board. Allied with this, the Committee undertook a review of the composition of the Board Committees to ensure a seamless transition given the forthcoming changes to the Board and to ensure a fresh approach to their roles.

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

EDUARDO HOCHSCHILD Committee Chairman

Members*	Maximum possible attendance	Actual attendance
Eduardo Hochschild (Committee Chairman)	4	4
Enrico Bombieri (Non-Executive Director)	4	4
Jorge Born (Non-Executive Director)	4	3 ¹
Sir Malcolm Field (Non-Executive Director)	4	4

* during the year ended 31 December 2015

1 Jorge Born was unable to attend the December Committee meeting due to an unavoidable diary conflict.

Key roles and responsibilities

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

Membership

There were no changes to the membership of the Committee during 2015. Sir Malcolm Field stepped down as a member of the Committee with effect from 1 January 2016.

The Company Secretary acts as Secretary to the Committee.

Activity during the year

The principal matters considered during the year were:

- oversight of the selection of candidates to succeed Sir Malcolm Field and Nigel Moore in anticipation of their retirement from the Board, the format of the 2015 Board evaluation process. As explained earlier in this report, it has been decided, given the focus on cost control across the Group and that the requirement to undertake a periodic external evaluation applies only to FTSE 350 companies, that the Board does not intend to undertake such an evaluation in the foreseeable future, and
- the findings of the 2015 Board evaluation process (see earlier section of the Corporate Governance report on Board development), the procedures to be implemented to manage any conflicts of interest that may arise from Michael Rawlinson's appointment as a Non-Executive Director and his employment with Barclays Investment Bank as Global Co-Head of Mining.

Appointments to the Board

In seeking candidates for appointment to the Board, regard is given to relevant experience and the skills required to complete the composition of a balanced Board, taking into account the challenges and opportunities facing the Company.

Michael Rawlinson was known to Board members in light of his considerable experience in the mining sector and therefore neither search consultants nor open advertising were used in connection with his appointment.

The benefits of Board diversity, including gender diversity, to Board effectiveness are acknowledged by the Directors who note that the current Board composition is reflective of a cultural diversity that is relevant to the Group's business. Whilst decisions on Board appointments will ultimately continue to be taken on merit, the Committee acknowledges that its Non-Executive Succession Plan presents an opportunity to increase the gender diversity of the Board.

CORPORATE SOCIAL RESPONSIBILITY COMMITTEE

Dear Shareholder

2015 represents the second consecutive year in which we have achieved our ongoing objective of zero fatalities and significant headway with improving safety overall, with an almost 40% reduction in the accident frequency index and a 25% reduction in the severity of accidents.

Our focus on our environmental credentials translated during the year into the actions taken to embed an environmentally-conscious culture at Hochschild. These are already bringing tangible results, as shown by the impressive statistical data highlighting our efficient management of water and other resources.

Despite the challenging trading conditions, we remain committed to our responsibilities to our local communities, and details of the work we have done during the year in the core areas of education, health and economic development as well as the matters mentioned above can be found in the Sustainability Report on pages 16 to 19.

ROBERTO DAÑINO Committee Chairman

CORPORATE GOVERNANCE REPORT CONTINUED

Members*	Maximum possible attendance	Actual attendance
Roberto Dañino (Committee Chairman)	4	3 ¹
Dr Graham Birch (Non-Executive Director)	4	4
Enrico Bombieri (Non Executive Director)	4	4
Ignacio Bustamante (Chief Executive Officer)	4	4

during the year ended 31 December 2015

- 1 Roberto Dañino was unable to attend the December Committee meeting due to medical treatment

Key roles and responsibilities

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

Membership

There were no changes to the membership of the Committee during 2015. Enrico Bombieri stepped down as a member of the Committee and Michael Rawlinson was appointed as a Committee member with effect from 1 January 2016.

The Vice President of Operations and the Vice President of Legal and Corporate Affairs attended each CSR Committee meeting by invitation.

The Company Secretary acts as Secretary to the Committee.

Activity during the year

Details relating to the CSR Committee and the Group's activities in this area are set out in the Sustainability report on pages 16 to 19.

REMUNERATION COMMITTEE

Dear Shareholder

Following my appointment as Remuneration Committee Chairman at the beginning of 2016, I am pleased to be able to contribute to the critical role of retaining and motivating senior executives by implementing a policy on executive remuneration that is aligned with the successful achievement of the Group's strategic objectives and ultimately, shareholders' interests. Operating in a sector which could potentially impact many stakeholders, it is key that management rewards also reflect our commitment as a responsible operator. Further details on the Company's remuneration policy and the Committee's work in 2015 can be found in the Directors' remuneration report from page 41.

ENRICO BOMBIERI
Committee Chairman

Members*	Maximum possible attendance	Actual attendance
Jorge Born Jr (Committee Chairman)	5	4 ¹
Sir Malcolm Field (Non-Executive Director)	5	5
Nigel Moore (Non-Executive Director)	5	5

* during the year ended 31 December 2015

- 1 Jorge Born was unable to attend the December Committee meeting due to an unavoidable diary conflict.

Key roles and responsibilities

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

Membership

There were no changes to the membership of the Committee during 2015. With effect from 1 January 2016, Jorge Born Jr and Nigel Moore stepped down from the Committee and Enrico Bombieri and Graham Birch were appointed Committee Chairman and Committee member respectively. The Company Secretary acts as Secretary to the Committee.

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

Activity during the year

Details of the Remuneration Committee's activities during the year are provided in the Directors' remuneration report on page 47.

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 2015

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
February	BMO Global Metals & Mining Conference
March	2014 Annual Results presentation UK Roadshow
May	BoA Merrill Lynch Global Metals Mining and Steel Conference Annual General Meeting
August	2015 Half-Yearly Results presentation
September	UK Roadshow Denver Gold Forum
December	Meetings with significant shareholders in connection with the rights issue

An extensive Investor Relations schedule resulted in management holding over 50 investor meetings during the year

Principal Shareholder Contacts

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

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

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

2015 AGM

Notice of the 2015 AGM was circulated to all shareholders at least 20 working days prior to the meeting. Each of the Chairmen of the Board Committees was available at the AGM to answer questions. A poll vote was taken on each of the resolutions put to shareholders with results announced shortly after the meeting and published on the Company's website

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

SUPPLEMENTARY INFORMATION

INTRODUCTION

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

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

SHARE CAPITAL

Issued share capital

The issued share capital of the Company as at 1 January 2015 was 367,101,352 ordinary shares of 25 pence each ('shares'). During 2015, a total of an additional 138,470,153 shares were issued as detailed in the following table

Reason for Share Issue	Number shares issued
Vesting of awards under the Deferred Bonus Plan	587,015
Rights issue	137,883,138

The Hochschild Mining Employee Share Trust (the Trust) is an employee share trust established to hold shares on trust for the benefit of employees within the Group

The Trustee of the Trust has absolute discretion to vote or abstain from voting in relation to the shares held by it from time to time and in doing so may take into account the interests of current and future beneficiaries and other considerations

Substantial shareholdings

As at 31 December 2015, the Company had been notified of the following interests in the Company's shares in accordance with Chapter 5 of the Financial Conduct Authority's Disclosure Rules and Transparency Rules

	Number of ordinary shares	Percentage of voting rights (indirect)	Percentage of voting rights (direct)
Eduardo Hochschild	274,065,373 ¹	—	54.21%
M&G Investment Management Ltd	78,975,650	10.06%	5.53%
Standard Life Investments (Holdings) Limited	18,483,256	2.01%	1.65%

1 The shareholding of Mr Eduardo Hochschild is held through Pelham Investment Corporation (199,320,272 ordinary shares) and ASPI Inversiones SA (74,745,101 ordinary shares)

The Company has been notified of the following changes in the above interests as at 8 March 2016

	Number of ordinary shares	Percentage of voting rights (indirect)	Percentage of voting rights (direct)
Standard Life Investments (Holdings) Limited	24,071,857	4.76%	1.65%

Current share repurchase authority

The Company obtained shareholder approval at the AGM held in May 2015 for the repurchase of up to 36,768,836 shares which represented, at that time, 10% of the Company's issued share capital ('the 2015 Authority'). Whilst no purchases have been made by the Company pursuant to the 2015 Authority, it is intended that shareholder consent will be sought on similar terms at this year's AGM when the 2015 Authority expires

Additional share capital information

This section provides additional information as at 31 December 2015

(a) Structure of share capital

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

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

(b) Rights and obligations attaching to shares

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

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

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

(c) Transfer of shares

The relevant provisions of the Articles state that

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

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

(d) Restrictions on voting

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

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

(e) Deadlines for voting rights

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

SHAREHOLDER AGREEMENTS

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

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

SIGNIFICANT AGREEMENTS

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

(a) \$350m 7.75% Senior Notes

Under the terms and conditions of the \$350 million 7.75% Senior Notes due 2021, upon the occurrence of a change of control followed by a ratings downgrade which results in a change of control repurchase event (as defined in the indenture), the Company may be required by each holder of the notes to offer to purchase the notes at a price equal to 101% of the principal amount of the notes, plus accrued and unpaid interest and additional amounts, if any, to the purchase date

In summary a Change of Control means the occurrence of one or more of the following events: (1) the disposition (other than by way of merger or consolidation) of all or substantially all of the assets of the Company and its subsidiaries taken as a whole to any person other than (i) to the Company or one of its subsidiaries or (ii) to a Permitted Holder (being Eduardo Hochschild or a permitted transferee), (2) the consummation of any transaction (including any merger or consolidation) the result of which is that (i) any person other than a Permitted Holder becomes the 'beneficial owner' of more than 50% of the Company's outstanding Voting Stock (as defined) or (ii) the Permitted Holders cease to be the beneficial owners directly or indirectly, of at least a majority of the outstanding Voting Stock of the Company, (3) the Company consolidates with or merges with or into, any person, or any person consolidates with, or merges with or into, the Company, in any such event pursuant to a transaction in which any of the outstanding Voting Stock of the Company or such other person is converted into or exchanged for cash, securities or other property other than any such transaction where the shares of the Voting Stock of the Company outstanding immediately prior to such transaction constitute, or are converted into or exchanged for, a majority of the Voting Stock of the surviving person immediately after giving effect to such transaction, (4) the first day on which the majority of the members of the Board of Directors of the Company cease to be Continuing Directors (as defined), (5) the Company shall for any reason cease to be the beneficial owner (as defined) of 100% of the Voting Stock of Compañía Minera Ares S.A.C., or (6) the adoption of a plan relating to the liquidation or dissolution of Compañía Minera Ares S.A.C.

(b) \$100m Credit Agreement

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

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

(c) Long Term Incentive Plans

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

(d) Derivative Instruments

Certain arrangements in respect of derivative instruments entered into by the Group would terminate on the occurrence of a change of control, thereby triggering an event of default vis-a-vis the counterparty

ADDITIONAL DISCLOSURES

Disclosure table pursuant to Listing Rule 9.8.4C R

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

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

SUPPLEMENTARY INFORMATION CONTINUED

SUMMARY OF CONSTITUTIONAL AND OTHER PROVISIONS

Appointment of Directors

Under the terms of the Articles

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

The Directors may from time to time appoint one or more of their body to be the holder of any executive office for such period (subject to the Companies Act) and on such terms as they may determine and may revoke or terminate any such appointment.

Each Director is subject to periodic re-election by shareholders at intervals of no more than every three years. Each Director (other than the Chairman and any Director holding executive office) shall retire at each AGM following the ninth anniversary of the date on which he was elected by the Company.

Approach to appointment adopted by the Board

Under law, the Company is entitled to adopt such practices which are no less stringent than those set out in the Articles. Accordingly, notwithstanding the above, the Board has decided to adopt the recommendation of the UK Corporate Governance Code that all Directors should seek annual re-election by shareholders.

New Listing Rules

Following the implementation, in 2014, of new Listing Rules by the Financial Conduct Authority (in its capacity as the UK Listing Authority), as a company with a controlling shareholder, the election or re-election of any independent director must be approved by (i) all shareholders of the Company, and (ii) the independent shareholders of the Company (i.e. any person entitled to vote on the election of directors of the Company that is not a controlling shareholder).

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

Removal of Directors

The Company may, in accordance with and subject to the provisions of the Companies Act by ordinary resolution of which special notice has been given, remove any Director before the expiration of his term of office. The office of Director shall be vacated if (i) he is prohibited by law from acting as a Director, (ii) he resigns or offers to resign and the Directors resolve to accept such offer, (iii) he becomes bankrupt or compounds with his creditors generally, (iv) a relevant order has been made by any court on the grounds of mental disorder, (v) he is absent without permission of the Directors from meetings of the Board for six months and the Directors resolve that his office be vacated, (vi) his resignation is requested in writing by not less than three quarters of the Directors for the time being, or (vii) in the case of a Director other than the Chairman and any Director holding an executive office, if the Directors shall resolve to require him to resign and within 30 days of being given notice of such notice he so fails to do.

Relationship Agreement

In addition, under the terms of the Relationship Agreement

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

Amendment of Articles of Association

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

Powers of the Directors

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

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

Repurchase of shares

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

Dividends and distributions

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

DIRECTORS' REMUNERATION REPORT

Dear Shareholders

On behalf of the Board, Jorge Born, as the Committee Chairman during the year under review, and I, as the current Committee Chairman, are pleased to present the Directors' Remuneration Report for the year ending 31 December 2015

This report is split into three sections: the Annual Statement, the Directors' Remuneration Policy and the Annual Report on Remuneration. The Remuneration Policy remains consistent with that approved by shareholders at the 2015 AGM, and is reproduced in summary form to provide context to the decisions taken by the Remuneration Committee during the year. The Annual Report on Remuneration will be subject to an advisory vote at the 2016 AGM.

As previously reported, 2015 saw the continuation of a challenging trading environment with volatile precious metal prices which trended lower. From a Company perspective, the low cost Inmaculada mine started production and the Company took decisive action to reduce debt through the completion of the rights issue. It is crucial that, in such circumstances, the Committee retains its focus on setting a framework of executive reward to retain and incentivise senior management.

Review of CEO's base salary

The Committee reviewed the CEO's salary in 2015. As in prior years, this review took into account a number of factors including pay levels in the global mining sector, the relative cost of living, an assessment of performance during the year, and pay conditions across the Group. In February, the Committee agreed that the CEO's base salary would be increased in two stages. Initially, a 16% increase was awarded as reported in last year's Remuneration Report and a second increase was agreed which was delayed until after the commencement of commercial production at Inmaculada in August 2015. This additional increment of \$200,000 (plus compensation for time services, which is a legal requirement in Peru and further explained on page 42), has resulted in an annual salary of \$758,333 which the Committee believes is justified in the context of market pay data and in acknowledgement of Ignacio's strong leadership.

Annual bonus

As discussed in greater detail later in this report, the Remuneration Committee has awarded a bonus to the CEO of 100% of salary. Though the formulaic outcome of the performance evaluation gave rise to the maximum bonus entitlement of 150% of salary, the Committee determined that despite the considerable achievements during the year including the successful completion of the rights issue and the reduction of debt, the final bonus payment should acknowledge the Company's share price performance over the year. Accordingly, the Remuneration Committee has exercised its discretion to reduce the overall payment and also require deferral of \$100,000 of the bonus in Company shares over two years.

Long-term incentives

During the year, the Committee reviewed the LTIP and determined that it remained appropriately aligned with strategy and shareholder value creation. The Committee reviewed the appropriateness of the TSR comparator group which resulted in the removal of Highland Gold and the addition of Endeavour Silver, First Majestic Silver, Fortuna Silver Mines, Tahoe Resources, and Volcan Compañía Minera.

Areas of future consideration

Following a review of the Company's remuneration practices relative to its peers, the Committee will be focusing this year on reviewing certain aspects of the Group's incentive plans and remuneration arrangements including consideration of the wider application of malus provisions and the introduction of clawback, in line with best market practice, and consideration of the Company's shareholding guidelines for Executive Directors.

We hope to receive your support at the AGM.

ENRICO BOMBIERI

Chairman, Remuneration Committee

JORGE BORN JR

Former Chairman, Remuneration Committee

This report has been prepared according to the requirements of the Companies Act 2006 ('the Act'), Regulation 11 and Schedule 8 of the Large and Medium-Sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 and other relevant requirements of the FCA Listing Rules. In addition, the Board has applied the principles of good corporate governance set out in the UK Corporate Governance Code, and has considered the guidelines issued by its leading shareholders and bodies such as the Investment Association and the Pensions and Lifetime Savings Association (formerly the National Association of Pension Funds).

DIRECTORS' REMUNERATION POLICY (UNAUDITED)

The principal objectives of the Remuneration Committee's agreed Remuneration Policy are to:

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

The Group seeks to achieve this alignment over both the short and long term through the use of an annual performance-related bonus, which rewards the achievement of a balanced mix of financial, operational and other relevant performance measures, and the use of a Long Term Incentive Plan (LTIP) which is linked to relative Total Shareholder Return (TSR). There is an additional incentive designed specifically for the CEO in the form of the Enhanced LTIP (ELTIP), which was approved by shareholders at the 2011 AGM.

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

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

DIRECTORS' REMUNERATION REPORT CONTINUED

EXECUTIVE DIRECTOR REMUNERATION POLICY TABLE

Objective	Details	Opportunity	Performance metrics
Base salary To support recruitment and retention	Salary is reviewed annually, usually in March, or following a significant change in responsibilities. Salary levels are targeted to be competitive and relevant to the global mining sector, with reference to the relative cost of living. The Committee also takes into consideration general pay levels for the wider employee population.	Any salary increases are applied in line with the outcome of the annual review. To avoid setting expectations of Directors and other employees no maximum salary is set under the Remuneration Policy. In respect of existing Executive Directors, it is anticipated that any salary increases will be in line with the wider employee population over the term of this policy. In exceptional circumstances (including, but not limited to, a material increase in job size or complexity), the Committee has discretion to make appropriate adjustments to salary levels to ensure they remain competitive.	None
Benefits To provide benefits in line with market practice in relevant geographies	Executive Directors receive compensation for time services and profit share, both of which are provided for by Peruvian law, as well as certain allowances which may include medical insurance, the use of a car and driver, and personal security.	For the profit share, an amount equal to 8% of the relevant Peruvian company's taxable income for the year is distributable to its employees. This amount is mandated by Peruvian law, and any increases are not within the control of the Group. The amount receivable is determined with reference to annual base salary (plus the annual bonus, if any) and the number of days worked during the calendar year. The value of the other benefits varies by role and individual circumstances, eligibility and costs are reviewed periodically. The Committee retains the discretion to approve a higher cost of benefits in exceptional circumstances (for example relocation) or in circumstances where factors outside the Company's control have changed materially (for example increases in insurance premiums).	None

EXECUTIVE DIRECTOR REMUNERATION POLICY TABLE CONTINUED

Objective	Details	Opportunity	Performance metrics
Annual bonus To achieve alignment with the Group's strategy and commitment to operating responsibly	Performance measures, targets and weightings are set at the start of the year At the end of the year the Committee determines the extent to which targets have been achieved taking into account the individual performance of each Executive Director Bonus payments are normally delivered in cash The Committee has discretion to defer all or a portion of the bonus, payable in cash or Hochschild shares under the Deferred Bonus Plan for up to three years Deferred bonus is subject to malus, i.e. forfeiture or reduction, in exceptional circumstances such as material misstatement or gross misconduct	For Executive Directors, the maximum annual bonus opportunity is 150% of salary The bonus earned is 67% of maximum for threshold level performance and 80% for target performance	Performance is determined by the Committee on an annual basis by reference to Group financial measures, e.g. Adjusted EBITDA, as well as the achievement of personal or strategic objectives, for example production and social responsibility The financial and strategic/personal objectives are typically weighted between 70% and 80% and 20% and 30% of maximum, respectively The Committee retains discretion to vary the weightings +/- 20% for individual measures within the financial element, to ensure alignment with the business priorities for the year Performance targets are generally calibrated with reference to the Company's budget for the year Each objective in the scorecard has a 'threshold', 'target' and 'maximum' performance target, achievement of which translates into a score for each objective The Committee uses its judgment to determine the overall scorecard outcome based on the achievement of the targets and the Committee's broad assessment of Company performance A review of the quality of earnings is conducted by the Committee to determine whether any adjustments should be made to the reported profit for the purpose of bonus outcomes This ensures that bonus outcomes are not impacted by unbudgeted non-recurring or one-off items, or circumstances outside of management's control such as material changes in commodity prices that could distort the overall quality of earnings The Committee has the discretion to reduce bonus payments on the occurrence of an adverse event related to health and safety, the environment or community relations Details of the measures, weightings and targets applicable for the financial year under review are provided in the Annual Report on Remuneration unless they are considered to be commercially sensitive
Maximising core assets To optimise life-of mine and production			
Exploration and project development To develop a pipeline of high quality projects			
Mergers & acquisitions To seek early stage value accretive opportunities with strong geological potential with a clear path to control			
Committed to operating responsibly To be responsible corporate citizens			

DIRECTORS' REMUNERATION REPORT CONTINUED

EXECUTIVE DIRECTOR REMUNERATION POLICY TABLE CONTINUED

Objective	Details	Opportunity	Performance metrics
Long Term Incentive Plan (LTIP) To directly incentivise sustained shareholder value creation through operational performance and to support the recruitment of senior positions and longer term retention	Executive Directors may be granted awards annually as determined by the Committee The vesting of these awards is subject to the attainment of specific performance conditions Awards are in the form of cash. Awards made under the LTIP have a performance and vesting period of at least three years If no entitlement has been earned at the end of the relevant performance period, awards lapse The CEO is required to invest at least 20% of vested LTIP awards into Hochschild shares until such time as he has accumulated a shareholding with a value of 200% of salary	The maximum cash payments to participating Executive Directors in any three-year period may not be more than six times salary (or eight times salary in exceptional circumstances) The equivalents of these upper limits also apply to annual awards, that is an annual grant limit of no more than 200% of salary in normal circumstances	Vesting of LTIP awards is subject to continued employment and the Company's performance over a three-year performance period Vesting is based on the Company's TSR performance relative to specific sector-based comparator groups Vesting of 70% of awards is based on the Company's TSR rank relative to a tailored comparator group. Vesting for threshold performance is 25% of maximum, with 75% for upper tercile performance and 100% for upper quintile performance Vesting of 30% of awards is based on the Company's TSR outperformance of the FTSE350 Mining Index. Vesting for threshold performance is 25% of maximum, with 100% for stretch performance The Committee reviews, and may adjust, the comparator groups against which performance is measured, and their weightings, from time to time to ensure they remain appropriate. More generally, the performance measures applied to LTIP awards are reviewed periodically to ensure they remain aligned with shareholder interests The Committee can reduce or prevent vesting if it determines either that (i) the overall underlying business performance of the Company is not satisfactory or (ii) an unacceptable position has occurred regarding safety, the environment, community relations, and/or compliance with legal obligations of the Company Details of the comparator groups and targets used for specific LTIP grants are included in the Annual Report on Remuneration

EXECUTIVE DIRECTOR REMUNERATION POLICY TABLE CONTINUED

Objective	Details	Opportunity	Performance metrics
Enhanced Long-Term Incentive Plan To support retention for the CEO over a longer term horizon and to achieve stronger alignment with shareholder interests through the use of conditional shares	An award in the form of conditional shares was made to the CEO in 2011 to reinforce his alignment with shareholder interests and to ensure his total remuneration package remained competitive. Awards vest based on the Company's TSR performance compared with a tailored comparator group over four, five and six years. Unvested awards are subject to malus, i.e. forfeiture or reduction, in exceptional circumstances such as material misstatement or gross misconduct. The CEO is required to retain 50% of the after-tax vested ELTIP shares until such time as he has accumulated a shareholding with a value of 200% of salary.	The ELTIP award in 2011 was over shares with a face value on the date of grant equivalent to 600% of the CEO's salary (362,196 conditional shares). In line with the approval granted by shareholders at the 2011 AGM, the Committee made a second ELTIP award to the CEO in 2014 of 600% of his salary (951,900 conditional shares). Dividend equivalents are payable over the vesting period in respect of the shares that vest.	Awards vest based on the Company's TSR performance compared with a tailored comparator group over four, five and six years. The vesting on the ELTIP award is based 100% on the Company's TSR rank compared with a sector peer group. 25% of the award vests on four-year TSR performance, 25% on five-year TSR performance, and 50% on six-year TSR performance. The vesting for threshold (median) performance is 25% of maximum, with 75% for upper quartile performance and 100% for upper decile performance. The Committee can reduce or prevent vesting if the Committee determines either that (i) the overall underlying business performance of the Company is not satisfactory or (ii) an unacceptable position has occurred regarding safety, the environment, community relations, and/or compliance with legal obligations of the Company. Details of the tailored comparator group are included in the Annual Report on Remuneration.

In addition to the above elements of remuneration the Committee may consider it appropriate to grant an award under a different structure in order to facilitate the recruitment or retention of an individual exercising the discretion available under Listing Rule 9.4.2 R (which provides for awards outside the normal long-term incentive structure provided the arrangement is established specifically to facilitate, in unusual circumstances, the recruitment or retention of the relevant individual).

The Committee also retains discretion to make non-significant changes to the policy without going back to shareholders.

Payments from existing awards

Executive Directors are eligible to receive payment from any award made prior to the approval and implementation of the Remuneration Policy detailed in this report, i.e. before 15 May 2015.

One-off Restricted Share Plan

Following shareholder approval at an Extraordinary General Meeting in December 2014, Ignacio Bustamante was granted an award under the RSP. Awards were made over conditional shares with a grant-date value equivalent to five times salary, and which vest in tranches over two to five years subject to satisfactory performance and continued employment with the Company. Unvested awards are subject to malus, i.e. forfeiture or reduction, in exceptional circumstances such as material misstatement or gross misconduct.

NON-EXECUTIVE DIRECTORS

The Group's Non-Executive Directors serve under Letters of Appointment as detailed in the table below. In accordance with their terms, the Non-Executive Directors serve for an initial period of three years which is automatically extended for further three year terms. Notwithstanding the foregoing, all Directors are subject to annual re-election by the Company in general meeting in line with the UK Corporate Governance Code, and the appointments of Non-Executive Directors may be determined by the Board or the Director giving not less than three months' notice.

DIRECTORS' REMUNERATION REPORT CONTINUED

Details of the terms of appointment of the Company's Non-Executive Directors serving during the year are shown in the table below. The appointment and reappointment and the remuneration of Non-Executive Directors are matters reserved for the full Board.

Non Executive Director	Letter of Appointment dated	Anticipated expiry of present term of appointment (subject to annual re-election)
Eduardo Hochschild ¹	30 January 2015	1 January 2019
Jorge Born Jr	16 October 2006	16 October 2018
Sir Malcolm Field	16 October 2006	16 October 2018
Nigel Moore	16 October 2006	16 October 2018
Roberto Dañino ²	11 January 2011	1 January 2017
Dr Graham Birch	20 June 2011	1 July 2017
Enrico Bombieri	20 October 2012	1 November 2018
Michael Rawlinson	18 December 2015	1 January 2019

1 Mr Hochschild previously Executive Chairman became Non Executive Chairman effective 1 January 2015

2 Pursuant to a contract between Mr Dañino and Ares dated 28 December 2010 a fee is payable to Mr Dañino in respect of his engagement as Special Adviser to the Chairman and the senior management team. The contract provides for a one year term which renews automatically for further one-year periods and can be terminated by either party on 30 days' written notice. With effect from 1 January 2015 Mr Dañino has waived the fee payable to him under this contract in light of the challenging trading conditions faced by the Company. This fee may be reinstated in the future on the terms of any renewed or extended contract.

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

The Non-Executive Directors' fees have been set at a level to reflect the amount of time and level of involvement required in order to carry out their duties as members of the Board and its Committees.

Details of the policy on fees paid to our Non-Executive Directors are set out in the table below.

Function	Operations	Opportunity	Performance measures
To attract and retain Non-Executive Directors of the highest calibre with broad commercial and other experience relevant to the Company	Fee levels are reviewed from time to time, with any adjustments effective from 1 March each year. The fee paid to the Chairman is determined by the Committee, and fees to Non-Executive Directors are determined by the Board. Additional fees are payable for acting as Chairman of the Audit and Remuneration Committees and as Senior Independent Director. Fee levels are reviewed by reference to FTSE-listed companies of similar size and complexity. Time commitment, level of involvement required and responsibility are taken into account when reviewing fee levels. Fees for the year ending 31 December 2015 are set out in the Annual Report on Remuneration on page 49.	Non-Executive Director fee increases are applied in line with the outcome of the fee review. Other than reinstating NED fees to their levels prior to 1 August 2013 at the discretion of the Board, it is expected that NEDs' fees will only be increased during the term of this policy in line with general market levels of NED fee inflation. In the event that there is a material misalignment with the market or a change in the complexity, responsibility or time commitment required to fulfil a Non-Executive Director role, the Board has discretion to make an appropriate adjustment to the fee level. The maximum aggregate annual fee for all Directors provided in the Company's Articles of Association is £3 million pa.	None

ANNUAL REPORT ON REMUNERATION

The following section provides details of how Hochschild's Remuneration Policy was implemented during the financial year ending 31 December 2015.

Remuneration Committee membership

The Remuneration Committee is chaired by Enrico Bombieri and its other members are Sir Malcolm Field and Graham Birch. Jorge Born Jr served as a member and Chairman of the Committee until the end of 2015. All of the members of the Remuneration Committee were, and continue to be independent Non-Executive Directors. The composition of the Remuneration Committee and its terms of reference comply with the provisions of the UK Corporate Governance Code and are available for inspection on the Company's website at www.hochschildmining.com.

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

The Committee's terms of reference

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

The Remuneration Committee met six times during the year (details of members' attendance at meetings are provided in the Corporate Governance report on page 36) and undertook the items of business noted below.

February 2015

- Considered 2014 performance evaluation of CEO and the resulting bonus. In addition, the Committee noted the performance of, and bonuses for, the Group's Vice Presidents.
- Reviewed and approved the CEO's salary for 2015 and the timing of implementation, and
- Reviewed and approved the remuneration arrangements for the Vice Presidents.

March 2015

- Considered and approved the 2014 Directors' Remuneration Report.
- Approved the grant of LTIP awards, and
- Considered matters relating to the upcoming vesting of Deferred Bonus awards.

April 2015 (two meetings)

- Considered the conditions to be attached to a one off bonus to below-Board executives in recognition of the successful commencement of production at Inmaculada ('Inmaculada Bonus'), and
- Approved the timing of implementation of CEO's 2015 salary increase.

August 2015

- Approved the payment of the Inmaculada Bonus.

December 2015

- Considered provisional assessments in advance of the year-end with respect to:
 - senior executive salaries
 - the CEO's 2015 performance evaluation,
 - the status of vesting of subsisting LTIP awards, and
 - 2016 bonus objectives for the CEO and CFO.
- Approved adjustments to outstanding ELTIP, RSP and DBP Awards following November 2015 Rights Issue.
- Reviewed a benchmarking of the Group's remuneration arrangements and considered the recent trends in UK executive remuneration.

Advisers

During the year, in order to enable the Committee to reach informed decisions on executive remuneration, advice on market data and trends was obtained from independent consultants, Kepler Associates, a brand of Mercer (which is part of the MMC group of companies). Kepler reports directly to the Committee Chairman, and is a signatory to and abides by the Code of Conduct for Remuneration Consultants (which can be found at www.remunerationconsultantsgroup.com). Other than advice on remuneration, no other services were provided by Kepler to the Company (or any other part of the MMC group of companies with the exception of unrelated insurance brokerage services). The fees paid to Kepler in respect of work carried out in 2015 (based on time and materials) totalled £12,348, excluding expenses and VAT.

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

Summary of shareholder voting at the 2015 AGM

The table below shows the results of the binding and advisory votes on the Remuneration Policy and Annual Report on Remuneration of the 2014 Directors' Remuneration Report, respectively, at the AGM on 15 May 2015.

	Remuneration Policy		Annual Report on Remuneration	
	Total number of votes	% of votes cast	Total number of votes	% of votes cast
For (including discretionary)	245,449,810	74.1%	270,636,145	82.4%
Against	85,917,919	25.9%	57,823,443	17.6%
Total votes cast (excluding withheld votes)	331,367,729		328,459,588	
Votes withheld	401,086		3,309,227	

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

DIRECTORS' REMUNERATION REPORT CONTINUED

The voting outcome on the Remuneration Policy largely reflected some shareholders' view of the Committee's discretion to avail Listing Rule 9.4.2R to grant awards outside of the policy in order to facilitate recruitment or retention. The Committee intends to use this discretion only in exceptional circumstances, and will consult with shareholders in advance.

In relation to the outcome of the voting on the Annual Report on Remuneration, the level of votes against reflected some shareholders' views with respect to the grant of awards under the Enhanced LTIP and RSP to the CEO during 2014. These awards were both approved by shareholders at separate General Meetings, and the award levels were set with reference to market benchmarking. The Committee believes the awards are in the best interests of shareholders and help to ensure our senior executives are appropriately retained and motivated in the current challenging operating environment. The award under the RSP was a one-off grant and the Committee does not expect to make another grant under the plan. Any further grants under the ELTIP will be subject to shareholder approval, and the Committee will consult with shareholders in advance.

SINGLE TOTAL FIGURE OF REMUNERATION FOR EXECUTIVE DIRECTORS (AUDITED)

The table below sets out a single figure for the total remuneration received by Ignacio Bustamante, the only Executive Director to serve during the year, for the year ended 31 December 2015 and the prior year.

	2015 US\$000	2014 US\$000
Base salary ¹	584	471
Taxable benefits ²	44	44
Pension	–	–
Single-year variable ³	700	409
Multiple-year variable ⁴	–	–
Profit share ⁵	–	–
Total	1,328	924 ⁶

1 Base salary includes compensation for time services and tax rebates in 2014 and 2015 on a portion of salary as mandated by the Peruvian government.

2 Taxable benefits include: use of a car and driver (2015: \$37,840; 2014: \$39,477 (restated)) and medical insurance.

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

4 Zero vesting for LTIP and ELTIP based on performance to 31 December 2014 and 2015.

5 All-employee profit share mandated by Peruvian law.

6 Revised total to reflect the restated amount for the value of the benefit for the use of a car and driver (see footnote 2 above).

SINGLE TOTAL FIGURE OF REMUNERATION FOR NON-EXECUTIVE DIRECTORS (AUDITED)

The table below sets out a single figure for the total remuneration received by each Non-Executive Director for the year ended 31 December 2015 and 2014.

	Base fee US\$000		Additional fees US\$000		Benefits in kind US\$000		Other US\$000		Total US\$000	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Non Executive Director										
Eduardo Hochschild ¹	400	n/a	–	n/a	339	525	–	936	739	1,461
Jorge Born Jr	77	116	– ²	– ²	–	–	–	–	77	116
Sir Malcolm Field	77	116	–	–	–	–	–	–	77	116
Nigel Moore	77	116	15 ³	23 ³	–	–	–	–	92	139
Roberto Dañino	77	116	– ⁴	240 ⁴	7 ⁵	19 ⁵	–	–	84	375
Dr Graham Birch	77	116	–	–	–	–	–	–	77	116
Enrico Bombieri	77	116	– ⁶	– ⁶	–	–	–	–	77	116

1 Eduardo Hochschild was an Executive Director in 2014 and his single figure of total remuneration for 2014 is disclosed in full in last year's Annual Report on Remuneration. The figure shown in the 'other' column relates to Eduardo's salary and cash in lieu of pension contribution for 2014 to which he was not entitled in 2015. As reported last year, Eduardo Hochschild retained eligibility to receive benefits following his transition to the Non-Executive Chairman role.

2 Jorge Born waived his entitlement to an additional fee of £10,000 as Chairman of the Remuneration Committee from 1 January 2014 in light of the challenging trading conditions faced by the Company.

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

4 The amount represents the fee of \$240,000 per annum payable to Mr Dañino in respect of his engagement as Special Adviser to the Chairman and the senior management team pursuant to a contract between Mr Dañino and Ares dated 28 December 2010. The contract provides for a one-year term which renews automatically for further one-year periods and can be terminated by either party on 30 days' written notice. Mr Dañino waived this fee effective 1 January 2015 in light of the challenging trading conditions faced by the Company.

5 Benefits in-kind relate to the benefits provided to Mr Dañino pursuant to his engagement as a Special Adviser to the Chairman and senior management team which include transportation, out-of-pocket expenses and medical insurance in 2014 and medical insurance only in 2015.

6 Enrico Bombieri waived his entitlement to an additional fee of £10,000 as Senior Independent Director in light of the challenging trading conditions faced by the Company.

SALARY AND FEE ADJUSTMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (UNAUDITED)

As reported last year, in February 2015, the Committee agreed that the base salary for the CEO will increase by 16% to US\$541,667, effective 1 March 2015, and that subject to the commencement of production from Inmaculada, a further increase would be considered with reference to external benchmarking. Inmaculada commenced commercial production in August 2015, and as a result, the Committee reviewed the CEO's salary and determined that it will be increased by a further \$200,000 (before CTS) to \$758,333, effective 1 November 2015. The Committee believes the size of the increase is justified in the context of market pay data and strong Company and individual performance.

Executive Director	Base salary ¹ from 1 July 2014 US\$000	Base salary ¹ from 1 March 2015 US\$000	Percentage increase	Base salary ¹ from 1 Nov 2015 US\$000	Percentage increase
Ignacio Bustamante ²	467	542	16%	758	40%

1 Includes compensation for time services (CTS)

2 Ignacio Bustamante's salary is denominated in USD

The Non-Executive Directors' fees have been set at a level to reflect the amount of time and level of involvement required in order to carry out their duties as members of the Board and its Committees. The fees payable to the Non-Executive Directors of the Company as at the date of this report are set out in the table below. All Non-Executive Directors receive a base fee, and additional fees are typically paid for the role of Chairman of the Remuneration Committee and Chairman of the Audit Committee.

A summary of current fee levels is provided below.

Non-Executive Director fee	Fee from 1 Jan 2015	Fee from 1 Jan 2016	Percentage increase
Chairman fee	\$400,000	\$400,000	No change
Base fee	£50,000	£50,000	No change
Additional fees	£10,000	£10,000	No change

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

INCENTIVE OUTCOMES FOR THE YEAR ENDED 31 DECEMBER 2015 (AUDITED)

Performance-related annual bonus in respect of 2015 performance

Objectives for the 2015 bonus were set by the Committee at the beginning of the year and a provisional assessment of performance during the year was undertaken at the December Committee meeting, which was confirmed in March 2016.

Further details of the bonuses paid for 2015, including the specific performance metrics, weightings and performance against each of the metrics, are provided in the table below.

Objective	KPI	Target weighting	Targets			Performance assessment
			Threshold	Target	Maximum	
Profitable production & financial results	Production	35%	24.2m Oz Ag Eq ¹			24.7m Oz Ag Eq ¹
	EBITDA	30%	US\$127.3m	US\$134.4m	US\$141.5m	US\$153m ²
	Sustaining Capex	10%	US\$74.8m	US\$71.4m	US\$68.0m	US\$68.5m ³
Safety awareness	Frequency rate	15%	2.08	2.03	1.98	1.85
	Severity rate	10%	540	450	300	112

1 Target set and assessed with reference to the Company's previous gold/silver ratio of 60:1.

2 Adjusted to, among other things, remove the impact of factors outside of management's control including precious metal prices.

3 Adjusted for unbudgeted sustaining capex.

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

Objectives which are considered critical to the Group are given higher weightings, such that outperformance in these areas contributes more significantly to the overall bonus outcome. The weighted average of the scores is calculated, and is translated into a bonus outcome of between 0% and 150% of salary for the CEO, which is used in the Committee's judgment in determining the actual bonus awarded.

The Committee assessed performance against the scorecard and the CEO's performance in 2015. A number of small adjustments were made in line with the Company's usual practice to maintain the quality of earnings by primarily disregarding the impact of factors outside of management's control such as the price of silver and gold. The Committee determined that even though the final bonus outcome gave rise to an entitlement of 150% of salary, it was decided that the level of the payment should acknowledge the Company's share price performance over the year and, accordingly, the Remuneration Committee has exercised its discretion to reduce the overall payment by 33% to 100% of salary, and also require deferral of \$100,000 of the bonus in Company shares, half of which will vest after one year, and the balance after two years.

DIRECTORS' REMUNERATION REPORT CONTINUED

Performance-related annual bonus in respect of 2014 performance

Partial disclosure of the CEO's 2014 objectives and his performance against them was provided in last year's Annual Report on Remuneration, and can be found on page 71 of the 2014 Annual Report and Accounts. Details of targets relating to cash generated through project sales and project milestones, which were not disclosed last year due to commercial sensitivity are provided in the table below

Objective	KPI	Target weighting	Targets			Performance assessment
			Threshold	Target	Maximum	
Business growth	Cash generated through project sales	11%	\$65m	\$75m	\$90m	Total proceeds from sales account for \$54m Actual = 0%
Project development	Project milestones – Immaculada schedule and budget	11%	Operations start Q1 Budget (of \$372m) +12.5%	Operations start Dec Budget +10%	Operations start Dec Budget +7.5%	Operations start H1 2015 \$408m (Budget +9.7%) Actual = 0%

2013 LTIP VESTING

On 31 March 2013, Ignacio Bustamante was granted an award under the LTIP with a face value of \$1,000,000. Vesting was dependent on three-year relative TSR performance against both a tailored peer group (70% of the total award) and the constituents of the FTSE350 Mining Index (30% of the total award). There was no retesting of performance. Further details of the performance conditions are shown in the table below

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

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

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

The Committee has considered the extent to which the performance conditions attached to the 2013 LTIP award had been satisfied. Since the Company's TSR in the performance period between 1 January 2013 and 31 December 2015 ranked 9th percentile versus that for the tailored peer group and underperformed the median of the constituents of the FTSE350 Mining Index by c 28%, this award will not vest.

2011 ELTIP VESTING

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

Performance periods	1 January 2011 to 31 December 2014 in respect of 25% of the award 1 January 2011 to 31 December 2015 in respect of 25% of the award 1 January 2011 to 31 December 2016 in respect of 50% of the award
Vesting dates (subject to performance)	28 April 2015 in respect of 90,549 shares 28 April 2016 in respect of 90,549 shares 28 April 2017 in respect of 181,098 shares
Performance conditions	Relative TSR performance Upper decile (90th percentile) Full vesting Upper quartile (75th percentile) 75% vesting Median (50th percentile) 25% vesting Straight-line vesting between these points
TSR comparator group	Acacia Mining, Agnico-Eagle Mines, Alamos Gold, AngloGold Ashanti, Barrick Gold, Centamin Egypt, Cia des Minas Buenaventura, Coeur Mining, Eldorado Gold, Fresnillo, Gold Fields, Goldcorp, Highland Gold, IAMGOLD, Kinross Gold, Newmont Mining, Pan American Silver, Petropavlovsk, Polymetal, Randgold Resources, and Silver Standard Resources

Subsequent to the year end, the Committee considered the extent to which the performance condition attached to the five-year tranche of the 2011 ELTIP award had been satisfied. The Company's TSR in the performance period between 1 January 2011 and 31 December 2015 ranked 23rd percentile versus that for the tailored peer group and, as a result, shares under this tranche will not vest.

SCHEME INTERESTS AWARDED IN 2015 (AUDITED)

LTIP

On 18 March 2015, Ignacio Bustamante was granted a cash-settled award under the LTIP with a face value of \$1,000,000

Vesting is dependent on three-year relative TSR from 1 January 2015 to 31 December 2017, with 70% of the award based on TSR performance against a tailored peer group and 30% of the award based on TSR performance against the constituents of the FTSE350 Mining Index

Awards vest on the third anniversary of the date of grant, subject to continued employment, and are subject to potential malus if, before vesting, the Committee determines either that (i) the overall underlying business performance of the Company is not satisfactory or (ii) an unacceptable position has occurred regarding safety, the environment, community relations, and/or compliance with legal obligations of the Company. Awards are settled in cash and the CEO will be required to invest at least 20% of any amount vesting into Hochschild shares, until such time as he has achieved the relevant shareholding guideline

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

Executive Director	Grant date	Performance period	Face value of award at grant	Award value for minimum performance
Ignacio Bustamante	18 March 2015	01 01 15 – 31 12 17	\$1,000,000	\$250,000

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

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

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

EXIT PAYMENTS MADE IN THE YEAR (AUDITED)

No exit payments were made to Directors in the year

PAYMENTS TO PAST DIRECTORS (AUDITED)

No payments were made to past Directors in the year

IMPLEMENTATION OF REMUNERATION POLICY FOR 2016

2016 remuneration arrangements will be implemented in line with the approved Remuneration Policy. Further details are provided below

Salary

Given the salary increase awarded in 2015, the Committee has determined that Ignacio Bustamante's salary for 2016 will remain the same at \$758,333 (including CTS)

Annual bonus

The annual bonus for the 2016 financial year will operate on the same basis as in 2015 in that the maximum bonus opportunity for the CEO will be 150% of salary and the payment will be subject to performance against broadly the same measures as those used in 2015. Further disclosure of measures and targets, where not commercially sensitive, will be provided in next year's Annual Report on Remuneration. The Remuneration Committee will continue to retain discretion as to whether any part of the bonus should be paid in shares and/or deferred for any period up to three years

LTIP

The Committee will make awards in 2016 within the maximum limits described in the Remuneration Policy. The performance conditions will be the same as for 2015 awards, with the exception that the tailored comparator group has been updated to exclude Highland Gold and include Endeavour Silver, First Majestic Silver, Fortuna Silver Mines, Tahoe Resources, and Volcan Compañía Minera

The full comparator group is as follows: Acacia Mining, Agnico-Eagle Mines, Alamos Gold, AngloGold Ashanti, Barrick Gold, Centamin Egypt, Cia des Minas Buenaventura, Coeur Mining, Eldorado Gold, Endeavour Silver, First Majestic Silver, Fortuna Silver Mines, Fresnillo, Gold Fields, Goldcorp, Hecla Mining, IAMGOLD, Kinross Gold, Newmont Mining, Pan American Silver, Petropavlovsk, Polymetal, Randgold Resources, Silver Standard Resources, Tahoe Resources, and Volcan Compañía Minera

DIRECTORS' REMUNERATION REPORT CONTINUED

PERCENTAGE CHANGE IN CEO REMUNERATION

The table below shows the percentage change in CEO remuneration from the prior year compared with the percentage change in remuneration for all other employees

	CEO remuneration US\$000			Other employees ¹	
	2014	2015	% change	% change	
Base salary ²	471	584	20.2%	9.6%	
Taxable benefits	44 ³	44	no change	n/a	
Single-year variable ³	409	700	71.2%	35.3%	

1 Other employees comprise full time salaried employees in Peru

2 Includes compensation for time services

3 Restated – see footnotes 2 & 6 to the table in the section above entitled "Single Total Figure Of Remuneration for Executive Directors"

RELATIVE IMPORTANCE OF SPEND ON PAY

The table below shows the percentage change in total employee pay expenditure and shareholder distributions (that is dividends and share buybacks) from the financial year ended 31 December 2014 to the financial year ended 31 December 2015

Distribution to shareholders US\$000			Employee remuneration US\$000		
2015	2014	% change	2015	2014	% change
NIL	NIL	n/a	139,684	157,696	-11%

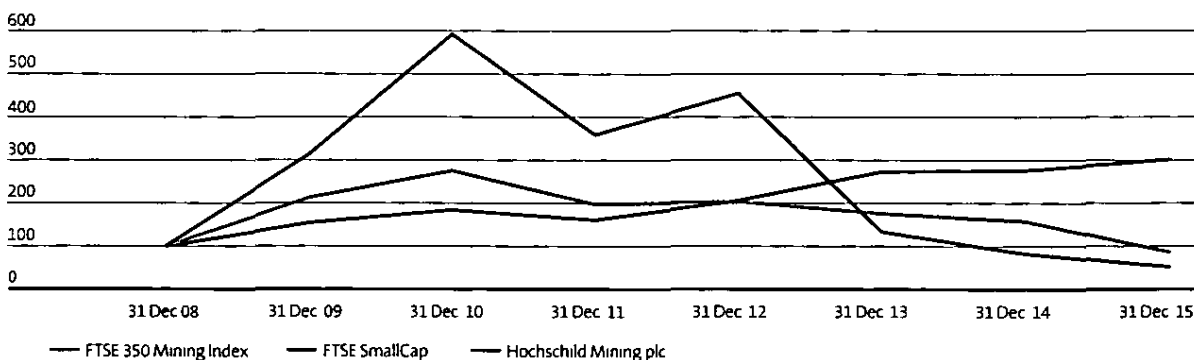
The Directors are not recommending the payment of a final dividend for the year ended 31 December 2015 (2014 nil)

PAY FOR PERFORMANCE

The following graph shows the TSR for the Company compared to the FTSE350 Mining Index and FTSE SmallCap Index, assuming £100 was invested on 31 December 2008. The Board considers that the FTSE350 Mining Index is an appropriate published index as it reflects the sector that Hochschild operates in, and the FTSE SmallCap Index provides a view of performance against a broad equity market index of which Hochschild has been a constituent since 2014. The table below details the CEO's single figure remuneration and actual variable pay outcomes over the same period.

HISTORICAL TSR PERFORMANCE

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



	2009	2010		2011	2012	2013	2014	2015
CEO	Miguel Aramburu ¹	Miguel Aramburu	Ignacio Bustamante ²	Ignacio Bustamante	Ignacio Bustamante	Ignacio Bustamante	Ignacio Bustamante	Ignacio Bustamante
CEO single figure of remuneration (\$000)	1,228	1,019	1,525	1,120	1,852	999	924 ³	1,328
Annual bonus outcome (% of maximum)	100%	46%	100%	100%	90%	81%	67%	67%
LTI vesting outcome (% of maximum)	0%	0%	47%	0%	98%	0%	0%	0%

1 Miguel Aramburu resigned on 31 March 2010

2 Ignacio Bustamante was appointed on 1 April 2010

3 Restated – see footnotes 2 & 6 to the table in the section above entitled "Single Total Figure Of Remuneration for Executive Directors"

DIRECTORS' INTERESTS (AUDITED)

The interests of the Directors and their families in the ordinary shares of the Company as at 31 December 2015 are detailed in the table below

The CEO is required to invest 20% of vested LTIP awards and retain 50% of the after-tax vested ELTIP shares until such time as he has accumulated a shareholding with a value of 200% of salary

	Shares held				Shareholding requirement (% of salary)	Current shareholding (% of salary)	Requirement met?
	Owned outright or vested at 31 Dec 2014	Owned outright or vested at 31 Dec 2015	Vested but subject to holding period	Unvested and subject to performance conditions			
Ignacio Bustamante	62,219	166,710	1 558,299	1,383,218	200%	17% ¹	No
Eduardo Hochschild	199,320 272	274,065,373	–	–	n/a	–	–
Jorge Born Jr	–	–	–	–	n/a	–	–
Sir Malcolm Field	14,285	19,641	–	–	n/a	–	–
Nigel Moore	40,000	68,750	–	–	n/a	–	–
Roberto Dañino	200 000	275,000	–	–	n/a	–	–
Dr Graham Birch	10,000	33 750	–	–	n/a	–	–
Enrico Bombieri	–	–	–	–	n/a	–	–

1 Using the Company's closing share price and GBP/USD exchange rate as at 31 December 2015 of 48 3p and £1 \$1 48234 respectively

There have been no changes to Directors' shareholdings since 31 December 2015

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

DIRECTORS' INTERESTS IN SHARE OPTIONS, SHARES AND CASH AWARDS IN HOCHSCHILD LONG-TERM INCENTIVE PLANS AND ALL EMPLOYEE PLANS

	Date of grant	Share price at grant ¹	Exercise price at grant	Number of shares awarded ¹	Face value at grant ²	Performance period	Vesting Date
Ignacio Bustamante							
DBP ³	20 03 14	155p	Nil	66,727	£103,294	n/a	20 03 16
2011 ELTIP	28 04 11	379p	Nil	102 365	£387,550	01 01 11 – 31 12 15	28 04 16
2011 ELTIP	28 04 11	379p	Nil	204,731	£775,099	01 01 11 – 31 12 16	28 04 17
2014 ELTIP	20 03 14	155p	Nil	269,030	£416,456	01 01 14 – 31 12 17	20 03 18
2014 ELTIP	20 03 14	155p	Nil	269 030	£416,456	01 01 14 – 31 12 18	20 03 19
2014 ELTIP	20 03 14	155p	Nil	538,062	£832,913	01 01 14 – 31 12 19	20 03 20
2013 LTIP	13 03 13	n/a	n/a	n/a	\$1m	01 01 13 – 31 12 15	13 03 16
2014 LTIP	12 03 14	n/a	n/a	n/a	\$1m	01 01 14 – 31 12 16	12 03 17
2015 LTIP	18 03 15	n/a	n/a	n/a	\$1m	01 01 15 – 31 12 17	18 03 18
RSP	30 12 14	77p	Nil	298,314	£229,046	n/a	30 12 16
RSP	30 12 14	77p	Nil	298 314	£229,046	n/a	30 12 17
RSP	30 12 14	77p	Nil	298,314	£229,046	n/a	30 12 18
RSP	30 12 14	77p	Nil	596,630	£458,094	n/a	30 12 19

1 These figures have been updated for the November 2015 rights issue and in the case of the share price at grant, the share price has been rounded to the nearest pence

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

3 50% of the 2014 DBP award (which relates to the deferred portion of the 2013 annual bonus) vested in March 2015

OTHER INTERESTS

None of the Directors had an interest in the shares of any subsidiary undertaking of the Company or in any significant contracts of the Group

EXTERNAL APPOINTMENTS OF EXECUTIVE DIRECTORS IN 2015 (UNAUDITED)

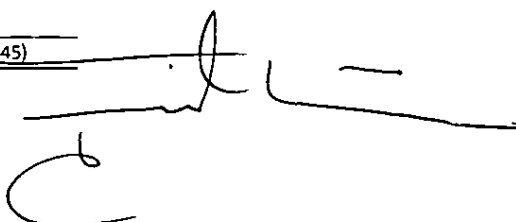
The table below details the fees received by Ignacio Bustamante, as the only Executive Director in office during 2015, in respect of his non-Group directorships and which are retained by him

Name of Company	Fee received
Caral Edificaciones SAC	PNS 26,797 (US\$7,851 45)

Signed on behalf of the Board

ENRICO BOMBIERI

Chairman of the Remuneration Committee
8 March 2016



STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

Company law requires the Directors to prepare Group and Parent Company financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with International Financial Reporting Standards ('IFRS') as adopted by the EU. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Parent Company and of their profit or loss for that period. In preparing those financial statements, the Directors are required to

- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are reasonable and prudent,
- state whether applicable IFRS have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations the Directors are also responsible for preparing a Strategic Report, Directors' report, Directors' remuneration report and Corporate governance statement that comply with that law and those regulations. The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HOCHSCHILD MINING PLC

OVERVIEW OF OUR AUDIT APPROACH

Risks of material misstatement	- Recoverability of the carrying value of the Group's mining assets - Revenue recognition - Going concern - Tax contingencies
Audit scope	We performed an audit of the complete financial information of 3 of the 20 components and performed audit procedures on specific selected accounts of 2 additional components The components where we performed full and specific audit procedures accounted for 97% of Adjusted EBITDA on an absolute basis (as defined in the Financial Review on page 14 of the Annual Report), 100% of revenue and 97% of total assets
Materiality	Overall Group materiality of US\$2.6m which represents 2% of Adjusted EBITDA

OUR ASSESSMENT OF RISK OF MATERIAL MISSTATEMENT

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

Risk	Our response to the risk	What we concluded to the Audit Committee
Recoverability of the carrying value of the Group's mining assets Refer to the Audit Committee Report (page 33), Accounting policies (page 71), and Notes 16, 17 and 18 of the Consolidated Financial Statements At 31 December 2015 the carrying value of property, plant and equipment, evaluation and exploration assets and intangible assets was \$1,211.7m (2014: \$1,326.4m). The Group recognised impairment charges in respect of property, plant and equipment, evaluation and exploration assets and intangible assets during the year of \$207.1m (2014: nil). We focused on this area because of the materiality of the balances involved and because the assessment of the recoverability of the carrying value of the Group's cash generating units ("CGUs") involves significant judgements about the future results of the business and the discount rates applied to future cash flow forecasts. We continue to consider this to be a risk area in 2015 given the ongoing challenges faced by the Group during the year arising from declines and volatility in market prices for silver and gold.	Our approach focused on the following procedures: - we obtained an understanding of management's process around impairment assessment, including all related controls; - we audited management's assessment of whether indicators of impairment (as defined in IAS 36 "Impairment of Assets" and IFRS 6 "Exploration for and Evaluation of Mineral Resources") exist for its CGUs and evaluating this assessment, including a challenge of the validity and completeness of the indicators identified with reference to our knowledge of the business obtained elsewhere in our audit; - where indicators existed, we obtained recoverable value models from management for the Group's CGUs and assessed the appropriateness of the methodology applied in preparing these recoverable value models; - we tested the recoverable value models for accuracy, performed sensitivity analyses on significant inputs and challenged the appropriateness of key assumptions (e.g. price assumptions, production and costing figures etc.) as compared with third party/independent sources (e.g. analyst price forecasts) or other evidence; - we involved valuations specialists to assist the audit team in challenging and assessing the appropriateness of the discount rates used in the calculation; - we agreed key inputs to approved mine plans or budgets as appropriate, and compared these with historical actual figures, considering the accuracy of previous internal forecasts; - we compared the calculated recoverable values to the associated carrying values, assessing whether any impairment charges or reversals of previously recognised impairment charges were necessary; and - we considered the appropriateness, sufficiency and clarity of any impairment-related disclosures provided in the Group Financial Statements, including the disclosure of key sensitivities. We performed audit procedures at the Group level over this risk area covering 100% of the risk amount.	As a result of the procedures performed, we concluded that management's impairment indicator analysis and impairment assessment for the Group's CGUs had been carried out appropriately and in accordance with the requirements of IAS 36 "Impairment of Assets", IFRS 6 "Exploration and Evaluation of Mineral Resources" and IFRS 13 "Fair Value Measurement". We challenged the accuracy and appropriateness of all significant assumptions, noting that all such assumptions fell within a range of acceptable outcomes. However, there are a number of particularly sensitive inputs in the analysis to which only minor adverse changes would result in a (further) impairment charge being necessary to one or more of the Group's CGUs (as disclosed in note 16 to the consolidated financial statements). We concur with management's conclusion to recognise an impairment charge of the Arcata, Pallancata, Crespo, Azuca, San Felipe and Volcan CGUs in the amount of \$207.1m. All required disclosures have been made in the Group financial statements.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HOCHSCHILD MINING PLC CONTINUED

Risk	Our response to the risk	What we concluded to the Audit Committee
Revenue recognition Refer to the Audit Committee Report (page 33), Accounting policies (page 72) and Note 5 of the Consolidated Financial Statements. For the year ended 31 December 2015 the Group recognised revenue from operations of \$469.1m (2014: \$493.0m) We continue to consider revenue recognition as an area of higher risk which drives our audit strategy and allocation of resources. The number of sales contracts and complex terms under which title risk and reward pass to the customer increases the risk of overstatement and cut-off errors. We have also identified risks in relation to the revenue hedging arrangements entered into by the Group and the calculation of the adjustment for provisional pricing, including the estimate of silver and gold in the concentrate sold.	Our approach focused on the following procedures: - we obtained an understanding of and tested that the key controls around the revenue recognition process are designed and implemented effectively supporting the prevention, detection or correction of material errors in the reported revenue figures, - we audited the terms and conditions of material sales contracts and ensure they have been accounted for in line with the Group's revenue recognition policy and the requirements of IFRS - we performed substantive testing procedures covering 100% of revenue transactions including cut off testing to ensure revenue was recognised in the correct period where provisional pricing applies we compared the fair value price assumptions to market forward rates and tested the reasonableness of the estimates of silver and gold in the concentrate sold, - for the silver and gold price swaps entered during the year we audited management's hedging documentation, forming an independent view that the application of hedge accounting was appropriate. We also tested any resulting realised and unrealised gains including the agreement of market forward rates used in determining the fair value at the balance sheet date and - we read the financial statements assessing whether all required disclosures in respect of revenue recognition, provisional pricing and hedging arrangements were included in the Group financial statements We performed full scope audit procedures over this risk area in two components which covered 100% of the risk amount	As a result of the procedures performed we have been able to conclude that revenue has been recognised in accordance with IAS 18 and that the calculation of the provisional pricing adjustment and the values of the realised and unrealised gains on the hedging arrangements have been performed in accordance with the Group's accounting policies and IFRS. We noted that in all cases management's assumptions and estimates were reasonable.
Going concern Refer to the Audit Committee Report (page 33) and Note 2a) of the Consolidated Financial Statements This area continues to be considered an area of risk for 2015 given the Group's increased leverage since 2014. The Group is required to make regular debt repayments and there are restrictive covenants over its debt. These factors coupled with the continued volatility in commodity prices have led to our increased focus on this area. Management and the Board prepare a cash flow forecast and undertake sensitivity analysis of the key assumptions to ensure that the Group can operate as a going concern for at least twelve months from the date the financial statements are signed.	Our approach focused on the following procedures: - we obtained the Group's going concern forecasts covering at least the twelve month period following approval of the financial statements. We challenged the key assumptions and judgements made by the directors therein. We satisfied ourselves as to the reasonableness of all key assumptions as well as their consistency where appropriate with other key assumptions noted elsewhere throughout our audit (notably those in our audit of the Group's impairment models above) - we updated our understanding of the contractual terms of the Group's financing arrangements, - we also read the lending agreements to substantiate our knowledge of the borrowing covenants to which the Group is subject and recalculated its forecast compliance with the same over the going concern assessment period - we read the Group financial statements to ensure the new borrowings were presented and disclosed appropriately and - we considered whether, given the available information and based on management's forecasts, the use of the going concern assumption is appropriate We performed audit procedures at the Group level over this risk area	As a result of the procedures performed on management's cash flow forecasts we have obtained sufficient audit evidence to conclude that the use of the going concern assumption in the preparation of the 2015 annual financial statements is appropriate and that no disclosures are required in the Group financial statements with respect to those conditions or events that may cast significant doubt on the entity's ability to continue as a going concern in accordance with IFRS.

Risk	Our response to the risk	What we concluded to the Audit Committee
Tax contingencies Refer to the Audit Committee Report (page 33), Accounting policies (page 73) and Note 34 of the Consolidated Financial Statements (page 101) At 31 December 2015 the Group disclosed tax related contingencies of \$35.0m (2014: \$46.1m) We identified tax exposures as another area of higher risk, due to the size of the potential fines or losses that the Group could suffer as a result of open tax authority reviews and the uncertainty surrounding the amount and timing of these potential liabilities	Our approach focused on the following procedures: we analysed management's assessment with regards to potential tax contingencies arising from tax authority reviews primarily in Peru and Argentina, we updated our understanding of management's process for assessing the contingencies we challenged the likelihood of an unfavourable outcome for the Group with regards to these contingencies, by forming an independent assessment based on the relevant facts and circumstance of each significant review concluding that the Group has appropriately designated all contingencies as either 'remote' or 'possible', or 'probable' and has recognised and disclosed any such contingencies in the Group financial statements as required and where applicable we obtained confirmations from external legal counsel to support Group management's position in respect of these potential contingencies We performed full scope audit procedures over this risk area in three components which covered 100% of the risk amount	As a result of the procedures performed and in consultation with our tax specialist teams, we have considered the estimates and assumptions made by management regarding these exposures to be reasonable. All required disclosures have been made in the Group financial statements

As in all of our audits, we also addressed the risk of management override of internal controls, including evaluating whether there is evidence of bias by the Directors that may represent a risk of material misstatement due to fraud. This is not a complete list of all risks identified by our audit.

THE SCOPE OF OUR AUDIT

Tailoring the scope

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

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

In assessing the risk of material misstatement to the Group financial statements and to ensure we had adequate quantitative coverage of significant accounts in the Group financial statements, of the 20 reporting components of the Group, we selected three components covering entities within the UK, Peru and Argentina which represent the principal business units within the Group. On these components we performed an audit of the complete financial information ("full scope components") which were selected based on their size or risk characteristics.

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

The reporting full scope and specific scope components where we performed audit procedures accounted for 97% (2014: 99%) of the Group's Adjusted EBITDA on an absolute basis, 100% (2014: 100%) of the Group's revenue and 97% (2014: 91%) of the Group's total assets.

Of the remaining 15 components, that together represent 3% of the Group's Adjusted EBITDA, none are individually greater than 1% of the Group's Adjusted EBITDA. For these components, we performed other procedures, including analytical review and testing of consolidation journals to respond to any potential risks of material misstatement to the Group financial statements.

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HOCHSCHILD MINING PLC CONTINUED

INVOLVEMENT WITH COMPONENT TEAMS

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

We determined the level of involvement we needed to have in the audit work at those components to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole.

The Group audit team continued to follow a programme of planned visits that has been designed to ensure that the Senior Statutory Auditor visits each of the primary operating locations where the Group audit scope was focused. The Senior Statutory Auditor visits the Peru operating location twice every year, and the Argentina operating location at least once every two years. During the current year's audit cycle, visits were undertaken by the primary audit team, including the Senior Statutory Auditor to the component team in Peru. For all locations subject to a full audit, in addition to any location visits, the primary team interacted regularly with the component teams during various stages of the audit and were responsible for the scope and direction of the audit process. The primary team also participated in the component teams' planning, discussed the audit approach with the component teams and any issues arising from their work, reviewed key audit working papers and attended all closing meetings either in person or by call. The Group audit team also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to full audit or an audit of specified account balances. This, together with the additional procedures performed at Group level, gave us appropriate evidence for our opinion on the Group financial statements as a whole.

OUR APPLICATION OF MATERIALITY

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

MATERIALITY

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

We determined materiality for the Group to be US\$2.6 million (2014: US\$2.7 million), which is 2% (2014: 2%) of Adjusted EBITDA. As the Group continues to be loss making for 2015 we consider that Adjusted EBITDA provides us with an earnings-based measure that is significant to users of the financial statements on which we could set our materiality. This was deemed to be a critical measure for users of the financial statements, given the focus on this metric by the Group's shareholders, investors and external lenders, specifically as an Adjusted EBITDA measure is used to assess the Group's compliance with key restrictive covenants on these borrowings.

PERFORMANCE MATERIALITY

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

On the basis of our risk assessments together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 75% (2014: 75%) of our planning materiality, namely US\$1.95m (2014: US\$2.0m). We have set performance materiality at this percentage due to our understanding of the Group's control environment and that there have been no significant events that would alter our expectation that there is a low likelihood of misstatements that would be material individually or in aggregate to the financial statements. Our objective in adopting this approach is to ensure that total detected and undetected audit differences do not exceed our materiality of US\$2.6 million for the consolidated financial statements as a whole.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was US\$1.95m – US\$1.1m (2014: \$2.0m – \$0.9m).

REPORTING THRESHOLD

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

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of US\$130k (2014: US\$135k), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds

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

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Group's and the Parent Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

As explained more fully in the Directors' Responsibilities Statement set out on page 54, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report is made solely to the company's members, as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the company and the company's members as a body for our audit work for this report or for the opinions we have formed.

OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006 and
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

ISAs (UK and Ireland) reporting	We are required to report to you if in our opinion financial and non-financial information in the Annual Report is - materially inconsistent with the information in the audited financial statements or - apparently materially incorrect based on, or materially inconsistent with our knowledge of the Group acquired in the course of performing our audit or - otherwise misleading In particular we are required to report whether we have identified any inconsistencies between our knowledge acquired in the course of performing the audit and the directors' statement that they consider the Annual Report and accounts taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the entity's performance, business model and strategy, and whether the Annual Report appropriately addresses those matters that we communicated to the Audit Committee that we consider should have been disclosed.	We have no exceptions to report
Companies Act 2006 reporting	We are required to report to you if in our opinion: - adequate accounting records have not been kept by the Parent Company or returns adequate for our audit have not been received from branches not visited by us, or - the Parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns, or - certain disclosures of directors' remuneration specified by law are not made, or - we have not received all the information and explanations we require for our audit	We have no exceptions to report
Listing Rules review requirements	We are required to review: - the directors' statement in relation to going concern set out on pages 26 and 27 and longer-term viability set out on page 23 and - the part of the Corporate Governance Statement relating to the company's compliance with the ten provisions of the UK Corporate Governance Code specified for our review	We have no exceptions to report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HOCHSCHILD MINING PLC CONTINUED

Statement on the Directors' Assessment of the Principal Risks that Would Threaten the Solvency or Liquidity of the Entity

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

STEVEN DOBSON

(Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor

London

8 March 2016

Notes

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

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2015

	Notes	Year ended 31 December 2015			Year ended 31 December 2014		
		Before exceptional items US\$000	Exceptional items (note 11) US\$000	Total US\$000	Before exceptional items US\$000	Exceptional items (note 11) US\$000	Total US\$000
Continuing operations							
Revenue	3,5	469,146	–	469,146	492,951	–	492,951
Cost of sales	6	(403,657)	(1,514)	(405,171)	(404,639)	(6,065)	(410,704)
Gross profit		65,489	(1,514)	63,975	88,312	(6,065)	82,247
Administrative expenses	7	(38,148)	–	(38,148)	(43,335)	(2,752)	(46,087)
Exploration expenses	8	(9,255)	–	(9,255)	(17,254)	(886)	(18,140)
Selling expenses	9	(21,729)	–	(21,729)	(28,697)	–	(28,697)
Other income	12	8,021	–	8,021	4,112	–	4,112
Other expenses	12	(15,264)	–	(15,264)	(17,512)	(2,963)	(20,475)
Impairment and write-off of assets, net	11	–	(207,146)	(207,146)	–	109	109
Loss from continuing operations before net finance income/(cost), foreign exchange loss and income tax		(10,886)	(208,660)	(219,546)	(14,374)	(12,557)	(26,931)
Finance income	13	1,898	–	1,898	2,215	4,061	6,276
Finance costs	13	(31,414)	(1,486)	(32,900)	(33,074)	(9,491)	(42,565)
Foreign exchange loss		(5,627)	–	(5,627)	(4,990)	–	(4,990)
Loss from continuing operations before income tax		(46,029)	(210,146)	(256,175)	(50,223)	(17,987)	(68,210)
Income tax (expense)/benefit	14	(20,370)	36,888	16,518	(6,466)	3,845	(2,621)
Loss for the year from continuing operations		(66,399)	(173,258)	(239,657)	(56,689)	(14,142)	(70,831)
Attributable to							
Equity shareholders of the Company		(61,852)	(172,758)	(234,610)	(54,963)	(13,914)	(68,877)
Non-controlling interests		(4,547)	(500)	(5,047)	(1,726)	(228)	(1,954)
		(66,399)	(173,258)	(239,657)	(56,689)	(14,142)	(70,831)
Basic and diluted loss per ordinary share from continuing operations for the year (expressed in US dollars per share)	15	(0.14)	(0.38)	(0.52)	(0.13)	(0.03)	(0.16)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2015

	Notes	Year ended 31 December	
		2015 US\$000	2014 US\$000
Loss for the year		(239,657)	(70,831)
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Exchange differences on translating foreign operations		(597)	(1,716)
Change in fair value of available-for-sale financial assets	19	(86)	(3,106)
Recycling of the loss on available-for-sale financial assets		104	2,096
Change in fair value of cash flow hedges		35,887	18,945
Recycling of the gain on cash flow hedges		(18,962)	(14,603)
Deferred income tax relating to components of other comprehensive income	14	(4,739)	(1,216)
Other comprehensive gain for the period, net of tax		11,607	400
Total comprehensive expense for the year		(228,050)	(70,431)
Total comprehensive expense attributable to			
Equity shareholders of the Company		(223,003)	(68,477)
Non-controlling interests		(5,047)	(1,954)
		(228,050)	(70,431)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2015

	Notes	As at 31 December 2015 US\$000	As at 31 December 2014 US\$000
ASSETS			
Non-current assets			
Property, plant and equipment	16	1,045,516	1,076,310
Evaluation and exploration assets	17	138,171	207,290
Intangible assets	18	27,981	42,815
Available-for-sale financial assets	19	366	455
Trade and other receivables	20	10,187	6,488
Income tax receivable		47	-
Deferred income tax assets	28	-	1,574
		1,222,268	1,334,932
Current assets			
Inventories	21	70,286	58,417
Trade and other receivables	20	124,827	167,038
Income tax receivable		20,384	25,584
Other financial assets	36(e)	21,267	4,342
Cash and cash equivalents	22	84,017	115,999
		320,781	371,380
Total assets		1,543,049	1,706,312
EQUITY AND LIABILITIES			
Capital and reserves attributable to shareholders of the Parent			
Equity share capital	27	223,805	170,389
Share premium	27	438,041	396,021
Treasury shares	27	(898)	(898)
Other reserves	27	(203,649)	(217,335)
Retained earnings		218,093	451,047
		675,392	799,224
Non-controlling interests		90,113	95,160
Total equity		765,505	894,384
Non-current liabilities			
Trade and other payables	24	20,379	92
Borrowings	25	339,778	440,834
Provisions	26	121,402	111,751
Deferred income	23	25,000	25,000
Deferred income tax liabilities	28	64,274	84,959
		570,833	662,636
Current liabilities			
Trade and other payables	24	101,892	111,890
Other financial liabilities	36(e)	1,141	1,533
Borrowings	25	94,760	27,882
Provisions	26	6,115	2,870
Income tax payable		2,803	5,117
		206,711	149,292
Total liabilities		777,544	811,928
Total equity and liabilities		1,543,049	1,706,312

These financial statements were approved by the Board of Directors on 8 March 2016 and signed on its behalf by

IGNACIO BUSTAMANTE
Chief Executive Officer
8 March 2016



CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2015

	Notes	Year ended 31 December	
		2015 US\$000	2014 US\$000
Cash flows from operating activities			
Cash generated from operations	32	166,234	129,993
Interest received		726	1,931
Interest paid		(36,445)	(25,585)
Payment of mine closure costs	26	(2,538)	(5,524)
Income tax received/(paid)		5,279	(7,036)
Net cash generated from operating activities		133,256	93,779
Cash flows from investing activities			
Purchase of property, plant and equipment		(216,188)	(309,033)
Purchase of evaluation and exploration assets		(6,861)	(6,071)
Purchase of intangibles		(612)	(281)
Dividends received		–	494
Proceeds from deferred income	23	–	3,223
Proceeds from sale of available-for-sale financial assets		3	48,097
Proceeds from sale of property, plant and equipment		339	564
Net cash used in investing activities		(223,319)	(263,007)
Cash flows from financing activities			
Proceeds of borrowings		175,948	482,393
Repayment of borrowings		(209,173)	(458,132)
Transaction costs of borrowings		–	(9,166)
Dividends paid	29	(964)	(10,056)
Proceeds from issue of ordinary shares		95,216	–
Cash flows generated in financing activities		61,027	5,039
Net decrease in cash and cash equivalents during the year		(29,036)	(164,189)
Exchange difference		(2,946)	(6,247)
Cash and cash equivalents at beginning of year		115,999	286,435
Cash and cash equivalents at end of year	22	84,017	115,999

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2015

	Notes	Equity share capital US\$000	Share premium US\$000	Treasury shares US\$000	Unrealised gain/(loss) on available-for-sale financial assets US\$000	Other reserves					Total Other reserves US\$000	Retained earnings US\$000	Capital and reserves attributable to shareholders of the Parent US\$000	Non-controlling interests US\$000	Total equity US\$000
						Unrealised gain/(loss) on hedges US\$000	Bond equity component (note 25(b)) US\$000	Cumulative translation adjustment US\$000	Merger reserve US\$000	Share-based payment reserve US\$000					
Balance at 1 January 2014		170,389	396,021	(898)	1,024	—	8,432	(11,289)	(210,046)	736	(211,143)	511,492	865,861	104,375	970,236
Other comprehensive (loss)/income		—	—	—	(1,010)	3,126	—	(1,716)	—	—	400	—	400	—	400
Loss for the year		—	—	—	—	—	—	—	—	—	—	(68,877)	(68,877)	(1,954)	(70,831)
Total comprehensive income/(loss) for the year		—	—	—	(1,010)	3,126	—	(1,716)	—	—	400	(68,877)	(68,477)	(1,954)	(70,431)
Transfer to retained earnings		—	—	—	—	—	(8,432)	—	—	—	(8,432)	8,432	—	—	—
CEO LTIP		—	—	—	—	—	—	—	—	610	610	—	610	—	610
Deferred bonus plan		—	—	—	—	—	—	—	—	1,230	1,230	—	1,230	—	1,230
Dividends declared to non-controlling interests	29	—	—	—	—	—	—	—	—	—	—	—	—	(7,261)	(7,261)
Balance at 31 December 2014		170,389	396,021	(898)	14	3,126	—	(13,005)	(210,046)	2,576	(217,335)	451,047	799,224	95,160	894,384
Other comprehensive (loss)/income		—	—	—	18	12,186	—	(597)	—	—	11,607	—	11,607	—	11,607
Loss for the year		—	—	—	—	—	—	—	—	—	—	(234,610)	(234,610)	(5,047)	(239,657)
Total comprehensive income/(loss) for the year		—	—	—	18	12,186	—	(597)	—	—	11,607	(234,610)	(223,003)	(5,047)	(228,050)
Issuance of shares of deferred bonus plan		220	—	—	—	—	—	—	—	(1,560)	(1,560)	1,340	—	—	—
Issuance of shares	27	53,196	46,812	—	—	—	—	—	—	—	—	—	100,008	—	100,008
Transaction costs related to issuance of shares	27	—	(4,792)	—	—	—	—	—	—	—	—	—	(4,792)	—	(4,792)
Restricted share plan	27	—	—	—	—	—	—	—	—	2,843	2,843	—	2,843	—	2,843
Deferred bonus plan		—	—	—	—	—	—	—	—	469	469	—	469	—	469
CEO LTIP		—	—	—	—	—	—	—	—	327	327	316	643	—	643
Balance at 31 December 2015		223,805	438,041	(898)	32	15,312	—	(13,602)	(210,046)	4,655	(203,649)	218,093	675,392	90,113	765,505

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 CORPORATE INFORMATION

Hochschild Mining plc (hereinafter the Company) is a public limited company incorporated on 11 April 2006 under the Companies Act 1985 as a Limited Company and registered in England and Wales with registered number 05777693. The Company's registered office is located at 23 Hanover Square, London W1S 1JB, United Kingdom.

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

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

The Group's principal business is the mining, processing and sale of silver and gold. The Group has three operating mines (Arcata, Pallancata and Inmaculada) located in southern Peru and one operating mine (San Jose) located in Argentina. The Group also has a portfolio of projects located across Peru, Argentina, Mexico and Chile at various stages of development.

These consolidated financial statements were approved for issue by the Board of Directors on 8 March 2016.

The Group's subsidiaries are as follows:

Company	Principal activity	Country of incorporation	Equity interest at 31 December	
			2015 %	2014 %
Hochschild Mining (Argentina) Corporation S.A.	Holding company	Argentina	100	100
MH Argentina S.A.	Exploration office	Argentina	100	100
Minera Santa Cruz S.A. ¹	Production of gold & silver	Argentina	51	51
Hochschild Mining Chile S.A. ²	Holding company	Chile	–	100
Minera Hochschild Chile S.C.M.	Exploration office	Chile	100	100
Andina Minerals Chile Ltd	Exploration office	Chile	100	100
Sociedad Contractual Minera Victoria	Exploration office	Chile	100	100
Southwest Minerals (Yunnan) Inc	Exploration office	China	100	100
Hochschild Mining Holdings Limited	Holding company	England & Wales	100	100
Hochschild Mining Ares (UK) Limited	Administrative office	England & Wales	100	100
Southwest Mining Inc	Exploration office	Mauritius	100	100
Southwest Minerals Inc	Exploration office	Mauritius	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
Hochschild Mining (Peru) S.A.	Holding company	Peru	100	100
Compañía Minera Ares S.A.C.	Production of gold & silver	Peru	100	100
Compañía Minera Arcata S.A.	Production of gold & silver	Peru	99.1	99.1
Empresa de Transmisión Callalli S.A.C.	Power transmission	Peru	100	100
Asociación Sumac Tarpuy ³	Not-for-profit	Peru	–	–
Minera Oro Vega S.A.C. ⁴	Exploration office	Peru	–	100
Empresa de Transmisión Aymaraes S.A.C. ⁵	Power transmission	Peru	50	50
Minera Antay S.A.C.	Exploration office	Peru	100	99.9
Hochschild Mining (US) Inc	Holding company	USA	100	100

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

1 CORPORATE INFORMATION CONTINUED

1 The Group has a 51% interest in Minera Santa Cruz S.A., while the remaining 49% is held by a non-controlling interest. The significant financial information in respect of this subsidiary before intercompany eliminations as at and for the years ended 31 December 2015 and 2014 is as follows

	As at 31 December	
	2015 US\$000	2014 US\$000
Non current assets	225,422	226,886
Current assets	90,552	109,700
Non current liabilities	(90,518)	(78,297)
Current liabilities	(44,397)	(66,937)
Equity	(181,059)	(191,352)
Revenue	186,097	213,013
Loss for the year	(10,290)	(3,997)
Net cash generated from operating activities	32,387	75,108
Net cash used in investing activities	(33,966)	(59,398)
Cash flow used in financing activities	(893)	(23,700)

2015 and 2014 Loss attributable to non-controlling interests in the consolidated income statement non-controlling interest in the consolidated statement of financial position and dividends declared to non-controlling interests in the consolidated statement of changes in equity are solely related to Minera Santa Cruz S.A.

2 On 1 January 2015 Minera Hochschild Chile S.C.M. absorbed Hochschild Mining Chile S.A.

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 community and social welfare activities located close to its mine units. Accordingly the Group consolidates this entity.

4 On 1 November 2015 Compañía Minera Ares S.A.C. absorbed Minera Oro Vega S.A.C.

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

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and the Companies Act 2006.

The basis of preparation and accounting policies used in preparing the consolidated financial statements for the years ended 31 December 2015 and 2014 are set out below. The consolidated financial statements have been prepared on a historical cost basis except for the revaluation of certain financial instruments that are measured at fair value at the end of each reporting period as explained below. These accounting policies have been consistently applied, except for the effects of the adoption of new and amended accounting standards.

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

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

Changes in accounting policy and disclosures

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those applied in the preparation of the consolidated financial statement for the year ended 31 December 2014.

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 2016 or later periods but which the Group has not previously adopted. Those that are applicable to the Group are as follows:

- IAS 1 Disclosure Initiative - Amendments to IAS 1, applicable for annual periods beginning on or after 1 January 2016
- IAS 16 and IAS 38 - Clarification of Acceptable Methods of Depreciation and Amortisation - Amendments to IAS 16 and IAS 38 applicable for annual periods beginning on or after 1 January 2016
- AIP IFRS 5 Non-current Assets Held for Sale and Discontinued Operations - Changes in methods of disposal, applicable for annual periods beginning on or after 1 January 2016
- AIP IFRS 7 Financial Instruments - Disclosures - Servicing contracts, applicable for annual periods beginning on or after 1 January 2016
- AIP IAS 19 Employee Benefits - Discount rate - regional market issue applicable for annual periods beginning on or after 1 January 2016

2 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

- IFRS 15 Revenue from Contracts with Customers, applicable for annual periods beginning on or after 1 January 2018
- IFRS 9 Financial Instruments, applicable for annual periods beginning on or after 1 January 2018
- IFRS 12 Disclosure of Interests in Other Entities, applicable for annual periods beginning on or after 1 January 2016
- IFRS 16 Leases, applicable for annual periods beginning on or after 1 Jan 2019
- IAS 7 Statement of cash flows, applicable for annual periods beginning on or after 1 January 2017
- IAS 12 Income Taxes applicable for annual periods beginning on or after 1 January 2017

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

(b) Judgements in applying accounting policies and key sources of estimation uncertainty

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

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

Significant estimates

- Determination of useful lives of assets for depreciation and amortisation purposes – note 2(e)

Estimates are required to be made by management as to the useful lives of assets. For depreciation calculated under the unit-of-production method, estimated recoverable reserves and resources are used in determining the depreciation and/or amortisation of mine-specific assets. This results in a depreciation/amortisation charge proportional to the depletion of the anticipated remaining life-of-mine production. Each item's life, which is assessed annually, has regard to both its physical life limitations and to present assessments of economically recoverable reserves and resources of the mine property at which the asset is located. These calculations require the use of estimates and assumptions, including the amount of recoverable reserves and resources. Changes are accounted for prospectively.

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

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

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

The assessment of asset carrying values requires the use of estimates and assumptions such as long-term commodity prices, discount rates, future capital requirements, exploration potential and operating performance. Changes in these assumptions will affect the recoverable amount of the property, plant and equipment, evaluation and exploration assets and intangibles.

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

The Group assesses its mine closure cost provision annually. Significant estimates and assumptions are made in determining the provision for mine closure cost as there are numerous factors that will affect the ultimate liability payable. These factors include estimates of the extent and costs of rehabilitation activities, technological changes, regulatory changes, cost increases, mine life and changes in discount rates. Those uncertainties may result in future actual expenditure differing from the amounts currently provided. The provision at the balance sheet date represents management's best estimate of the present value of the future closure costs required. Changes to estimated future costs are recognised in the statement of financial position by adjusting the mine closure cost liability and the related asset originally recognised. If, for mature mines, the revised mine assets net of mine closure cost provisions exceed the recoverable value, that portion of the increase is charged directly to the income statement. For closed sites, changes to estimated costs are recognised immediately in the income statement.

Critical judgements

- Production start date

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

The criteria used to assess the start date are determined based on the unique nature of each mine development/construction project, such as the complexity of the project and its location. The Group considers various relevant criteria to assess when the production phase is considered to have commenced. At this point, all related amounts are reclassified from 'Construction in progress' to the corresponding type of 'Property, plant and equipment'. Some of the criteria used to identify the production start date include:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

2 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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

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

- Determination of functional currencies – note 2(d)

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

Income tax – notes 2(r) 14, 28 and 34

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

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

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.

(c) Basis of consolidation

The consolidated financial statements set out the Group's financial position, performance and cash flows as at 31 December 2015 and 31 December 2014 and for the years then ended, respectively.

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

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

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

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

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

Basis of consolidation

Subsidiaries are consolidated from the date of their acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

A change in the ownership interest of a subsidiary, without loss of control, is accounted for as an equity transaction, affecting retained earnings. If the Group loses control over a subsidiary, it (i) derecognises the assets (including goodwill) and liabilities of the subsidiary, (ii) derecognises the carrying amount of any non-controlling interest (NCI), (iii) derecognises the cumulative translation differences, recorded in equity, (iv) recognises the fair value of the consideration received, (v) recognises the fair value of any investment retained, (vi) recognises any surplus or deficit in profit or loss, and (vii) reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

2 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

An NCI represents the equity in a subsidiary not attributable, directly and indirectly, to the parent company and is presented separately within equity in the consolidated statement of financial position separately from equity attributable to owners of the parent

Losses within a subsidiary are attributable to the NCI even if that results in a deficit balance

Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any NCI in the acquiree. The choice of measurement of NCI, either at fair value or at the proportionate share of the acquiree's identifiable net assets, is determined on a transaction by transaction basis. Acquisition costs incurred are expensed and included in administrative expenses.

Goodwill is initially measured at cost being the excess of the aggregate of the 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.

(d) Currency translation

The functional currency for each entity in the Group is determined by the currency of the primary economic environment in which it operates. For the holding companies and operating entities this currency is US dollars and for the other entities it is the local currency of the country in which it operates. The Group's financial information is presented in US dollars, which is the Company's functional currency.

Transactions denominated in currencies other than the functional currency of the entity are initially recorded in the functional currency using the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are remeasured at the rate of exchange ruling at the statement of financial position date. Exchange gains and losses on settlement of foreign currency transactions which are translated at the rate prevailing at the date of the transactions or on the translation of monetary assets and liabilities which are translated at period-end exchange rates are taken to the income statement. Non-monetary assets and liabilities denominated in foreign currencies that are stated at historical cost are translated to the functional currency at the foreign exchange rate prevailing at the date of the transaction. Exchange differences arising from monetary items that are part of a net investment in a foreign operation are recognised in equity and transferred to income on disposal of such net investment.

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

(e) Property, plant and equipment

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

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

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

Gains and losses on disposals are determined by comparing the 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

2 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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

Mining properties and development costs

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

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

When a mine construction project moves into the production stage, the capitalisation of certain mine construction costs ceases and costs are either regarded as part of the cost of inventory or expensed, except for costs which qualify for capitalisation relating to mining asset additions or improvements, underground mine development or mineable reserve development. In addition, the revenue generated for the sale of the inventory produced during the pre operating stage is recognised as a deduction of the costs capitalised for this project.

Construction in progress and capital advances

Assets in the course of construction are capitalised as a separate component of property, plant and equipment. Once the asset moves into the production phase, the cost of construction is transferred to the appropriate category. Construction in progress is not depreciated.

Subsequent expenditure

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

(f) Evaluation and exploration assets

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

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

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

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

(g) Determination of ore reserves and resources

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

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

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

(h) Intangible assets

Right to use energy of transmission line

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

Water permits

Water permits represent the cost that allow the holder to withdraw a specified amount of water from the ground for reasonable, beneficial uses. This is an asset with an indefinite useful life.

Legal rights

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

2 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Other intangible assets

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

(i) Impairment of non-financial assets

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

The carrying amounts of property, plant and equipment and evaluation and exploration assets are reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable. If there are indicators of impairment, an exercise is undertaken to determine whether the carrying values are in excess of their recoverable amount. Such review is undertaken on an asset by asset basis except where such assets do not generate cash flows independent of other assets and then the review is undertaken at the cash-generating unit level.

The assessment requires the use of estimates and assumptions such as long-term commodity prices, discount rates, future capital requirements, exploration potential and operating performance. Changes in these assumptions will affect the recoverable amount of the property, plant and equipment and evaluation and exploration assets.

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

Calculation of recoverable amount

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

The recoverable values of the cash generating unit (CGU) are determined using a fair value less costs of disposal (FVLCD) methodology. FVLCD was determined using a combination of level 2 and level 3 inputs to construct a discounted cash flow model to estimate the amount that would be paid by a willing third party in an arm's length transaction.

Reversal of impairment

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

(j) Inventories

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

For this purpose, the costs of production include:

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

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

(k) Trade and other receivables

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

(l) Share capital

Ordinary shares are classified as equity. Any excess above the par value of shares received upon issuance of those shares is classified as share premium. In the case the excess above par value is available for distribution, it is classified as merger reserve and then transferred to retained earnings.

(m) Provisions

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

2 SIGNIFICANT ACCOUNTING POLICIES CONTINUED**(m) Provisions continued***Mine closure cost*

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

Workers' profit sharing and other employee benefits

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

Other

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

(n) Share-based payments*Cash-settled transactions*

The fair value of cash-settled share plans is recognised as a liability over the vesting period of the awards. Movements in that liability between reporting dates are recognised as an expense. The fair value of the awards is taken to be the market value of the shares at the date of award, adjusted by a factor for anticipated relative Total Shareholder Return ('TSR') performance. Fair values are subsequently remeasured at each reporting date to reflect the number of awards expected to vest based on the current and anticipated TSR performance.

Uncertainties in estimating the award include potential changes in the TSR, the number of participants in the plan and levels of interest rates.

Equity-settled transactions

The cost of equity-settled transactions is recognised, together with a corresponding increase in other reserves in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that vest. The income statement expense for a period represents the movement in cumulative expense recognised as at the beginning and end of that period and is recognised in personnel expenses (note 10).

(o) Contingencies

Contingent liabilities are not recognised in the financial statements and are disclosed in notes to the financial statements unless their occurrence is remote.

Contingent assets are not recognised in the financial statements but are disclosed in the notes if their recovery is deemed probable.

(p) Revenue recognition

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

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

Revenue associated with the sale of gold and silver from dore and concentrate is recognised in the income statement when all significant risks and rewards of ownership are transferred to the customer, usually when title has passed to the customer. Revenue excludes any applicable sales taxes.

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

In addition, certain sales are 'provisionally priced' where the selling price is subject to final adjustment at the end of a period, normally ranging from 15 to 90 days after the start of the delivery process to the customer, based on the market price at the relevant quotation point stipulated in the contract. Revenue is initially recognised when the conditions set out above have been met, using market prices at that date. The price exposure is considered to be an embedded derivative and hence separated from the sales contract at each reporting date. The provisionally priced metal is revalued based on the forward selling price for the 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'.

2 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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

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

(q) Finance income and costs

Finance income and costs comprise interest expense on borrowings, the accumulation of interest on provisions, interest income on funds invested, gains and losses from the change in fair value of derivative instruments and gains and losses on the disposal of available-for-sale investments.

Interest income is recognised as it accrues, taking into account the effective yield on the asset.

(r) Income tax

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

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted at the statement of financial position date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, with the following exceptions:

- where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(s) 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.

(t) Financial instruments

Financial assets and liabilities are recognised when the Group becomes party to the contracts that give rise to them and are classified as loans or borrowings, receivables, payables, financial instruments fair valued through profit and loss, available-for-sale financial assets or as derivatives designated as hedging instruments in an effective hedge (refer to note 2(y)), as appropriate. The Group determines the classification of its financial assets and liabilities at initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end. When financial assets and liabilities are recognised initially, they are measured at fair value, being the transaction price plus, in the case of financial assets not at fair value through profit or loss and borrowings, directly attributable transaction costs. The Group considers whether a contract contains an embedded derivative when the entity first becomes a party to it. The embedded derivatives are separated from the host contract if it is not measured at fair value through profit or loss and when the economic characteristics and risks are not closely related to those of the host contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required. All regular way purchases and sales of financial assets are recognised on the trade date, being the date that the Group commits to purchase or sell the asset. Regular way transactions require delivery and receipt of assets within the timeframe generally established by regulation or convention in the marketplace. The subsequent measurement of financial assets depends on their classification, as follows:

Financial assets at fair value through profit and loss

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

2 SIGNIFICANT ACCOUNTING POLICIES CONTINUED*Loans and receivables*

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

Available-for-sale financial assets

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

Loans and borrowings

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

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

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

Impairment of financial assets

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

Available-for-sale financial assets

For available-for-sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost, where 'significant' is estimated to be around 30% of the original cost of the investment and 'prolonged' is more than 12 months. In addition, the Group analyses any case taking into account the portfolio of projects of the investee, the key technical personnel and the viability of the investee to finance its projects. If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its fair value is transferred from equity to the income statement. Reversals of impairment losses on debt instruments are reversed through the income statement if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in profit or loss. Reversals in respect of equity instruments classified as available-for-sale are not recognised in the income statement.

Derecognition of financial instruments

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

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

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.

(u) 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.

2 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(v) Cash and cash equivalents

Cash and cash equivalents are carried in the statement of financial position at cost. For the purposes of the statement of financial position, cash and cash equivalents comprise cash on hand and deposits held with banks that are readily convertible into known amounts of cash and which are subject to insignificant risk of changes in value. For the purposes of the cash flow statement, cash and cash equivalents, as defined above, are shown net of outstanding bank overdrafts.

Liquidity funds are classified as cash equivalents if the amount of cash that will be received is known at the time of the initial investment and the risk of changes in value is considered insignificant.

(w) 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, assets held for sale, property, plant and equipment and evaluation and exploration assets,
- gains or losses arising on the disposal of subsidiaries, investments or property, plant and equipment,
- fair value gains or losses arising on financial instruments not held in the normal course of trading,
- loan issue costs written-off on facility refinancing,
- any gain or loss resulting from restructuring within the Group,
- taxes and interests owed by the Group following a change in circumstances surrounding tax disputes, resulting in the exposure being assessed as probable
- the impact of infrequent labour action related to work stoppages in mine units, and
- the related tax impact of the above items

(x) Comparatives

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

(y) Hedging

The Group uses commodity swaps to hedge certain of its cash flows from product sales against price risk. These derivative financial instruments are initially recognised at fair value on the date on which the derivative contract is entered into and are subsequently remeasured at fair value. The fair value of commodity swap contracts is determined by reference to market values for similar instruments.

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

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

Where the commodity swaps meet the strict criteria for hedge accounting, the effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while any ineffective portion is recognised immediately in the income statement.

Amounts taken to equity are transferred to the income statement when the hedged transaction affects profit or loss, such as when the forecast transaction occurs.

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

(z) Fair value measurement

The Group measures financial instruments, such as, derivatives, and non-financial assets at fair value at each statement of financial position date. Also, fair values of financial instruments are measured at amortised cost.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

2 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, as described in note 36 (e)

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period

The Group determines the policies and procedures for both recurring fair value measurement and unquoted AFS financial assets, and for non-recurring measurement

External valuers are involved for valuation of significant assets and significant liabilities. Involvement of external valuers is decided upon annually by the Group after discussion with and approval by the Company's Audit Committee. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. Valuers are normally rotated every three years. The Group decides, after discussions with the external valuers, which valuation techniques and inputs to use for each case

At each reporting date, the Group analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Group's accounting policies. For this analysis, the Group verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents

The Group, in conjunction with its external valuers, where applicable, also compares each the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable

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

3 SEGMENT REPORTING

The Group's activities are principally related to mining operations which involve the exploration, production and sale of gold and silver. Products are subject to the same risks and returns and are sold through the same distribution channels. The Group undertakes a number of activities solely to support mining operations including power generation and services. Transfer prices between segments are set on an arm's length basis in a manner similar to that used for third parties. Segment revenue, segment expense and segment results include transfers between segments at market prices. Those transfers are eliminated on consolidation

For internal reporting purposes, management takes decisions and assesses the performance of the Group through consideration of the following reporting segments

- Operating units – Arcata and San Jose, which generate revenue from the sale of gold, silver, dore and concentrate
- Operating unit – Pallancata, which generates revenue from the sale of concentrate
- Operating unit – Inmaculada, which will generate revenue from the sale of gold, silver and dore
- Operating unit – Ares, in suspension, which generated revenue from the sale of gold and silver, disclosed as a segment until 31 December 2014. This operation did not meet the quantitative thresholds to be a separate reportable segment in 2015 and accordingly has been included in 'Other'. The comparative segment information has been restated to reflect these changes
- Exploration, which explores and evaluates areas of interest in brownfield and greenfield sites with the aim of extending the life-of-mine of existing operations and to assess the feasibility of new mines. The exploration segment includes costs charged to the profit and loss and capitalised as assets
- Other – includes the profit or loss generated by Empresa de Transmisión Callalli S.A.C. (a power transmission company), HMX S.A. de C.V. (a service company in Mexico), Empresa de Transmisión Aymaraes S.A.C. (a power transmission company), Ares unit, Moris unit and the Selene plant (used to process some of the Group's production)

The Group's administration, financing, other activities (including other income and expense), and income taxes are managed at a corporate level and are not allocated to operating segments

Segment information is consistent with the accounting policies adopted by the Group. Management evaluates the financial information based on International Financial Reporting Standards (IFRS) as adopted for use in the European Union

The Group measures the performance of its operating units by the segment profit or loss that comprises gross profit, selling expenses and exploration expenses

Segment assets include items that could be allocated directly to the segment

3 SEGMENT REPORTING CONTINUED

(a) Reportable segment information

	Arcata US\$000	Pallancata US\$000	San Jose US\$000	Inmaculada US\$000	Exploration US\$000	Other ¹ US\$000	Adjustment and eliminations US\$000	Total US\$000
Year ended								
31 December 2015								
Revenue from external customers	107,425	73,045	186,097	102,303	–	276	–	469,146
Inter segment revenue	–	–	–	–	–	2,437	(2,437)	–
Total revenue	107,425	73,045	186,097	102,303	–	2,713	(2,437)	469,146
Segment profit/(loss)	(1,340)	(17,002)	13,297	49,759	(10,710)	384	(1,397)	32,991
Others²								(289,166)
Loss from continuing operations before income tax								(256,175)
Other segment information								
Depreciation³	(33,506)	(35,415)	(45,286)	(32,093)	(1,496)	(2,816)	–	(150,612)
Amortisation	–	–	(1,013)	–	(457)	(34)	–	(1,504)
Impairment and write-off of assets, net	(72,718)	(39,245)	(57)	–	(95,113)	(13)	–	(207,146)
Assets								
Capital expenditure	14,600	10,683	38,451	166,336	4,011	4,078	–	238,159
Current assets	17,456	13,818	63,941	31,958	30	5,435	–	132,638
Other non-current assets	53,458	50,591	220,307	633,169	181,662	72,481	–	1,211,668
Total segment assets	70,914	64,409	284,248	665,127	181,692	77,916	–	1,344,306
Not reportable assets⁴	–	–	–	–	–	198,743	–	198,743
Total assets	70,914	64,409	284,248	665,127	181,692	276,659	–	1,543,049

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

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

3 Includes US\$1,793,000 and US\$6,077,000 of depreciation capitalised in the Crespo and the Inmaculada projects respectively.

4 Not reportable assets are comprised of available-for-sale financial assets of US\$366,000, other receivables of US\$72,662,000, income tax receivable of US\$20,431,000, other financial assets of US\$21,267,000, and cash and cash equivalents of US\$84,017,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

3 SEGMENT REPORTING CONTINUED

(a) Reportable segment information

	Arcata US\$000	Pallancata US\$000	San Jose US\$000	Inmaculada US\$000	Exploration US\$000	Other ¹ US\$000	Adjustment and eliminations US\$000	Total US\$000
Year ended								
31 December 2014								
Revenue from								
external customers	106,061	147,360	213,013	–	–	26,517	–	492,951
Inter segment revenue	–	–	–	–	–	2,857	(2,857)	–
Total revenue	106,061	147,360	213,013	–	–	29,374	(2,857)	492,951
Segment profit/(loss)	5,054	20,894	28,429	–	(18,662)	447	(752)	35,410
Others ²	–	–	–	–	–	–	–	(103,620)
Loss from continuing operations before income tax	–	–	–	–	–	–	–	(68,210)
Other segment information								
Depreciation ³	(31,348)	(48,008)	(46,820)	(7,558)	(930)	(3,014)	–	(137,678)
Amortisation	–	–	(1,181)	–	(458)	–	–	(1,639)
Impairment and write-off of assets, net	(499)	(31)	(717)	(85)	1,580	(139)	–	109
Assets								
Capital expenditure	28,867	34,160	51,350	193,445	6,522	6,777	–	321,121
Current assets	27,993	21,174	66,995	5,877	35	9,161	–	131,235
Other non-current assets	143,524	112,365	223,295	497,771	277,829	71,631	–	1,326,415
Total segment assets	171,517	133,539	290,290	503,648	277,864	80,792	–	1,457,650
Not reportable assets ⁴	–	–	–	–	–	248,662	–	248,662
Total assets	171,517	133,539	290,290	503,648	277,864	329,454	–	1,706,312

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

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

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

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

3 SEGMENT REPORTING CONTINUED

(b) Geographical information

The revenue for the period based on the country in which the customer is located is as follows

	Year ended 31 December	
	2015 US\$000	2014 US\$000
External customer		
USA	229,229	96,427
Peru	63,328	178,217
Canada	58,154	36,421
Germany	7,428	10,987
Switzerland	12,174	45,020
United Kingdom	17,273	2,450
Korea	81,580	121,868
Japan	(20)	1,561
Total	469,146	492,951
Inter-segment		
Peru	2,437	1,804
Mexico	–	1,053
Total	471,583	495,808

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 2015			Year ended 31 December 2014		
	US\$000	% Revenue	Segment	US\$000	% Revenue	Segment
Republic Metals Corporation	106,339	23%	Arcata, Inmaculada and San Jose	44,725	9%	San Jose
LS Nikko	81,580	17%	Pallancata and San Jose	121,868	25%	Arcata, Pallancata and San Jose
Glencore Peru S.A.C	38,502	8%	Arcata and Pallancata	114,192	23%	Arcata and Pallancata

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

	As at 31 December	
	2015 US\$000	2014 US\$000
Peru	897,824	942,411
Argentina	220,307	223,295
Mexico	31,005	41,944
Chile	62,532	118,765
Total non-current segment assets	1,211,668	1,326,415
Available-for-sale financial assets	366	455
Trade and other receivables	10,187	6,488
Income tax receivable	47	–
Deferred income tax assets	–	1,574
Total non-current assets	1,222,268	1,334,932

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

4 ACQUISITIONS AND DISPOSALS**(a) Sale of subsidiary**

In 2015 there were no acquisitions or disposals undertaken by the Group

Minas Santa Maria de Moris, S.A. de C.V.

On 28 February 2014 the Group sold its interest in Minas Santa Maria de Moris, S.A. de C.V. ("Moris") to Exploraciones y Desarrollos Regiomontanos, S.A. de C.V. ("EDR") and Arturo Prestamo Elizondo ("APE") for consideration with a fair value of nil. The terms of the transaction stipulate that

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

The carrying value of the net assets disposed was US\$2 963,000 and the transaction resulted in a loss of US\$2,963,000

5 REVENUE

	Year ended 31 December	
	2015 US\$000	2014 US\$000
Gold (from dore bars)	142,077	62 911
Silver (from dore bars)	142,397	67,418
Gold (from concentrate)	68,414	109,045
Silver (from concentrate)	115,982	253,420
Services	276	157
Total	469,146	492 951

Included within revenue is a loss of US\$7 275,000 relating to provisional pricing adjustments representing the change in the fair value of embedded derivatives (2014: loss of US\$16,518,000) arising on sales of concentrates and dore (refer to note 2(p) and footnote 2 of note 36(e))

The realised gain on gold and silver swaps contracts in the period recognised within revenue was US\$18,962,000 (gold: US\$7 012 000, silver: US\$11 950 000) (2014: US\$14,603 000 gold: US\$2 451,000, silver: US\$12 152,000)

Other sources of revenue are disclosed at note 13

6 COST OF SALES

Included in cost of sales are

	Year ended 31 December	
	2015 US\$000	2014 US\$000
Depreciation and amortisation	142,712	128 720
Personnel expenses (notes 10 and 11)	107,823	114,322
Mining royalty (note 35)	5,968	6 581
Change in products in process and finished goods	(10,255)	8,641

7 ADMINISTRATIVE EXPENSES

	Year ended 31 December	
	2015 US\$000	2014 US\$000
Personnel expenses (notes 10 and 11)	22,427	24,206
Professional fees	3,095	3 846
Social and community welfare expenses ¹	597	1 943
Lease rentals	1,415	1 442
Travel expenses	576	865
Communications	560	579
Indirect taxes	2,147	2,678
Depreciation and amortisation	1,534	2,072
Technology and systems	745	718
Security	790	951
Supplies	134	188
Other	4,128	6,599
Total	38,148	46,087

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

8 EXPLORATION EXPENSES

	Year ended 31 December	
	2015 US\$000	2014 US\$000
Mine site exploration ¹		
Arcata	62	2 038
Ares	50	42
Selene	–	58
Inmaculada	6	–
Pallancata	2,457	1 728
San Jose	1,463	1 003
	4,038	4,869
Prospects ²		
Peru	303	788
Argentina	43	73
Mexico	–	195
Chile	71	237
	417	1 293
Generative ³		
Peru	499	1 180
Argentina	–	11
Mexico	–	2 588
Chile	–	379
	499	4 158
Personnel (notes 10 and 11(1))	2,967	7,412
Others	1,334	408
Total	9,255	18,140

1 Mine-site exploration is performed with the purpose of identifying potential minerals within an existing mine-site with the goal of maintaining or extending the mine's life

2 Prospects expenditure relates to detailed geological evaluations in order to determine zones which have mineralisation potential that is economically viable for exploration. Exploration expenses are generally incurred in the following areas: mapping, sampling, geophysics, identification of local targets and reconnaissance drilling

3 Generative expenditure is early stage exploration expenditure related to the basic evaluation of the region to identify prospects areas that have the geological conditions necessary to contain mineral deposits. Related activities include regional and field reconnaissance, satellite images, compilation of public information and identification of exploration targets

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

8 EXPLORATION EXPENSES CONTINUED

The Group determines the cash flows which relate to the exploration activities of the companies engaged only in exploration. Exploration activities incurred by Group operating companies are not included since it is not practicable to separate the liabilities related to the exploration activities of these companies from their operating liabilities.

Cash outflows on exploration activities were US\$1,190,000 in 2015 (2014: US\$3,362,000).

9 SELLING EXPENSES

	Year ended 31 December	
	2015 US\$000	2014 US\$000
Transportation of ore, concentrate and maritime freight	3,548	6,020
Sales commissions	200	429
Personnel expenses (note 10)	254	249
Warehouse services	1,610	2,930
Taxes	12,994	15,609
Other	3,123	3,460
Total	21,729	28,697

10 PERSONNEL EXPENSES¹

	Year ended 31 December	
	2015 US\$000	2014 US\$000
Salaries and wages	103,433	115,770
Workers' profit sharing	–	(34)
Other legal contributions	20,735	22,168
Statutory holiday payments	6,534	7,074
Long Term Incentive Plan	1,013	(657)
Restricted share plan	2,843	–
Termination benefits	3,623	11,570
Other	1,584	1,805
Total	139,765	157,696

¹ Personnel expenses are distributed in cost of sales, administrative expenses, exploration expenses, selling expenses, other expenses and capitalised as property plant and equipment amounting to US\$107,823,000 (2014: US\$114,322,000), US\$22,427,000 (2014: US\$24,206,000), US\$2,967,000 (2014: US\$7,412,000), US\$254,000 (2014: US\$249,000), US\$1,218,000 (2014: US\$1,642,000) and US\$5,076,000 (2014: US\$9,865,000) respectively.

Average number of employees for 2015 and 2014 were as follows:

	Year ended 31 December	
	2015	2014
Peru	2,575	2,852
Argentina	1,129	1,179
Mexico	–	19
Chile	3	11
United Kingdom	10	9
Total	3,717	4,070

11 PRE-TAX EXCEPTIONAL ITEMS

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

	Year ended 31 December 2015 US\$000	Year ended 31 December 2014 US\$000
Cost of sales		
Termination benefits ¹	(1,514)	(1,327)
Termination benefits Ares mine unit ²	–	(3,511)
Work stoppage at Arcata mine unit	–	(1 227)
Total	(1,514)	(6,065)
Administrative expenses		
Termination benefits ¹	–	(2,752)
Total	–	(2,752)
Exploration expenses		
Termination benefits ¹	–	(886)
Total	–	(886)
Other expenses		
Loss on sale of subsidiary ³	–	(2,963)
Total	–	(2,963)
Impairment and write-off of assets (net)		
Impairment and write-off of assets ⁴	(207,146)	(1,534)
Reversal of impairment of assets ⁵	–	1,643
Total	(207,146)	109
Finance income		
Gain on sale of available-for-sale financial assets ⁶	–	4,061
Total	–	4,061
Finance costs		
Amortisation of transaction costs on secure bank loans ⁷	–	(3 336)
Loss from changes in the fair value of financial instruments ⁸	–	(6 155)
Interest on disputed tax charges ⁹	(1,486)	–
Total	(1,486)	(9 491)
Income tax benefit	36,888	3 845
Total	36,888	3,845

1 Termination benefits paid to workers following the cashflow optimisation programme approved by management amounting to US\$1 514 000 (2014 US\$4 965 000)

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

3 Loss generated by the sale of the Group's interest in Morris (refer to note 4(a))

4 As at 31 December 2015 corresponds to the impairment of the Pallancata mine unit of US\$39 026 000 the Arcata mine unit of US\$72 424 000 the Crespo project of US\$14 350 000 the Azuca project of US\$12 766 000 the Volcan project of US\$57 070 000 and the San Felipe project of US\$10 927 000 and to the write-off of assets of US\$583 000 As at 31 December 2014 corresponds to the write-off of assets of US\$1 534 000

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

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

7 Corresponds to the attributable issue cost of the syndicated US\$270 000 000 loan granted in 2013 and repaid in January 2014 to Compañia Minera Ares S.A.C., disclosed as an exceptional item as a significant one-off expense

8 As at 31 December 2014 corresponds to the impairment of the investments in Pernbrook Mining Corp of US\$6 000 000 Brionor Resources of US\$54 000 Revelo Resources Corp (formerly Iron Creek Capital Corp) of US\$53 000 Northern Superior Resources Inc of US\$45 000 and Empire Petroleum Corp of US\$3 000

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

12 OTHER INCOME AND OTHER EXPENSES BEFORE EXCEPTIONAL ITEMS

	Year ended 31 December 2015	Year ended 31 December 2014
	Before exceptional items US\$000	Before exceptional items US\$000
Other income		
Export credit	2,743	1,386
Lease rentals	443	586
Logistic services	3,699	-
Other	1,136	2 140
	8,021	4,112
Other expenses		
Increase in provision for mine closure (note 26(4))	(7,590)	(9,088)
Tax on mining reserves in Argentina (note 35)	(441)	(3,453)
Provision of obsolescence of supplies	(1,046)	945
Contingencies	(108)	(1,680)
Write off of value added tax	(795)	(37)
Other	(5,284)	(4,199)
Total	(15,264)	(17,512)

13 FINANCE INCOME AND FINANCE COSTS BEFORE EXCEPTIONAL ITEMS

	Year ended 31 December 2015	Year ended 31 December 2014
	Before exceptional items US\$000	Before exceptional items US\$000
Finance income		
Interest on deposits and liquidity funds	648	1 567
Interest income	648	1 567
Dividends	-	525
Gain on repurchase of bonds	856	-
Other	394	123
Total	1,898	2,215
Finance costs		
Interest on secured bank loans (note 25)	(5,842)	(5,027)
Interest on convertible bond ¹	-	(5,364)
Other interest	(1,657)	-
Interest on bond (note 25)	(22,096)	(20,302)
Interest expense	(29,595)	(30,693)
Unwind of discount	(505)	(1 865)
Loss from changes in the fair value of financial instruments	(116)	(90)
Other	(1,198)	(426)
Total	(31,414)	(33,074)

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

14 INCOME TAX EXPENSE

	Year ended 31 December 2015			Year ended 31 December 2014		
	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	5,200	(259)	4,941	10,082	(251)	9 831
Current mining royalty charge (note 35)	1,778	–	1,778	1 611	–	1 611
Current special mining tax charge (note 35)	755	–	755	375	–	375
Withholding taxes	(142)	–	(142)	(343)	–	(343)
	7,591	(259)	7,332	11,725	(251)	11,474
Deferred taxation						
Origination and reversal of temporary differences from continuing operations (note 28)	12,637	(36,629)	(23,992)	(457)	(3,851)	(4,308)
Effect of change in tax rate	142	–	142	(4,802)	257	(4 545)
	12,779	(36,629)	(23,850)	(5,259)	(3 594)	(8,853)
Total taxation charge/(credit) in the income statement	20,370	(36,888)	(16,518)	6,466	(3 845)	2,621

The weighted average statutory income tax rate was 25.4% for 2015 and 28.7% for 2014. This is calculated as the average of the statutory tax rates applicable in the countries in which the Group operates, weighted by the profit/(loss) before tax of the Group companies in their respective countries as included in the consolidated financial statements.

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

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

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

	As at 31 December	
	2015 US\$000	2014 US\$000
Deferred taxation		
Deferred income tax relating to fair value gains on cash flow hedges	4,739	1 216
Total tax charge in the statement of other comprehensive income	4,739	1,216

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

14 INCOME TAX EXPENSE CONTINUED

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

	As at 31 December	
	2015 US\$000	2014 US\$000
Loss from continuing operations before income tax	(256,175)	(68,210)
At average statutory income tax rate of 25.4% (2014 - 28.7%)	(65,017)	(19,547)
Expenses not deductible for tax purposes	1,040	3,058
Non-taxable income ¹	—	(851)
Deferred tax recognised on special investment regime	(691)	(780)
Movement in unrecognised deferred tax ²	16,565	6,700
Change in statutory income tax rate	142	(4,545)
Withholding tax	(142)	(343)
Special mining tax and mining royalty ³	2,533	1,986
Derecognition of deferred tax asset	1,251	—
Foreign exchange rate effect ⁴	24,964	14,473
Other	2,837	2,470
At average effective income tax rate of 6.4% (2014 - 3.8%)	(16,518)	2,621
Taxation charge attributable to continuing operations	(16,518)	2,621
Total taxation charge in the income statement	(16,518)	2,621

1 2014 Mainly corresponds to the gain on sale of Gold Resource Corp shares

2 Includes the effect of the impairment of Volcan and San Felipe projects of US\$11 414 000 and US\$3 278 000 respectively

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

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

15 BASIC AND DILUTED EARNINGS PER SHARE

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

The Company has dilutive potential ordinary shares

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

As at 31 December 2015 and 2014, EPS has been calculated as follows

	As at 31 December	
	2015	2014
Basic loss per share from continuing operations		
Before exceptional items (US\$)	(0.14)	(0.13)
Exceptional items (US\$)	(0.38)	(0.03)
Total for the year and from continuing operations (US\$)	(0.52)	(0.16)
Diluted loss per share from continuing operations		
Before exceptional items (US\$)	(0.14)	(0.13)
Exceptional items (US\$)	(0.38)	(0.03)
Total for the year and from continuing operations (US\$)	(0.52)	(0.16)

15 BASIC AND DILUTED EARNINGS PER SHARE CONTINUED

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

	As at 31 December	
	2015	2014
Loss attributable to equity holders of the parent – continuing operations (US\$000)	(234,610)	(68,877)
Exceptional items after tax – attributable to equity holders of the parent (US\$000)	172,758	13,914
Loss from continuing operations before exceptional items attributable to equity holders of the parent (US\$000)	(61,852)	(54,963)
Diluted loss from continuing operations before exceptional items attributable to equity holders of the parent (US\$000)	(61,852)	(54,963)

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

	As at 31 December	
	2015	2014
Basic weighted average number of ordinary shares in issue (thousands)	449,511	421,783
Dilutive potential ordinary shares related to contingently issuable shares (thousands) ¹	–	–
Diluted weighted average number of ordinary shares in issue and dilutive potential ordinary shares (thousands)	449,511	421,783

1 The potential ordinary shares related to the contingently issuable shares under the Enhanced Long Term Incentive Plan and Restricted Share Plan have not been included in the calculation of diluted EPS for 2015 and 2014 as they have an antidilutive effect

16 PROPERTY, PLANT AND EQUIPMENT

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

There were borrowing costs capitalised in property, plant and equipment amounting to US\$8,252,000 (2014 US\$9,904,000). The capitalisation rate used was 6.79% (2014 8.83%).

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

16 PROPERTY, PLANT AND EQUIPMENT CONTINUED

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

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

Gold and silver prices

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

Other key assumptions

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

1. With respect to the Azuca, Volcan and San Felipe growth projects, given their early stage, the Group applied a value in situ methodology, which applies a realisable enterprise value to unprocessed mineral resources. The methodology is used to determine the fair value less costs of disposal of the Azuca, Volcan which includes the water permits held by the Group and San Felipe CGUs. The enterprise value used in the calculation performed at 31 December 2015 was US\$6.55 per gold equivalent ounce of resources (Volcan), \$0.25 per silver equivalent ounce of resources (Azuca) and US\$16.21 per zinc equivalent tonne of resources (San Felipe). The enterprise value figures are based on observable external market information.

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

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

Sensitivity analysis

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

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

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

16 PROPERTY, PLANT AND EQUIPMENT CONTINUED

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

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

17 EVALUATION AND EXPLORATION ASSETS

	Azuca US\$000	Crespo US\$000	San Felipe US\$000	Volcan US\$000	Others US\$000	Total US\$000
Cost						
Balance at 1 January 2014	75,540	29,176	55,950	90,575	10,684	261,925
Additions	821	—	—	1,463	2,382	4,666
Transfers from/(to) property, plant and equipment	3,593	(3,620)	—	(3)	(3,822)	(3,852)
Balance at 31 December 2014	79,954	25,556	55,950	92,035	9,244	262,739
Additions	211	224	—	958	5,468	6,861
Transfers from/(to) property plant and equipment	—	—	—	—	(1,742)	(1,742)
Balance at 31 December 2015	80,165	25,780	55,950	92,993	12,970	267,858
Accumulated impairment						
Balance at 1 January 2014	29,862	9,130	16,550	—	1,740	57,282
Impairment ¹	—	—	(1,643)	—	—	(1,643)
Transfers from/(to) property plant and equipment	3,430	(3,620)	—	—	—	(190)
Balance at 31 December 2014	33,292	5,510	14,907	—	1,740	55,449
Impairment ¹	12,584	4,368	10,927	44,381	2,290	74,550
Transfers from/(to) property, plant and equipment	—	—	—	—	(312)	(312)
Balance at 31 December 2015	45,876	9,878	25,834	44,381	3,718	129,687
Net book value as at 31 December 2014	46,662	20,046	41,043	92,035	7,504	207,290
Net book value as at 31 December 2015	34,289	15,902	30,116	48,612	9,252	138,171

There were no borrowing costs capitalised in evaluation and exploration assets

1 In 2015 the Group recognised an impairment charge of US\$74,550,000 mainly related to the Volcan project (refer to note 16). The FVLCD calculation is detailed in note 16. In 2014 the Group partially reversed the impairment of the San Felipe project of US\$1,643,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

18 INTANGIBLE ASSETS

	Transmission line ¹ US\$000	Water permits ² US\$000	Software licences US\$000	Legal rights ³ US\$000	Total US\$000
Cost					
Balance at 1 January 2014	22,157	26,583	1,348	6,404	56,492
Additions	–	–	4	277	281
Transfer	–	–	421	–	421
Balance at 31 December 2014	22,157	26,583	1,773	6,681	57,194
Additions	–	–	25	587	612
Transfer	–	–	–	(582)	(582)
Balance at 31 December 2015	22,157	26,583	1,798	6,686	57,224
Accumulated amortisation and impairment					
Balance at 1 January 2014	10,022	–	1,238	1,549	12,809
Amortisation for the year ⁴	1,102	–	79	458	1,639
Transfer	–	–	(69)	–	(69)
Balance at 31 December 2014	11,124	–	1,248	2,007	14,379
Amortisation for the year ⁴	946	–	67	491	1,504
Impairment ⁵	–	12,686	–	674	13,360
Balance at 31 December 2015	12,070	12,686	1,315	3,172	29,243
Net book value as at 31 December 2014	11,033	26,583	525	4,674	42,815
Net book value as at 31 December 2015	10,087	13,897	483	3,514	27,981

1 The transmission line is amortised using the units of production method. At 31 December 2015 the remaining amortisation period is approximately 10 years.

2 Corresponds to the acquisition of water permits of Andina Minerals Group ("Andina"). They have an indefinite life according to Chilean law. In the case of the water permits the Group applied a value in situ methodology which applies a realisable enterprise value to unprocessed mineral resources. The methodology is used to determine the fair value less costs of disposal of the Volcan cash-generating unit, which includes the water permits held by the Group. The enterprise value used in the calculation performed at 31 December 2015 was US\$10.29 per gold equivalent ounce of resources (2014: US\$18.00). The enterprise value figures are based on observable external market information.

3 Legal rights correspond to expenditures required to give the Group the right to use a property for the surface exploration work, development and production. At 31 December 2015 the remaining amortisation period is 10 years.

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

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

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

19 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Year ended 31 December	
	2015 US\$000	2014 US\$000
Beginning balance	455	51,658
Fair value change recorded in equity	(86)	(3,106)
Disposals ¹	(3)	(48,097)
Ending balance	366	455

1 As at 31 December 2014 corresponds to the sales of 9,451,874 shares of Gold Resource Corp, 3,334,000 shares of Norther Superior Resources Inc, 3,755,746 shares of Chaparral Gold Corp and 500,000 shares of Mirasol Resources Ltd.

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

The investments in unlisted shares (Pembroke Mining Corp and ECI Exploration and Mining Inc) were recognised at cost less any recognised impairment losses given that there is not an active market for these investments. The investments in ECI Exploration and Mining Inc and Pembroke Mining Corp were fully impaired as at 31 December 2014 and 2015.

20 TRADE AND OTHER RECEIVABLES

	As at 31 December			
	2015		2014	
	Non-current US\$000	Current US\$000	Non-current US\$000	Current US\$000
Trade receivables (note 36(c))	–	62,352	–	72,818
Advances to suppliers	–	6,567	–	5,347
Duties recoverable from exports of Minera Santa Cruz	4,698	–	2,016	6,000
Receivables from related parties (note 30(a))	–	11	–	45
Loans to employees	991	149	1,192	748
Interest receivable	–	36	–	78
Receivable from Kaupthing, Singer and Friedlander Bank	–	252	–	264
Other ¹	1,567	13,518	2,186	15,939
Provision for impairment ²	–	(5,327)	–	(5,136)
Assets classified as receivables	7,256	77,558	5,394	96,103
Prepaid expenses	60	1,157	389	11,336
Value Added Tax (VAT) ³	2,871	46,112	705	59,599
Total	10,187	124,827	6,488	167,038

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

1. Mainly corresponds to account receivables from contractors for the sale of supplies of US\$4 791 000 (2014: US\$9 763 000) a tax claim related to the withholding tax on the GRC dividends received of US\$142 000 (2014: US\$1 447 000) other tax claims of US\$2 840 000 (2014: US\$2 767 000)
2. Includes the provision for impairment of trade receivable from a customer in Peru of US\$1 108 000 (2014: US\$1 108 000) the impairment of deposits in Kaupthing, Singer and Friedlander of US\$252 000 (2014: US\$264 000) and other receivables of US\$3 967 000 (2014: US\$3 764 000) that mainly relates to an exploration project that would be recovered through an ownership interest if it succeeds
3. Primarily relates to US\$13 078 000 (2014: US\$19 583 000) of VAT receivable related to the San Jose project that will be recovered through future sales of gold and silver by Minera Santa Cruz SA. It also includes the VAT of Compañia Minera Ares SAC. of US\$32 086 000 (2014: US\$35 026 000). The VAT is valued at its recoverable amount.

Movements in the provision for impairment of receivables

	Individually impaired US\$000
At 1 January 2014	5,084
Provided for during the year	110
Released during the year	(58)
At 31 December 2014	5,136
Provided for during the year	446
Released during the year	(255)
At 31 December 2015	5,327

As at 31 December 2015 and 2014, none of the financial assets classified as receivables (net of impairment) were past due

21 INVENTORIES

	As at 31 December	
	2015 US\$000	2014 US\$000
Finished goods valued at cost	14,120	7,147
Finished goods at net realisable value	1,856	–
Products in process valued at cost	13,632	13,326
Products in process at net realizable value	1,121	–
Supplies and spare parts	44,855	42,404
	75,584	62,877
Provision for obsolescence of supplies	(5,298)	(4,460)
Total	70,286	58,417

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

Products in process include dore, concentrate and stockpile

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

21 INVENTORIES CONTINUED

The Group either sells dore bars as a finished product or if it is commercially advantageous to do so delivers the bars for refining into gold and silver ounces which are then sold. In the latter scenario, the dore bars are classified as products in process. The amount of dore on hand at 31 December 2015 included in products in process is US\$3,827,000 (2014: US\$1,405,000).

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

As part of the Group's short-term financing policies, it acquires pre-shipment loans which are guaranteed by the sales contracts.

The amount of expense recognised in profit and loss related to the consumption of inventory of supplies, spare parts and raw materials is US\$78,525,000 (2014: US\$75,066,000).

Movements in the provision for obsolescence comprise an increase in the provision of US\$1,046,000 (2014: US\$192,000) and the reversal of US\$Nil relating to the sale of supplies and spare parts, that had been provided for (2014: US\$1,137,000).

22 CASH AND CASH EQUIVALENTS

	As at 31 December	
	2015 US\$000	2014 US\$000
Cash at bank	368	293
Liquidity funds ¹	337	935
Current demand deposit accounts ²	47,717	76,850
Time deposits ³	35,595	37,921
Cash and cash equivalents considered for the statement of cash flows⁴	84,017	115,999

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 14 days as at 31 December 2015 (2014: average of 10 days).
- 2 Relates to bank accounts which are freely available and bear interest.
- 3 These deposits have an average maturity of 2 days (2014: Average of 2 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 2015 is US\$11,696,000 (2014: US\$14,233,000) which is not readily available for use in subsidiaries outside of Argentina.

23 DEFERRED INCOME

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

	As at 31 December	
	2015 US\$000	2014 US\$000
San Felipe contract	25,000	25,000

These payments reduce the total consideration IMSC will be required to pay upon exercise of the option on December 2016 and constitute an advance of the final purchase price rather than an option premium and, as such, they were recorded as deferred income. On 7 July 2015 IMSC renegotiated terms of the agreement, postponing the advance payment of US\$5,000,000 from 1 December 2015 to 1 December 2016.

24 TRADE AND OTHER PAYABLES

	As at 31 December			
	2015		2014	
	Non-current US\$000	Current US\$000	Non-current US\$000	Current US\$000
Trade payables ¹	–	58,655	–	64,458
Salaries and wages payable ²	–	20,278	–	23,890
Dividends payable	–	826	–	1,789
Taxes and contributions	57	9,605	–	11,441
Guarantee deposits	–	7,163	–	7,327
Mining royalty (note 35)	–	796	–	951
Accounts payable to related parties (note 30)	–	40	–	49
Account payable to Graña & Montero ³	20,322	–	–	–
Other	–	4,529	92	1,985
Total	20,379	101,892	92	111,890

The fair value of trade and other payables approximate their book values

- 1 Trade payables relate mainly to the acquisition of materials supplies and contractors services. These payables do not accrue interest and no guarantees have been granted
- 2 Salaries and wages payable relates to remuneration payable. There were no Board members remuneration and long term incentive plan payable at 31 December 2015 and 2014
- 3 Related to the construction of Inmaculada mine unit. Includes the principal of US\$20,000,000 plus interest of US\$322,000 calculated at a 5% interest rate. The payment of the amount owing is to be made in four instalments every six months starting in September 2017

25 BORROWINGS

	As at 31 December					
	Effective interest rate	Non-current US\$000	Current US\$000	Effective interest rate	Non-current US\$000	Current US\$000
Bond payable (a)	8.56%	290,230	8,777	8.48%	342,043	13,457
Secured bank loans (b)						
• Pre-shipment loans in Minera Santa Cruz (note 21)	29.64%	–	10,554	29.08%	–	13,843
• Medium-term bank loan	3.82%	49,548	229	3.47%	98,791	582
• Short-term bank loans	0.7% to 1.35%	–	75,200	–	–	–
Total		339,778	94,760		440,834	27,882

(a) Bond payable

On 23 January 2014 the Group issued US\$350,000,000 7.75% Senior Unsecured Notes of Compañía Minera Ares S.A.C. guaranteed by Hochschild Mining plc and Hochschild Mining (Argentina) Corporation S.A. The interest is paid semiannually, until maturity in 23 January 2021. During November and December 2015, the Group repurchased bonds amounting to US\$55,225,000 for \$54,369,000 giving rise to a gain on repurchase of US\$856,000 (see note 13). The balance at 31 December 2015 comprises the carrying value including accrued interest payable of US\$299,007,000 (2014: US\$355,500,000) determined in accordance with the effective interest method.

The following options could be taken before the maturity:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

25 BORROWINGS CONTINUED**(b) Secured bank loans***Medium-term bank loan*

Credit agreement of US\$100,000,000 with Scotiabank Peru S.A.A. acting as Lead Arranger and The Bank of Nova Scotia and Corpbanca as lenders. The borrower is Compañía Minera Ares S.A.C. and the loan is guaranteed by Hochschild Mining plc. The loan has an interest rate of LIBOR + 2.6% payable quarterly. On November 2015 the Group paid US\$50,000,000 of principal and modified the schedule of repayments starting on 30 March 2018 until maturity on 30 December 2019. The carrying value including accrued interest payable at 31 December 2015 of US\$49,777,000 (2014: US\$99,373,000) was determined in accordance with the effective interest method.

Short-term bank loans

Six credit agreements signed by Compañía Minera Ares S.A.C. with BBVA Continental. The loans have an interest rate ranging from 0.7% to 1.35%. The carrying value including accrued interest payable at 31 December 2015 is US\$75,200,000 (2014: US\$Nil).

The maturity of non-current borrowings is as follows:

	As at 31 December	
	2015 US\$000	2014 US\$000
Between 1 and 2 years	—	16,660
Between 2 and 5 years	49,548	82,131
Over 5 years	290,230	342,043
Total	339,778	440,834

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

	Carrying amount as at 31 December		Fair value as at 31 December	
	2015 US\$000	2014 US\$000	2015 US\$000	2014 US\$000
Secured bank loans	49,548	98,791	48,223	99,083
Bond payable	290,230	342,043	274,878	348,250
Total	339,778	440,834	323,101	447,333

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

26 PROVISIONS

	Provision for mine closure ¹ US\$000	Workers profit sharing ² US\$000	Long Term Incentive Plan ³ US\$000	Other US\$000	Total US\$000
At 1 January 2014	82,149	374	1 879	4 820	89,222
Additions	–	–	–	1 680	1 680
Accretion	242	–	–	–	242
Change in discount rate	4,357	–	–	–	4,357
Change in estimates	27,829 ⁴	–	(1,285)	–	26,544
Payments	(5,524)	(374)	–	(260)	(6 158)
Sale of subsidiary (note 4(a))	(1,266)	–	–	–	(1,266)
At 31 December 2014	107 787	–	594	6 240	114,621
Less current portion	–	–	–	(2,870)	(2,870)
Non-current portion	107 787	–	594	3,370	111,751
At 1 January 2015	107 787	–	594	6,240	114,621
Additions	–	–	544	108	652
Accretion	69	–	–	–	69
Change in discount rate	(755)	–	–	–	(755)
Change in estimates	15 517 ⁴	–	(175)	–	15,342
Foreign exchange effect	–	–	–	126	126
Payments	(2,538)	–	–	–	(2,538)
At 31 December 2015	120,080	–	963	6,474	127,517
Less current portion	2 000	–	–	4 115	6,115
Non-current portion	118 080	–	963	2,359	121,402

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 2015 and 2014 respectively and the cash flows have been adjusted to reflect the risk attached to these cash flows. Uncertainties on the timing for use of this provision include changes in the future that could impact the time of closing the mines as new resources and reserves are discovered. The discount rate used was 0.07% (2014: 0.02%).

2 On the basis that no profit was recognised by the Peruvian companies of the Group, no legal or voluntary provision has been recognised as at 31 December 2015 and 2014.

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) 2015 awards granted in March 2015 payable in March 2018; (ii) 2014 awards granted in March 2014 payable in March 2017. 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 2015 there is a change to the provision and corresponding expense of US\$369 000 (2014: US\$1 285 000) that is disclosed under administrative expenses US\$372 000 (2014: US\$1 064 000) exploration expenses US\$3 000 (2014: US\$221 000).

4 Based on the 2015 and 2014 internal review of mine rehabilitation budgets, an increase of US\$15 517 000 (2014: US\$27 829 000) was recognised of which US\$7 590 000 (2014: US\$9 088 000) related to a project already closed and has therefore been recognised directly in the income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

27 EQUITY**(a) Share capital and share premium***Issued share capital*

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

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

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

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

At 31 December 2015 and 2014, all issued shares with a par value of 25 pence each were fully paid (2015 weighted average of US\$0.443 per share, 2014 weighted average of US\$0.464 per share)

Rights attached to ordinary shares

At general meetings of the Company, on a show of hands and on a poll, every member who is present in person or subject to the below, by proxy, has one vote for every share of which they are the holder/proxy. However, in the case of a vote on a show of hands where a proxy has been appointed by more than one member, the proxy has one vote for and one vote against if the proxy has been instructed by one or more members to vote for the resolution and by one or more members to vote against the resolution.

On 20 March 2015 the Group issued 587,015 ordinary shares under the Deferred Bonus Plan to certain employees of the Group.

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

The changes in share capital are as follows

	Number of shares	Share Capital US\$000	Share premium US\$000
Shares issued as at 1 January 2014	367,101 352	170,389	396,021
Shares issued as at 1 January 2015	367,101 352	170,389	396,021
Shares issued according to the Deferred Bonus Plan benefit on 20 March 2015	587,015	220	–
Shares issued and paid pursuant to the rights issue on 20 October 2015	137,883,138	53,196	42 020
Shares issued as at 31 December 2015	505,571,505	223 805	438,041

(b) Treasury shares

Treasury shares represent the cost of Hochschild Mining plc shares purchased in the market and held by the trustee of the Hochschild Mining Employee Share Trust to satisfy the award of conditional shares under the Group's Enhanced Long Term Incentive Plan granted to the CEO (note 2(n)). During 2011, the Group purchased 126,769 shares for the purposes of the plan, for a total consideration of £561,477.91 (equivalent to US\$898,000). No shares were purchased by the Group during 2014 and 2015.

(c) Other reserves*Unrealised gain/loss on available-for-sale financial assets*

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

Unrealised gain/loss on cash flow hedges

Correspond to the effective portion of the gain or loss on the hedging instruments (refer to note 2(y)).

Cumulative translation adjustment

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

27 EQUITY CONTINUED

Merger reserve

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

Bond equity component

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

Share-based payment reserve

Is used to recognise the value of equity-settled share-based payment transactions provided to employees, as a part of their remuneration.

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

On 30 December 2014 and 16 February 2015 1,319,392 and 6,026,089 share options with a fair value of 86.8p and 92.3p were granted to the CEO and certain key employees, respectively under the Restricted Share Plan ('RSP') of the Group.

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

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

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

The carrying amount of the share based payment reserve relating to the RSP's at 31 December 2015 is \$2,843,440 (2014: \$nil) with the equivalent amount recognised in the consolidated income statement (2014: \$nil).

28 DEFERRED INCOME TAX

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

	As at 31 December	
	2015 US\$000	2014 US\$000
Beginning of the year	(83,385)	(91,089)
Income statement charge (note 14)	23,850	8,853
Deferred income tax arising on net unrealised gains on cash flow hedges recognised in equity (note 14)	(4,739)	(1,216)
Others	–	67
End of the year	(64,274)	(83,385)

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 2014	34,464	91,183	2,109	3,018	130,774
Income statement (credit)/charge	7,453	(11,202)	–	(844)	(4,593)
Deferred income tax arising on net unrealised gains on cash flow hedges recognised in equity	–	–	1,216	–	1,216
At 31 December 2014	41,917	79,981	3,325	2,174	127,397
Income statement (credit)/charge	6,050	(19,874)	–	2,588	(11,236)
Deferred income tax arising on net unrealised gains on cash flow hedges recognised in equity	–	–	4,739	–	4,739
At 31 December 2015	47,967	60,107	8,064	4,762	120,900

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	
	2015 US\$000	2014 US\$000
Deferred income tax liabilities	(64,274)	(84,959)

	Differences in cost of PP&E US\$000	Provision for mine closure US\$000	Tax losses US\$000	Mine development US\$000	Financial instruments US\$000	Others US\$000	Total US\$000
Deferred income tax assets							
At 1 January 2014	18,426	12,832	640	—	2,394	5,393	39,685
Income statement credit/(charge)	(8,879)	1,703	7,911	697	(132)	2,960	4,260
Foreign exchange effect	—	—	—	—	—	67	67
At 31 December 2014	9,547	14,535	8,551	697	2,262	8,420	44,012
Income statement credit/(charge)	(1,685)	8,318	8,263	257	(9)	(2,530)	12,614
At 31 December 2015	7,862	22,853	16,814	954	2,253	5,890	56,626

The amounts after offset, as presented on the face of the Statement of Financial Position, are as follows

	As at 31 December	
	2015 US\$000	2014 US\$000
Deferred income tax assets	—	1,574

Tax losses expire in the following years

	As at 31 December	
	2015 US\$000	2014 US\$000
Unrecognised		
Expire in one year	1,075	—
Expire in two years	2,733	1,256
Expire in three years	3,903	3,184
Expire in four years	3,978	6,017
Expire after four years	109,315	108,143
	121,004	118,600

Other unrecognised deferred income tax assets comprise (gross amounts)

	As at 31 December	
	2015 US\$000	2014 US\$000
Provision for mine closure ¹	66,577	55,637
Impairments of assets ²	14,692	(493)

1 This relates to provision for mine closure expenditure which is expected to be incurred in periods in which taxable profits are not expected against which the expenditure can be offset.

2 Related to the impairment of San Felipe and Volcan project (2014: Corresponds to the reversal of impairment of San Felipe project) (note 17)

Unrecognised deferred tax liability on retained earnings

At 31 December 2015 there was no recognised deferred tax liability (2014: nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries as the intention is that these amounts are permanently reinvested

29 DIVIDENDS PAID AND PROPOSED

	2015 US\$000	2014 US\$000
Declared and paid during the year		
Equity dividends on ordinary shares		
Final dividend for 2014 US\$Nil (2013 US\$Nil)	–	–
Interim dividend for 2015 US\$Nil (2014 US\$Nil)	–	–
Dividends declared to non-controlling interests US\$Nil (2014 US\$0.04 and US\$Nil)	–	5,542
Dividends declared and paid	–	5,542
Dividends declared to non-controlling interests US\$Nil (2014 US\$0.04)	–	1,719
Dividends declared and not paid	–	1,719
Total dividends declared	–	7,261
Final dividend for 2015 US\$Nil (2014 US\$Nil)	–	–

Dividends per share

The Directors of the Company are not recommending a dividend in respect of the year ended 31 December 2015 and 31 December 2014

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 2015 and 2014. The related parties are companies owned or controlled by the main shareholder of the parent company or associates

	Accounts receivable as at 31 December		Accounts payable as at 31 December	
	2015 US\$000	2014 US\$000	2015 US\$000	2014 US\$000
Current related party balances				
Cementos Pacasmayo S.A.A. ¹	11	45	40	49
Total	11	45	40	49

1 The account receivable relates to reimbursement of expenses paid by the Group on behalf of Cementos Pacasmayo S.A.A. The account payable relates to the payment of rentals.

As at 31 December 2015 and 2014, all accounts are, or were, non-interest bearing

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

Principal transactions between affiliates are as follows

	Year ended	
	2015 US\$000	2014 US\$000
Expenses		
Expense recognised for the rental paid to Cementos Pacasmayo S.A.A.	(285)	(185)

Transactions between the Group and these companies are on an arm's length basis

(b) Compensation of key management personnel of the Group

	As at 31 December	
	2015 US\$000	2014 US\$000
Compensation of key management personnel (including Directors)		
Short-term employee benefits	5,613	5,369
Long Term Incentive Plan, Deferred Bonus Plan and Restricted Share Plan	2,641	679
Total compensation paid to key management personnel	8,254	6,048

This amount includes the remuneration paid to the Directors of the parent company of the Group of US\$4,155,759 (2014 US\$4,005,780) out of which US\$Nil (2014 US\$160,462) relates to pension payments

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

30 RELATED-PARTY BALANCES AND TRANSACTIONS CONTINUED**(c) Participation in rights issue by Pelham Investment Corporation ("Pelham") and Inversiones ASPI SA ("ASPI")**

As at the record date of the Rights Issue, Eduardo Hochschild held his investment in the Company through Pelham. Following receipt of its entitlement under the Rights Issue, Pelham transferred, for nil consideration, its Nil Paid Rights in respect of 74,745,101 new ordinary shares to ASPI, an entity that is also under the control of Eduardo Hochschild. Under the terms of an irrevocable undertaking signed between Pelham, ASPI and the Company, it was agreed that:

- (i) ASPI would, among other things, subscribe for at least 68,887,508 new ordinary shares at an issue price of 47 pence per new ordinary share (the "Subscription Commitment") and
- (ii) the Company would, among other things, pay ASPI a fee of 1% of the Subscription Commitment of approximately US\$500,000.

31 AUDITOR'S REMUNERATION

The auditor's remuneration for services provided to the Group during the years ended 31 December 2015 and 2014 is as follows:

	Amounts paid to Ernst & Young in the year ended 31 December	
	2015 US\$000	2014 US\$000
Audit fees pursuant to legislation ¹	788	899
Audit-related assurance services	75	84
Taxation compliance services	41	84
Taxation advisory services	55	34
Services relating to corporate finance transactions	398	–
Total	1,357	1,101

¹ The total audit fee in respect of local statutory audits of subsidiaries is US\$458,000 (2014: US\$524,000).

In 2015 and 2014, all fees are included in administrative expenses, with the exception of 2015 fees related to the issuance of shares by the Group (US\$478,000).

32 NOTES TO THE STATEMENT OF CASH FLOWS

	As at 31 December	
	2015 US\$000	2014 US\$000
Reconciliation of loss for the year to net cash generated from operating activities		
Loss for the year	(239,657)	(70,831)
Adjustments to reconcile Group loss to net cash inflows from operating activities		
Depreciation (note 3(a))	142,742	129,153
Amortisation of intangibles	1,504	1,639
Write-off of assets (net)	583	1,534
Impairment of assets/(Reversals of impairment) (net)	206,563	(1,643)
Impairment of available-for-sale financial assets	105	6,155
Gain on sale of available-for-sale financial assets	–	(4,061)
Gain on sale of property, plant and equipment	(245)	(269)
Provision for obsolescence of supplies	1,046	(945)
Loss on sale of subsidiary	–	2,963
Provision for mine closure	7,590	9,088
Finance income	(1,898)	(2,215)
Finance costs	32,795	33,074
Income tax expense	(16,518)	2,621
Other	11,031	7,323
Increase/(decrease) of cash flows from operations due to changes in assets and liabilities		
Trade and other receivables	26,155	(3,417)
Other financial assets and liabilities	(393)	(761)
Inventories	(12,915)	11,843
Trade and other payables	7,140	8,982
Provisions	606	(240)
Cash generated from operations	166,234	129,993

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	
	2015 US\$000	2014 US\$000
Commitment for the subsequent 12 months	550	350
More than one year	6,450	6,850

(b) Operating lease commitments

The Group has a number of operating lease agreements, as a lessee.

The lease expenditure charged to the income statement during the years 2015 and 2014 are included in production costs (2015: US\$9,692,000; 2014: US\$7,108,000), administrative expenses (2015: US\$1,415,000; 2014: US\$1,442,000), exploration expenses (2015: US\$266,000; 2014: US\$611,000) and selling expenses (2015: US\$1,000; 2014: US\$1,000).

As at 31 December 2015 and 2014, the future aggregate minimum lease payments under the operating lease agreements are as follows:

	For the year ended 31 December	
	2015 US\$000	2014 US\$000
Not later than one year	3,615	6,371
Later than one year and not later than five years	3,433	2,224

(c) Capital commitments

	For the year ended 31 December	
	2015 US\$000	2014 US\$000
Peru	7,684	97,826
Argentina	4,509	6,091
	12,193	103,917

34 CONTINGENCIES

As at 31 December 2015, 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 2015, the Group had exposures totalling US\$34,969,000 (2014: US\$46,100,000) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

34 CONTINGENCIES CONTINUED**(b) Other**

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

The assessment of contingencies inherently involves exercise of significant judgement and estimates of the outcome of future events. Uncertainties in estimating the liability includes changes in the legal interpretation that the authorities could make in respect of the Group's transactions.

35 MINING ROYALTIES**Peru**

In accordance with Peruvian legislation, owners of mining concessions must pay a mining royalty for the exploitation of metallic and non-metallic resources. Mining royalties have been calculated with rates ranging from 1% to 3% of the value of mineral concentrate or equivalent sold, based on quoted market prices.

In October 2011 changes came into effect for mining companies with the following features:

- a) Introduction of a Special Mining Tax ("SMT") levied on mining companies at the stage of exploiting mineral resources. The additional tax is calculated by applying a progressive scale of rates ranging from 2% to 8.4%, of the quarterly operating profit.
- b) Modification of the mining royalty calculation, which consists of applying a progressive scale of rates ranging from 1% to 12%, of the quarterly operating profit. The former royalty was calculated on the basis of monthly sales value of mineral concentrates.

The SMT and modified mining royalty are accounted for as an income tax in accordance with IAS 12 "Income Taxes".

- c) For companies that have mining projects benefiting from tax stability regimes, mining royalties are calculated and recorded as they were previously, applying an additional new special charge on mining that is calculated using progressive scale rates, ranging from 4% to 13.12% of quarterly operating profit.
- d) In the case of the Arcata mine unit, the company quit the tax stability agreement, but has maintained the agreement for the mining royalties such that the Arcata unit, is liable for the new SMT but the mining royalties remain payable at the same rate as they were, before the modification in 2011.

As at 31 December 2015, the amount payable as under the former mining royalty (for the Arcata mining unit), the new mining royalty (for the Ares, Pallancata and Inmaculada mining units), and the SMT amounted to US\$272,000 (2014: US\$395,000), US\$1,080,000 (2014: US\$266,000), and US\$745,000 (2014: US\$Nil) respectively. The former mining royalty is recorded as 'Trade and other payables', and the new mining royalty and SMT as 'Income tax payable' in the Statement of Financial Position. The amount recorded in the income statement was US\$1,205,000 (2014: US\$1,279,000) representing the former mining royalty, classified as cost of sales US\$1,778,000 (2014: US\$1,611,000) of new mining royalty and US\$755,000 (2014: US\$375,000) of SMT, both classified as income tax.

Argentina

In accordance with Argentinian legislation, Provinces (being the legal owners of the mineral resources) are entitled to request royalties from mine operators. For San Jose, the mining royalty was originally fixed at 1.85% of the pit-head value of the production where the final product is dore and 2.55% where the final product is mineral concentrate or precipitates. In October 2012 a new provincial law was passed which increased the mining royalty applicable to dore and concentrate to 3% of the pit-head value. Since November 2012 Minera Santa Cruz S.A. has been paying and expensing the increased 3% royalty although it has filed an administrative claim against the new law. As at 31 December 2015, the amount payable as mining royalties amounted to US\$524,000 (2014: US\$556,000). The amount recorded in the income statement as cost of sales was US\$4,763,000 (2014: US\$5,302,000).

On 13 June 2013, the congress of the Province of Santa Cruz passed Law No. 3318, which created a tax on mining reserves. Accordingly, the owners of mining concessions located in the Province of Santa Cruz must pay a tax on mining reserves at a rate of 1%, calculated at the end of each year and determined according to the international price of metals at that date. According to these regulations, the tax applies only on "proved reserves" and certain deductions (related to the production cost) apply. Minera Santa Cruz S.A. (a subsidiary of Hochschild Mining plc) is affected by this tax. On 20 December 2013, Minera Santa Cruz S.A. filed before the Argentine Supreme Court a legal claim against the tax on mining reserves. Such legal claim challenges the legality of the tax on mining reserves arguing its unconstitutionality on the grounds that it violates the Federal Mining Policy created by national law No. 24,196. Additionally, on 2 November 2015, Minera Santa Cruz S.A. filed a precautionary measure under which it requested the Argentine Supreme Court to order the Province of Santa Cruz not to claim to Minera Santa Cruz S.A. the payment of any amount related to the tax on mining reserves until a final decision on the constitutionality of the tax is rendered. The precautionary measure was granted on 9 December 2015, furthermore no tax was paid during 2015. As at 31 December 2015, the amount payable as tax on mining reserves was US\$4,054,000 (2014: US\$4,088,000) recorded as 'Trade and other payables'. The amount recorded in the income statement was US\$441,000 (2014: US\$3,453,000) as other expenses. The tax on mining reserves was eliminated on 30 December 2015.

36 FINANCIAL RISK MANAGEMENT

The Group is exposed to a variety of risks and uncertainties which may have a financial impact on the Group and which also impact the achievement of social, economic and environmental objectives. These risks include strategic, commercial, operational and financial risks and are further categorised into risk areas to facilitate consolidated risk reporting across the Group.

The Group has made significant developments in the management of the Group's risk environment which seeks to identify and, where appropriate, implement the controls to mitigate the impact of the Group's significant risks. This effort is supported by a Risk Committee with the participation of the CEO, the Vice Presidents, and the head of the internal audit function. The Risk Committee is responsible for implementing the Group's policy on risk management and internal control in support of the Company's business objectives, and monitoring the effectiveness of risk management within the organisation.

(a) Commodity price risk

Silver and gold prices have a material impact on the Group's results of operations. Prices are significantly affected by changes in global economic conditions and related industry cycles. Generally, producers of silver and gold are unable to influence prices directly, therefore, the Group's profitability is ensured through the control of its cost base and the efficiency of its operations.

The Group's policy is generally to remain hedge free. However, management continuously monitors silver and gold prices and reserves the right to take the necessary action, where appropriate and within Board approved parameters, to mitigate the impact of this risk.

For the year ended 31 December 2015 the gain recognised in the income statement for the commodity swaps contracts signed during the year is as follows:

Year	Oz Ag	Oz Au	Average Price per oz Ag US\$	Average Price per oz Au US\$	Effect on Income statement US\$000
2015	6,000,000	76,000	17.75	1,229	18,962
2014	4,000,000	33,300	21.5	1,338.45	14,603

The fair value of unsettled commodity swaps contracts is as follows:

Year	Oz Ag	Oz Au	Average Price per oz Ag US\$	Average Price per oz Au US\$	Effect on equity US\$000
2015	6,000,000	100,000	15.94	1,151	21,267
2014		38,000		1,300	4,342

The Group is exposed to commodity price risk on these commodity swap contracts. A 10% favourable or adverse change in the price of gold and silver would have an impact on amounts recognised in the comprehensive income of approximately +/- US\$10,561,000 (2014 +/- US\$4,940,000) and +/- US\$8,265,000 (2014 US\$nil) respectively.

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 36(e)). For these derivatives, the sensitivity of the fair value to an immediate 10% favourable or adverse change in the price of gold and silver (assuming all other variables remain constant) is as follows:

Year	Increase/ decrease in price of ounces of	Effect on profit before tax US\$000
2015	Gold +/-10%	+/-216
	Silver +/-10%	+/-511
2014	Gold +/-10%	+/-238
	Silver +/-10%	+/-1,414

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

36 FINANCIAL RISK MANAGEMENT CONTINUED

(b) Foreign currency risk

The Group produces silver and gold which are typically priced in US dollars. A proportion of the Group's costs are incurred in pounds sterling, Peruvian nuevos soles, Canadian dollars, Argentinian pesos and Mexican pesos. Accordingly, the Group's financial results may be affected by exchange rate fluctuations between the US dollar and the local currency. The long-term relationship between commodity prices and currencies in the countries in which the Group operates provides a certain degree of natural protection. The Group does not use derivative instruments to manage its foreign currency risks.

The following table demonstrates the sensitivity of financial assets and liabilities at the reporting date, denominated in their respective currencies, to a reasonably possible change in the US dollar exchange rate, with all other variables held constant of the Group's profit before tax and the Group's equity.

Year	Increase/ decrease in US\$/other currencies rate	Effect on profit before tax US\$000	Effect on equity US\$000
2015			
Pounds sterling	+/-10%	+/-52	+/-25
Argentinian pesos	+/-10%	-/+970	-
Mexican pesos	+/-10%	-/+467	-
Peruvian nuevos soles	+/-10%	+/-2,808	-
Canadian dollars	+/-10%	+/-35	-
Chilean pesos	+/-10%	-/+153	-
2014			
Pounds sterling	+/-10%	+/-9	+/-23
Argentinian pesos	+/-10%	+/-2,197	-
Mexican pesos	+/-10%	+/-237	-
Peruvian nuevos soles	+/-10%	+/-7,757	-
Canadian dollars	+/-10%	+/-41	-
Chilean pesos	+/-10%	-/+17	-

(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 2015 and 31 December 2014

	As at 31 December 2015 US\$000	% collected as at 7 March 2016	As at 31 December 2014 US\$000	% collected as at 17 March 2015
Summary commercial partners				
Trade receivables	62,352	64%	72,818	68%

	As at 31 December 2015 US\$000	As at 31 December 2014 US\$000
Cash and cash equivalents - Credit rating ¹		
A*+	40,175	7,457
A+	36	-
A-	32,846	71,761
BBB+	4,059	8,296
BBB	5,158	27,889
BBB-	15	-
NA	1,728	596
Total	84,017	115,999

1. The long term credit rating as at 3 March 2016 (2014: 4 March 2015)

36 FINANCIAL RISK MANAGEMENT CONTINUED

To manage the credit risk associated with commercial activities the Group took the following steps

- Active use of prepayment/advance clauses in sales contracts
- Delaying delivery of title and/or requiring advance payments to reduce exposure timeframe (potential delay in sales recognition)
- Obtaining parent guarantees or contracting directly with parent company to shore up the credit profile of the customer (where possible)
- Maintaining as diversified a portfolio of clients as possible

To manage credit risk associated with cash balances deposited in banks, the Group took the following steps

- Increasing banking relationships with large, established and well-capitalised institutions in order to secure access to credit and to diversify credit risk
- Limiting exposure to financial counterparties according to Board approved limits
- Investing cash in short-term highly liquid and low risk instruments (money market accounts term deposits, US Treasuries)

Receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. The maximum exposure is the carrying amount as disclosed in notes 20, 22 and 36 (e)

(d) Equity risk on financial instruments

The Group acquires financial instruments in connection with strategic alliances with third parties. The Group constantly monitors the fair value of these instruments in order to decide whether or not it is convenient to dispose of these investments. The disposal decision is also based on management's intention to continue with the strategic alliance, the tax implications and changes in the share price of the investee.

The amount held on investments at year end is not significant and the sensitivity to reasonable movements in the share price of available-for-sale financial assets is immaterial.

(e) Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data

As at 31 December 2015 and 2014, the Group held the following financial instruments measured at fair value

	31 December 2015 US\$000	Level 1 US\$000	Level 2 US\$000	Level 3 US\$000
Assets measured at fair value				
Equity shares (note 19)	366	366	—	—
Commodity swaps (note 36(a))	21,267	—	21,267	—
Liabilities measured at fair value				
Embedded derivatives ¹	(1,141)	—	—	(1,141)
	31 December 2014 US\$000	Level 1 US\$000	Level 2 US\$000	Level 3 US\$000
Assets measured at fair value				
Equity shares (note 19)	455	455	—	—
Commodity swaps (note 36(a))	4,342	—	4,342	—
Liabilities measured at fair value				
Embedded derivatives ¹	(1,533)	—	—	(1,533)

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 ore 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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

36 FINANCIAL RISK MANAGEMENT CONTINUED

During the period ending 31 December 2015 and 2014 there were no transfers between these levels

The reconciliation of the financial instruments categorised as level 3 is as follows

	Embedded derivatives liabilities US\$000	Equity shares US\$000 ¹
Balance at 1 January 2014	(2,294)	6,000
Gain from the period recognised in revenue	761	–
Impairment through profit and loss (finance costs)	–	(6,000)
Balance at 31 December 2014	(1,533)	–
Gain from the period recognised in revenue	392	–
Balance at 31 December 2015	(1,141)	–

1. Pembroke Mining Corp (Pembroke) Macroeconomic uncertainty has been putting downward pressure on commodity prices. Furthermore, the Group is concerned that Pembroke will run out of funds by the end of the year under their existing agreements and believes that under the present market conditions they may be unable to obtain funding. Therefore, a full impairment of the remaining cost of the investment has been recorded as at 31 December 2014. The impairment percentage was calculated based on available observable market data of similar peers.

(f) Liquidity risk

Liquidity risk arises from the Group's inability to obtain the funds it requires to comply with its commitments, including the inability to sell a financial asset quickly enough and at a price close to its fair value. Management constantly monitors the Group's level of short- and medium-term liquidity, and their access to credit lines, in order to ensure appropriate financing is available for its operations.

The table below categorises the undiscounted cash flows of Group's financial liabilities into relevant maturity groupings based on the remaining period as at the statement of financial position to the contractual maturity date. Interest cash flows have been calculated using the spot rate at year end.

	Less than 1 year US\$000	Between 1 and 2 years US\$000	Between 2 and 5 years US\$000	Over 5 years US\$000	Total US\$000
At 31 December 2015					
Trade and other payables	85,124	–	23,250	–	108,374
Embedded derivative liability	1,141	–	–	–	1,141
Borrowings	111,811	24,476	120,369	306,198	562,854
Provisions	–	715	2,089	–	2,804
Total	198,076	25,191	145,708	306,198	675,173
At 31 December 2014					
Trade and other payables	93,122	92	–	–	93,214
Embedded derivative liability	1,533	–	–	–	1,533
Borrowings	45,053	46,618	167,980	390,688	650,339
Provisions	–	166	1,932	–	2,098
Total	139,708	46,876	169,912	390,688	747,184

(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.

36 FINANCIAL RISK MANAGEMENT CONTINUED

As at 31 December 2015					
	Within 1 year US\$000	Between 1 and 2 years US\$000	Between 2 and 5 years US\$000	Over 5 years US\$000	Total US\$000
Fixed rate					
Assets	35,963	—	—	—	35,963
Liabilities	(94,531)	—	(20,322)	(290,230)	(405,083)
Floating rate					
Assets	337	—	—	—	337
Liabilities	(229)	—	(49,548)	—	(49,777)

As at 31 December 2014					
	Within 1 year US\$000	Between 1 and 2 years US\$000	Between 2 and 5 years US\$000	Over 5 years US\$000	Total US\$000
Fixed rate					
Assets	38,214	—	—	—	38,214
Liabilities	(27,300)	—	—	(342,043)	(369,343)
Floating rate					
Assets	935	—	—	—	935
Liabilities	(582)	(16,660)	(82,131)	—	(99,373)

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

The sensitivity to a reasonable movement in the interest rate, with all other variables held constant, of the financial instruments with a floating rate determined as a +/-50bps change in interest rates has a +/-477,000 effect on profit before tax (2014 +/-495,000). The Group is exposed to fluctuations in market interest rates.

This assumes that the amount remains unchanged from that in place at 31 December 2015 and 2014 and that the change in interest rates is effective from the beginning of the year. In reality, the floating rate will fluctuate over the year and interest rates will change accordingly.

(h) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders, benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital. Management considers as part of its capital the financial sources of funding from shareholders and third parties (notes 25 and 27).

Even though the company targets to maintain low indebtedness ratios, in 2013 management decided to increase its long term debt to finance the acquisition of Hochschild's partner in Pallancata and Inmaculada, International Minerals Corporation. In addition, management reserves the right to use of short-term pre-shipment financing (financing of commercial accounts receivables and finished goods inventory).

In 2015 the Group collected capital of \$95,216,000 due to a rights issue and \$175,948,000 due to proceeds of borrowings while \$209,173,000 of debt was repaid.

Management also retains the right to fund operations (fully owned and with joint venture partners) with a mix of equity and joint venture partners' debt.

37 SUBSEQUENT EVENTS

a) On 11 February 2016 the Group signed a zero cost collar contract with JP Morgan Chase Bank, National Association, London Branch over 2,999,997 ounces of silver at a call/put price of US\$17.60 and US\$14.00 per ounce from 12 February to 30 December 2016. In addition, on 12 February 2016, the Group signed a commodity swap contract with Citibank, NA to hedge 15,000 ounces of gold at price of US\$1,244.25 per ounce from 12 February to 30 December 2016.

b) On 12 February 2016 the Argentinian government published the Decreto 349/2016 that eliminates the export tax over the sales of concentrates.

PARENT COMPANY STATEMENT OF FINANCIAL POSITION

As at 31 December 2015

	Notes	As at 31 December	
		2015 US\$000	2014 US\$000
ASSETS			
Non-current assets			
Investments in subsidiaries	5	642,121	911,016
		642,121	911,016
Current assets			
Other receivables	6	6,043	2,179
Cash and cash equivalents	7	21,885	3,293
		27,928	5,472
Total assets		670,049	916,488
EQUITY AND LIABILITIES			
Equity share capital	8	223,805	170,389
Share premium	8	458,267	416,247
Treasury shares	8	(898)	(898)
Other reserves		4,655	2,576
Retained earnings		(244,605)	23,693
Total equity		441,224	612,007
Non-current liabilities			
Trade and other payables	9	7,545	11,866
Provisions	10	82	45
		7,627	11,911
Current liabilities			
Trade and other payables	9	221,198	292,570
		221,198	292,570
Total liabilities		228,825	304,481
Total equity and liabilities		670,049	916,488

The financial statements on pages 108 to 120 were approved by the Board of Directors on 8 March 2016 and signed on its behalf by

IGNACIO BUSTAMANTE
Chief Executive Officer
8 March 2016



PARENT COMPANY STATEMENT OF CASH FLOWS

For the year ended 31 December 2015

	Notes	Year ended 31 December	
		2015 US\$000	2014 US\$000
Reconciliation of loss for the year to net cash used in operating activities			
Loss for the year		(269,954)	(458,653)
Adjustments to reconcile Company loss to net cash outflows from operating activities			
Depreciation	4	–	27
Impairment on investment in subsidiary	5	268,895	448,345
Write off of property plant and equipment		–	93
Finance income		(4,933)	(2,082)
Finance costs		41	7,157
Income tax		–	3
Foreign exchange loss		–	47
(Decrease)/increase of cash flows from operations due to changes in assets and liabilities			
Other receivables		(1,791)	(1,285)
Trade and other payables		489	(370)
Provision for Long Term Incentive Plan		37	1,757
Cash generated from/(used in) operating activities		(7,216)	(4,961)
Interest received		9	109
Interest paid		–	(8,111)
Net cash used in operating activities		(7,207)	(12,963)
Cash flows from investing activities			
Dividends received		–	33
Loans to subsidiaries		6	131
Net cash used in investing activities		6	164
Cash flows from financing activities			
Proceeds of loans from related parties		–	59,242
Repayment of borrowings		(71,299)	(114,900)
Proceeds from issue of ordinary shares		95,216	–
Cash flows generated from financing activities		23,917	(55,658)
Net (decrease)/increase in cash and cash equivalents during the year		16,716	(68,457)
Foreign exchange loss		209	(47)
Other		1,667	–
Cash and cash equivalents at beginning of year		3,293	71,797
Cash and cash equivalents at end of year	7	21,885	3,293

PARENT COMPANY STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2015

	Notes	Other reserves								Total equity US\$000
		Equity share capital US\$000	Share premium US\$000	Treasury Shares 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	
Balance at 1 January 2014		170 389	416 247	(898)	8 432	736	338 747	347 915	135 167	1,068 820
Other comprehensive income		-	-	-	-	-	-	-	-	-
Loss for the year		-	-	-	-	-	-	-	(458 653)	(458 653)
Total comprehensive loss for 2014		-	-	-	-	-	-	-	(458 653)	(458 653)
Transfer to retained earnings		-	-	-	(8 432)	-	(338 747)	(347 179)	347,179	-
CEO LTIP		-	-	-	-	610	-	610	-	610
Deferred bonus plan		-	-	-	-	1,230	-	1,230	-	1,230
Balance at 31 December 2014		170 389	416 247	(898)	-	2 576	-	2,576	23 693	612 007
Other comprehensive income		-	-	-	-	-	-	-	-	-
Loss for the year		-	-	-	-	-	-	-	(269 954)	(269 954)
Total comprehensive loss for 2015		-	-	-	-	-	-	-	(269 954)	(269 954)
Issuance of shares of deferred bonus plan	8	220	-	-	-	(1,560)	-	(1 560)	1,340	-
Issuance of shares	8	53 196	46,812	-	-	-	-	-	-	100 008
Transaction costs related to issuance of shares		-	(4 792)	-	-	-	-	-	-	(4 792)
CEO LTIP		-	-	-	-	327	-	327	316	643
Restricted share plan	8	-	-	-	-	2,843	-	2,843	-	2,843
Deferred bonus plan		-	-	-	-	469	-	469	-	469
Balance at 31 December 2015		223,805	458,267	(898)	-	4,655	-	4,655	(244,605)	441,224

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

For the year ended 31 December 2015

1 CORPORATE INFORMATION

Hochschild Mining plc (hereinafter the Company) is a public limited company incorporated on 11 April 2006 under the Companies Act 1985 as a Limited Company and registered in England and Wales with registered number 05777693

The Company's registered office is located at 23 Hanover Square, London W1S 1JB, United Kingdom. The Company was incorporated to serve as a holding company to be listed on the London Stock Exchange. The Company acquired its interest in a group of companies to constitute the Hochschild Mining Group ('the Group') pursuant to a share exchange agreement ('Share Exchange Agreement') dated 2 November 2006.

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

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

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The Company's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and are also consistent with IFRS issued by the IASB as applied in accordance with the Companies Act 2006.

The financial statements of the Company have been prepared on a historical cost basis. The financial statements are presented in US dollars (US\$) and all monetary amounts are rounded to the nearest thousand (\$000) except when otherwise indicated.

The ability for the Company to continue as a going concern is dependent on Hochschild Mining Holdings Limited providing additional funding to the extent that the operating inflows of the Company are insufficient to meet future cash requirements. As Hochschild Mining Holdings Limited has committed to provide this support, is itself a going concern and can provide financial support if necessary, the Directors have prepared the financial statements for the Company on the going concern basis.

(b) Exemptions

The Company's financial statements are included in the Hochschild Mining Group consolidated financial statements for the years ended 31 December 2015 and 31 December 2014. 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.

(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.

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2015

2 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(f) Property, plant and equipment

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

The cost less residual value of each item of property, plant and equipment is depreciated over its useful life. Each item's estimated useful life has been assessed with regard to its own physical life. Estimates of remaining useful lives are made on a regular basis for all buildings, machinery and equipment, with annual reassessments for major items. Depreciation is charged to administrative expenses over the estimated useful life of the individual asset on a straight-line basis. Changes in estimates are accounted for prospectively. Depreciation commences when assets are available for use. Land is not depreciated.

An asset's carrying amount is written-down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within other income/expenses, in the income statement.

Subsequent expenditure

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

(g) Investments in subsidiaries

Subsidiaries are entities over which the Company controls operating and financial policies, generally by owning more than 50% of voting rights. Investments in subsidiaries are recognised at acquisition cost less any provision for impairment. The Company assesses investments for impairment whenever events or changes in circumstances indicate that the carrying value of an investment may not be recoverable. If any such indication of impairment exists, the Company makes an estimate of its recoverable amount. Where the carrying amount of an investment exceeds its recoverable amount, the investment is considered impaired and is written down to its recoverable amount. If in subsequent periods the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the profit and loss account, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

(h) Dividends receivable

Dividends are recognised when the Company's right to receive payments is established. Dividends received are recorded in the income statement.

(i) Other receivables

Current receivables are carried at the original amount less provision made for impairment of these receivables. A provision for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivable. The amount of the provision is the difference between the original carrying amount and the recoverable amount and this difference is recognised in the income statement.

(j) Cash and cash equivalents

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

(k) Share capital

Ordinary shares are classified as equity. Any excess above the par value of shares received upon issuance of those shares is classified as share premium. In the case the excess above par value is available for distribution, it is classified as merger reserve and then transferred to retained earnings.

(l) Provisions

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

2 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(m) Share-based payments

Cash-settled transactions

The fair value of cash-settled share plans is recognised as a liability over the vesting period of the awards. Movements in that liability between reporting dates are recognised as an expense. The fair value of the awards is taken to be the market value of the shares at the date of award adjusted by a factor for anticipated relative Total Shareholder Return (TSR) performance. Fair values are subsequently remeasured at each reporting date to reflect the number of awards expected to vest based on the current and anticipated TSR performance.

Uncertainties in estimating the award include potential changes in the TSR, the number of participants in the plan, and levels of interest rates.

Where the Company is remunerating employees of its subsidiaries through a share-based payment, the costs of the transactions are recorded as capital contribution to the subsidiaries.

Equity-settled transactions

The cost of equity-settled transactions is recognised, together with a corresponding increase in other reserves in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that vest.

The income statement expense for a period represents the movement in cumulative expense recognised as at the beginning and end of that period and is recognised in personnel expenses. During 2011 and 2014, the Company approved an equity-settled scheme for its CEO.

At the beginning of 2015, the Company granted a new benefit for some key employees of the Group: the Restricted Share Plan.

(n) Finance income and costs

Finance income and costs mainly comprise interest income on funds invested, interest expense on borrowings, foreign exchange gains and losses, gains and losses from the change in fair value of derivative instruments and gains and losses on the disposal of available-for-sale investments. Interest income and costs are recognised as they accrue, taking into account the effective yield on the asset and liability, respectively.

(o) Income tax

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

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted at the statement of financial position date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes with the following exemptions:

- where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS CONTINUED
For the year ended 31 December 2015

2 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(p) Financial instruments

Financial assets and liabilities are recognised when the Company becomes party to the contracts that give rise to them and are classified as loans or borrowings, receivables, payables, financial instruments at fair value through profit and loss or as available-for sale financial assets, as appropriate. The Company determines the classification of its financial assets and liabilities at initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year end. When financial assets and liabilities are recognised initially, they are measured at fair value, being the transaction price plus, in the case of financial assets not at fair value through profit or loss and borrowings, directly attributable transaction costs. The Company considers whether a contract contains an embedded derivative when the entity first becomes a party to it. The embedded derivatives are separated from the host contract if it is not measured at fair value through profit or loss and when the economic characteristics and risks are not closely related to those of the host contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

All regular way purchases and sales of financial assets are recognised on the trade date, being the date that the Company commits to purchase or sell the asset. Regular way transactions require delivery and receipt of assets within the timeframe generally established by regulation or convention in the marketplace.

Financial guarantees

Financial guarantees are guarantees provided by the Company on behalf of one of the Group's subsidiaries. At inception, the fair value of a financial guarantee is determined and recognised as a liability in the Company's accounts, while the debit is recognised as a capital contribution to its subsidiary. The liability is subsequently amortised on a straight-line basis over the life of the guarantee, unless it is considered probable that the guarantee will be called, in which case it is measured at the value of the guaranteed amount payable, if higher.

The liability is presented within creditors as Financial liability – financial guarantee.

Loans and borrowings

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

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

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

A detailed description of the Company's policies in respect of financial instruments is included in the Group's financial statements (note 2(t)).

(q) Dividends distribution

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

(r) Convertible bond

The convertible bond is a compound financial instrument that includes a financial liability and an equity instrument.

At initial recognition, the Company determines the fair value of the liability component, and the equity component as a residual amount that is never remeasured after initial recognition.

The convertible bond issued by the Company was derecognised in October 2014 upon repayment of the debt.

3 PROFIT AND LOSS ACCOUNT

The Company made a loss attributable to equity shareholders of US\$269,954,000 (2014: loss of US\$458,653,000).

4 PROPERTY, PLANT AND EQUIPMENT

The ending balance at 31 December 2015 is US\$nil (31 December 2014: US\$nil) related to cost of equipment of US\$265,000 net to accumulated depreciation of US\$265,000.

There were no additions during 2014 and 2015.

5 INVESTMENTS IN SUBSIDIARIES

	Total US\$000
Year ended 31 December 2014	
Cost	
At 1 January 2014	2,319,649
Additions	16,361
At 31 December 2014	2,336,010
Accumulated impairment	
At 1 January 2014	(976,649)
Impairment loss	(448,345)
At 31 December 2014	(1,424,994)
Net book value at 31 December 2014	911,016
Year ended 31 December 2015	
Cost	
At 1 January 2015	2,336,010
At 31 December 2015	2,336,010
Accumulated impairment	
At 1 January 2015	(1,424,994)
Impairment loss	(268,895)
At 31 December 2015	(1,693,889)
Net book value at 31 December 2015	642,121

The Company tested its investment in subsidiary for impairment in light of decreases in the prices of gold and silver, as well as decreases in the Company's publically listed share price, which were determined to be indicators of impairment. As a result of this test, the Company recognised an impairment of the investment in Hochschild Mining Holdings Ltd. of US\$268,895,000 (2014: US\$448,345,000).

This impairment reflects the reduction in value of these investments since recognition. The recoverable value of the investment in Hochschild Mining Holdings Limited was determined using a fair value less costs of disposal. The fair value less costs of disposal was determined with reference to the market capitalisation of the Group at 31 December 2015 and 2014 translated from Pounds Sterling into U.S. Dollars using the year-end exchange rate (both Level 1 inputs) to which a control premium was added based on recent market transactions (a Level 2 input), and subsequently adjusted for the net debt held directly by the Company. A Level 1 input refers to quoted prices in active markets while a Level 2 input corresponds to other information that can be observed directly or indirectly. Any variation in the key assumptions would either result in further impairment or a reduction of the impairment.

The breakdown of the investments in subsidiaries is as follows:

Name	As at 31 December 2015			As at 31 December 2014		
	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%	642,121	England & Wales	100%	911,016
Total			642,121			911,016

The list of indirectly held subsidiaries of the Group is presented in note 1 (Corporate information) of the notes to the consolidated financial statements.

During 2014 the Company recorded a capital contribution of \$16,361,000 related to the financial guarantee granted over some borrowings entered into by Compañía Minera Ares S.A.C., one of its indirectly held subsidiaries (note 9).

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS CONTINUED
For the year ended 31 December 2015

6 OTHER RECEIVABLES

	Year ended 31 December	
	2015 US\$000	2014 US\$000
Amounts receivable from subsidiaries (note 11)	5,566	2 169
Prepayments	477	10
Receivable from Kaupthing, Singer and Friedlander	252	264
	6,295	2,443
Provision for impairment ¹	(252)	(264)
Total	6,043	2 179

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\$252 000 accrued in 2008 and partially recovered in 2015 (2014 US\$264 000)

Movements in the provision for impairment of receivables

	Total US\$000
At 1 January 2014	289
Amounts recovered	(25)
At 31 December 2014	264
Amounts recovered	(12)
At 31 December 2015	252

As at 31 December 2015 and 2014, none of the financial assets classified as receivables (net of impairment) were past due

7 CASH AND CASH EQUIVALENTS

	Year ended 31 December	
	2015 US\$000	2014 US\$000
Bank current account ¹	635	307
Time deposits ²	21,250	2,986
Cash and cash equivalents considered for the cash flow statement	21,885	3 293

- 1 Relates to bank accounts which are freely available and bear interest.

- 2 These deposits have an average maturity of 2 days (2014 2 days)

8 EQUITY**(a) Share capital and share premium***Issued share capital*

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

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

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

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

At 31 December 2015 and 2014, all issued shares with a par value of 25 pence each were fully paid (2015 weighted average of US\$0 443 per share, 2014 weighted average of US\$0 464 per share)

8 EQUITY CONTINUED

Rights attached to ordinary shares

At general meetings of the Company on a show of hands and on a poll, every member who is present in person or subject to the below by proxy, has one vote for every share of which they are the holder/proxy. However, in the case of a vote on a show of hands where a proxy has been appointed by more than one member, the proxy has one vote for and one vote against if the proxy has been instructed by one or more members to vote for the resolution and by one or more members to vote against the resolution.

On 20 March 2015 the Group issued 587 015 ordinary shares under the Deferred Bonus Plan a benefit to the certain employees of the Group.

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

The changes in share capital are as follows:

	Number of shares	Share Capital US\$000	Share premium US\$000
Shares issued as at 1 January 2014	367,101,352	170 389	416,247
Shares issued as at 31 December 2014	367,101 352	170 389	416,247
Shares issued according the Deferred Bonus Plan benefit on 20 March 2015	587 015	220	—
Shares issued and paid pursuant to the rights issue on 20 October 2015	137 883 138	53,196	42,020
Shares issued as at 31 December 2015	505 571,505	223,805	458 267

(b) Treasury shares

Treasury shares represent the cost of Hochschild Mining plc shares purchased in the market and held by the trustee of the Hochschild Mining Employee Share Trust to satisfy the award of conditional shares under the Company's Enhanced Long Term Incentive Plan granted to the CEO (note 2(n)). During 2011, the Company purchased 126,769 shares for the purposes of the plan, for a total consideration of £561,477.91 (equivalent to US\$898,000). No shares were purchased by the Company in 2014 and 2015.

(c) Other reserves

Merger reserve

The merger reserve represents the difference between the fair value of the net assets of the Cayman Holding Companies acquired under the Share Exchange Agreement and the nominal value of the shares issued in consideration of such acquisition. The merger reserve was realised in 2013 and 2014 as a result of the impairment of the investment in subsidiary recorded in the period (note 5).

Bond equity component

Represents the equity component of the Convertible bond issued on 20 October 2009. When the initial carrying amount of a compound financial instrument is allocated to its equity and liability components, the equity component is assigned the residual amount after deducting the fair value of the instrument as a whole the amount separately determined for the liability component. As the convertible bond was repaid on 16 October 2014 the bond equity component was transferred to retained earnings.

Share-based payment reserve

Is used to recognise the value of equity-settled share-based payment transactions provided to employees, as a part of their remuneration.

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

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2015

9 TRADE AND OTHER PAYABLES

	As at 31 December			
	2015		2014	
	Non-current US\$000	Current US\$000	Non-current US\$000	Current US\$000
Trade payables	–	1,008	–	511
Payables to subsidiaries (note 11)	–	217,571	–	289,236
Remuneration payable	–	325	–	59
Taxes and contributions	–	375	–	242
Financial guarantees ¹	7,545	1,919	11,866	2,522
Total	7,545	221,198	11,866	292,570

1 The Company has provided financial guarantees to certain banks over the medium term bank loan and bond payable entered into by its subsidiary Compañía Minera Ares S.A.C. The financial guarantee was recognised at its fair value at initial recognition of US\$16 361 000. This fair value was determined through the use of certain Level 3 estimates, the most significant of which being the estimated rate of interest Compañía Minera Ares S.A.C. would have been charged were it not for the guarantee provided by the Company. The liability is subsequently amortised on a straight-line basis over the life of the guarantee.

Trade payables mainly relate to the purchase of third-party services. These payables do not accrue interest and no guarantees have been granted in relation to these payables. The fair value of trade and other payables approximate their book values.

10 PROVISIONS

	As at 31 December	
	2015 US\$000	2014 US\$000
Beginning balance	45	128
Increase/(decrease) in provision	37	(83)
At 31 December	82	45
Less current portion	–	–
Non-current portion	82	45

1 Corresponds to the provision related to cash-settled share-based payment awards granted under the Long Term Incentive Plan to designated personnel of the Company. Includes the following benefits: (i) Long Term Incentive Plan awards granted in March 2015, payable in March 2018; (ii) Long Term Incentive Plan awards granted in March 2014, payable in March 2017. 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.

11 RELATED-PARTY BALANCES AND TRANSACTIONS

(a) Related-party accounts receivable and payable

The Company had the following related-party balances and transactions during the years ended 31 December 2015 and 31 December 2014:

	As at 31 December 2015		As at 31 December 2014	
	Accounts receivable US\$000	Accounts payable US\$000	Accounts receivable US\$000	Accounts payable US\$000
Subsidiaries				
Compañía Minera Ares S.A.C. ¹	4,701	253	1 468	617
Hochschild Mining Holdings Ltd. ²	488	217,294	488	288,593
Other subsidiaries	377	24	213	26
Total	5,566	217,571	2,169	289,236

1 The account receivable mainly relates to the Deferred Bonus Plan and Restricted Share Plan provision that are going to be paid by Hochschild Mining plc in shares on behalf of Compañía Minera Ares S.A.C. The account payable mainly relates to the services performed by Compañía Minera Ares S.A.C. to Hochschild Mining plc during 2015 of US\$253 000 (2014: US\$617 000). The Company has also provided certain financial guarantees on behalf of Compañía Minera Ares S.A.C. (notes 5 and 9).

2 Relates to loans receivable by and payable to Hochschild Mining Holdings Ltd. The loan payable is repayable on demand and is free of interest.

The fair values of the receivables and payables approximate their book values. Transactions between the Company and these companies are on an arm's length basis.

11 RELATED-PARTY BALANCES AND TRANSACTIONS CONTINUED

(b) Compensation of key management personnel of the Company

Key management personnel include the Directors who receive remuneration. The amount of this remuneration totals US\$1,518,262 (2014 US\$1,509,604) out of which US\$nil (2014 US\$28,059) relates to cash supplements in lieu of pension contributions.

	As at 31 December	
	2015 US\$000	2014 US\$000
Compensation of key management personnel (including directors)		
Short-term employee benefits	875	899
Long Term Incentive Plan	643	610
Total compensation	1,518	1,509

12 DIVIDENDS PAID AND PROPOSED

Dividends per share

The Directors of the Company are not recommending the payment of a dividend in respect of the year ended 31 December 2015 and 2014.

13 FINANCIAL RISK MANAGEMENT

The Company is exposed to a variety of risks and uncertainties which may have an impact on the achievement of financial and economic objectives. These risks include strategic, operational and financial risk and are further categorised into risk areas to facilitate risk assessment. The Company is not exposed to significant sources of commodity price, equity or interest rate risk.

(a) Foreign currency risk

Due to the operations of the Company, it has cash and cash equivalents and trade payables denominated in pounds sterling and Canadian dollars. Accordingly, the financial results of the Company may be affected by exchange rate fluctuations. The Company does not use derivative instruments to manage its foreign currency risks. The following table demonstrates the sensitivity of financial assets and liabilities, at the reporting date denominated in their respective currencies, to a reasonably possible change in the US dollar exchange rate, with all other variables held constant, of the Company's profit before tax and the Company's equity.

Year	Increase/ decrease in US\$/other currencies rate	Effect on profit before tax US\$000	Effect on equity US\$000
2015			
Pound sterling	+/-10%	-/+39	—
2014			
Pound sterling	+/-10%	-/+8	—

(b) Credit risk

The Company is primarily exposed to credit risk in transactions in cash which are primarily limited to cash balances deposited in banks and accounts receivable at the statement of financial position date. The Company has evaluated and introduced efforts to try to mitigate credit risk exposure.

To manage credit risk associated with cash balances deposited in banks, the Company is:

- increasing banking relationships with large, established and well-capitalised institutions in order to secure access to credit and to diversify credit risk,
- investing cash in short-term, highly liquid and low risk instruments (term deposits),
- maintaining excess cash abroad in hard currency.

Credit risk concentrations exist when changes in economic, industrial or geographic factors take place, affecting in the same manner the Company's counterparties whose added risk exposure is significant to the Company's total credit exposure. Receivable balances are monitored on an ongoing basis with the result that the Company's exposure to bad debts is not significant. The maximum exposure is the carrying amount as disclosed in note 6.

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2015

13 FINANCIAL RISK MANAGEMENT CONTINUED

(c) Liquidity risk

Liquidity risk arises from the Company's inability to obtain the funds it requires to comply with its commitments including the inability to sell a financial asset quickly enough and at a price close to its fair value. Management constantly monitors the Company's level of short- and medium-term liquidity and their access to credit lines on reasonable terms in order to ensure appropriate financing is available for its operations.

The Company is funded by Hochschild Mining Holdings 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 2015 of US\$21,885,000 (2014: \$53,293,000) and US\$335,000 (2014: US\$3,519,000) respectively. The Company also serves as principal funding conduit for the Group's capital raising activities such as equity issuances.

The table below analyses the Company's financial liabilities into relevant maturity groupings based on the remaining period to the contractual maturity date.

	Less than 1 year US\$000	Between 1 and 2 years US\$000	Between 2 and 5 years US\$000	Over 5 years US\$000	Total US\$000
At 31 December 2015					
Trade and other payables	218,904	—	—	—	218,904
Provisions	—	56	189	—	245
At 31 December 2014					
Trade and other payables	289,806	—	—	—	289,806
Provisions	—	13	146	—	159

The table below analyses the maximum amounts payable under financial guarantees provided to Compañía Minera Ares S.A.C. (notes 5 and 9) considering that if the guarantees were to be called, the guaranteed amounts would be due immediately.

	Less than 1 year US\$000	Between 1 and 2 years US\$000	Between 2 and 5 years US\$000	Over 5 years US\$000	Total US\$000
At 31 December 2015					
Financial guarantees ¹	344,775	—	—	—	344,775
At 31 December 2014					
Financial guarantees ¹	450,000	—	—	—	450,000

1. Not including any accumulated interest that may be payable at the call date.

(d) Capital risk management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. Management considers as part of its capital the financial sources of funding from shareholders and third-parties (notes 8 and 9). In order to ensure an appropriate return for shareholders' capital invested in the Company, management monitors capital thoroughly and evaluates all material projects and potential acquisitions before submission to the Board for ultimate approval, where applicable.

PROFIT BY OPERATION¹

(Segment report reconciliation) as at 31 December 2015

Company (US\$'000)	Arcata	Pallancata	Inmaculada	San Jose	Consolidation adjustment and others	Total/HOC
Revenue	107,425	73,045	102,303	186,097	276	469,146
Cost of sales (Pre consolidation)	(107 803)	(88,999)	(52 532)	(153 093)	(2,744)	(405,171)
Consolidation adjustment	165	(194)	(2 621)	(94)	2,744	-
Cost of sales (Post consolidation)	(107 638)	(89,193)	(55 153)	(153 187)	-	(405 171)
Production cost excluding depreciation	(71,128)	(51,599)	(32,765)	(109,615)	-	(265,107)
Depreciation in production cost	(33 360)	(35,725)	(27 243)	(43,205)	-	(139,533)
Other items	(2,133)	(1 610)	(1 544)	(5,499)	-	(10,786)
Change in inventories	(1,017)	(259)	6,399	5 132	-	10 255
Gross profit	(378)	(15 954)	49,771	33,004	(2,468)	63 975
Administrative expenses	-	-	-	-	(38,148)	(38,148)
Exploration expenses	-	-	-	-	(9,255)	(9 255)
Selling expenses	(962)	(1048)	(12)	(19 707)	-	(21,729)
Other income/expenses	-	-	-	-	(7,243)	(7,243)
Operating profit before impairment	(1,340)	(17,002)	49,759	13 297	(57,114)	(12,400)
Impairment of assets	-	-	-	-	(207 146)	(207,146)
Finance income	-	-	-	-	1 898	1,898
Finance costs	-	-	-	-	(32 900)	(32,900)
FX loss	-	-	-	-	(5 627)	(5,627)
Profit/(loss) from continuing operations before income tax	(1,340)	(17 002)	49,759	13 297	(300,889)	(256,175)
Income tax	-	-	-	-	16 518	16,518
Profit/(loss) for the year from continuing operations	(1,340)	(17 002)	49 759	13,297	(284,371)	(239,657)

1 On a post exceptional basis

RESERVES AND RESOURCES

ORE RESERVES AND MINERAL RESOURCES ESTIMATES

Hochschild Mining plc reports its mineral resources and reserves estimates in accordance with the Australasian Code for Reporting of Exploration Results Mineral Resources and Ore Reserves 2004 edition ("the JORC Code"). This establishes minimum standards, recommendations and guidelines for the public reporting of exploration results and mineral resources and reserves estimates. In doing so it emphasises the importance of principles of transparency, materiality and confidence. The information on ore reserves and mineral resources on pages 122 to 124 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 2015, unless otherwise stated. Mineral resources that are reported include those mineral resources that have been modified to produce ore reserves. All tonnage and grade information has been rounded to reflect the relative uncertainty in the estimates; there may therefore be small differences. The prices used for the reserves calculation were Au Price: US\$1,200 per ounce and Ag Price: US\$20 per ounce.

ATTRIBUTABLE METAL RESERVES AS AT 31 DECEMBER 2015¹

Reserve category	Proved and probable (t)	Ag (g/t)	Au (g/t)	Ag (moz)	Au (koz)	Ag Eq (moz)
OPERATIONS¹						
Arcata						
Proved	652,377	347	11	7.3	22.6	8.6
Probable	881,991	311	11	8.8	31.0	10.7
Total	1,534,369	326	11	16.1	53.6	19.3
Inmaculada²						
Proved	2,950,174	126	4.1	12.0	391.2	35.4
Probable	4,025,378	155	4.5	20.1	584.5	55.2
Total	6,975,552	143	4.4	32.0	975.7	90.6
Pallancata						
Proved	618,107	286	1.5	5.7	29.6	7.5
Probable	614,625	261	1.2	5.2	24.4	6.6
Total	1,232,732	274	1.4	10.9	54.0	14.1
San Jose						
Proved	626,967	521	7.4	10.5	149.7	19.5
Probable	334,696	414	6.5	4.5	70.1	8.7
Total	961,663	484	7.1	15.0	149.7	28.1
Total						
Proved	4,847,625	227	3.8	35.4	593.2	71.0
Probable	5,856,689	205	3.8	38.5	710.0	81.1
Total	10,704,315	215	3.8	73.9	1,303.1	152.1

Note: Where reserves are attributable to a joint venture partner, reserve figures reflect the Company's ownership only. Includes discounts for ore loss and dilution.

¹ Operations were audited by P&E Consulting.

² Inmaculada reserves and resources 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 2015

Resource category	Tonnes (t)	Ag (g/t)	Au (g/t)	Zn (%)	Pb (%)	Cu (%)	Ag (moz)	Ag Eq (moz)	Zn (kt)	Pb (kt)	Cu (kt)
OPERATIONS											
Arcata											
Measured	1,758,822	457	141	–	–	–	25.9	30.6	–	–	–
Indicated	2,086,114	370	127	–	–	–	24.8	30.0	–	–	–
Total	3,844,936	410	133	–	–	–	50.7	60.6	–	–	–
Inferred	4,348,694	335	122	–	–	–	46.8	57.0	–	–	–
Inmaculada¹											
Measured	2,707,568	155	505	–	–	–	13.5	39.8	–	–	–
Indicated	3,793,491	188	541	–	–	–	22.9	62.6	–	–	–
Total	6,501,060	174	526	–	–	–	36.4	102.4	–	–	–
Inferred	3,733,302	124	298	–	–	–	14.9	36.3	–	–	–
Pallancata											
Measured	2,442,908	360	171	–	–	–	28.2	36.3	–	–	–
Indicated	1,050,863	289	137	–	–	–	9.8	12.5	–	–	–
Total	3,493,771	338	161	–	–	–	38.0	48.9	–	–	–
Inferred	4,305,774	283	114	–	–	–	39.2	48.7	–	–	–
San Jose											
Measured	1,015,679	575	833	–	–	–	18.8	35.1	–	–	–
Indicated	1,251,369	395	569	–	–	–	15.9	29.6	–	–	–
Total	2,267,048	476	688	–	–	–	34.7	64.7	–	–	–
Inferred	781,685	390	606	–	–	–	9.8	18.9	–	–	–
GROWTH PROJECTS											
Crespo²											
Measured	5,211,058	47	047	–	–	–	7.9	12.6	–	–	–
Indicated	17,298,228	38	040	–	–	–	21.0	34.3	–	–	–
Total	22,509,286	40	042	–	–	–	28.8	46.9	–	–	–
Inferred	775,429	46	057	–	–	–	1.1	2.0	–	–	–
Azuca											
Measured	190,602	244	077	–	–	–	1.5	1.8	–	–	–
Indicated	6,858,594	187	077	–	–	–	41.2	51.3	–	–	–
Total	7,049,197	188	077	–	–	–	42.7	53.1	–	–	–
Inferred	6,946,341	170	089	–	–	–	37.9	49.9	–	–	–
Volcan³											
Measured	105,918,000	–	0738	–	–	–	–	150.7	–	–	–
Indicated	283,763,000	–	0698	–	–	–	–	382.0	–	–	–
Total	389,681,000	–	0709	–	–	–	–	532.7	–	–	–
Inferred	41,553,000	–	0502	–	–	–	–	40.3	–	–	–
OTHER PROJECTS⁴											
Measured	1,393,716	69	002	7.12	3.10	0.39	3.1	14.1	99.3	43.1	5.5
Indicated	1,354,261	82	006	6.14	2.73	0.31	3.6	12.9	83.2	37.0	4.2
Total	2,747,977	76	004	6.64	2.92	0.35	6.7	27.0	182.4	80.1	9.7
Inferred	13,445,001	8	030	0.58	0.21	1.22	3.4	69.0	77.8	28.5	163.6
GRAND TOTAL											
Measured	120,638,353	25	091	0.08	0.04	0.00	97.5	321.1	99.3	43.1	5.5
Indicated	317,455,921	14	076	0.03	0.01	0.00	143.2	615.2	83.2	37.0	4.2
Total	438,094,275	17	080	0.04	0.02	0.00	240.7	936.3	182.4	80.1	9.7
Inferred	75,889,227	63	076	0.10	0.04	0.22	136.1	322.2	77.8	28.5	163.6

1 Inmaculada resources as published in the Feasibility Study released on 11/01/ 2012. Prices used for resources calculation: Au: \$1,100/oz and Ag: \$18/oz.

2 Prices used for resources calculation: Au: \$1,200/oz and Ag: \$20/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 Includes the Jasperoide copper project and the San Felipe zinc/silver project. The silver equivalent grade (147 g/t Ag Eq) has been calculated applying the following ratios: Cu/Ag=96.38 and Au/Ag=60.

RESERVES AND RESOURCES CONTINUED

CHANGE IN ATTRIBUTABLE RESERVES AND RESOURCES

Ag equivalent content (million ounces)	Category	Percentage attributable December 2014	December 2014 Att ¹	December 2015 Att ¹	Net difference	% change
Arcata	Resource	100%	108.7	117.6	8.9	8.2
	Reserve		25.6	19.3	(6.3)	(24.5)
Inmaculada	Resource	100%	149.7	138.7	(10.9)	(7.3)
	Reserve		81.1	90.6	9.5	11.7
Pallancata	Resource	100%	80.7	97.6	16.9	21.0
	Reserve		18.7	14.1	(4.6)	(24.5)
San Jose	Resource	51%	87.7	83.7	(4.0)	(4.6)
	Reserve		27.5	28.1	(0.6)	(2.2)
Crespo	Resource	100%	48.9	48.9	–	–
	Reserve		–	–	–	–
Azuca	Resource	100%	103.0	103.0	–	–
	Reserve		–	–	–	–
Volcan	Resource	100%	572.9	572.9	–	–
	Reserve		–	–	–	–
Other projects total	Resource	100%	96.0	96.0	–	–
	Reserve		–	–	–	–
Total	Resource		1,247.6	1,258.5	(10.9)	(0.9)
	Reserve		152.9	152.1	(0.7)	(0.5)

1 Attributable reserves and resources based on the Group's percentage ownership of its joint venture projects

TOTAL RESOURCES PRICE ASSUMPTION SENSITIVITY ANALYSIS (OPERATIONS)

The below table is based on internal calculations and has not been audited by the external third party consultant

Resources	US\$1 200/Au oz & US\$20/Ag oz			US\$1 200/Au oz & US\$17/Ag oz		
	Tonnes	Ag Eq (g/t)	Ag Eq (moz)	Tonnes	Ag Eq (g/t)	Ag Eq (moz)
Measured	8,900,825	614	175,640,365	8,667,406	626	174,538,787
Indicated	9,384,134	541	163,175,127	9,055,796	555	161,569,307
Inferred	13,920,487	400	179,221,889	13,039,859	418	175,372,258
Total	32,205,447	500	518,037,382	30,763,062	517	511,480,352
Variation (%)	–	–	–	(4%)	3%	(1%)
Reserves						
Proven	5,450,005	512	89,719,230	5,157,545	522	86,529,372
Probable	6,178,260	450	89,443,807	5,810,036	461	86,152,341
Total	11,628,265	479	179,163,037	10,967,581	490	172,681,714
Variation (%)	–	–	–	(6%)	2%	(4%)

SHAREHOLDER INFORMATION

ANNUAL GENERAL MEETING ('AGM')

The AGM will be held at 8 30am on 20 May 2016 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 Asset Services The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU

BY TELEPHONE

If calling from the UK 0371 664 0300 (Calls charged at the standard geographic rate and will vary by provider. Lines are open 8 30am-5 30pm Mon to Fri)

If calling from overseas +44 371 664 0300 (Calls charged at the applicable international rate)

BY FAX

+44 (0)1484 601 512

INVESTOR RELATIONS

For investor enquiries please contact our Investor Relations team by writing to the London Office address (see below), by phone on 020 3714 9040 or via the website by visiting the 'Contact Us' section.

FINANCIAL CALENDAR

Annual General Meeting	20 May 2016
Half-yearly results announced	August 2016

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COMPANY SECRETARY

R D Bhasin

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Forward looking statements

The constituent parts of this Annual Report, including those that make up the Directors' Report, contain certain forward-looking 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. Past performance is no guide to future performance and persons needing advice should consult an independent financial adviser.

The forward looking statements reflect knowledge and information available at the date of preparation of this Annual Report. Except as required by the Listing Rules and applicable law, Hochschild Mining plc does not undertake any obligation to update or change any forward looking statements to reflect events occurring after the date of this announcement. Nothing in this Annual Report should be construed as a profit forecast.

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