# RESPONSIBLE AND INNOVATIVE MINING COMMITTED TO A BETTER WORLD

**Hochschild Mining PLC**
**Annual Report & Accounts 2018**

## KEY HIGHLIGHTS

**$268m**
ADJUSTED EBITDA
(2017: $301m)

**$0.05**
ADJUSTED BASIC EPS
(2017: $0.08)

**1.959c/share**
FINAL DIVIDEND
(2017: 1.965c)

**$12.6/oz Ag Eq**
AISC
(2017: $12.3/oz)

**$80m**
CASH BALANCE
(31 DEC 2017: $257m)

**$77m**
NET DEBT
(31 DEC 2017: $103m)

**19.7m oz**
ATTRIB. SILVER PRODUCTION
(2017: 19.1m oz)

**260,436oz**
ATTRIB. GOLD PRODUCTION
(2017: 254,930oz)

**Strategic report**


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**Hochschild is focused on generating long-term shareholder value by delivering minerals with transparency and a commitment to creating a positive global impact.**

We believe that a responsible and innovative mining strategy combined with consistent, world-class operational performance and an exciting exploration-led growth programme will deliver above average returns in the most productive, safe and environmentally sound way possible.

## Production and growth optionality

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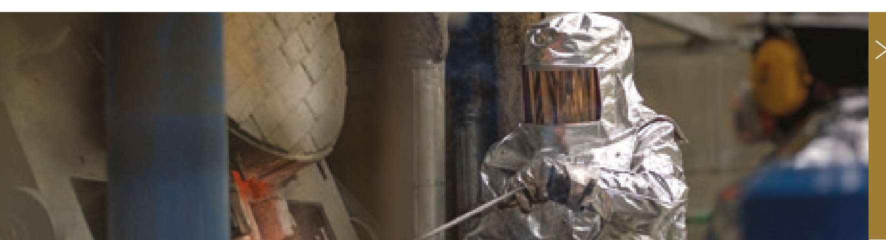

## Commitment to innovation

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## Prudent financial management

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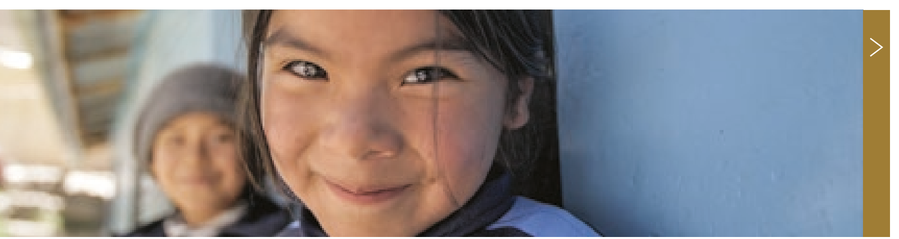

## Driven by responsibility

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AT A GLANCE

# WHO WE ARE

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

## Mining operations

Hochschild operates three underground epithermal deposits, two of which are located in the south west of Peru in our "Southern Peru cluster" and one in the southern Argentinian province of Santa Cruz. Our oldest asset, the Arcata mine, was placed on care and maintenance in January 2019 after 54 years of operation

| Operation | Gold Production | Silver production | All-in sustaining costs |
|---|---|---|---|
| Inmaculada Peru | 174,000 oz | 5.7m oz | $731/oz Au Eq |
| Pallancata Peru | 26,000 oz | 7.4m oz | $12.1/oz Ag Eq |
| San Jose Argentina | 97,000 oz | 6.2m oz | $14.5/oz Ag Eq |
| Arcata* Peru | 11,000 oz | 3.4m oz | $19.6/oz Ag Eq |

* (on care and maintenance)

## Growth Projects

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

| Operation | Estimated silver equivalent production p.a. |
|---|---|
| Crespo Peru | 2.7m oz |
| Volcan Chile | N/a |
| Azuca Peru | N/a |

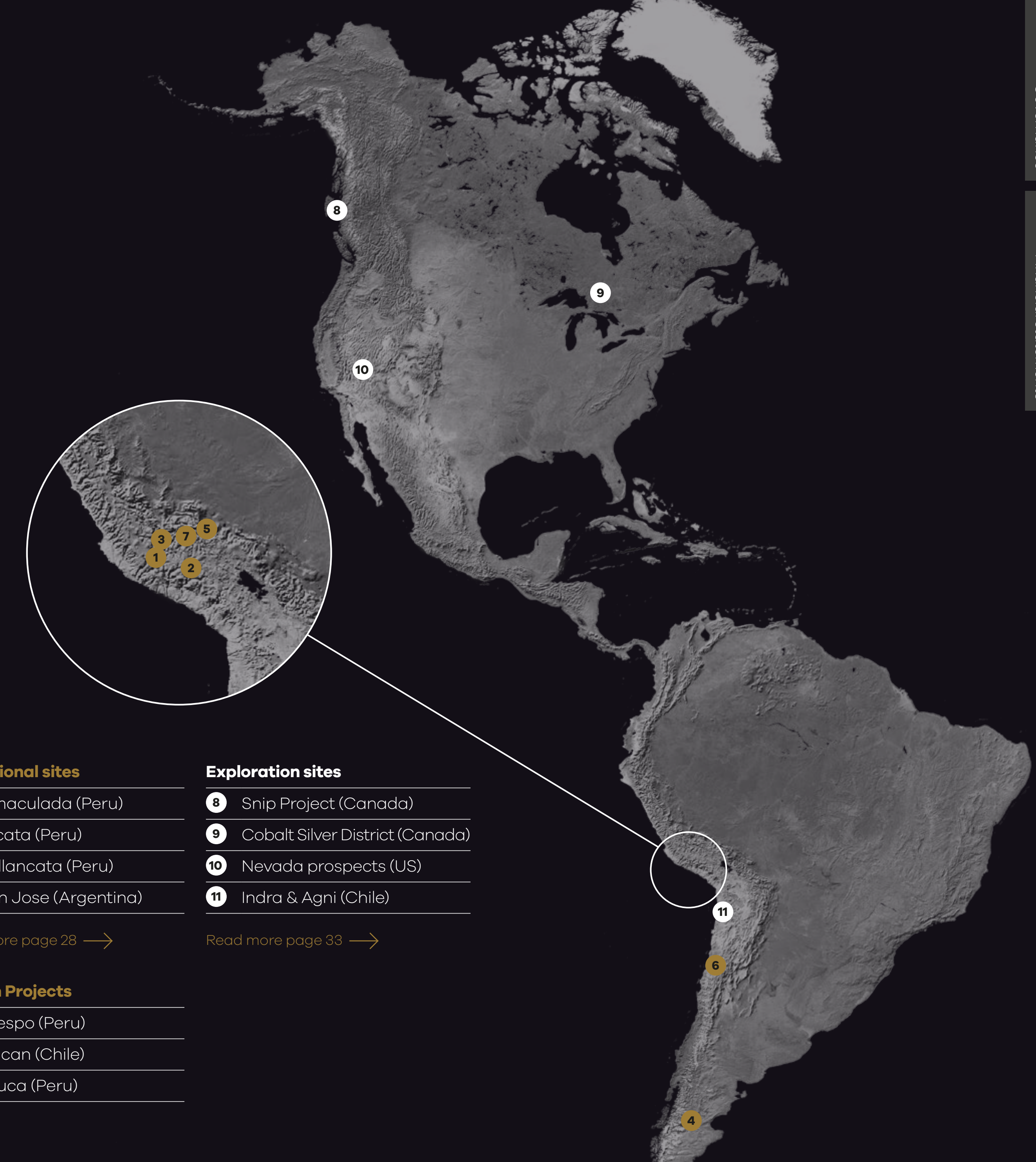
## Greenfield prospects

Hochschild has a portfolio of greenfield prospects across the Americas

| Asset | Country |
|---|---|
| Ares | Peru |
| Corina | Peru |
| Condor | Peru |
| Fresia | Peru |
| Cueva Blanca | Peru |
| Alto Ruri | Peru |
| Casma | Peru |
| Antaymarca | Peru |
| Mario | Peru |
| Agni | Chile |
| Indra | Chile |
| Olympic | US |
| Ferguson Mountain | US |
| Mars | US |
| Cobalt Silver District | Canada |
| Snip | Canada |

# WHERE WE OPERATE

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



**Operational sites**

1. Inmaculada (Peru)
2. Arcata (Peru)
3. Pallancata (Peru)
4. San Jose (Argentina)

Read more page 28

**Exploration sites**

8. Snip Project (Canada)
9. Cobalt Silver District (Canada)
10. Nevada prospects (US)
11. Indra & Agni (Chile)

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**Growth Projects**

5. Crespo (Peru)
6. Volcan (Chile)
7. Azuca (Peru)

MARKET REVIEW

# GOLD AND SILVER MARKET SUMMARY

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

## Gold Market Summary

Gold prices rose moderately for the third consecutive year on an annual average basis during 2018. Gold prices averaged $1,271 during 2018, on a Comex nearby active gold contract basis. This was an increase of 0.9% over the annual average price of 2017. The ongoing increase in gold prices during 2018, in spite of above-trend global economic growth during the year, four US interest rate hikes and a strong US dollar, is explained by the underlying market concern about political and economic factors that could derail the long running economic recovery.

Central banks played a critical role in supporting gold prices during 2018. Net additions to central bank reserves are estimated to have been 16.5 million ounces for 2018. These levels of net demand from central banks position 2018 as one of the top three years of demand since 2008. The largest buyer of gold in this category was the central bank of Russia, having accounted for around half the net purchases during the year. Other central banks that contributed to the surge in official transactions during 2018 included Turkey, Kazakhstan, and India which each added over a million ounces of gold to their holdings during the year. China also resurfaced as a buyer of the metal in December 2018 after nearly two years of no reported activity. Increased concern amongst various countries regarding the macroeconomic and political landscape coupled with relatively subdued gold prices are explanations. Banks have typically been sensitive to prices and the relative softness in prices during the middle of last year propelled many of them to use the opportunity to increase their holdings.

## Market drivers

### Demand

Investors were net buyers of gold during 2018 adding 13.8 million ounces of gold to their inventories. While they had various concerns about the political and economic environment, this was not enough to cause the price to rise further. While there are numerous concerns around, there are unlikely to be aggressive buyers of the metal unless one or more of these risks come to fruition.

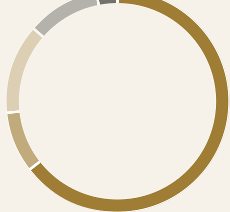
Global gold fabrication demand stood at 97 million ounces in 2018, largely unchanged from 2017. However, this level of gold fabrication demand is strong by recent historic standards. A generally healthy global economy helped to sustain demand of discretionary products like jewellery. This demand was moderately offset by a strong US dollar, however, which increased the price of gold in domestic currencies outside the US.

### Supply

Total gold supply, which is made of up mine production and scrap supply, rose marginally in 2018 to 127.4 million ounces, up 0.2% from 2017. Gold mine supply rose to 97.2 million ounces, up from 97 million ounces in 2017, due to projects that were brought onstream towards the end of the last gold bull market and a strong US dollar during 2018, which subsidised high cost producers and supported mine output from these mines. Secondary or scrap supply of gold was essentially flat during 2018 at 30.1 million ounces.

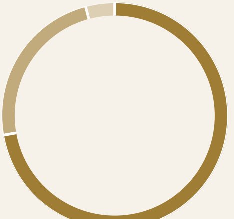
### Outlook

- Gold investment demand is expected to rise during 2019 due to expectations of relatively slower global economic growth
- Elevated global political risk is also expected to remain during 2019
- Net gold investment demand is expected to reach 19.8 million ounces during 2019
- Central banks are forecast to remain net buyers of gold
- Total gold supply is forecast to rise to 130 million ounces in 2019 driven primarily by new mines starting production
- Gold fabrication demand is forecast to decline to 95.7 million ounces in 2019, due to an expected slowdown in Chinese economic growth



- Jewellery **64.7%**
- Electronics **8.7%**
- Official sector purchases **13.0%**
- Private investor demand **10.8%**
- Dental and other **2.8%**

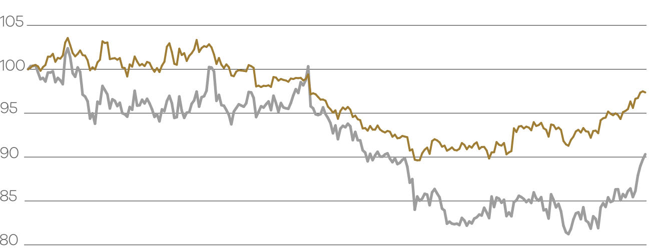
Supply %



- Mine production **72.3%**
- Secondary supply **23.7%**
- Net exports from transitional economies **4.0%**

**Source: CPM Group LLC**

**Gold and silver prices in 2018**
Daily settlement of nearby active Comex futures, indexed to 2 January 2019




**Country production**
Latin American production rankings

| | 2018 | | | | 2017 | |
|---|---|---|---|---|---|---|
| | | Gold | | Silver | Gold | Silver |
| Peru | – | 6 | – | 3 | 6 | 3 |
| Argentina | – | 13 | – | 11 | 13 | 11 |
| Mexico | ↓ | 8 | – | 1 | 9 | 1 |
| Chile | ↑ | 22 | ↑ | 6 | 16 | 4 |

## Silver Market Summary

Silver had a challenging 2018, with prices averaging $15.71 during the year on a Comex nearby active gold contract basis, down 8.5% over 2017. Strong global economic growth helped silver fabrication to continue rising for the sixth consecutive year. This was what also deterred investors from buying the metal aggressively. Investment demand has a more significant impact on prices.

During 2018, the gold:silver ratio reached historical highs, standing at 85.5 in November, which was the highest level since September 1993. This increase highlights how much silver has lagged gold in 2018. The same macroeconomic factors that influence gold in a positive way have historically also positively impacted silver and therefore silver could have some way to catch up. A glimpse of this was seen in December 2018, when the two metal prices rose and the ratio slipped from 85.5 in November to 82.7 in December.

## Market drivers

### Demand

In 2018, investors were net buyers of 41.3 million ounces, a decline from 2017's 50.2 million ounces. These levels of investment are at the lower end of recent annual levels of investment demand and are not sufficient to drive the price of silver higher but are important in keeping the price supported.

Silver fabrication demand rose to 936.9 million ounces, up 1% from 2017 levels. Two of the largest silver uses, jewellery & silverware and electronics, rose by 1.8% and 2.0%, respectively. Growth in jewellery demand was driven in part by the healthy global economic growth which aided discretionary purchases. The stronger growth in gold prices and the strong increase in the price of palladium during 2018 is expected to have benefited the use of silver in jewellery alloys.

Silver demand from the electronics industry continued to be supported by a healthy economy, increased electrification and strong demand for computer chips. Demand from the solar panel industry grew at a slower pace during 2018 but still reaching a record 107.3 million ounces during 2018, up 1.2%. Demand from the photography industry continued to decline.

### Supply

Total silver supply stood at 978.1 million ounces in 2018, essentially flat from 2017 levels and remaining at the weakest levels since 2011. The suspension of the Escobal mine in 2017 has resulted in the loss of 20 million ounces of silver supply. Secondary supply of the metal has also been flat over the past couple of years with relatively softer prices being offset by improved recovery of the metal from the electronics industry.

### Outlook

- Investor interest in silver is expected to rise during 2019
- Silver's underperformance relative to gold makes the metal an attractive undervalued safe haven and hedge against political and macroeconomic uncertainties
- Total net investment demand is forecast to reach 52.2 million ounces
- Silver fabrication demand is forecast to continue rising
- Primary drivers of growth are expected to be electronics and the solar panel industry
- Total fabrication demand during the year is forecast to reach 941 million ounces
- Total supply is expected to rise during 2019 to 993 million ounces driven primarily by an increase in scrap supply
- Mine supply, meanwhile, is forecast to decline slightly during the year

**Demand** %

- Other Industrial uses **55.9%**
- Jewellery and Silverware **30.4%**
- Coin fabrication **7.9%**
- Investment demand, (excl coins) **NA**
- Photography **5.9%**

**Supply** %

- Mine production **79.4%**
- Secondary supply **20.6%**

**Source: CPM Group LLC**

Note: Investors were net buyers of silver excluding coins in 2018, exchanging bullion bars for coins. Total newly refined silver supply reached 978.1 million ounces in 2018. Total industrial fabrication demand reached 936.9 million ounces and coin fabrication reached 80 million ounces.

# LONG-TERM SUSTAINABLE VALUE FOR ALL OUR KEY STAKEHOLDERS

Our long-term business model has been developed to not only offer an attractive investment proposition for our shareholders but also as part of our commitment to making a better world for our workforce, communities and society as a whole.

## Inputs

These inputs are key in achieving productive, safe and environmentally sound operations in the long term.

**Operational & geological expertise**
We have specific expertise in mining underground in complex geological conditions in the Americas.

**Experienced management team**
Deep experience in mine management, project development, identifying future growth opportunities and environmental and social practices.

**Disciplined financial strategy**
We maintain a strong balance sheet and deploy capital in a disciplined manner underpinned by our long-standing financial relationships.

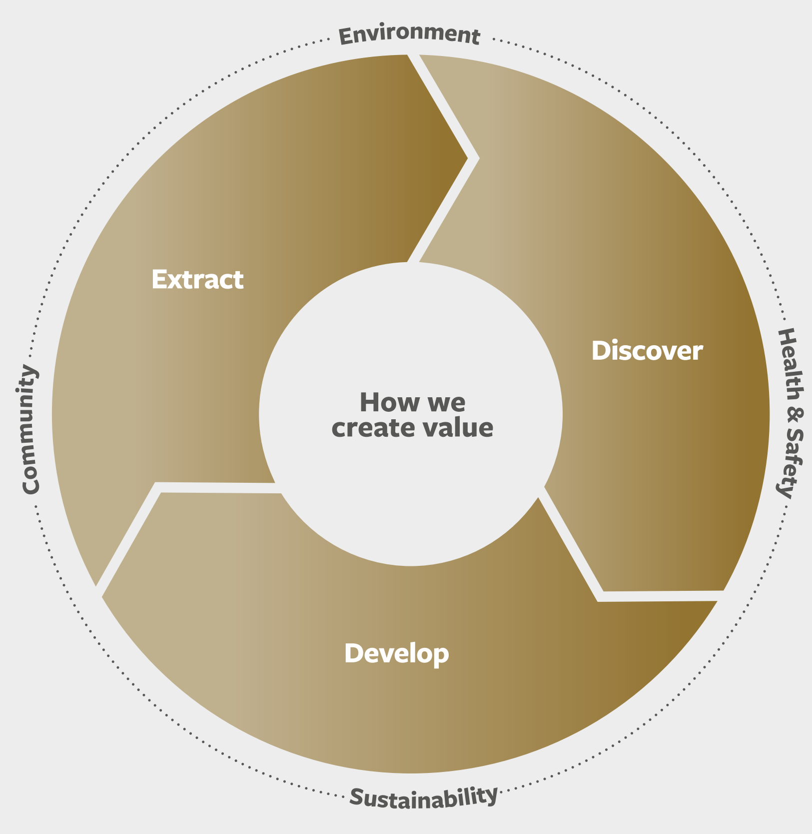
**Robust corporate governance framework**
Controls and processes to protect and enhance stakeholder interests.

**Culture of innovation**
Constantly developing better practices through the adoption of new technologies.

**Acting responsibly**
Focusing on providing a safe workplace where our employees thrive, managing our environmental impact and seeking to make a positive community impact.

## Our core activities

Technical expertise is the key attribute underpinning our business model.



## Outputs

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

**Discover**
We have expertise in discovering and developing geological districts. Our brownfield team believe that there is still potential across all our property to provide a platform for long-term production as well as optimising existing ounces in the portfolio. Furthermore, our dynamic low risk, greenfield strategy is drilling a number of prospects in several countries across the Americas.

**Develop**
We are able to execute development of our discoveries in a short space of time. Our flagship Inmaculada deposit was first drilled in early 2009 and production was achieved in June 2015 with the mine being ramped up to full production within three months. The operation was also designed and built in a modular fashion to facilitate future cost-effective expansion potential. Hochschild's ability to develop projects in remote locations and high altitudes remains a key competitive advantage.

**Extract**
We have developed a unique in-depth knowledge base of the technical challenges inherent in our ore bodies as well as of the environment and jurisdiction where we operate. This has resulted in us consistently meeting annual production targets, executing significant cost reduction programmes, increasing our resource base, and achieving positive results from brownfield exploration at existing mines. In addition, our innovation programme is highlighting technological advances and how they can be applied to our operations.

**Employees**
The success of our business model helps us to provide holistic growth, adequate compensation and proper working conditions. We aim to empower our employees with constant learning opportunities and new challenges in a positive, healthy and safe work environment. In addition, there is an ongoing recognition that all must have opportunities to contribute to a better world through direct initiatives and volunteer work.

**98%**
WORKFORCE TRAINED IN 2018

**Communities and society**
Hochschild has been able to invest in a number of local programmes focusing on our core themes of education, health and socio-economic development and allowing us to operate collaboratively with our neighbours in the Southern Peru Cluster for more than 50 years. We have also been able to deliver employment and business opportunities whilst retaining respect for cultural traditions and the environment.

**26%**
WORKFORCE FROM LOCAL COMMUNITIES

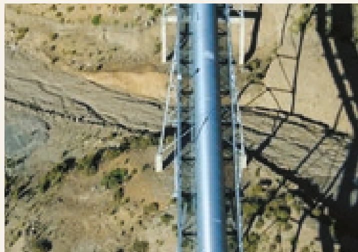
**Shareholders**
We are committed to our aims of profitable operations, a strong reputation and stability. We believe that if we can deliver sustainable low-cost growth throughout the cycle and therefore generate excess cashflow, we can use that to reward shareholders and other stakeholders. Since the middle of 2016 we have paid out $41 million in equity dividends.

**$10m**
RECOMMENDED FINAL DIVIDEND FOR THE FULL YEAR 2018

# OUR STRATEGY FOR GROWTH

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

## Brownfield



Optimising and exploring close to our current mines to increase our life-of-mine and the quality of our resources.

- Life-of-mine increases
- Improve quality of resources
- Spare capacity available

**2018 activities**

- 1.3m gold equivalent ounces inferred resources added at Inmaculada
- Further geological upside expected from drilling in surrounding area
- Community permits achieved for exciting 2019 Pallancata drilling campaign
- 2018 results at San Jose boost short-term production plan
- On track to achieve 10 years of life-of-mine by 2021

## Greenfield

A streamlined portfolio generating a number of promising targets as well as progressing drill-ready projects in good jurisdictions in the Americas.

- Streamlining portfolio
- Staking properties
- Progressing drill-ready projects

**2018 activities**

- Maintaining balanced portfolio of advanced/ early stage opportunities
- Combination of JVs and private placements to lock in project options
- Option taken up on Condor – small producing mine located 93km from Arcata
- Alliance established with Skeena Resources for Snip project in Canada
- Earn-in signed with Mirasol Resources for Indra & Agni projects in Chile
- Drilled Fresia in Peru, Loro in Chile and Moho & Redlitch projects in US

## Early-stage projects

Optimising our existing early-stage projects through further drilling and the evaluation and incorporation of new technologies.

- Optimising early-stage projects
- Further drilling
- Evaluating new technologies

**2018 activities**

- Optimising ounces at early-stage projects
- Assessing Arcata optionality from nearby Azuca and Condor projects
- Evaluating ore sorting and mineral transportation from Azuca to Arcata plant
- Drilling programme underway at Ares
- Signed non-binding agreement for desalinated water at Volcan project

## Strategic alliances

Focusing on earn-in joint ventures to lock in early-stage project options with strong geological potential.

- Early-stage
- Control (Acquisition/JVs)
- Geological upside
- ROIC:12-15%

**2018 activities**

- Focusing on stable jurisdictions in Americas
- Precious and non-precious metal deposits being considered
- Alliance established with Skeena Resources for Snip project in Canada
- Earn-in signed with Mirasol Resources for Indra & Agni projects in Chile
- Invested $2.0 million in BioLantanidos rare earths project in Chile in exchange for 5% ownership with option to increase ownership

**2019 priorities**
- 2019 brownfield exploration budget expected to be $27 million
- Drilling to the east and west of Angela vein at Inmaculada to find further potential
- Drilling in the north to test Angela vein continuity
- On track for an exciting 2019 drilling campaign at Pallancata
- Outcropping structures indicate high potential at Palca and Cochaloma to the south of Pallancata
- Further investigation of San Jose's Aguas Vivas polymetallic sulphide deposit

**Risks**
- Political, legal and regulatory
- Community relations
- Personnel: recruitment and retention

**2019 priorities**
- 2019 greenfield exploration budget expected to be $10 million
- Drilling to continue at Snip and Cobalt
- Drilling to begin at Condor, Corina, Agni & Indra
- Mapping and permitting activities at 13 other projects including Ferguson Mountain and Mars in US and Casma, Alto Ruri and Josnitoro in Peru

**Risks**
- Political, legal and regulatory
- Community relations
- Personnel: recruitment and retention

**2019 priorities**
- Drilling to continue at Ares
- Drilling campaign planned for Azuca & Huacullo and re-engaging with communities
- Ore sorting tests underway

**Risks**
- Political, legal and regulatory
- Community relations
- Personnel: recruitment and retention

**2019 priorities**
- Progressing current options to decision stage
- Further options/JVs being considered in Americas
- Larger acquisitions also being assessed
- Continued research into minerals of the future
- Progressing to definitive feasibility at BioLantanidos

**Risks**
- Political, legal and regulatory
- Commodity prices

KEY PERFORMANCE INDICATORS

# MEASURING OUR PROGRESS

## Financial measures

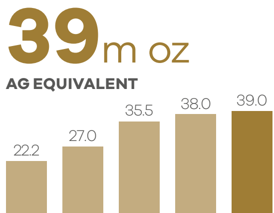
### Production

Links to strategy

Links to remuneration ✓ Yes

**39m oz**

AG EQUIVALENT




**Definition**
Silver equivalent production equals total attributable gold production multiplied by a gold/silver ratio for 2015-2018 of 74x and 60x for 2014 and added to the total attributable silver production.

**Performance**
Total silver equivalent production increased by 3% versus 2017 due to increased contributions from Inmaculada and Pallancata.

**Outlook**
Total silver equivalent production is forecast to be 37.0 million silver equivalent ounces in 2019 assuming a gold/silver conversion ratio of 81x and excluding the Arcata mine.

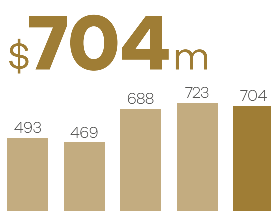
**Risks**
– Operational performance.

### Revenue

Links to strategy

Links to remuneration ✓ Yes

**$704m**




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

**Performance**
Total revenue decreased by 3% versus 2017 due a fall in the average price of silver.

**Outlook**
Total silver equivalent production is forecast to be 37.0 million silver equivalent ounces in 2019 assuming a gold/silver conversion ratio of 81x.

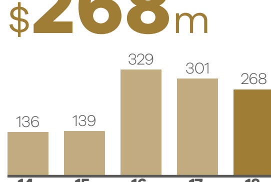
**Risks**
– Operational performance and precious metal prices.

### Adjusted EBITDA

Links to strategy

Links to remuneration ✓ Yes

**$268m**




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

**Performance**
Adjusted EBITDA decreased by 11% versus 2017 due to a fall in revenue and an increase in exploration expenses arising from the Company's investment in the brownfield exploration programme.

**Outlook**
Adjusted EBITDA result for 2019 will depend on precious metal prices and cost and expenses performance.

**Risks**
– Operational performance and precious metal prices.

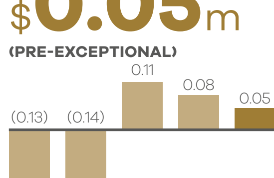
### Basic earnings per share

Links to strategy

Links to remuneration ✗ No

**$0.05m**

(PRE-EXCEPTIONAL)




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

**Performance**
Earnings per share decreased by 38% due to the decrease in EBITDA in addition to an increase in foreign exchange losses and the income tax expense.

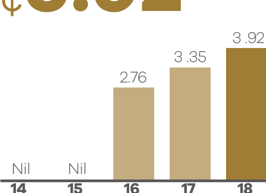
**Outlook**
Pre-exceptional earnings per share will depend on EBITDA performance and the effective tax rate which may be impacted if local currencies including the Peruvian sol and Argentinian peso continue to depreciate.

**Risks**
– Operational performance, precious metal prices, costs, levels of financial costs and income tax charge.

### Dividend per share

Links to strategy

Links to remuneration ✗ No




**Definition**
The per-share (using the weighted average number of shares outstanding for the period) dividend paid to equity shareholders of the Company as recommended by the Board.

**Performance**
Dividend per share increased by 17%.

**Outlook**
Dividend per share for 2019 will depend on the level of profitability of the Company and the available uses of cash and is at the discretion of the Board.

**Risks**
– Company profitability.

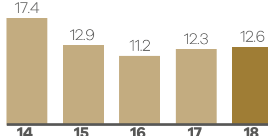
## All-in sustaining costs

Links to strategy

Links to remuneration ✓ Yes

$12.6 oz

$/OZ AG EQUIVALENT




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

**Performance**
All-in sustaining costs for operations increased by 2% versus 2017 due to increased investment in brownfield exploration, a one-off investment at San Jose and the switch to the lower grade Pablo vein at Pallancata.

**Outlook**
All-in sustaining cost from operations in 2019 is expected to be between $960 and $1,000 per gold equivalent ounce (or $11.8 and $12.3 per silver equivalent ounce).

**Risks**
- Operational performance, local cost inflation, increases in brownfield exploration investment.

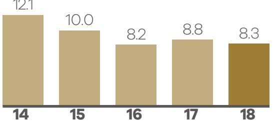
## Total silver cash costs

Links to strategy

Links to remuneration ✗ No

$8.3 oz

AG EQUIVALENT




**Definition**
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.

**Performance**
Total silver cash costs for the Company decreased by 6% versus 2017 due to decreases in unit costs at Pallancata and at San Jose due to the significant devaluation of the Argentinian peso.

**Outlook**
Cash costs performance in 2019 is expected to be dependent on operational performance, levels of local cost inflation and levels of local currency devaluation in Argentina and Peru.

**Risks**
- Operational performance including dilution, grade and tonnage control and local inflation.

# Non-financial measures

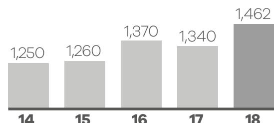
## Resource base

Links to strategy

Links to remuneration ✓ Yes

1,462

OZ AG EQUIVALENT




**Definition**
Total attributable silver equivalent metal resources as at 31 December 2018. Calculated as total attributable gold resources multiplied by a gold/ silver ratio for 2018 of 81x, 2015-2018 of 74x and 60x for 2014 and added to the total attributable silver resources.

**Performance**
Total attributable silver equivalent metal resources increased by 9% in 2018 due to the new inferred resources discovered at Inmaculada.

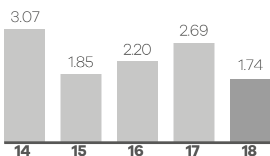
**Outlook**
Resource increases in 2019 will depend on the level of ongoing success in finding potential resources and the ability to turn these resources into the inferred and measured and indicated categories through drilling.

**Risks**
- Implementing and maintaining the annual exploration drilling programme
.

## LTIFR

Links to remuneration ✓ Yes

1.74




**Definition**
Number of lost time accidents per million labour hours.

**Performance**
LTIFR decreased by 35% and remains low relative to the industry.

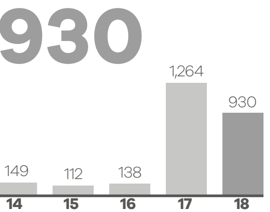
**Outlook**
The Company has implemented the "Hochschild Safety Transformation" plan, has rolled out a safety software tool "Safety HOC" and has received Level 6 safety certification from DNV (7th edition).

**Risks**
- Health and safety risks.

## Accident Severity Index

Links to remuneration ✓ Yes

930




**Definition**
Number of days lost due to workplace accidents per million labour hours.

**Performance**
The Accident Severity index was 930 due to the fatalities at Arcata and Pallancata.

**Outlook**
The Company has implemented the "Hochschild Safety Transformation" plan, has rolled out a safety software tool "Safety HOC" and has received Level 6 safety certification from DNV (7th edition).

**Risks**
- Health and safety risks.

# PRODUC

## AND GROWTH OPTIONALITY

### Acquisitions: opportunities in the Americas

**M&A STRATEGY**

- **Geological potential:** More resources than those we are paying for
- **Early stage:** Add value by bringing deposit into production
- **Control:** Acquisitions/Joint Ventures
- **Value accretive:** 12-15% minimum return on investment

#### GEOGRAPHIES

**Focus on stable jurisdictions in Americas**

**Targeting countries with significant geological potential**

- Argentina
- Canada
- Chile
- Colombia
- Ecuador
- Mexico
- Peru
- USA

#### DEPOSIT TYPES

**Deposit with contained metal value greater than $1 billion**

**First half of AISC curve**

**Skarns, epithermal veins and porphyries**

#### COMMODITIES

**Precious metals**

- Primary gold/silver deposits
- Precious metal deposits with base metal by-product

**Non-precious metals:**

- Leveraging on HOC operational skills
- Deliver diversification without diverting from our core metal story

**Currently evaluating opportunities in:**

- Rare earths
- Cobalt
- Vanadium

TION

# 1.3m oz

**DISCOVERED AT INMACULADA IN 2018**

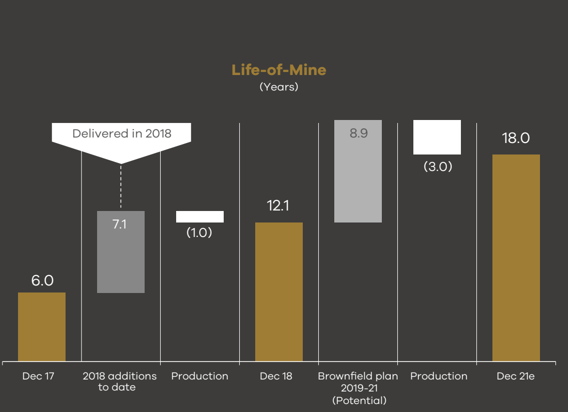
Hochschild has delivered a highly successful exploration programme at all our assets and there remains strong potential to discover more. Our plan is to achieve 10 years of life-of-mine in reserves and resources by the end of 2021.

Brownfield programme

## Optimising our world-class assets

### Inmaculada

During 2018, our ambitious brownfield programme has added significant additions to its life-of-mine – 1.3m oz gold equivalent inferred resources. With the next three-year brownfield plans in place, we have a target of adding a further nine years of life. Inmaculada is now a low cost, long life, world-class asset.

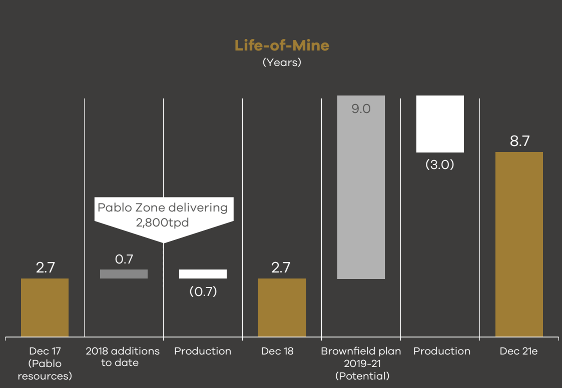



Brownfield programme

## Our district potential

### Pallancata

In 2019, Hochschild is expected to drill in an area to the south west of Pallancata. Palca and Cochaloma are amongst the most exciting targets in the Company with many kilometres of outcropping structures indicating high potential to discover the next major vein district.




## Greenfield exploration strategy

Our focus has been on staking properties, streamlining our portfolio and progressing drill-ready projects. We are aiming to:

- Explore for epithermal veins, high sulphidation deposits and intrusive related deposits in favourable geographies in the Americas
- Maintain a balanced portfolio of advanced/early stage opportunities
- Maximise chance of success while ensuring efficient project execution
- Play to our competitive advantage
- Use combination of JVs and private placements to lock in project options

# COMMITMENT TO INNOVAT

From utilising machine learning in exploration to ore sorting technology, we are dedicated to investing in cutting-edge innovation throughout the value chain.

## Hochschild innovation value chain

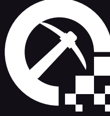
| Exploration | Mine planning | Mining | Mineral processing |
|---|---|---|---|
| **Goldspot Discoveries:** Machine learning in mineral exploration<br>**Long drills** for underground exploration | **Deswik:** Mine planning software platform specialising in underground mining | **IoT Mining environment:** Real time data inside the mine | **Ore Sorting:** Ore and waste classification prior to the mineral processing<br>**Micro bubbles** in cavitation system: Increases metallurgical recoveries by 1-2% |

## Long drills for underground exploration

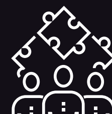
– Underground drilling is a highly effective method for identifying vertical veins
– New technology improves length from traditional 50-200m drills to 1-2km drills
– Allows us to potentially cross several structures with a single drill hole
– Successful use in Arcata and Inmaculada

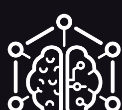
## Goldspot: machine learning to add new exploration ideas

GOLDSPOT DISCOVERIES INC.


Resource

Validate


Collaborate


Discover

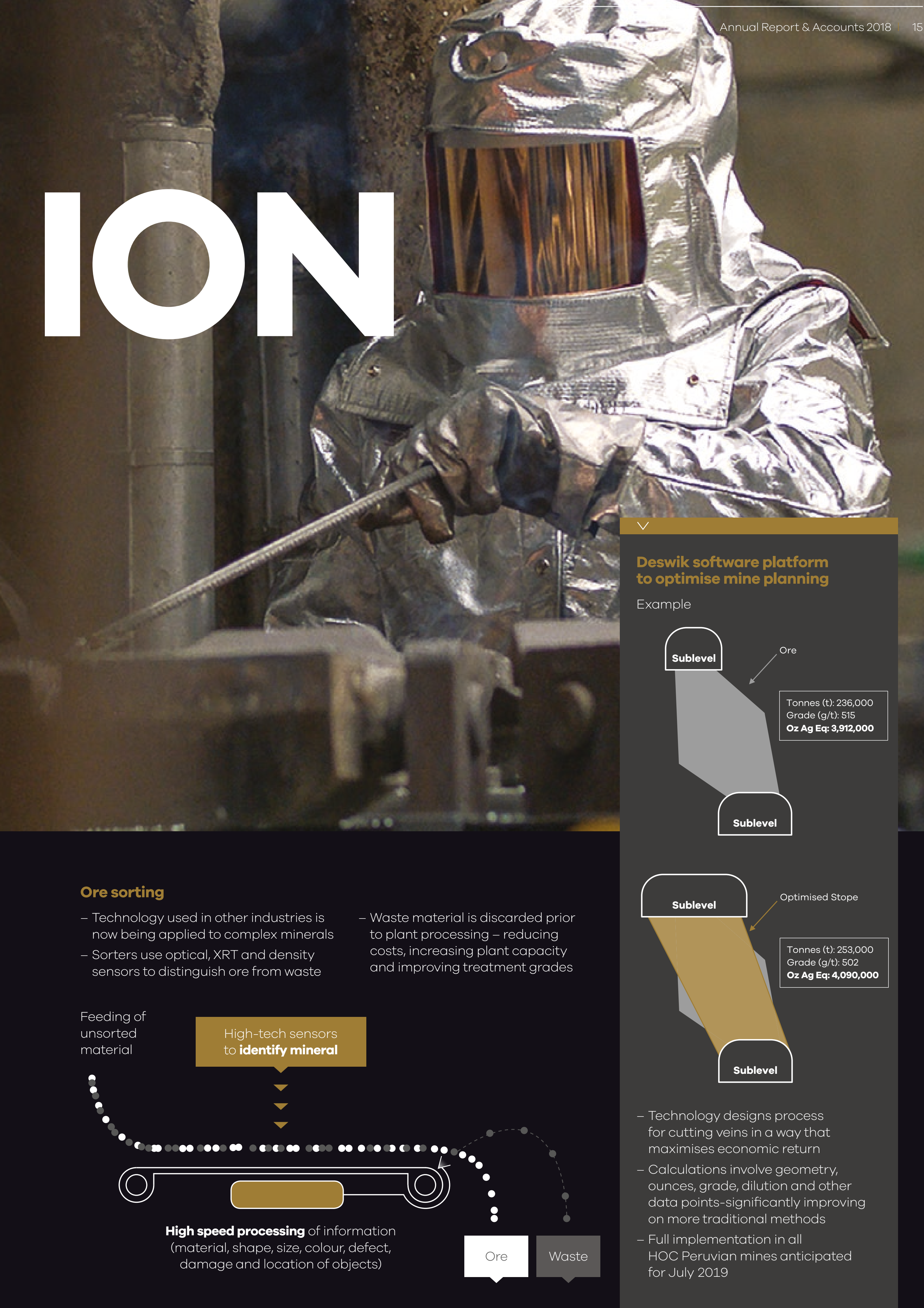
### Enhancing the use of exploration data:

– Canadian start-up using machine learning technology that consolidates different geological data to build predictive models
– Technology is likely to work better in data-rich environments such as HOC operations
– Hochschild owns 10% of Goldspot

### Currently, we are working on the following projects:

– Arcata/Ares: 13 targets identified and in process of being drilled
– San Jose: 18 targets identified and in process of being drilled

# ION



## Deswik software platform to optimise mine planning

Example



- Technology designs process for cutting veins in a way that maximises economic return
- Calculations involve geometry, ounces, grade, dilution and other data points-significantly improving on more traditional methods
- Full implementation in all HOC Peruvian mines anticipated for July 2019

## Ore sorting

- Technology used in other industries is now being applied to complex minerals
- Sorters use optical, XRT and density sensors to distinguish ore from waste
- Waste material is discarded prior to plant processing – reducing costs, increasing plant capacity and improving treatment grades

# PRUDENT
## FINANCIAL MANAGEMENT

### Innovation: real time cost systems

**Robust cost controls ensure productivity and profitability**

- Costs updated on a daily basis
- Interactive platform allows focus on each part of the mining process
- Improves decision making to correct cost deviation
- Efficient tool to control profitability in marginal mining areas
- Daily cost metrics boost productivity throughout the mining process
- In-house low-cost platform which is easy to reprogram for future application

### Innovation: SAP adoption

- Early adopter of new version of SAP
- High impact on performance, security and support for business operations
- Improved cybersecurity
- Better analytic tools for control and reporting
- Faster by 10 times approximately
- Broader connectivity
- More collaborative platform
- Better maintenance programming
- Lower development costs
- Reimplementation currently being designed – company-wide use to begin early 2019

**$240m**
DEBT REPAYMENT 2016-2018

**$41m**
DIVIDENDS TO SHAREHOLDERS 2016-2018

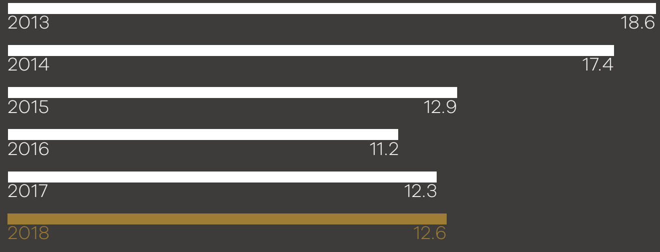
**$72m**
ALLOCATED TO EXPLORATION 2016-2018

Cost control remains a top priority for our management and is a key part of the Company's constant focus on the most effective use of our resources to generate high returns on investment and ensure continuous and sustainable growth. We run a conservative balance sheet and our long-standing financial relationships also ensure flexibility to invest in growth and access further required liquidity.

## Cost control

A history of operational success with cost control centre stage.

**All-in sustaining costs**
$/oz Ag equivalent

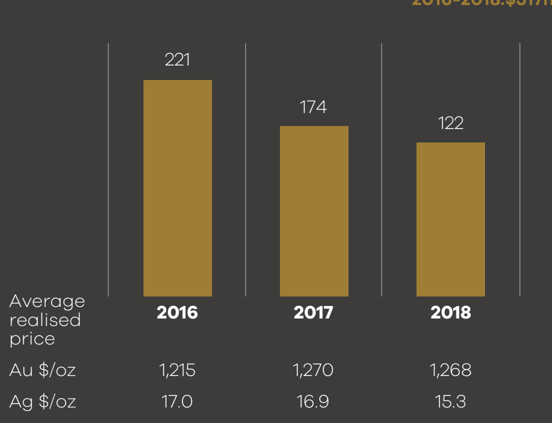



## Strong cash flow generation

Cash flow generation has remained strong despite low prices.

**Hochschild free cash flow**
($m)

**2016-2018:$517m**




| Average realised price | 2016 | 2017 | 2018 |
|---|---|---|---|
| Au $/oz | 1,215 | 1,270 | 1,268 |
| Ag $/oz | 17.0 | 16.9 | 15.3 |

# DRIVEN BY RESPON

We're dedicated to leading by example, successfully managing our daily operations whilst continually raising standards in practices for safety, personal development, the environment and local communities.

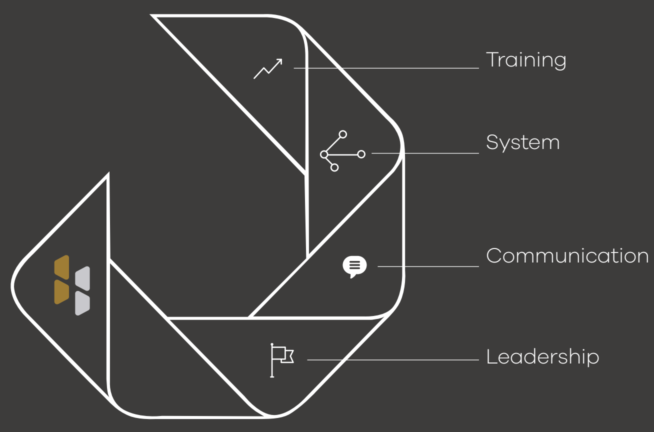
"Responsible and innovative mining committed to a better world."

**The Hochschild Purpose**

## Safety

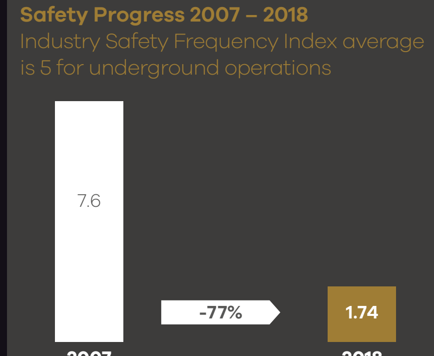
Our people are our most valuable asset and ensuring their safety is our highest priority

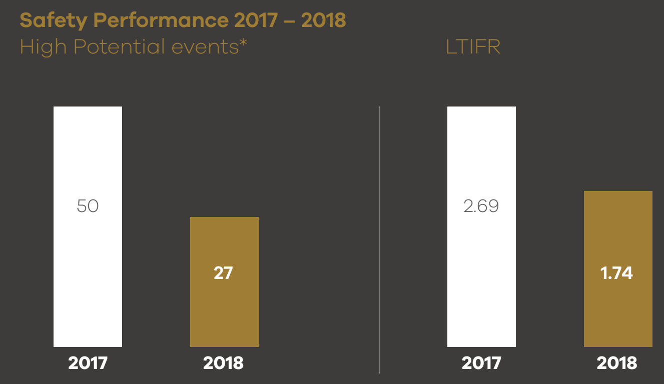
### Cultural transformation plan




### Better world

Ultimately, we are delivering minerals with transparency and a commitment to creating a positive global impact




* High Potential events are those which have a high probability of becoming an accident with life changing consequences.

## Community relations

We champion several social responsibility programmes covering education, medical care, IT training and promotion of local businesses.

Read more page 40 ⟶

**Main objectives**

Build trust & develop long-term relationships with our communities

Ensure purposeful presence in the area

Ensure conditions for growth strategy

**Initiatives implemented**

Suppliers & employment opportunities

Support education programmes

Provide access to technology

Secure government financing for infrastructure projects/services in local towns and communities

# FIT FOR AN EXCITING FUTURE OF GROWTH

"We have recently established innovation as an important input into our strategy with the ultimate aim of working towards the ideal Hochschild mine of the future."

**Eduardo Hochschild**

**$41m**

**IN DIVIDENDS PAID SINCE 2016**

**92%**

**INCREASE IN PRODUCTION SINCE 2012**

Whilst maintaining strict focus on safety and environmental performance, a sixth year of production growth has been complemented by exciting results from our brownfield exploration programme especially at our flagship Inmaculada mine. Significant new veins have been discovered at Inmaculada, supporting a life-of-mine extension unprecedented at Hochschild since the IPO. Such an increase allows our employees, management and shareholders to plan ahead with a higher degree of certainty and fundamentally changes how our company is perceived. 2018 was also marked by the repayment of our senior notes, delivering on our commitment to prioritise the repayment of debt and strengthen our financial position. With further solid cashflow and a comfortable balance sheet position, the Board is pleased to recommend a final dividend of 1.959 cents per share ($10 million).

At the operations we delivered record output, with a record contribution from Inmaculada and a significant increase in production from Pallancata. Our cost position has remained under control and despite a deteriorating price environment in the second half of the year, we were still able to generate healthy cashflow.

Over the year, we have therefore been able to repay a further $198 million in debt, including the early redemption of our senior bonds in January 2018. This bond repayment will allow us to save materially on our interest payments going forward, giving us added flexibility to sustain the commitment to our various exploration programmes, execute a number of attractive option agreements and continue to return capital to our shareholders.

Our company is always evolving and a commitment to a responsible and innovative operational approach has to be balanced by a disciplined focus on the financial realities of our business. Consequently, the decision to place our oldest mine, Arcata, on care and maintenance following an extensive review, has been a difficult one for our management but is a necessary result of declining silver prices. Exploration is expected to continue at the deposit and it is to be hoped that higher commodity prices or a sufficient improvement in geology would justify a restart in the future.

## Brownfield Inferred Resources Plan

| | Brownfield plan: 2016–2021 | | | Achieved 2016–18 | Brownfield plan: 2019–2021 | | |
|---|---|---|---|---|---|---|---|
| **Targets (moz)** | **Conservative** | **Base case** | **Optimistic** | **Actual** | **Conservative** | **Base case** | **Optimistic** |
| Pallancata | 56 | 98 | 141 | **27** | 60 | 90 | 130 |
| San Jose | 67 | 118 | 168 | **45** | 41 | 73 | 123 |
| Inmaculada | 100 | 175 | 250 | **108** | 110 | 160 | 269 |
| Ares | 21 | 36 | 51 | **0** | 21 | 36 | 51 |
| **Total** | **244** | **427** | **610** | **180** | **232** | **359** | **573** |
| | | | | | | | |
| Arcata | 65 | 114 | 163 | **26** | Under review | | |
| | | | | | | | |
| $m | 110 | 165 | 220 | **42** | 70 | 90 | 115 |
| $/Ag Eq oz | 0.36 | 0.30 | 0.28 | **0.20** | 0.30 | 0.25 | 0.20 |

– 2019-21 exploration plan considers known targets only
– Exploration potential at current properties could materially increase ounces target after 2021

Our brownfield programme remains the key pillar of our growth strategy and excellent progress was made at Inmaculada in 2018. Drilling yielded over one million gold equivalent ounces of inferred resources and also demonstrated that this rich district could continue to deliver economic resources and therefore mine life extensions for many years to come. We are confident that the momentum can be maintained this year at Inmaculada and we can also look forward to an exciting drill programme scheduled later in the year at Pallancata.

Innovation and technology are critical in improving safety, environmental performance and optimising our operations over time. We have recently established innovation as an important input into our strategy with the ultimate aim of working towards the ideal Hochschild mine of the future. During the last few years, we have established a framework targeted throughout our value chain and involving initiatives in exploration, mine planning, mining and mineral processing as well as key support areas. The Board believes that significant progress has been made in 2018 in such areas as long hole drilling, mine planning software and ore sorting testing. We believe that by continuing to invest in such technology initiatives our management can drastically improve our business model in the long-term.

### Safety

The importance of our people is paramount and, therefore, nothing takes a higher priority than ensuring their safety. Accidents at our mine sites in late 2017 prompted management to launch a Safety Culture Transformation Plan, an extensive programme comprising: compulsory training on a weekly basis; a suite of employee initiatives to promote safe working; the implementation of risk management systems; and a communications campaign.

Despite these efforts, it is deeply regrettable that there were two accidents during 2018 which claimed the lives of three workers. On behalf of the Board, I would like to express our deepest condolences to the families of the victims involved.

We maintain our focus on safety and I am encouraged that the Plan mentioned above is delivering improved results. In particular, during 2018, the number of high potential safety events across our operations almost halved and the number of lost time safety events fell by 35% compared to 2017. The management team, and indeed the Board, are firm in their collective commitment that safety will never be compromised at Hochschild and that every one of us has a part to play in achieving our safety goals.

### Environmental Performance

In last year's statement, I talked of the new environmental corporate objective that had been launched to measure the Group's performance in this key area. Our "ECO" score is calculated using a number of performance metrics including water and air quality, the results from regulatory inspections, water consumption and the generation of non-recyclable waste. The stretch target score for the year was set at 4 (out of 6) and I am delighted that this was significantly exceeded by a score of 5.37, a result that is a testament to our people who have risen to the "Green Challenge" that was launched in 2017.

### Outlook

Although 2018 was a relatively disappointing year for precious metal prices, the gold price actually held up well versus other commodities with the background of a weaker US dollar proving to be a key influence. Furthermore, whilst silver experienced a challenging year, the prospects for precious metals in 2019 have improved as global financial markets have started to experience a period of volatility. We are confident that our long-term growth strategy based around low cost brownfield exploration, low risk greenfield exploration, optimisation of our early stage projects and a targeted approach to strategic alliances will deliver shareholder value and attractive capital returns for many years to come.

Another record-breaking year of production is of course only achievable through the efforts of our people. I wish to thank them and my fellow Board members for their contributions in making 2018 another successful year. Hochschild has come a long way since the IPO in 2006 and, last year, we held a series of discussions surrounding our purpose. It is our belief that we have a responsibility to lead by example and manage our daily operations whilst raising standards in employee safety, employee growth, environmental practices and the development of local communities. We will also aim to constantly develop better practices through the adoption of new technologies that improve our business model. In summary, the core purpose of Hochschild is to be a responsible and innovative mining company committed to a better world.

**Eduardo Hochschild**
Chairman
19 February 2019

# WE ARE CONFIDENT OF OUR ENORMOUS POTENTIAL

"We believe that the only way to be successful is through sustainability, working in harmony with the environment and with the local communities where we operate."

**Ignacio Bustamante**

**527,000**

GOLD EQUIVALENT OUNCES PRODUCED IN 2018

**17** new veins

DISCOVERED AT INMACULADA IN 2018

It is not only our responsibility to excel in our operations, but to guarantee the safety and wellbeing of our people. We aim to ensure everyone goes home safe and that our people, suppliers, communities and shareholders – our partners – continue to share in future success. We believe that the only way to be successful is through sustainability, working in harmony with the environment and with the local communities where we operate. Our approach to business is underpinned by a desire to leave a sustainable legacy and acknowledging that our purpose is to be a responsible and innovative mining company committed to a better world.

This year also contained operational highlights for Hochschild, including a material life-of-mine increase achieved at the key Inmaculada deposit, further substantial debt repayment, and the generation of strong optionality in our project and acquisition pipeline. Taking these into account alongside another record production performance, continuing strong cost control, robust cashflow generation and a record environmental performance, I believe Hochschild is successfully delivering on its long-term strategic goals.

Our operational results, however, were overshadowed by the two fatal accidents that claimed the lives of three workers. We have redoubled our efforts to strengthen our safety culture through the implementation of the Safety Culture Transformation Plan and we will continue to work tirelessly to ensure that we achieve our goal of zero fatalities.

**Operations**

Our operations produced a record 526,650 gold equivalent ounces (39.0 million silver equivalent ounces) in 2018 which represents a sixth year of output increases and improved on our original target for the year of 514,000 gold equivalent ounces (38.0 million silver equivalent ounces). This was delivered at an all-in sustaining cost of $12.6 per silver equivalent ounce ($931 per gold equivalent ounce) which was also within positively revised expectations. Unsurprisingly, the Inmaculada mine played a key role with its own contribution of just over a quarter of a million gold equivalent ounces (also a record) at $731 per gold equivalent ounce. However, we also delivered a material increase at Pallancata (up 22% to 9.4 million silver equivalent ounces) with production from the Pablo vein now successfully ramped up.

Finally, despite a collapse in the Argentinian currency and the resulting government re-introduction of export taxes, San Jose was a model of consistency, producing 13.3 million silver equivalent ounces at a cost of $14.5 per silver equivalent ounce.

The Arcata mine started operations in 1964 and has proved to be a resilient deposit with volatile historic production often reinvigorated by brownfield discoveries. In recent years, the operation has had to contend with a two-year delay in exploration as well as increasingly narrow and disseminated vein structures. It is a testament to the skill of the operational and geological teams that production has continued running until now with a series of cost efficiencies and new discoveries. Indeed, in 2018 the mine still managed to produce just over 4 million silver equivalent ounces. However, whilst exploration during the year proved to be encouraging, a significant fall in the silver price does not support the operating and capital costs needed to sustain production and has led management to take the difficult decision to place the mine on care and maintenance. The focus for management going forward remains optimising care and maintenance costs whilst minimising inevitable job losses and providing support to those affected by the decision. However, there remains considerable optionality in the area surrounding Arcata. This includes the Azuca project, the newly optioned Condor deposit and additional brownfield potential close to current operations that could lead to a future restart of the processing plant or indeed the mine itself.

**Exploration**

Hochschild's brownfield exploration programme has started to gain real momentum with the highlight of 2018 undoubtedly being the first campaign at Inmaculada. The Company has been drilling an area to the south east of the original Angela vein and has confirmed the presence of a considerable number of structures, all in close proximity to the current mine infrastructure. In the year as a whole, approximately 1.3 million gold equivalent ounces (95 million silver equivalent ounces) of inferred resources have been added, a highly encouraging result which confirms the strong potential in this district and establishes a long life for the Inmaculada operation. In 2019, the team will continue with campaigns scheduled to the north and west of the Angela vein. We can also look forward to a Q2/Q3 start for an exciting set of drill targets to the south of Pallancata at Cochaloma and Palco whilst at San Jose exploration will continue in the area surrounding the mine as well as further investigation of the Aguas Vivas deposit to the north west.

**Business Development**

The Company's growth strategy has been augmented in 2018 by a series of business development initiatives which we believe will create valuable optionality for the Company. The aim has been to maintain a balanced portfolio of advanced and early stage opportunities using a mix of greenfield drilling and project options with the focus on stable jurisdictions in the Americas. We have signed several agreements including exploration initiatives with Skeena Resources Ltd of Canada for their Snip mine, with Mirasol Resources Ltd in Chile for their Indra and Agni projects, and with a private owner for the Condor deposit, which is located close to Arcata in our Southern Peru Cluster. In addition to this dynamic greenfield strategy, we are also aiming to optimise the ounces we already have in the portfolio at our Volcan, Azuca and Crespo projects with further brownfield exploration and by applying the knowledge we have gained through our innovation programme.

**Financial position**

Our balance sheet remains in a strong position with the repayment of our bonds in January 2018 and the refinancing of a portion of that debt at attractive rates. Furthermore, despite deteriorating precious metal prices in the second half of the year, cashflow from operations remained robust with our net debt position falling to $77.4 million (31 December 2017: $102.8 million). Overall, the Company repaid approximately $198 million in 2018.

**Financial results**

The average gold price received in 2018 was flat versus the previous year but this was offset by a 9% fall in the silver price received and therefore despite record production once again, revenue fell by a modest 3% to $704 million (2017: $723 million). The operational all-in sustaining cost of $12.6 per silver equivalent ounce (2017: $12.3 per ounce) was in line with positively revised forecasts and reflected an increased investment in brownfield exploration as well as one-off hydraulic backfill project costs at San Jose, offset by a fall in unit costs in Argentina due to the significant devaluation of the Peso. This resulted in adjusted EBITDA of $268 million (2017: $301 million). Finally, adjusted earnings per share was lower at $0.05 per share (2017: $0.08 per share) with the elevated tax charge and foreign exchange loss resulting from the above-mentioned devaluation offsetting the effects of the reduction in interest costs.

**Outlook**

We expect attributable production in 2019 to be 457,000 gold equivalent ounces (37 million silver equivalent ounces) assuming the average silver to gold ratio of 81:1. This figure now excludes Arcata and represents a further 2% increase on 2018 (assuming a constant gold to silver ratio of 74x) and will be driven by: 242,000 gold equivalent ounces from Inmaculada; a further increased contribution of 10.2 million silver equivalent ounces from Pallancata with the Pablo vein in full production; and 7.5 million ounces from the dependable San Jose mine. All in sustaining costs for operations are expected at between $960 to $1,000 per gold equivalent ounce ($11.8 to $12.3 per silver equivalent ounce). This forecast includes a $15 million investment at Inmaculada to begin development of the resources discovered in 2018 and the effect of removing the high cost Arcata operation.

The budget for brownfield exploration has increased to approximately $27 million in 2019 with an additional budget of $10 million being assigned to greenfield drilling targets in Peru, Canada and Chile. We will continue to assess early-stage acquisitions as well as advancing existing opportunities whilst also investing in our innovation programme to aid in the delivery of upside in our operations and projects.

Although 2019 has started with a small rise in precious metal prices, cost control will remain a top priority. We look forward to further results from our comprehensive brownfield drilling programme and, in recognition of the success achieved so far, I am pleased to announce the appointment of Oscar Garcia as Vice-President of Brownfield Exploration. We remain confident that our recent history of operational success and low-cost growth can be extended well into the future. Above all, we are committed to a strategy that we believe will achieve our purpose to be a responsible and innovative mining company committed to a better world.

**Ignacio Bustamante**
Chief Executive Officer
19 February 2019

# WORLD-CLASS PRODUCTION GROWTH IN THE AMERICAS

## Production

In 2018, Hochschild exceeded its revised full year production guidance of 38.5 million silver ounces equivalent ounces (520,000 gold equivalent ounces). Production was a record 39.0 million silver equivalent ounces (526,650 gold equivalent ounces) comprising 260,436 ounces of gold and 19.7 million ounces of silver. This was mostly due to a record year at Inmaculada as well as higher production from Pallancata. The overall attributable production target for 2019 is 457,000 gold equivalent ounces or 37.0 million silver equivalent ounces.

**457,000**

AU EQ OZ TARGET FOR 2019

**$960-1,000/oz (Au Eq)**

2019 AISC TARGET

## Costs

All-in sustaining cost from operations in 2018 was $931 per gold equivalent ounce or $12.6 per silver equivalent ounce (2017: $910 per gold equivalent ounce or $12.3 per silver equivalent ounce), improving on the positively revised guidance of between $12.7 and $13.1 per silver equivalent ounce. This was driven by Inmaculada's competitive $731 per gold equivalent ounce (2017: $721 per ounce) in addition to a better result from Pallancata ($12.1 per silver equivalent ounce). Please see page 35 of the Financial Review for further details on costs.

The all-in sustaining cost from operations in 2019 is expected to be between $960 and $1,000 per gold equivalent ounce (or $11.8 and $12.3 per silver equivalent ounce) which excludes Arcata, which is being placed on care and maintenance, and includes an investment of $15 million in development costs to incorporate the newly discovered resources at Inmaculada.

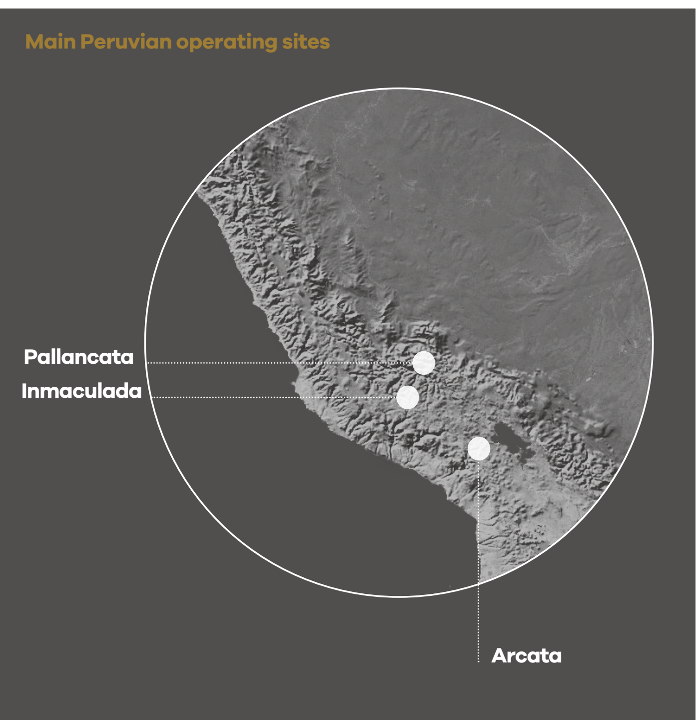
2017/2018 equivalent figures calculated using the previous Company gold/silver ratio of 74x. All 2019 forecasts assume the average gold/silver ratio of 81x.

## Total group production

| | Year ended 31 Dec 2018 | Year ended 31 Dec 2017 |
|---|---|---|
| Silver production (koz) | 22,720 | 22,301 |
| Gold production (koz) | 307.77 | 304.16 |
| Total silver equivalent (koz) | 45,495 | 44,809 |
| Total gold equivalent (koz) | 614.80 | 605.52 |
| Silver sold (koz) | 22,687 | 22,295 |
| Gold sold (koz) | 304.51 | 300.21 |

Total production includes 100% of all production, including production attributable to Hochschild's minority shareholder at San Jose.

## Main Peruvian operating sites




## Attributable group production

| | Year ended 31 Dec 2018 | Year ended 31 Dec 2017 |
|---|---|---|
| Silver production (koz) | 19,700 | 19,141 |
| Gold production (koz) | 260.44 | 254.93 |
| Silver equivalent (koz) | 38,972 | 38,006 |
| Gold equivalent (koz) | 526.65 | 513.60 |

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

## 2019 Production forecast split

| | Gold production (oz approx) | Silver production (m oz approx) |
|---|---|---|
| Inmaculada | 170,000 | 5.8 |
| Pallancata | 30,000 | 7.8 |
| San Jose (100%) | 103,000 | 6.4 |
| Total | 303,000 | 19.9 |

## 2019 AISC forecast split

| | AISC ($/oz) |
|---|---|
| Inmaculada | 790-830 Au Eq |
| Pallancata | 13.5-14.0 Ag Eq |
| San Jose | 13.5-14.0 Ag Eq |

Case study

# EXCELLENCE AT INMACULADA

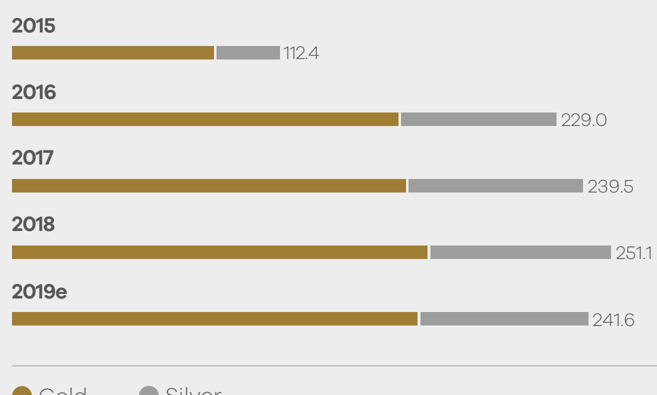
Our flagship asset, the Inmaculada mine, delivered record production in 2018, is in the first quartile of the gold cost curve and generates 74% of Hochschild's attributable cash flow.

**251,090**
GOLD EQUIVALENT OUNCES PRODUCED IN 2018

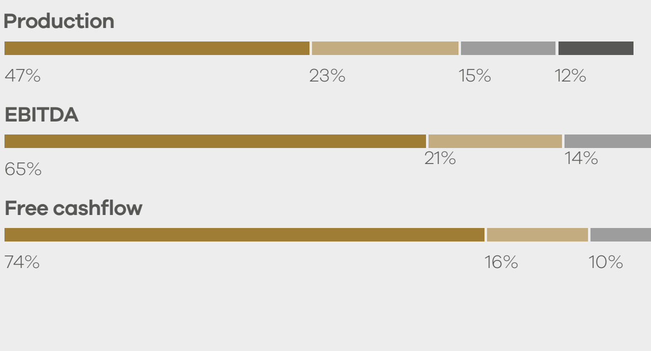
**1.3m oz**
ADDED TO INFERRED RESOURCES IN 2018

- Located in Ayacucho close to Pallancata mine
- Construction and ramp-up in record time
- World class fully automated operation
- Significant 2018 additions followed by further geological upside
- Great regional geological potential
- New resources could be materially improved using the Ore Sorting process

## Inmaculada Production History




## Significance of Inmaculada



**OPERATING REVIEW**
CONTINUED

# INMACULADA
## PERU

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

| Summary | Year ended 31 Dec 2018 | Year ended 31 Dec 2017 | % change |
|---|---|---|---|
| Ore production (tonnes) | **1,323,525** | 1,295,701 | 2 |
| Average silver grade (g/t) | **150** | 145 | 3 |
| Average gold grade (g/t) | **4.36** | 4.15 | 5 |
| Silver produced (koz) | **5,690** | 5,506 | 3 |
| Gold produced (koz) | **174.20** | 165.07 | 6 |
| Silver equivalent produced (koz) | **18,581** | 17,721 | 5 |
| Gold equivalent produced (koz) | **251.09** | 239.48 | 5 |
| Silver sold (koz) | **5,676** | 5,498 | 3 |
| Gold sold (koz) | **172.40** | 162.32 | 6 |
| Unit cost ($/t) | **84.7** | 85.4 | (1) |
| Total cash cost ($/oz Ag co-product) | **481** | 486 | (1) |
| All-in sustaining cost ($/oz Ag Eq) | **731** | 721 | 1 |

### Production

In 2018, Inmaculada delivered record gold equivalent production of 251,090 ounces, a 5% improvement on 2017 (2017: 239,479 ounces) driven mainly by better than expected grades and production efficiencies.

### Costs

All-in sustaining costs were in line with expectations at $731 per gold equivalent ounce (2017: $721 per ounce). Despite unit cost per tonne falling moderately versus 2017, the all-in sustaining figure rose slightly due to an increase in capitalised exploration expenses to incorporate resources from the new veins discovered in 2018.

**$731/oz Au Eq**
AISC

**251koz Au Eq**
PRODUCTION

# PALLANCATA
## PERU

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

| Summary | Year ended 31 Dec 2018 | Year ended 31 Dec 2017 | % change |
|---|---|---|---|
| Ore production (tonnes) | **717,652** | 470,903 | 52 |
| Average silver grade (g/t) | **362** | 442 | (18) |
| Average gold grade (g/t) | **1.30** | 1.78 | (27) |
| Silver produced (koz) | **7,449** | 5,956 | 25 |
| Gold produced (koz) | **26.40** | 23.47 | 12 |
| Silver equivalent produced (koz) | **9,403** | 7,693 | 22 |
| Gold equivalent produced (koz) | **127.07** | 103.95 | 22 |
| Silver sold (koz) | **7,439** | 5,940 | 25 |
| Gold sold (koz) | **26.23** | 23.29 | 13 |
| Unit cost ($/t) | **93.6** | 101.5 | (8) |
| Total cash cost ($/oz Ag co-product) | **8.1** | 7.8 | 4 |
| All-in sustaining cost ($/oz Ag Eq) | **12.1** | 10.7 | 13 |

**Production**

Pallancata's full year production result was 9.4 million silver equivalent ounces, a 22% improvement versus 2017 (2017: 7.7 million ounces). The increase was driven by the incorporation of the new Pablo vein in the second half of the year with tonnage increasing and grades reducing in line with expectations. In addition, average grades from the mix of material from Pablo, mine developments and ancillary veins was better than planned in the first half of the year.

**Costs**

All-in sustaining costs were better than guidance at $12.1 per silver equivalent ounce (2017: $10.7 per ounce), mainly due to higher grades from the mix of material from the Pablo vein, developments and ancillary veins in the first half of the year. The AISC figure increased versus 2017, as expected, in line with the ramp up of the wider, but lower-grade Pablo vein.

**$12.1/oz Ag Eq**

AISC

**9.4moz Ag Eq**

PRODUCTION

**OPERATING REVIEW**
CONTINUED

# SAN JOSE
# ARGENTINA

The San Jose silver/gold mine is located in Argentina, in the province of Santa Cruz, 1,750 kilometres south west of Buenos Aires. San Jose commenced production in 2007. Hochschild holds a controlling interest of 51% in the mine and is the mine operator. The remaining 49% is owned by the minority interest, McEwen Mining Inc.

| Summary | Year ended 31 Dec 2018 | Year ended 31 Dec 2017 | % change |
|---|---|---|---|
| Ore production (tonnes) | **556,185** | 532,676 | 4 |
| Average silver grade (g/t) | **397** | 436 | (9) |
| Average gold grade (g/t) | **6.20** | 6.71 | (8) |
| Silver produced (koz) | **6,165** | 6,448 | (4) |
| Gold produced (koz) | **96.59** | 100.47 | (4) |
| Silver equivalent produced (koz) | **13,313** | 13,883 | (4) |
| Gold equivalent produced (koz) | **179.90** | 187.60 | (4) |
| Silver sold (koz) | **6,175** | 6,501 | (5) |
| Gold sold (koz) | **95.95** | 99.63 | (4) |
| Unit cost ($/t) | **218.6** | 240.1 | (9) |
| Total cash cost ($/oz Ag co-product) | **10.1** | 10.5 | (4) |
| All-in sustaining cost ($/oz Ag Eq) | **14.5** | 14.0 | 4 |

**Production**

In 2018, San Jose produced 13.3 million silver equivalent ounces (2017: 13.9 million ounces), a 4% reduction versus 2017 due to lower-grades partially offset by an increase in tonnage.

**Costs**

All-in sustaining costs were $14.5 per silver equivalent ounce (2017: $14.0 per ounce) with the small increase versus last year due to lower grades, the hydraulic backfill project which was completed in the third quarter and the reintroduction of export taxes in September 2018. These factors were partially offset by the strong devaluation of the Argentinian peso during the year (102%).

On 4 September 2018, the Argentinian Government issued an Executive Order establishing a temporary export tax over all goods exported from Argentina, applicable from 4 September 2018 to 31 December 2020. The rate that applies for San Jose's production is AR$3 per US dollar exported.

**$14.5/oz Ag Eq**
AISC

**13.3moz Ag Eq**
PRODUCTION

# ARCATA
## PERU

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

| Summary | Year ended 31 Dec 2018 | Year ended 31 Dec 2017 | % change |
|---|---|---|---|
| Ore production (tonnes) | **373,106** | 499,385 | (25) |
| Average silver grade (g/t) | **321** | 308 | 4 |
| Average gold grade (g/t) | **0.99** | 1.07 | (7) |
| Silver produced (koz) | **3,416** | 4,391 | (22) |
| Gold produced (koz) | **10.57** | 15.15 | (30) |
| Silver equivalent produced (koz) | **4,199** | 5,512 | (24) |
| Gold equivalent produced (koz) | **56.74** | 74.49 | (24) |
| Silver sold (koz) | **3,397** | 4,357 | (22) |
| Gold sold (koz) | **9.93** | 14.96 | (34) |
| Unit cost ($/t) | **167.7** | 124.8 | 34 |
| Total cash cost ($/oz Ag co-product) | **16.9** | 14.5 | 17 |
| All-in sustaining cost ($/oz Ag Eq) | **19.6** | 18.4 | 7 |

### Production

Production for the year was 4.2 million silver equivalent ounces (2017: 5.5 million ounces), a result in line with expectations and reflecting significantly reduced tonnage.

On 13 February 2019, Hochschild announced the decision to place the mine on care and maintenance due to the volatile silver price and current geological conditions.

### Costs

Arcata's full year all-in sustaining cost was $19.6 per silver equivalent ounce (2017: $18.4 per ounce) with the rise resulting from reduced tonnage and investments to find additional resources. Sustaining and development expenditure from 2018 has been expensed due to the decision to place the mine on care and maintenance. Please see the Financial Review on page 35 for further details.

**$19.6/oz Ag Eq**

AISC

**4.2moz Ag Eq**

PRODUCTION

# EXPLORATION

## Inmaculada

In 2018, Hochschild continued the comprehensive surface drilling programme begun in November 2017 with the campaign focusing on the area to the east of the Angela vein. 9,300m of drilling for potential and 65,600m of resource drilling was executed during the year. 17 veins were discovered with the result that 1.3 million gold equivalent ounces or 95 million silver equivalent ounces have been added to the inferred resource base at Inmaculada. All veins are close to the existing Inmaculada infrastructure with good widths and therefore represent significant low-cost additions to the future Inmaculada mine plan. Please see the 2018 Resources table on page 165 for further details.

Key intercepts from the campaign are listed below:

| Vein | Results |
|---|---|
| **Millet** | MIL-17-008: 5.1m @ 1.8g/t Au & 72g/t Ag<br>MIL-17-010: 9.9m @ 2.0g/t Au & 61g/t Ag<br>MIL-18-013: 5.0m @ 6.7g/t Au & 43g/t Ag<br>MIL-18-014: 14.3m @ 4.0g/t Au & 205g/t Ag<br>MIL-18-015: 8.0m @ 1.3g/t Au & 75g/t Ag<br>MIL-18-015: 3.1m @ 2.0g/t Au & 127g/t Ag<br>MIL-18-018: 7.8m @ 2.6g/t Au & 37g/t Ag<br>MIL-18-018: 4.2m @ 3.9g/t Au & 27g/t Ag<br>MIL-18-019: 7.7m @ 1.8g/t Au & 78g/t Ag<br>MIL-18-019: 3.8m @ 3.2g/t Au & 108g/t Ag<br>MIL-18-024: 7.0m @ 2.4g/t Au & 135g/t Ag<br>MIL-18-028: 3.1m @ 1.8g/t Au & 64g/t Ag<br>MIL-18-029: 3.9m @ 1.8g/t Au & 121g/t Ag<br>MIL-18-030: 4.8m @ 1.7g/t Au & 80g/t Ag |
| **Vero** | MIL-17-010: 9.3m @ 3.3g/t Au & 24g/t Ag |
| **Divina** | LOL-18-003: 12.0m @ 6.2g/t Au & 46g/t Ag<br>LOL-18-004: 3.0m @ 3.7g/t Au & 23g/t Ag<br>LOL-18-005: 2.2m @ 4.2g/t Au & 5g/t Ag<br>LOL-18-006: 7.0m @ 2.3g/t Au & 28g/t Ag<br>LOL-18-008: 3.7m @ 2.2g/t Au & 66g/t Ag<br>LOL-18-010: 3.8m @ 2.3g/t Au & 53g/t Ag<br>LOL-18-014: 2.9m @ 1.9g/t Au & 256g/t Ag<br>LOL-18-014: 8.7m @ 1.3g/t Au & 93g/t Ag<br>LOL-18-014: 9.3m @ 3.1g/t Au & 258g/t Ag |
| **Lola** | LOL-18-005: 0.8m @ 5.1g/t Au & 356g/t Ag<br>LOL-18-006: 3.3m @ 1.8g/t Au & 55g/t Ag<br>LOL-18-008: 4.0m @ 4.1g/t Au & 82g/t Ag |
| **Lizina** | LOL-18-006: 6.2m @ 2.9g/t Au & 16g/t Ag<br>LOL-18-011: 1.0m @ 8.6g/t Au & 135g/t Ag |
| **Olinda** | LOL-18-001: 2.2m @ 2.7g/t Au & 225g/t Ag |
| **Veronica** | MIL-18-028: 3.5m @ 2.0g/t Au & 91g/t Ag |
| **Lourdes tensional** | MIS-18-008: 4.2m @ 2.8g/t Au & 66g/t Ag<br>MIS-18-010: 1.5m @ 2.2g/t Au & 218g/t Ag |
| **Rosa** | LOL-18-036: 1.3m @ 2.1g/t Au & 59g/t Ag<br>LOL-18-039: 4.0m @ 1.8g/t Au & 271g/t Ag |
| **Keyla** | BEL-18-003: 1.9m @ 5.6g/t Au & 286g/t Ag<br>BEL-18-007: 2.9m @ 2.8g/t Au & 183g/t Ag<br>BEL-18-008: 1.0m @ 2.5g/t Au & 235g/t Ag<br>BEL-18-014: 1.0m @ 2.0g/t Au & 177g/t Ag<br>BEL-18-015: 3.2m @ 4.6g/t Au & 239g/t Ag<br>BEL-18-019: 1.0m @ 4.1g/t Au & 49g/t Ag |
| **Bety** | BEL-18-001: 2.8m @ 14.5g/t Au & 1,453g/t Ag<br>BEL-18-004: 2.9m @ 15.2g/t Au & 1,381g/t Ag<br>BEL-18-012: 6.4m @ 2.1g/t Au & 107g/t Ag<br>BEL-18-013: 2.6m @ 1.9g/t Au & 82g/t Ag |
| **Thalia tensional** | BEL-18-018: 3.5m @ 6.8g/t Au & 146g/t Ag |

In 2019, a 38,000m drilling programme is planned to find potential resources to the east of the Angela vein and also to the west. In addition, the campaign will look to test the continuity of the Angela vein to the north.

## Pallancata

Much of the focus for 2018 was on securing exploration permits for 2019 campaigns at Pablo Sur, Palca and Cochaloma. However, approximately 1,100m of potential underground drilling was carried out in Pablo Sur structure to test for a possible extension to the original Pallancata vein, whilst ore control drilling at the Cinthia vein in Ranichico and in Pablo Piso in the fourth quarter added additional resources.

| Vein | Results |
|---|---|
| **Pablo** | DLEP-A38: 8.7m @ 3.6g/t Au & 1,105g/t Ag<br>DLEP-A39: 8.4m @ 1.0g/t Au & 327g/t Ag |
| **Cinthia** | DLCN-A01: 0.9m @ 2.7/t Au & 412g/t Ag<br>DLCN-A02: 1.0m @ 2.6/t Au & 355g/t Ag |

As mentioned above, the 2019 campaign will concentrate on drilling for potential in the Pablo Sur, Palca and Cochaloma structures with over 30,000 metres currently scheduled to be carried out and expected to commence in Q2/Q3 2019.

## San Jose

At San Jose, inferred resources were added from a drilling campaign close to the mine infrastructure in the south from the Ayelen S.E., Molle, Maia and Guadalupe veins although the winter weather did disrupt progress towards the middle of the year.

Once the weather improved in the third quarter, the programme recommenced with reverse circulation drilling in the Saavedra zone to the south of the mine as well as long drill holes from the mine to look for potential east-west structures. In addition, a potential drilling campaign to the north west to test the polymetallic structure at the Aguas Vivas zone was also carried out. Overall, approximately 16,000m of potential drilling and 6,000m of resource drilling was completed in 2018.

Selected results are provided below:

| Vein | Results |
|---|---|
| **Ayelen S.E. extension** | SJD-1708: 2.4m @ 8.7g/t Au & 652g/t Ag<br>SJD-1711: 4.9m @ 6.7g/t Au & 151g/t Ag |
| **Odin** | SJM-351: 1.1m @ 5.6g/t Au & 739g/t Ag |
| **Molle** | SJM-351: 2.6m @ 1.6g/t Au & 320g/t Ag |
| **S.Odin** | SJD-1737: 2.4m @ 6.8g/t Au & 778g/t Ag |
| **Guadalupe** | SJD-1737: 1.5m @ 5.4g/t Au & 525g/t Ag<br>SJD-1725: 2.8m @ 6.0g/t Au & 13g/t Ag |
| **Aguas Vivas** | SJD-1703: 0.4m @ 0.3g/t Au, 7g/t Ag, 1.3% Pb & 2.8% Zn<br>SJD-1704: 1.4m @ 0.5g/t Au, 32g/t Ag, 2.5% Pb & 1.6% Zn<br>SJD-1704: 0.6m @ 3.4g/t Au, 14g/t Ag, 1.0% Pb & 0.6% Zn<br>SJD-1704: 1.2m @ 2.3g/t Au, 13g/t Ag, 0.2% Pb & 0.3% Zn<br>SJD-1705: 0.4m @ 0.2g/t Au, 3g/t Ag, 1.8% Pb & 3.5% Zn<br>SJD-1705: 0.3m @ 0.3g/t Au, 12g/t Ag, 1.6% Pb & 1.7% Zn<br>SJD-1851: 2.7m @ 0.3g/t Au, 44g/t Ag, 1.2% Cu, 4.6% Pb & 6.4% Zn<br>SJD-1853: 0.7m @ 0.1g/t Au, 149g/t Ag, 2.6% Cu, 8.2% Pb & 6.4% Zn<br>SJD-1854: 0.8m @ 0.2g/t Au, 64g/t Ag, 1.2% Cu, 1.0% Pb & 0.3% Zn<br>SJD-1855: 0.5m @ 4.0g/t Au, 5g/t Ag, 0.7% Pb & 2.4% Zn<br>SJD-1857: 0.6m @ 1.6g/t Au, 18g/t Ag, 0.1% Cu, 2.7% Pb & 2.2% Zn<br>SJD-1858: 0.6m @ 0.4g/t Au, 48g/t Ag, 1.0% Cu, 0.2% Pb & 0.1% Zn |

The 2019 programme will focus on further potential drilling at Aguas Vivas as well as an underground long-hole drilling campaign to the south of the current mining area.

## Arcata

At Arcata, an underground drilling programme for the year has been focused on areas close to the existing mine infrastructure with potential to be rapidly incorporated into the short-term Arcata mine plan. Just under 28,000 metres of resource drilling was carried out in the 1st and 4th quadrants targeting the Ruby, Cristina, Rosalia, Pablito East, Vein X, Frida, Pamela New, Cristina and Rosalia veins, whilst almost 15,000 metres of potential drilling was executed in the Tunel 4, Barbara, Tres Reyes, Silvia Yoselin, Pamela New, Soledad and Anomaly North structures.

Selected intercepts are shown below:

| Vein | Results |
|---|---|
| **Cristina** | DDH-267-ST-18: 1.1m @ 1.3g/t Au & 454g/t Ag<br>DDH-286-EX-18: 4.4m @ 0.4g/t Au & 145g/t Ag<br>DDH-308-EX-18: 2.2m @ 2.6g/t Au & 1,089g/t Ag |
| **Cristina Techo** | DDH-279-ST-18: 1.0m @ 2.0g/t Au & 547g/t Ag |
| **Frida** | DDH-267-ST-18: 1.2m @ 0.9g/t Au & 300g/t Ag<br>DDH-279-ST-18: 1.7m @ 3.6g/t Au & 1,461g/t Ag<br>DDH-302-DI-18: 1.1m @ 0.6g/t Au & 338g/t Ag |
| **Pablito** | DDH-239-DI-18: 1.0m @ 2.4g/t Au & 819g/t Ag<br>DDH-267-ST-18: 1.2m @ 3.6g/t Au & 1,535g/t Ag<br>DDH-279-ST-18: 1.4m @ 6.9g/t Au & 2,852g/t Ag |
| **Pamela W** | DDH-301-EX-18: 1.3m @ 2.5g/t Au & 446g/t Ag<br>DDH-311-EX-18: 1.2m @ 1.6g/t Au & 193g/t Ag<br>DDH-286-EX-18: 2.4m @ 5.1g/t Au & 402g/t Ag |
| **Pamela New** | DDH-305-ST-18: 2.2m @ 2.7g/t Au & 758g/t Ag<br>DDH-329-VE-18: 1.0m @ 0.6g/t Au & 320g/t Ag<br>DDH-332-VE-18: 1.1m @ 0.9g/t Au & 282g/t Ag<br>DDH-301-EX-18: 1.8m @ 0.9g/t Au & 264g/t Ag<br>DDH-342-VE-18: 1.0m @ 3.4g/t Au & 2,019g/t Ag |
| **Rosalita** | DDH-300-EX-18: 1.0m @ 2.1g/t Au & 908g/t Ag<br>DDH-290-EX-18: 1.1m @ 0.9g/t Au & 254g/t Ag<br>DDH-339-DI-18: 2.4m @ 2.2g/t Au & 1,504g/t Ag |
| **Ruby 2** | DDH-217-DI-18: 1.2m @ 0.7g/t Au & 236g/t Ag<br>DDH-231-DI-18: 1.2m @ 0.7g/t Au & 317g/t Ag<br>DDH-248-DI-18: 1.0m @ 2.3g/t Au & 1,003g/t Ag<br>DDH-276-DI-18: 1.2m @ 1.4g/t Au & 547g/t Ag |
| **Vein X** | DDH-255-DI-18: 3.2m @ 1.3g/t Au & 447g/t Ag<br>DDH-285-ST-18: 3.0m @ 1.9g/t Au & 2,714g/t Ag |
| **Elena** | DDH-269-ST-18: 1.0m @ 1.2g/t Au & 584g/t Ag<br>DDH-339-DI-18: 1.0m @ 5.5g/t Au & 2,175g/t Ag |
| **Alexia** | DDH-318-EX-18: 1.3m @ 3.3g/t Au & 563g/t Ag<br>DDH-337-DE-18: 1.1m @ 5.3g/t Au & 356g/t Ag<br>DDH-344-DI-18: 2.5m @ 2.0g/t Au & 238g/t Ag |
| **Diana** | DDH-350-DI-18: 2.2m @ 1.4g/t Au & 648g/t Ag |
| **Paloma** | DDH-342-VE-18: 2.2m @ 1.7g/t Au & 468g/t Ag |
| **Yoselin** | DDH-353-JK-18: 1.3m @ 4.6g/t Au & 2,109g/t Ag |
| **NW System 1** | DDH-355-JK-18: 2.0m @ 2.0g/t Au & 778g/t Ag |
| **NW System 2** | DDH-355-JK-18: 1.0m @ 1.9g/t Au & 534g/t Ag |
| **Soledad NW** | DDH-354-ST-18: 0.8m @ 6.8g/t Au & 1,204g/t Ag<br>DDH-595-S-18: 0.8m @ 1.1g/t Au & 288g/t Ag |

The current programme continues into 2019 with an 8,000m underground and surface drilling programme to further evaluate the new Quadrant 4 area as well as potential shallower mineralisation at the Alexia, Marion and Mariana veins.

## Greenfield and business development

Hochschild's strategy with regards to its greenfield exploration programme has been to maintain and drill a balanced portfolio of early-stage to advanced opportunities using a combination of earn-in joint ventures, private placements with junior exploration companies and the staking of properties. This strategy is being executed throughout the Americas with opportunities currently being reviewed in Peru, Chile, the US and Canada.

During 2018, a number of projects were drilled including Loro in Chile belonging to Revelo Resources Corp, Moho and Redlitch in Nevada belonging to KA Gold and Fresia in Peru which is 100% owned by Hochschild. There were no significant results to report and therefore, with the exception of Fresia, these options have not been taken up.

To date, options have been secured on properties across the Americas including: the Snip mine in Canada owned by Skeena Resources; the Cobalt project in Canada owned by Cobalt Power Group; the Agni and Indra projects in Chile owned by Mirasol Resources; and the Ferguson Mountain and Mars projects in Nevada owned by Renaissance Gold. In addition, the Company has also secured an option on the Condor project located in Arequipa (Peru) close to the Arcata operation. The deposit currently hosts a small private mine and has significant under-explored concessions with 40km of veins already identified. Drilling is expected to commence in 2019.

In 2019, a $10 million budget has been assigned and work will continue on the above-mentioned projects as well superficial geological work and applications for access rights on a number of Peruvian projects.

FINANCIAL REVIEW

# STRONG FINANCIAL PERFORMANCE AND CASH GENERATION

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

**$704.3m**

**REVENUE**
(2017: $722.6m)

**$268.0m**

**ADJUSTED EBITDA**
(2017: $300.8m)

**$54.7m**

**PROFIT BEFORE INCOME TAX**
(2017: $66.8m)

**$0.05**

**ADJUSTED BASIC EARNINGS PER SHARE**
(2017: $0.08)

## Revenue

### Gross revenue

Gross revenue from continuing operations decreased by 3% to $733.3 million in 2018 (2017: $759.1 million) due to a fall in the average silver price received offsetting small rises in ounces sold of both gold and silver in line with increased production.[1]

### Gold

Gross revenue from gold in 2018 increased slightly to $386.2 million (2017: $381.3 million) due to a small increase in the total amount of gold ounces sold in 2018. This resulted from increases at the Inmaculada and Pallancata mines offsetting a fall in gold sales from the Arcata mine.

### Silver

Gross revenue fell in 2018 to $347.0 million (2017: $377.8 million) mainly due to a 9% decline in the average silver price received. This was partially offset by a small increase in the total amount of silver ounces sold to 22,687 koz (2017: 22,295 koz) resulting from the rise in silver production at Pallancata.

### Gross average realised sales prices

The following table provides figures for average realised prices (before the deduction of commercial discounts) and ounces sold for 2018 and 2017:

| Average realised prices | Year ended 31 Dec 2018 | Year ended 31 Dec 2017 |
|---|---|---|
| Silver ounces sold (koz) | **22,687** | 22,295 |
| Avg. realised silver price ($/oz) | **15.3** | 16.9 |
| Gold ounces sold (koz) | **304.51** | 300.21 |
| Avg. realised gold price ($/oz) | **1,268** | 1,270 |

### Commercial discounts

Commercial discounts refer to refinery treatment charges, refining fees and payable deductions for processing concentrate, and are deducted from gross revenue on a per tonne basis (treatment charge), per ounce basis (refining fees) or as a percentage of gross revenue (payable deductions). In 2018, the Group recorded commercial discounts of $29.4 million (2017: $36.9 million) with the decrease explained by the lower production from the concentrate-only Arcata mine. The ratio of commercial discounts to gross revenue in 2018 was 4% (2017: 5%).

### Net revenue[2]

Net revenue was $704.3 million (2017 $722.6 million), comprising net gold revenue of $378.8 million (2017: $372.3 million) and net silver revenue of $325.1 million (2017: $349.8 million). In 2018, gold accounted for 54% and silver 46% of the Company's consolidated net revenue (2017: gold 52% and silver 48%).

1 Includes revenue from services.
2 Included within revenue is a loss of US$5,646,000, comprising net gold loss of US$1,088,000 and net silver loss of US$4,558,000, relating to provisional pricing adjustments arising on sales of concentrates and dore (2017: included within revenue is a gain of US$2,578,000 relating to provisional pricing adjustments representing the change in the fair value of embedded derivatives).

### Revenue by mine[3]

| $000 | Year ended 31 Dec 2018 | Year ended 31 Dec 2017 | % change |
|---|---|---|---|
| **Silver revenue** | | | |
| Arcata | **52,292** | 74,452 | (30) |
| Inmaculada | **86,810** | 91,943 | (6) |
| Pallancata | **113,108** | 100,285 | 13 |
| San Jose | **94,804** | 111,088 | (15) |
| Commercial discounts | **(21,958)** | (27,926) | (21) |
| **Net silver revenue** | **325,056** | 349,842 | (7) |
| **Gold revenue** | | | |
| Arcata | **12,573** | 19,183 | (34) |
| Inmaculada | **219,293** | 204,651 | 7 |
| Pallancata | **33,176** | 29,877 | 11 |
| San Jose | **121,202** | 127,602 | (5) |
| Commercial discounts | **(7,395)** | (8,998) | (18) |
| **Net gold revenue** | **378,849** | 372,315 | 2 |
| **Other revenue** | **385** | 415 | (7) |
| **Net revenue**[4] | **704,290** | 722,572 | (3) |

## Costs

Total cost of sales was $531.8 million in 2018 (2017: $549.0 million). The direct production cost excluding depreciation was higher at $363.9 million (2017: $345.4 million) mainly due to higher production volumes at Inmaculada and also at Pallancata due to the ramp up of the Pablo vein and the reclassification of logistics costs of $6.1 million from selling expenses to production costs as a consequence of adopting IFRS 15 Revenue from Contracts with Customers[5]. This was partially offset by costs savings at San Jose due to the high Argentinian peso devaluation. Depreciation in production cost decreased to $164.2 million (2017: $196.2 million) due to the increased mine life at Inmaculada resulting from the strong inferred resource additions. Other items, which principally includes personnel-related provisions and stoppage costs (at San Jose), declined to $1.1 million in 2018 (2017: $3.2 million). Change in inventories was $2.5 million in 2018 (2017: $4.1 million) due to a slight rise in products in process.

| $000 | Year ended 31 Dec 2018 | Year ended 31 Dec 2017 | % change |
|---|---|---|---|
| Direct production cost excluding depreciation | **363,922** | **345,436** | 5 |
| Depreciation in production cost | **164,244** | **196,241** | (16) |
| Other items | **1,141** | **3,241** | (65) |
| Change in inventories | **2,481** | **4,131** | (40) |
| Cost of sales | **531,788** | **549,049** | (3) |

### Unit cost per tonne

The Company reported unit cost per tonne at its operations of $121.1 per tonne in 2018, a 3% decrease versus 2017 ($125.0 per tonne) due to increased mined tonnage at Pallancata and the depreciation of the Argentine peso offsetting the decline in tonnage at Arcata and inflation in Argentina.

Unit cost per tonne by operation (including royalties)[6]:

| Operating unit ($/tonne) | Year ended 31 Dec 2018 | Year ended 31 Dec 2017 | % change |
|---|---|---|---|
| **Peru** | **99.7** | **97.7** | 2 |
| Arcata | **167.7** | **124.8** | 34 |
| Inmaculada | **84.7** | **85.4** | (1) |
| Pallancata | **93.6** | **101.5** | (8) |
| **Argentina** | | | |
| San Jose | **218.6** | **240.1** | (9) |
| Total | **121.1** | **125.0** | (3) |

### Cash costs

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

### Cash cost reconciliation[7]:

| $000 unless otherwise indicated | Year ended 31 Dec 2018 | Year ended 31 Dec 2017 | % change |
|---|---|---|---|
| **Group cash cost** | **409,719** | 403,552 | 2 |
| (+) Cost of sales | **531,788** | 549,049 | (3) |
| (-) Depreciation and amortisation in cost of sales | **(164,819)** | (196,150) | (16) |
| (+) Selling expenses | **10,068** | 11,024 | (9) |
| (+) Commercial deductions[8] | **32,682** | 39,629 | (18) |
| Gold | **7,558** | 9,256 | (18) |
| Silver | **25,124** | 30,373 | (17) |
| **Revenue** | **704,290** | 722,572 | (3) |
| Gold | **378,849** | 372,315 | 2 |
| Silver | **325,056** | 349,842 | (7) |
| Others | **385** | 415 | (7) |
| **Ounces sold** | | | |
| Gold | **304.5** | 300.2 | 1 |
| Silver | **22,687** | 22,295 | 2 |
| **Group cash cost ($/oz)** | | | |
| Co product Au | **724** | 693 | 4 |
| Co product Ag | **8.3** | 8.8 | (5) |
| By product Au | **195** | 78 | 151 |
| By product Ag | **1.0** | 1.0 | 4 |

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

3 Reconciliation of gross revenue by mine to Group net revenue.
4 Included within revenue is a transaction price of US$5,485,000 related to the shipping services provided by the Group to customers arising on the sale of concentrates (US$3,965,000, Gold: US$1,806,000, Silver: US$2,159,000) and dore (US$1,520,000, Gold: 856,000, Silver: US$664,000).
5 Following the options provided by IFRS 15, this reclassification has not been applied to 2017 figures and therefore affects comparability.
6 Unit cost per tonne is calculated by dividing mine and treatment production costs (excluding depreciation) by extracted and treated tonnage respectively.
7 Cash costs are calculated to include cost of sales, treatment charges, and selling expenses before exceptional items less depreciation included in cost of sales.
8 Includes commercial discounts (from the sales of concentrate) and commercial discounts from the sale of dore.

**FINANCIAL REVIEW**
CONTINUED

## All-in sustaining cost reconciliation
### Year ended 31 Dec 2018

| $000 unless otherwise indicated | Arcata | Inmaculada | Pallancata | San Jose | Main operations | Corporate & others | Total |
|---|---|---|---|---|---|---|---|
| (+) Production cost excluding depreciation | 62,559 | 114,291 | 68,907 | 118,165 | 363,922 | – | 363,922 |
| (+) Other items in cost of sales | – | – | – | 1,141 | 1,141 | – | 1,141 |
| (+) Operating and exploration capex for units | 526 | 57,678 | 28,939 | 42,849 | 129,992 | 634 | 130,626 |
| (+) Brownfield exploration expenses | 9,024 | 1,732 | 2,162 | 4,224 | 17,142 | 3,563 | 20,705 |
| (+) Administrative expenses (excl depreciation) | 651 | 3,516 | 1,560 | 6,952 | 12,679 | 31,618 | 44,297 |
| (+) Royalties and special mining tax[9] | – | 3,113 | 1,381 | – | 4,494 | 2,746 | 7,240 |
| **Sub-total** | **72,760** | **180,330** | **102,949** | **173,331** | **529,370** | **38,561** | **567,931** |
| Au ounces produced | 10,575 | 174.,199 | 26,399 | 96,595 | 307,768 | – | 307,768 |
| Ag ounces produced (000s) | 3,416 | 5,690 | 7,499 | 6,165 | 22,720 | – | 22,720 |
| Ounces produced (Ag Eq 000s oz) | 4,199 | 18,581 | 9,403 | 13,313 | 45,495 | – | 45,495 |
| **Sub-total ($/oz Ag Eq)** | **17.3** | **9.7** | **10.9** | **13.0** | **11.6** | **–** | **12.5** |
| (+) Commercial deductions | 8,273 | 2,788 | 10,441 | 11,180 | 32,682 | – | 32,682 |
| (+) Selling expenses | 999 | 344 | 728 | 7,997 | 10,068 | – | 10,068 |
| **Sub-total** | **9,272** | **3,132** | **11,169** | **19,177** | **42,750** | **–** | **42,750** |
| Au ounces sold | 9,926 | 172,395 | 26,234 | 96,595 | 304,505 | – | 304,505 |
| Ag ounces sold (000s) | 3,397 | 5,676 | 7,439 | 6,175 | 22,687 | – | 22,687 |
| Ounces sold (Ag Eq 000s oz) | 4,132 | 18,433 | 9,380 | 13,275 | 45,220 | – | 45,220 |
| **Sub-total ($/oz Ag Eq)** | **2.2** | **0.2** | **1.2** | **1.4** | **0.9** | **–** | **0.9** |
| **All-in sustaining costs ($/oz Ag Eq)** | **19.6** | **9.9** | **12.1** | **14.5** | **12.6** | **–** | **13.4** |
| **All-in sustaining costs ($/oz Au Eq)[10]** | **1,448** | **731** | **898** | **1,071** | **931** | **–** | **994** |

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

### Year ended 31 Dec 2017

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

**FINANCIAL REVIEW**
CONTINUED

### Administrative expenses
Administrative expenses before exceptional items decreased by 11% to $45.8 million (2017: $51.3 million) primarily due to a decrease in personnel expenses.

### Exploration expenses
In 2018, exploration expenses increased to $34.4 million (2017: $17.2 million) in line with the overall rise in the Company's investment in brownfield and greenfield exploration. In addition, the Group capitalises part of its brownfield exploration, which mostly relates to costs incurred converting potential resource to the Inferred or Measured and Indicated categories. In 2018, the Company capitalised $9.2 million relating to brownfield exploration compared to $2.3 million in 2017, bringing the total investment in exploration for 2018 to $43.6 million (2017: $19.5 million).

### Selling expenses
Selling expenses decreased by 9% versus 2017 to $10.1 million (2017: 11.0 million) due to the reclassification of logistics costs of $6.1 million to cost of sales as a consequence of adopting IFRS 15 (Revenue from Contracts with Customers). This was offset by the reintroduction of export taxes in Argentina from September 2018 ($5.1 million) and moderately higher expenses in line with higher sales volumes.

### Other income/expenses
Other income before exceptional items was lower at $8.1 million (2017: $10.2 million) with 2017 income including a one-off gain from the sale of mining rights in Peru for $1.5 million.

Other expenses before exceptional items were higher at $17.1 million (2017: $11.5 million) mainly due to uncollected receivables from Republic Metals Corp of $4.9 million.

### Adjusted EBITDA
Adjusted EBITDA decreased by 11% to $268.0 million (2017: $300.8 million) primarily due to the fall in the average silver price received, the reintroduction of export taxes in Argentina in September 2018 and uncollected receivables from Republic Metals Corp of $4.9 million. These were partially offset by cost savings at San Jose due to the Argentinian peso devaluation.

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 2018 | Year ended 31 Dec 2017 | % change |
|---|---|---|---|
| Profit from continuing operations before exceptional items, net finance cost, foreign exchange (loss)/gain and income tax | **72,804** | 92,255 | (21) |
| Depreciation and amortisation in cost of sales | **164,819** | 196,150 | (16) |
| Depreciation and amortisation in administrative expenses | **1,486** | 1,564 | (5) |
| Exploration expenses | **34,381** | 17,199 | 100 |
| Personnel and other exploration related fixed expenses | **(5,916)** | (5,395) | 10 |
| Other non-cash income, net[11] | **(436)** | (1,023) | (57) |
| Adjusted EBITDA | **268,010** | 300,750 | (11) |
| Adjusted EBITDA margin | **38%** | 42% | |

### Finance income
Finance income before exceptional items of $2.0 million decreased from 2017 ($5.9 million) primarily due to the impact of one-off gains in 2017 from the discount of tax credits in Argentina ($1.9 million) and the sale of shares in Mariana Resources ($1.4 million).

### Finance costs
Finance costs before exceptional items decreased from $26.1 million in 2017 to $11.2 million in 2018, principally due to the reduction in the interest rate from 7.75% (Senior Notes) to an average of 2.48% (medium-term) resulting from the repayment of the Company's Senior Notes. In addition, gross debt was reduced from $353.8 million ($294.8 million of Senior Notes and $59.0 million of short-term debt) to $156.0 million (comprising medium-term loan facility of $50.0 million and short-term debt of $106.0 million).

### Foreign exchange (losses)/gains
The Group recognised a foreign exchange loss of $8.9 million (2017: $5.3 million loss) as a result of exposures in currencies other than the functional currency – primarily the Argentinean peso which significantly depreciated in 2018 but also the Peruvian sol which also fell moderately.

### Income tax
The Company's pre-exceptional income tax charge was $36.5 million (2017: $13.5 million). The 2018 charge includes the negative impact of converting local currency tax basis at a higher FX rate in Argentina and Peru thus reducing future tax shields in dollar terms. The total effective rate before royalties, the Special Mining Tax and the FX impact was 31%, in line with the average statutory rates. The royalties and Special Mining Tax resulted in a charge of $7.2 million, increasing the rate by 10% whilst the impact of local currency devaluation was $12.6 million, increasing the rate further by 26%. Accordingly, the final effective tax rate was 67%.

### Exceptional items
Exceptional items in 2018 totalled an $11.5 million loss after tax (2017: $0.5 million gain after tax). Exceptional items principally included the payment of the premium of $11.4 million to redeem early the Senior Notes and the reversal of capitalised Senior Notes issuance costs of $4.9 million.

In addition to these items, the exceptional tax effect was a $4.8 million tax gain (2017: $3.3 million tax charge).

### Cash flow and balance sheet review
Cash flow

| $000 | Year ended 31 Dec 2018 | Year ended 31 Dec 2017 | Change |
|---|---|---|---|
| Net cash generated from operating activities | **185,942** | 233,919 | (47,977) |
| Net cash used in investing activities | **(129,981)** | (121,054) | (8,927) |
| Cash flows used in financing activities | **(228,300)** | 4,919 | (233,219) |
| Net increase in cash and cash equivalents during the period | **(172,339)** | 117,784 | (290,123) |

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

Net cash generated from operating activities decreased from $233.9 million in 2017 to $185.9 million in 2018 mainly due to lower EBITDA of $268.0 million (2017: $ 300.8 million) and higher exploration expenses of $34.4 million (2017: $17.2 million).

Net cash used in investing activities increased to $130.0 million in 2018 from $121.1 million in 2017 mainly due to the construction of the hydraulic backfill plant in Argentina, the development of the Pablo vein at Pallancata and higher capitalised exploration.

Cash used in financing activities increased to $228.3 million used from a $4.9 million inflow in 2017, primarily due the repayment of the Company's Senior Notes ($294.8 million) and $3.0 million of short-term debt in Argentina. This was partially offset by new short-term loans of $100.0 million raised to repurchase the Senior Notes. In addition, $20 million of dividends were paid to Hochschild Mining plc shareholders and $10.3 million to McEwen Mining.

## Working capital

| $000 | Year ended 31 Dec 2018 | Year ended 31 Dec 2017 |
|---|---|---|
| Trade and other receivables | **84,187** | 88,553 |
| Inventories | **58,035** | 56,678 |
| Other financial assets/(liability) | **47** | 2,591 |
| Income tax receivable/(payable) | **17,462** | 15,442 |
| Trade and other payables | **(126,262)** | (117,860) |
| Provisions | **(97,793)** | (110,310) |
| Working capital | **(64,324)** | (64,906) |

The Group's working capital position increased modestly by $0.6 million from $(64.9) million to $(64.3) million in 2018. The key drivers of the increase were: higher inventories of $1.4 million mainly due to an increase in stockpiles at the Peruvian operations; a decrease in provisions of $12.5 million mainly due to mine closure disbursements and a lower bonus provision; and an increase in income tax receivables of $2.0 million. These effects were partially offset by: lower trade and other receivables of $(4.4) million mainly in San Jose resulting from an improvement in commercial terms; an increase in trade and other payables of $(8.4) million in line with higher costs and capex; and a reduction in other financial assets of $(2.5) million resulting from the embedded derivative associated with provisional pricing within sales.

## Net debt

| $000 unless otherwise indicated | As at 31 December 2018 | As at 31 December 2017 |
|---|---|---|
| Cash and cash equivalents | **79,704** | 256,988 |
| Long term borrowings | **(50,000)** | (291,955) |
| Short term borrowings[12] | **(107,067)** | (67,863) |
| Net debt | **(77,363)** | (102,830) |

The Group's reported net debt position was $77.4 million as at 31 December 2018 (31 December 2017: $102.8 million). In the first quarter of 2018, the Company repurchased its Senior Notes ($294.8 million) and raised $150 million in loans to finance the repurchase. This consisted of a short-term loan with Nova Scotia Bank of $50.0 million and a medium-term loan with Nova Scotia Bank and Citibank of $100.0 million. During the year, the Company repaid $50 million of the medium-term facility and refinanced the $100 million of short-term loans. In addition, short-term debt in Argentina was reduced by $3.0 million.

## Capital expenditure[13]

| $000 | Year ended 31 Dec 2018 | Year ended 31 Dec 2017 |
|---|---|---|
| Arcata | **526** | 17,557 |
| Pallancata | **28,939** | 19,186 |
| San Jose | **44,632** | 36,288 |
| Inmaculada | **57,678** | 52,903 |
| **Operations** | **131,775** | 125,934 |
| Other | **2,630** | 2,614 |
| **Total** | **134,405** | 128,548 |

2018 capital expenditure of $134.4 million (2017: $128.5 million) mainly comprised of operational capex of $131.8 million (2017: $125.9 million) with the small increase versus 2017 comprising increases in capital expenditure at Inmaculada (capitalised exploration and mine development), Pallancata (development of the Pablo vein) and San Jose (the hydraulic backfill project) partially offset by the significant decrease at Arcata where capital expenditure for the year has been expensed.



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

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

# OUR SUCCESS BRINGS RESPONSIBILITY

Hochschild is defined by its approach to responsible and innovative mining committed to a better world.

I am pleased to report on the Company's progress in 2018 on sustainability which forms the foundation of Hochschild Mining's business.

### Dear Shareholder

A record year of production underlines the Group's operational performance during the year and in this part of the Annual Report we provide an overview of the Group's progress in its areas of focus with regards to sustainability.

It is with deep regret that there were three fatalities during the year and I would like to reiterate the Board's condolences to the families of those involved. The members of the CSR Committee, indeed the full Board are committed to doing all we can to minimise all accidents across our operations. The Safety Culture Transformation Plan, which commenced in 2017, was designed and implemented with this aim in mind. This wide-ranging programme covers a number of aspects of safety management, further details of which are provided in the Safety section of this report. We are encouraged that the Plan is having its desired impact with a 46% reduction in high potential events and a 35% reduction in the accident frequency index, when compared to 2017.

### Our communities

In 2018, our focus Education, Health and Socio-Economic Development continued. We also took steps to review and revise our community engagement strategy which is targeting, to a greater degree, the needs of those people who live close to our operations. This is being facilitated through a number of means and not least a technology partnership with Mandu and a perception study that was commissioned through an external firm. Further details on these initiatives, as well as those of our Argentinian operation, can be found in this report and on our website.

### Our environment

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

### Tailings Facilities

Finally, in light of recent events in Brazil and similar events over the past three years, I would like to address the issue of the Group's tailings storage facilities. Firstly, I would like to reiterate that the safety of these structures is something that the Company takes seriously. The Committee considered the status of these facilities in the early part of this year and we were reassured that they are designed in a way that provides more structural resilience than those that have been the subject of recent press coverage. The Company has carried out third-party audits and internally-led inspections of its facilities and has designed an enhanced programme of monitoring 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 at sustainability@hocplc.com

**Graham Birch**
Chairman
Corporate Social Responsibility Committee

**98%**
**WORKFORCE TRAINED**
(2017: 81%)

**$8.3m***
**AMOUNT SPENT OR DONATED TO BENEFIT LOCAL COMMUNITIES**
(2017: $5.9m*)

* restated to also include community/social donations made at a corporate level.

## Governance of Corporate Social Responsibility ('CSR')

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

### What is Hochschild Mining's approach to sustainability?

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

- a safe and healthy workplace;
- managing and minimising the environmental impact of our operations;
- encouraging sustainability by respecting the communities of the localities in which we operate; and
- all in compliance with applicable laws, regulations and the Company's own standards.

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

### Management of sustainability

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

As Chairman of the CSR Committee, Graham Birch has Board level responsibility for sustainability issues to whom the Vice President of Operations and the Vice President of Legal and Corporate Affairs report for sustainability issues. From 1 January 2019, the Vice President of Human Relations also reports to Mr Birch who is the nominated Board member overseeing employee engagement.

### The CSR Committee's work in 2018

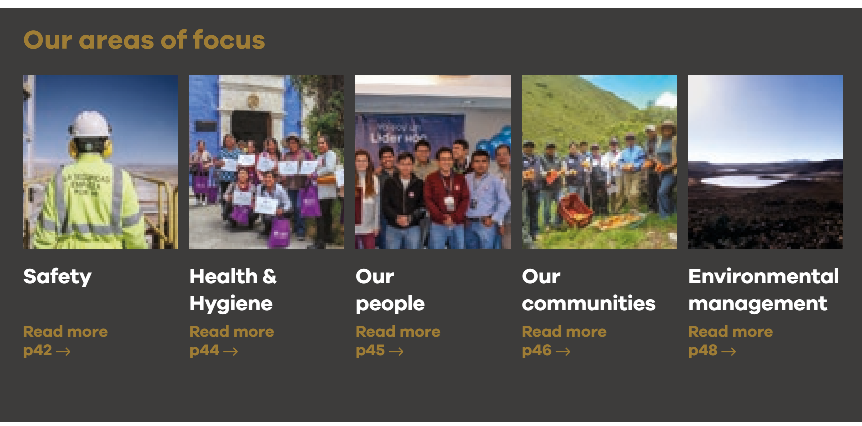
During the year, the CSR Committee:

- considered the investigations into the fatal accidents during the year and the steps to be taken to further strengthen the Group's safety culture;
- monitored the execution of the yearly plan in each of the four key areas of focus including detailed reports on safety performance;
- considered the priorities of the environmental team and their work plan;
- considered a detailed presentation on the Group's community engagement strategy, including the findings of a perception study (see the Community Relations section for more information);
- reviewed the environmental and community relations related risks and related work plans; and
- approved the 2017 Sustainability Report for inclusion in the 2017 Annual Report.

Given the exposure of the Group's strategy to Sustainability Risks (comprising Health & Safety, Community Relations and Environmental risks), the full Board received regular presentations on how such risks are managed. Furthermore, the Board received presentations from management on the accidents that resulted in the fatalities during the year. Additional details of these accidents can be found in the Safety section of this report.

### Reporting of targets and indicators

As part of the Company's ongoing strategy to make more information available online, detailed sustainability related performance indicators as well as targets for 2019 are available on the Company's website.



# SAFETY

Our people are our most valuable asset and their safety is paramount.

## 2018 Highlights

- Continued implementation of the Safety Culture Transformation Plan (see bottom right for further details)
- All safety management systems at operating units achieved Level six re-certification by Det Norske Veritas GL

## The Hochschild approach to safety

Given the inherently high risk profile of mining, safety is always our highest priority. Ensuring the safety of our employees is a key metric for our corporate success.

### Our achievements in 2018

- 46% reduction in the number of High Potential Events vs 2017
- 35% reduction in the accident frequency index
- Successfully achieving 100% coverage of portable carbon monoxide detectors (making Hochschild one of only a few underground mining companies in the world to have done so); and
- Restructuring the emergency response teams; resulting in operating efficiencies.

### Accidents in 2018

It is with regret that there were two fatal accidents in 2018 which resulted in three fatalities. In this section of the report, we have summarised the details of each incident and the remedial actions taken.

### March 2018: Arcata

Overview: In the process of recovering a tool which had dropped by the entrance of a shaft, a mineworker disengaged a safety mechanism and lost his balance which resulted in a fall from height.

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

- refocussing training to highlight the need for constant risk assessments;
- reviewed procedures with regards to replacement equipment; and
- the re-design of supply shafts.

### May 2018: Pallancata

Overview: Two members of the electrical maintenance team attempted to access a work area through a route which had been cordoned off and were overcome by carbon monoxide fumes.

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

- instigating inspections and procedural changes to reinforce the need for self-rescue equipment to be carried;
- revising operating procedures to render access to cordoned-off areas more difficult; and
- a tailored communications plan.

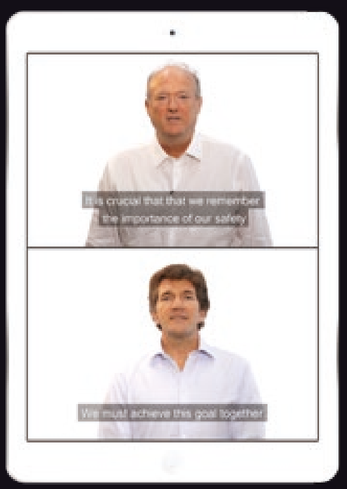
### Behaviour Based Safety Checklists

A process of reviewing the Group's safety checklists was undertaken in 2018 which involved the conscious move of the design of checklists from the corporate centre to the operations. This prompted the participation by middle management (comprising mining engineers, safety engineers, process engineers and environmental engineers) in discussions and analyses of workplace safety over c.600 man hours. This ensured that the checklists, which are used to record observations at surface-level and underground operations, are relevant and targeted.

The checklists have been positively received and will be incorporated into a mobile app in 2019.

## Safety Action Plan

A programme comprising short-term and longer-term actions, to be implemented over three years, was put in place in 2017 and which we progressed during 2018.



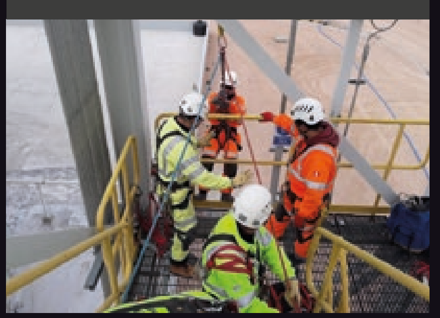

Safety Action video

### Immediate Action Plan

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

### 2018 Training Update

The implementation of a two-year training programme for emergency brigades commenced during the year with the support of a third-party consultant. The programme, which focuses on rescue methods and the use of equipment in confined spaces, is provided on a rotational basis across all Peruvian operations. New fire pumps and emergency trucks have been delivered from the US for fitting out and use in 2019.



### Long-term Action Plan: The Safety Culture Transformation Plan

### Risk Management System (RMS)

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

### Leadership Programme

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

### Mines' Annual Training Programme

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

### Safety Plan communications support

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

# HEALTH & HYGIENE

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

## 2018 Highlights

– Increased provision of psychological support as part of the Safety Culture Transformation Plan
– Full implementation of industrial hygiene standards at the San Jose operation
– Development and implementation of new occupational safety and wellbeing software

## 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
– Developing leaders dedicated to prioritising the wellbeing of their teams and maintaining high levels of occupational health and hygiene standards

## Our achievements in 2018

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

### During the year

– senior members of the team participated in discussions with respect to new legal requirements and provided training to team members;
– a comprehensive programme aimed at minimising and eventually eradicating exposure to harmful levels of noise was implemented during the year. This was achieved through the procurement of specialist monitoring equipment to gauge the level of exposure, workers at all units underwent medical examinations and informational material highlighting the risks and encouraging the use of protective equipment was prepared and distributed.

## Supporting Mineworkers' families

The Health & Hygiene team held events in Arequipa aimed at providing mineworkers' families with support and advice.

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

# OUR PEOPLE

Hochschild can only succeed through a sustained programme of investing in its people and their development

## The Hochschild approach to our people

### Training and development

The quality of our people is key to the success of the business. Thus, the ability for the Group to attract and retain high quality personnel is imperative. The Human Resources team seeks to achieve this goal by providing competitive remuneration, a positive working environment and continuous opportunities for professional development.

### Group values, labour relations and human rights

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

Approximately 58% of our total workforce is represented by a trade union or similar body. As a signatory of the Global Compact of the United Nations, Hochschild Mining respects the human rights of all of the Company's stakeholders including those of our employees, our contractors and suppliers, as well as the members of our local communities.

**58%**

**OF OUR TOTAL WORKFORCE IS REPRESENTED BY A TRADE UNION OR SIMILAR BODY**

**62.4%**

**EMPLOYEE SATISFACTION COMPARED TO 57.4% IN 2017**

### People indicators

| Gender diversity statistics[1] | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|
| **Number of employees** | | | | |
| Male | 3,894 | 3,849 | 3,859 | 3,492 |
| Female | 245 | 235 | 222 | 237 |
| **Number of senior managers[2]** | | | | |
| Male | 37 | 36 | 35 | 34 |
| Female | 1 | 1 | 1 | 2 |
| **Number of Board members** | | | | |
| Male | 7 | 7 | 8 | 8 |
| Female | 1 | 1 | 1 | 0 |

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

### Activities in 2018

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

#### Putting Safety First

As part of the Safety Culture Transformation Plan, a three-year leadership programme focused on promoting our safety culture was launched. This programme encourages participation across all levels at the mining units and administrative offices. Strategic development plans have been designed and implemented for those in critical roles across the business.

#### Keeping our talent

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

#### 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. Employee satisfaction in 2018 was registered at 62.4%, compared to 57.4% in 2017. Based on survey results and employee feedback, some improvements that have been implemented in the mining units include:

- Change in the transportation provider for mining staff;
- Continuous soft skills training for mine workers (known as "Day 8 training"); and
- Improved feedback and communication sessions between workers and managers.

We have continued to review our offering of non-financial benefits which has resulted in flexible working hours for head office staff in the summer, and the holding of regular social events.

# WORKING WITH OUR COMMUNITIES

Hochschild's commitment to its local communities is an acknowledgement of our social licence

## 2018 Highlights

- Reviewed and updated strategies for Community Relations and social support
- Strengthened educational support for our local communities
- Launched and successfully implemented a new community-relations tracking software (see right box for further details)

## Our view of working with our communities

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

### Our achievements in 2018

In 2018, we focused our efforts on re-evaluating our understanding about our relationships with the communities that surround Hochschild's mining operations by commissioning a consulting firm to carry out community-wide surveys and focus groups. The findings in this survey have informed our approach and social investment strategies to be better aligned with each of our mining units' unique communities.

In addition, we have continued to pursue programmes in the following areas:

### Education

#### Elementary education

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

In 2018, we maintained our vision of the education of the future, and how to best support our communities on getting there. We provided intelligent classrooms to 314 students and 37 teachers in 12 schools located across our sphere of influence. Intelligent classrooms include a computer equipped with digital academic resources to support teaching, and a projector for teacher and student use. Additionally, we support teachers with academic specialists who train them on the use of information technologies and on how to incorporate them into class sessions.

#### Secondary education

Hochschild supports programmes that promote personal development and basic economic/business awareness to equip those in secondary education for their early adult lives.

Over the course of 2018, we have collaborated with over 500 secondary students and almost 100 teachers across seven educational establishments.

#### Digital inclusion

We have promoted IT literacy through the ongoing support of four digital centres supporting 484 participants in urban areas close to our operations. These digital centres comprise computer laboratories and Hochschild-hired ICT specialists who provide training and technical support for the local population. We provide training in the form of two-year technical courses open to the whole community. This initiative has been made possible through a partnership with Cisco and the technical institute, Tecsup.

**Health**

Medico de Cabecera (the Travelling Doctor programme)

With the Travelling Doctor Programme, trained field doctors serve our most remote communities in a mobile medical unit. This programme is highly valued by both the young and old as it brings health coverage to areas that local state services do not reach. In 2018 the programme facilitated over 9,000 attendances.

**Socio-economic development**

Business networks

This programme, originally established in 2013 with only 25 participants, has seen an impressive level of growth in the past few years with over 350 participants in 2018. The project was originally set up with community members living close to the Inmaculada mine who today have become suppliers to the mine's catering contractors.

**Argentina**

In conjunction with its joint venture partner, the Group has also promoted a number of initiatives at the San Jose operation in Argentina. These have included scholarship opportunities, technical training and subsequent employment of students from the town of Perito Moreno, located near the mine, and support of local cultural causes, such as infrastructure improvements to the local museum and municipality, as well as the hosting of recreational activities.

**Katari Case Study**

Hochschild, in partnership with Mandu, a technology company, designed a software programme that assists the Community Relations team to document their interactions with communities and their needs. The system will enhance the way the Group engages with its communities, making it more responsive and to monitor the fulfilment of its commitments

# MANAGING OUR ENVIRONMENTAL IMPACT

Hochschild seeks to be an industry leader, sourcing minerals with the smallest footprint possible and enhancing the environmental sustainability of its operations.

### 2018 Highlights

- Exceeding ECO Score target for second year in a row
- Continued focus on water management and treatment across all operations

## The Hochschild approach to environmental management

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

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

The Company has over 100 workers dedicated exclusively to environmental management, of which 75 are members of the communities living within close proximity of the Company´s operations (also called the "areas of direct influence").

### Our achievements in 2018

- 2018 ECO score of 5.37 out of 6 points, exceeding the performance target set for 2018 of 4.0. The best individual result was obtained by Pallancata, with 5.88 points out of 6 and the most improvement year-on-year was obtained by Arcata, going from 5.25 in 2017 to 5.63 in 2018.
- Secured environmental permits for 101 exploration platforms and necessary permits to sustain operations.
- On-going closure of mine components, in line with the mine closure plans.

## Environmental Policy

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

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

## Environmental Corporate Objective ('ECO' score)

Since 2014, Hochschild Mining has endeavoured to comply with the highest environmental and social standards in the mining industry. A part of this effort involved analysing available data to develop a tool that allowed the Company to measure and manage its footprint and identify behaviours which require improvement.

As result of this effort, in 2015 the Company began designing and testing, over a two-year period, an Environmental Corporate Objective, known as the "ECO Score". After this initial period, the most significant and representative performance indicators were chosen. The ECO Score was officially launched in 2017.

| Greenhouse gas emissions data[1] (tonnes of $CO_2e$) | 2018[2] | 2017[2] | 2016[2] | 2015 |
|---|---|---|---|---|
| Emissions from combustion of fuel and operation of facilities ($tCO_2e$) | 38,941 | 47,265 | 46,033 | 46,790 |
| Emissions from purchased electricity ($tCO_2e$) | 90,602 | 94,249 | 91,893 | 78,163 |
| Emissions intensity, per thousand ounces of total silver equivalent produced ($CO_2e$/k oz)[3] | 3,662 | 4,051 | 4,235 | 5,531 |

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

As a Corporate Objective, the ECO Score is placed on the same footing as production, financial and safety objectives which are used to determine employee bonuses. In this way, each employee is held accountable and cooperates to achieve the established environmental objectives.

The ECO score is calculated by monitoring performance at two levels: at each mining operation and, overall for the entire Group using a range of KPIs which reflect the following:

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

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

## Performance Data

In launching the ECO Score, the Company has taken a significant step in strengthening its environmental culture by aligning the financial interests of its employees with the Company's environmental mission.

Since its creation, the ECO Score has generated positive results within the Company, such as a 44% reduction in water consumption per worker, a 41% reduction in the generation of waste per worker and a tripling in the proportion of waste recycled.

# MANAGING RISK ON BEHALF OF THE BOARD

Hochschild Mining has implemented a framework of risk management and internal controls that ensures that key risks are identified and, where they cannot be eradicated, are mitigated to within tolerable levels.

**Identify** → **Measure** → **Manage** → **Monitor** → **Report**

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

**Change in risk profile vs 2017**

- Unchanged
- Higher
- Lower
- New

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, Country General Managers and the head of the Internal Audit function. A 'live' risk matrix is reviewed which maps the significant risks faced by the business and updated at each Risk Committee meeting, and the most significant risks as well as potential actions to mitigate those risks are reported to the Group's Audit Committee, which has oversight of risk management on behalf of the Board.

**2018 Risks**
The key business risks affecting the Group set out in this report remain largely unchanged compared to those disclosed in the 2017 Risk Management report with the exception of a new risk entitled Commercial Counterparty that has been identified and added in light of a customer of the Company entering into bankruptcy during the year.

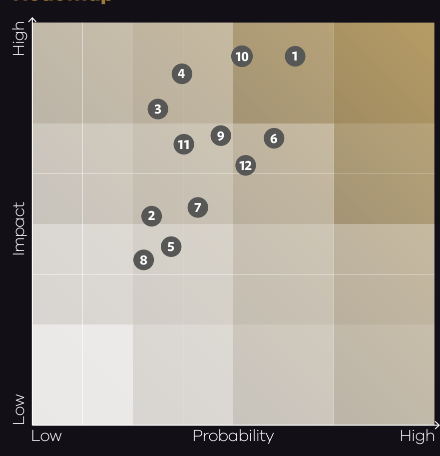
Reasons for the year-on-year change in the profile of a specific risk can be found in the commentary section of the relevant risk which also provides an outlook on the risk for the current financial year.

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

**Risks**

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

**Heat map**



## Financial risks

| Risk | Impact | Mitigation | Commentary |
|---|---|---|---|
| 1.<br> <br>**Commodity price** | Adverse movements in precious metal prices could materially impact the Group in various ways beyond a reduction in the financial results of operations. These include impacts on the feasibility of projects, the economics of mineral resources and heightened personnel retention and sustainability related risks. | – Constant focus on maintaining a low all-in sustaining cost of production and an efficient level of administrative expense.<br>– Flexible hedging policy that allows the Company to contract hedges to mitigate the effect of price movements taking into account the Group's asset mix and forecast production.<br>– Policy to maintain low levels of leverage to ensure flexibility through price cycles.<br>See the Market Review on pages 4 to 5 for further details. | The focus on conserving capital and optimising cash flow continued in 2018 through:<br>– debt reduction and refinancing;<br>– controlling operating and administrative costs;<br>– optimising sustaining capital expenditure; and<br>– maintaining low working capital.<br>In relation to debt reduction and the refinancing of debt, as previously reported, the Company completed the early redemption of its bonds in early 2018 thereby reducing debt by approximately $95 million. The balance was replaced with shorter-term debt on significantly better terms, saving the Group approximately $15m in interest expenses in 2018. Debt was further reduced in December 2018 by $50 million.<br>As reported earlier in this report, the Inmaculada mine had another record year in 2018 in terms of production and, as the lowest cost operation in the Group's portfolio, it has been key in reducing overall average production costs.<br>Even though currently no part of 2019 production has been hedged, the Group's flexible policy enables the Board to approve hedging contracts to protect cash flow as and when appropriate. |

| Risk | Impact | Mitigation | Commentary |
|---|---|---|---|
| 2.<br> <br>**Commercial Counterparty** | Insolvency of a customer or other business counterparty (bank, insurance company, contractor, etc.) could result in the Group's inability to collect accounts receivable or to receive services which could adversely impact the Group's profitability. | – Periodic assessment of customers and business counterparts.<br>– Risk mitigation practices seeking to diversify the Group's customer base and/or to limit the size of shipments.<br>– Ongoing assessment of methods to mitigate collection risk. | In November 2018, Republic Metals, a US-based refinery and a long-standing customer of the Company entered into bankruptcy protection while owing the Group c. US$2.76m (attributable) for shipments previously made.<br>The Group is participating in the bankruptcy proceedings as an unsecured creditor. The likelihood of recovery is low as the secured creditors have claims that exceed Republic Metals' assets.<br>The Group has instigated steps to mitigate the impact of a reoccurrence of this risk in the future. Such steps include:<br>– Enhanced Credit Analysis: the enhancement of initial financial and business quality checks of new customers and business counterparts and more robust and more frequent evaluations of existing customers;<br>– Diversification: consideration of revising terms and conditions of sale of final product to diversify orders outstanding at any given time, use several banks for cash deposits, distribute business among contractors, etc.; and<br>– Reduce exposure: the receipt of cash advances on sold product as soon as the product is delivered. |

## Operational risks

| Risk | Impact | Mitigation | Commentary |
|---|---|---|---|
| 3.<br> <br>**Operational performance** | Failure to meet production targets and manage the cost base could adversely impact the Group's profitability. | – Close monitoring of operational performance, costs and capital expenditure as well as the overall profitability at all stages of the mining value chain.<br>– Monitoring the adequacy and safety of key mining components such as tailing dams, waste rock deposits, pipelines to service ongoing operations, in close liaison between relevant departments ensures that procurement, construction and any permitting are undertaken as appropriate. | In 2018 the Group exceeded its production target by 0.5m attributable silver equivalent ounces with particularly strong performances at Inmaculada and Pallancata.<br>2018 budgets across the Group continued to focus on maintaining controlled levels of costs, capex and expenses. As reported in the Financial review, the all-in sustaining cost from operations was kept within the positively revised guidance for the year, at $12.6 per silver equivalent ounce.<br>It was reported in last year's risk report that management was closely monitoring performance of the high cost Arcata mine. Despite cost efficiencies and encouraging exploration results in areas outside the authorised operational area, the combination of increasingly narrow vein structures with marginal grades and a volatile and low average silver price prompted the decision to place the mine on care and maintenance. |

**RISK MANAGEMENT & VIABILITY**
CONTINUED

## **Operational risks** continued

| Risk | Impact | Mitigation | Commentary |
|---|---|---|---|
| 4.<br>**Business interruption**<br> | Assets used in the Group's operations may cease to function or the supply of electricity may be interrupted (e.g. as a result of technical malfunction or earthquake damage) thereby causing production stoppages with material effects. | – Insurance coverage to protect against major risks.<br>– Management reporting systems to support appropriate levels of inventory.<br>– Annual inspections by insurance brokers and insurers assist management's efforts to understand and mitigate operational risks.<br>– Negotiation of long-term power supply contracts and the procurement of contingent generators. | Mitigating actions during the year include the following:<br>– Insurance advisers conducted site visits and completed a full review of operational risks to ensure that adequate property damage and business interruption risk management processes and insurance policies are in place at our operations;<br>– Management reporting systems ensured that an appropriate level of inventory of critical parts is maintained;<br>– Adequate preventative maintenance programmes, supported by the SAP Maintenance Module (which has been enhanced following a recent upgrade), are in place at the operating units;<br>– Procurement of back-up power transformers; and<br>– Design of a Business Continuity Plan documenting the procedures to be implemented on the occurrence of certain disruptive events. Training and implementation has been scheduled for 2019. |

| Risk | Impact | Mitigation | Commentary |
|---|---|---|---|
| 5.<br>**Information security and cybersecurity**<br> | Failure of any of the Group's business critical information systems as a result of unauthorised access by third parties, may affect the Group's ability to operate. | – Compliance with ISO 27001, an internationally recognised certification to evaluate information security management systems.<br>– Dedicated team within the IT department focused on preventing cyber-attacks.<br>– Audits performed by the internal audit department and third parties to test systems and issue recommendations. | During the year a third-party review by a major audit firm was commissioned to identify areas of vulnerability and to produce recommendations. This process led to the testing of the recoverability of operational and financial reporting systems. The Group was successful in securing the ISO 27001 certification for its information security management system. Migration to a new version of the Group's accounting and payments platform (S/4 HANA) incorporates higher standards of security. Further details are provided in the Audit Committee Report. |

| Risk | Impact | Mitigation | Commentary |
|---|---|---|---|
| 6.<br>**Exploration and reserve and resource replacement**<br> | The Group's future operating margins and profitability depend upon its ability to find mineral resources and to replenish reserves. | – Implementing and maintaining an annual exploration drilling plan.<br>– Ongoing evaluation of acquisition and joint venture opportunities to acquire additional ounces. | In 2018, the first drilling campaign at Inmaculada was completed which confirmed the presence of a considerable number of structures close to the existing mine infrastructure, adding 1.3 million of gold equivalent ounces of inferred resources. For further details, refer to page 32.<br><br>Land easements have been secured and other permits have been or are at an advanced stage of being, secured to facilitate the 2019 brownfield exploration programme.<br><br>Greenfield exploration in 2018 was driven by a number of earn-in/joint venture opportunities being secured in 2018. These provide the Group with a balanced portfolio of advanced and early stage opportunities in stable jurisdictions in the Americas. Further details are provided on page 33.<br><br>From an operational perspective, the Group implemented a new technological platform, Deswik, for the provision of software to support mine planning so that mineable areas are optimised and mineral losses are reduced. See page 15 for further details. |
| | Reserves stated in this Annual Report are estimates. | – Engagement of independent experts to undertake annual audit of mineral reserve and resource estimates.<br>– 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.<br><br>See page 164 for further details. |

| Risk | Impact | Mitigation | Commentary |
|---|---|---|---|
| 7.<br>**Personnel: recruitment and retention**<br> | Inability to attract or retain personnel through a shortage of skilled personnel. | – The Group's approach to recruitment and retention provides for the payment of competitive compensation packages, well defined career plans and training and development opportunities. | Turnover in 2018 was higher than in previous years due to competition for personnel from other mining companies and projects.<br><br>To counter this risk, the Group has continued with a number of initiatives to improve the retention of employees. These include the use of non-financial benefits (e.g. flexible working arrangements for Head Office staff) and tailored personal development plans. In addition, a three-year Leadership programme has been implemented at all levels of the organisation. The Group has also started a training programme for supervisors and hourly workers, and intends to enhance the Group's employee value proposition. These include the launching of initiatives related to causes that are valued by potential employees; providing them with the opportunity to contribute to innovation, community relations and environmental performance.<br><br>Retention plans for senior executives in the form of the Company's Long-Term Incentive Plan and Restricted Share Plan are also in place. |

| Risk | Impact | Mitigation | Commentary |
|---|---|---|---|
| 8.<br>**Personnel: labour relations** | Failure to maintain good labour relations with workers and/or unions may result in work slowdown, stoppage or strike. | – Development of a tailored labour relations strategy focusing on profit sharing, working conditions, management style, development opportunities, motivation and communication.<br>– Monthly meetings with mineworkers and unions to ensure a complete understanding of expectations and to keep all parties updated on the Group's financial performance. | Given the level of investment at the Inmaculada mine, the Group's Peruvian operation does not generate taxable income and therefore there is no entitlement to statutory profit sharing for Peruvian mineworkers. The Company has, however, implemented an additional bonus to compensate for this situation.<br>As part of the salary increases agreed with the Peruvian labour unions, a new bonus framework was put in place to promote safety and productivity.<br>The uncertainty with regards to the ongoing viability of the Arcata mine impacted morale among workers at the operation. During 2018, the situation of Arcata did not improve and, therefore, regular meetings were scheduled and held with union representatives to understand concerns. As has been previously announced, the mine will be placed on care and maintenance with personnel redeployed where possible. |

## Macro-economic risks

| Risk | Impact | Mitigation | Commentary |
|---|---|---|---|
| 9.<br>**Political, legal and regulatory**<br> <br> | Changes in the legal, tax and regulatory landscape could result in significant additional expense, restrictions on or suspensions of operations and may lead to delays in the development of current operations and projects. | – Local specialist personnel continually monitor and react, as necessary, to policy changes.<br>– Participation in local industry organisations. | President Kuczynsky resigned from office in Peru and was replaced by Vice President Vizcarra who maintains a pro-business attitude and a supportive policy line towards the mining sector. However, mining continues to be a highly regulated industry where multiple permits are required leading to increased delays and costs. The Government is working with the industry to simplify the permitting process but progress has been limited.<br>At the legislative level, the Peruvian Congress, which comprises a majority from the non-governing parties, continues to evaluate measures that could adversely affect the mining industry.<br>In terms of social conflicts, the governmental authorities remain sensitive to conflicts between communities and mining companies and typically take a cautious approach by establishing a dialogue between parties.<br>Regional and local elections in October and December 2018 resulted in the election of a number of anti-mining officials in several key mining areas of Peru.<br>In Argentina, 2018 was marked by a declining popularity of the Government, primarily caused by the higher cost of living and the devaluation of the Peso. The Government has sought to promote investment but material results are yet to consolidate. |

## Sustainability risks

| Risk | Impact | Mitigation | Commentary |
|---|---|---|---|
| 10.<br>**Health and safety**<br> | Group employees working in the mines may be exposed to health and severe safety risks.<br>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.<br>– Use of world-class DNV safety management systems.<br>– Dedicated personnel to ensure the safety of employees at the operations via stringent controls, training and prevention programmes.<br>– Systematic programme of training, communication campaigns and other initiatives promoting safe working practices.<br>– Use of reporting and management information systems to monitor the incidence of accidents and enable preventative measures to be implemented. | The Group has sadly reported three fatalities during 2018, which resulted from two separate accidents, one at Pallancata and one at Arcata. Further details of these accidents are provided in the Sustainability Report on page 40.<br>As reported in last year's report, management established the Safety Culture Transformation Plan (the "SCTP") to materially reinforce the Group's commitment to safety.<br>The Plan comprises the following pillars:<br>– Leadership, with senior management involved in a full review of all high-risk activities<br>– Communications, focusing on initiatives to motivate and incentivise safe working practices<br>– Training, with all personnel receiving five hours of on-site learning every week<br>– Technical, with the migration to the latest version of risk information management systems and a review of the Company's procedures<br>As previously reported, the Group's overall safety performance indicators showed year-on-year improvements with the accident frequency rate falling by 35% and the number of High Potential Events falling by 46%.<br>A third-party audit of the Group's safety procedures was commissioned during the year which highlighted a number of positive aspects and identified areas of improvements which, among others, featured the inclusion of contractors within the SCTP and enhancements to the mine-site emergency communications plan. The report's recommendations will be fully implemented during the first half of 2019.<br>For further details on the above, including on a training programme designed for the Group's emergency brigades, please refer to the safety section of the Sustainability Report on pages 42 and 43. |

## **Sustainability risks** continued

| Risk | Impact | Mitigation | Commentary |
|---|---|---|---|
| 11.<br>**Environmental**<br>a) In relation to those risks arising from the Group's environmental performance/ infrastructure<br> | The Group may be liable for losses arising from environmental hazards associated with the Group's activities and production methods, ageing infrastructure, or may be required to undertake corrective actions or extensive remedial clean-up action or pay for governmental remedial clean-up actions or be subject to fines and/or penalties. | – The Group has a dedicated team responsible for environmental management.<br>– The Group has adopted a number of policies and procedures to limit and monitor its environmental impact. | Environmental permitting and agency oversight in Peru remained rigorous during the year.<br>In 2018, the Group performed highly in its ECO score (with a score of 5.37 out of 6), which recognises the following aspects of environmental management:<br>– compliance with discharge regulatory limits;<br>– minimising the number of environmental incidents;<br>– minimising the number of findings from regulatory audits; and<br>– efficient water consumption and minimising waste generation.<br>For further details, please refer to the environmental section of the Sustainability report on page 48. |
| b) In relation to those risks arising from the increased oversight by the environmental regulator<br> | | | In addition, during the year, the Environmental team:<br>– completed the design of a management information system tailored for use by the Group for roll-out in 2019;<br>– secured environmental permits to support the Group's exploration programme and operational requirements; and<br>– made significant progress with the closure of historic mine components and legacy exploration projects where environmental conditions were restored and the process of revegetation completed. |

| Risk | Impact | Mitigation | Commentary |
|---|---|---|---|
| 12.<br>**Community relations**<br> | Communities living in the areas surrounding the Group's operations may oppose the activities carried out at existing mines or, with respect to development projects and prospects, may invoke their rights to be consulted under new laws.<br>These actions may result loss of production, increased costs and decreased revenues, longer lead times, additional costs for exploration and have an adverse impact on the Group's ability to obtain the relevant permits. | – The Group has a dedicated team responsible for Community Relations.<br>– Constructive engagement with local communities based on several years of positive relations.<br>– Community Relations strategy focuses on promoting education, health and nutrition, and sustainable development.<br>– Policy to actively recruit workers from local communities.<br>– Policy of hiring service providers from local communities. | Despite the regional elections in Peru in October, the overall climate of social relations remained stable during the year.<br>A number of actions were taken during the year to maximise the Group's ability to work with partner communities which included:<br>– restructuring and strengthening of the Community Relations function;<br>– the launch of a technology partnership at all mines to facilitate the monitoring of community objectives; and<br>– the establishment of social committees at each mining unit and an external advisory committee to help assess and address risks related to the Group's social licence.<br>Further details on the Group's activities to mitigate sustainability risks can be found in the Sustainability report on pages 42 to 49. |

# Viability

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

### Period of Viability Statement

As per provision C.2.2, the Directors have reviewed the length of time to be covered by the Viability Statement, particularly given its primary purpose of providing investors with a view of financial viability that goes beyond the period of the Going Concern statement.

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

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

### Approach to assessing viability

In assessing the Group's viability, the Directors have considered a number of scenarios which are within reasonable contemplation taking into account the principal risks to which the Group is exposed (as set out in the earlier part of this report).

The Group's largest asset is the Inmaculada mine, which currently represents approximately 75% of the Group's cash flows. The application of the scenarios at the Group's operations would have a significantly reduced impact on the Group.

The following scenarios were analysed with respect to the Inmaculada mine:

Scenario 1: The occurrence of a material safety accident

A severe fatal accident occurs which results in a three-month stoppage of operations. The impact analysis takes into account other financial liabilities that may result including the cost of remedial work and regulatory fines.

Scenario 2: The occurrence of a material environmental incident

A key part of Inmaculada's plant infrastructure is compromised which results in a major spillage of contaminants. The impact analysis assumes a suspension of operations of one month and takes into account the cost of repairs, remediation and regulatory fines and other associated expenses.

Scenario 3: A strike by mineworkers

A widespread mineworkers' strike results in a suspension of operations for one month. The impact analysis takes into account the cost of negotiating a settlement and other associated expenses.

Scenario 4: A community-led protest blocks a principal road to/from the mine

A protest by a local community obstructs the access road to Inmaculada for two months. The impact analysis takes into account the cost of negotiating a settlement and other associated expenses.

Scenario 5: The failure of the mill or other critical plant component

A major failure of one of the mills at Inmaculada's plant causes a stoppage of six months which requires civil works, repairs and the acquisition of spare equipment. The impact analysis takes into account the cost of the works and replacement costs as well as contributions from relevant insurance policies.

In their assessment of the financial impact of each of the above scenarios, the Directors have assumed a conservative price scenario of Au: $1,100/oz and Ag: $14/oz (the "Assumed Prices").

Should prices fall further than the Assumed Prices, the Board would oversee the implementation of contingency actions, such as the elimination of discretionary expenditure e.g. exploration expenditure, the reduction if not the elimination of dividend distributions and other initiatives to reduce costs across the business so as to maximise the production of profitable ounces.

The modelling for the above scenarios incorporates operational and financial forecasts based on a life-of-mine plan.

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

- the use of excess cash;
- lines of credit with relationship banks;
- claims under the Group's insurance policies;
- administrative cost reduction;
- rescheduling the execution of Care & Maintenance and mine closure programmes and their associated costs;
- working capital management; and
- asset sales.

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

### Conclusion

While it is always possible that combinations of weak precious metal prices and the occurrence of more than one of the above referenced scenarios could threaten the solvency and liquidity of the Company over the next three years, the Directors have assessed the impact of each scenario, using the Assumed Prices and other factors considered to be reasonable and, accordingly, can confirm that they have a reasonable expectation that the Company will be able to continue in operation and meet its obligations over the next three years.

The Strategic report, as set out from the inside front cover to page 55, has been reviewed and approved by the Board of Directors and signed on its behalf by:

**Ignacio Bustamante**
Chief Executive Officer
19 February 2019

# BOARD OF DIRECTORS

## Eduardo Hochschild
Chairman

**Experience**
Eduardo Hochschild joined the Hochschild Group in 1987 as Safety Assistant at the Arcata unit, becoming Head of the Hochschild Mining Group in 1998 and Chairman in 2006. Eduardo is the Company's majority shareholder with a c.51% interest.

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

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

## Ignacio Bustamante
Chief Executive Officer

**Experience**
Ignacio joined the Board as CEO in April 2010 having previously served as Chief Operating Officer and General Manager of the Group's Peruvian operations. He served as Chief Financial Officer of Cementos Pacasmayo S.A.A., an affiliate of the Company, between 1998 and 2003, and as a Board member from 2003 to 2007.

**Other Directorships**
**Commercial:** Profuturo AFP, Scotiabank Peru S.A.A.

## Dr Graham Birch
Independent
Non-Executive Director

**Experience**
Graham joined the Board in 2011. Up until his retirement in 2009, he was a Director of BlackRock Commodities Investment Trust plc and manager of BlackRock's World Mining Trust and Gold and General Unit Trust. He previously worked at Kleinwort Benson Securities and Fleming Ord Minnett before joining Mercury Asset Management in 1993, where he launched a number of mining and natural resources funds. In 1997, Mercury Asset Management was acquired by Merrill Lynch Investment Managers which was itself eventually acquired by BlackRock in 2006. Graham has a PhD in mining geology from Imperial College London.

**Other Directorships**
**Non-Profit:** Lawes Agricultural Trust.

## Jorge Born Jr.
Independent
Non-Executive Director

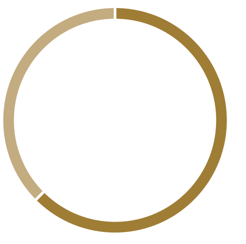
**Experience**
Jorge joined the Board in 2006. Previously, he served as a Director and Deputy Chairman of Bunge Limited having served as Head of European operations from 1992 to 1997 and as Head of its UK operations from 1989 to 1992.

**Other Directorships**
**Commercial:** Consult & Co. (President and CEO), Caldenes S.A., Dufry AG Zurich (Deputy Chairman).

**Non-Profit:** Bunge and Born Charitable Foundation (President).

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

### Balance of independence on the Board



- Independent Directors 5
- Non-independent Directors 3

### Tenure of Independent Directors

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

**Eileen Kamerick**
Independent Non-Executive Director

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

**Other Directorships**
**Commercial:** Associated Banc-Corp. (Chair of the Nominating and Governance Committee and member of the Compensation Committee), Legg Mason Closed End Mutual Funds (Chair of the Audit Committee), AIG Funds and Anchor Series Trust (Audit Committee Financial Expert).

**Non-Profit:** Eckerd Connects.

**Michael Rawlinson**
Senior Independent Director

**Experience**
Michael joined the Board in 2016 and was appointed Senior Independent Director on 1 January 2018. Michael was formerly the Global Co-Head of Mining and Metals at Barclays Investment Bank (2013-2017) and prior to that, he worked at a number of banks as a corporate financier and research analyst. Most recently he helped found the boutique investment bank, Liberum Capital, in 2007. Prior to that Michael worked at Flemings and Cazenove.

**Other Directorships**
**Commercial:** Capital Drilling Limited.

**Dionisio Romero Paoletti**
Non-Executive Director

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

**Other Directorships**
**Commercial:** Numerous directorships held including of Credicorp Group companies El Pacifico-Peruano Suiza Cia. De Seguros y Reaseguros S.A. and El Pacifico Vida Cia. De Seguros y Reaseguros S.A., Alicorp S.A.A, Inversiones Centenario and Sierra Metals Inc. Also serves on the boards of other Grupo Romero controlled companies.

**Non-Profit:** Fundacion Romero.

**Sanjay Sarma**
Independent Non-Executive Director

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

**Other Directorships**
**Commercial:** Top Flight Technologies.

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

**Raj Bhasin**
Company Secretary

**Experience**
Raj joined Hochschild in October 2007 as Company Secretary and UK Counsel.

He is a solicitor and Chartered Secretary with over 20 years' experience gained in FTSE-listed companies. Raj previously served as Deputy Company Secretary and Commercial Counsel at Burberry Group plc.

# SENIOR MANAGEMENT

**Ramón Barúa**
Chief Financial Officer

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

**Isac Burstein**
Vice President, Exploration & Business Development

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

**Oscar Garcia**
Vice President, Brownfield Exploration

**Experience**
Oscar Garcia was promoted to the position of VP, Brownfield Exploration on 1 January 2019 having joined Hochschild Mining in 2007 as an Ore Control geologist. He has previously worked at Hochschild as Corporate Manager for Underground Geology, Ore Control and Brownfield Exploration. Prior to Hochschild Mining, Oscar worked as a geologist at Barrick Gold, Lonrho Mining Group and Compañia Minera Aguilar. Oscar qualified as a geologist at the Universidad Nacional de Cordoba and holds a postgraduate degree from the Universidad de Santiago de Chile.

**Eduardo Landin**
Chief Operating Officer

**Experience**
Eduardo Landin was appointed COO of Hochschild Mining in March 2013. Eduardo joined Hochschild in January 2008 as General Manager of the Company's operations in Argentina. In 2011 he became General Manager of Projects with direct responsibility over the development of the Inmaculada and Crespo Advanced Projects. Before joining Hochschild, Eduardo held the position of Corporate Development Manager at Cementos Pacasmayo and, prior to that, he worked in the Peruvian Ministry of Energy and Mines. Eduardo began his career at Repsol S.A where he worked for over 10 years in England, Spain and Peru. Eduardo is a Chartered Mechanical Engineer and holds a B.Eng (Honours) in Mechanical Engineering from Imperial College, London and an Executive MBA from the Universidad de Piura, Peru.

**José Augusto Palma**
Vice President, Legal & Corporate Affairs

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

**Eduardo Villar**
Vice President, Human Resources

**Experience**
Eduardo Villar has been with the Group since 1996. Prior to his current position, he served as Human Resources Manager, Deputy HR Manager and Legal Counsel. Eduardo holds a law degree from the Universidad de Lima and an MBA from the Universidad Peruana de Ciencias Aplicadas. In addition, Eduardo has postgraduate qualifications in Business from IESE Business School and Harvard Business School and in Human Resources from London Business School and the University of Michigan.

# DIRECTORS' REPORT

The Directors present their report for the year ended 31 December 2018.

### Information in Directors' Report

The Directors' Report comprises the Corporate Governance Report from pages 61 to 73, this Report on pages 59 and 60, and the Supplementary Information on pages 74 to 76. Other information that is relevant to the Directors' Report, and which is incorporated by reference comprises:

- Greenhouse gas emissions included in the Sustainability Report on page 49; and
- Policy on Financial Risk Management in note 35 to the consolidated financial statements.

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

### Dividend

The Directors declared an interim dividend totalling $10 million (1.965 US cents per ordinary share) in the year ended 31 December 2018 and are recommending a final dividend of $10 million (1.959 US cents per ordinary share) subject to approval at the forthcoming Annual General Meeting ('AGM'), making a total dividend of $20 million (2017 total dividend: $17 million).

### Dividend waiver

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

### Directors

The names, functions and biographical details of the Directors serving at the date of this report are given on pages 56 and 57. All of the Directors were in office for the duration of the year under review.

Each of the Directors will be retiring and seeking re-election by shareholders at the 2019 AGM in line with the UK Corporate Governance Code.

### Directors' and officers' liability insurance

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

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

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

### Political and charitable donations

The Company does not make political donations. During the year, the Group spent or donated a total of $8.3 million to benefit local communities (2017: $5.9 million (restated to also include community/social donations made at a corporate level)).

### Relationship agreement

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

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

Further details of the Relationship Agreement with regard to the conduct of the Major Shareholder are set out in the Corporate Governance Report on page 62 and, with regard to the right to appoint Directors to the Board, are set out on page 75.

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

- the Company has complied with the independence provisions included in the Relationship Agreement; and
- so far as the Company is aware:
  - the independence provisions included in the Relationship Agreement have been complied with by the Controlling Shareholders or any of their associates; and
  - the procurement obligation included in the Relationship Agreement has been complied with by the Controlling Shareholders.

### Conflicts of interest

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

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

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

**DIRECTORS' REPORT**
CONTINUED

### Going concern

The Group's business activities, its future development and the factors likely to affect its performance and position are set out in the Strategic Report from the Inside Front Cover to page 55. The financial position of the Group, its cash flows, liquidity position and borrowings are described in the Financial Review on pages 34 to 39 and discussion of the Group's viability on the occurrence of certain scenarios is provided in the Viability Statement on page 55. In addition, note 35 to the financial statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments; and its exposure to credit risk and liquidity risk.

As previously reported, 2018 saw the Group's average realisable price for gold remain unchanged compared with 2017, whereas silver was 9.5% lower.

The Group has achieved record levels of attributable production of 39 million silver equivalent ounces (526.7k gold equivalent ounces) with strong contributions from Inmaculada and Pallancata. This strong level of production and costs for the year which are in line with positively revised guidance has resulted in a strong performance by the Group.

As part of its risk management responsibilities, the Board continually reviews its capital structure, initiatives to reduce operating costs and, furthermore, contingency measures that can be implemented in the event that precious metal prices conditions deteriorate.

In conclusion, having considered financial forecasts and projections which take into account (i) possible changes in commodity price scenarios; and (ii) the contingency measures that could be taken to alleviate pressure on the balance sheet in the event of a fall in prices, the Directors have a reasonable expectation that the Group and the Company have adequate resources, including access to contingent resources, that would see it continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

### AGM

The 13th AGM of the Company will be held at 4 pm on 6 June 2019 at the offices of Linklaters LLP. The shareholder circular incorporating the Notice of AGM will be sent separately to shareholders or, for those who have elected to receive electronic communications, will be available for viewing at www.hochschildmining.com

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

### Auditor

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

### Statement on disclosure of information to Auditor

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

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

### Statement of Directors with respect to the Annual Report and financial statements

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

### Statement of Directors' responsibilities

The Directors confirm that to the best of their knowledge:

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

### Disclaimer

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

On behalf of the Board

**Raj Bhasin**
Company Secretary
19 February 2019

# CORPORATE GOVERNANCE REPORT

"Your Board is committed to ensuring good governance because well-governed companies are successful companies"

## Dear Shareholder

I am delighted to present the Corporate Governance Report for 2018.

In this section of the Annual Report, we report on the Company's compliance with the provisions of the 2016 edition of the UK Corporate Governance Code (the "Code") and the application of its principles. Through this report, your Board seeks to demonstrate its commitment to overseeing a framework of practices and controls to protect the Company's assets and goodwill.

I would like to highlight the following activities undertaken by the Directors during the year.

### Board Enhancements

In 2018, we continued with our internally-led Board evaluation process which was managed by Michael Rawlinson, as our Senior Independent Director. The process, which is described in more detail in this report, reviewed many aspects of the functioning of the Board, the Committees and the roles played by the Directors. This resulted in a number of recommendations which add value to the governance framework such as the management of key risks. In addition, the discussions held in the course of the evaluation sought the Directors' views on corporate culture as well as engagement with key stakeholders, both of which are key themes of the new UK Corporate Governance Code which will apply to the Company in respect of 2019. In this regard, I am pleased to report that the scope of responsibilities of the CSR Committee has been extended this year to also receive updates from the Vice President of HR on employee matters. This will ensure that the Board is kept regularly updated on issues that affect our people across the organisation.

### Planning for the Future

The Committees have also played a crucial role in strengthening the Company's governance.

In particular, the Audit Committee embarked on its practice of setting objectives for the management team and, in so doing, has prompted the implementation of protocols that will see the Company better protected against cybersecurity threats and an enhanced state of readiness to recover from a business disruption event.

In addition, the Nominations Committee has overseen the preparation of thorough succession plans at both Board and senior executive levels. Both aspects are key to ensure the availability of the collective skillset required to achieve Hochschild's strategic and operational goals.

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

**Eduardo Hochschild**
Chairman

## Introduction

This report, together with the Directors' Remuneration Report, describes how the Company has applied the Main Principles of the UK Corporate Governance Code ('the Code') (2016 edition) in respect of the year ended 31 December 2018. A copy of the Code is available on the website of the Financial Reporting Council ('FRC') at www.frc.org.uk.

Disclosures to be included in the Corporate Governance Report in relation to share structure, shareholder agreements and the Company's constitutional provisions pursuant to the Disclosure Guidance and Transparency Rules are provided in the Supplementary Information section on pages 74 to 76.

## Statement of compliance

The Board confirms that, in respect of the year under review, the Group has complied with the provisions contained in the Code with the following exceptions:

(i) the Company did not fully comply with the requirement that performance-related incentive schemes should include arrangements to recover or withhold variable pay when appropriate to do so (i.e. clawback or malus); and

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

In relation to (i) above, as stated in last year's Annual Report, the Board had adopted a wider malus policy which applied with effect from the incentives granted and the bonus awarded, last year. However, clawback has not been adopted as it is unenforceable in the countries in which the Company primarily operates.

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

**CORPORATE GOVERNANCE REPORT**
CONTINUED

## The Board

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

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

### Composition

At all times during the year, the Board comprised a majority of Independent Non-Executive Directors. Throughout the year, the Board comprised the Chairman, the Chief Executive Officer and six Non-Executive Directors, of whom five are considered, by the Board, to be of independent judgement and character. Dionisio Romero Paoletti is not considered to be independent as he has been nominated to the Board by the Company's major shareholder under its rights pursuant to the Relationship Agreement (further details of which can be found on page 59 of the Directors' Report).

### Chairman and Chief Executive

The Board is led by the Chairman, Eduardo Hochschild, who is also the majority shareholder of the Company with a c.51% holding.

The Board has approved a document which sets out the division of responsibilities between the Chairman and Chief Executive Officer. This document was considered by the Board during the year and was re-approved without amendment.

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

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

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

### Status of the Chairman

In light of his majority shareholding, the Chairman is not considered to be independent. However, during the one-to-one interviews conducted with each Board member, the other Directors of the Board continue to assert that, for the reasons set out below, no undue influence is exercised by Mr Hochschild.

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

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

Under the terms of the agreement, each of Eduardo Hochschild and Pelham Investment Corporation (being the entity through which Mr Hochschild holds his shares in the Company) (the 'Major Shareholder') undertakes that:

- all transactions with the Company (and its subsidiaries) will be conducted at arm's length and on normal commercial terms;
- 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;
- 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
- the Relevant Parties will not take any action that would preclude or inhibit any member of the Group from carrying on its business independently of any of them.

Certain confirmations are required to be given by the Board under the New Listing Rules with regards to the Company's compliance with the independent provisions which can be found in the Directors' Report on page 59.

### Senior Independent Director

Michael Rawlinson assumed the role of Senior Independent Director on 1 January 2018 and continues to act as such. Mr Rawlinson's role is not only to act as a central point of contact for the Non-Executive Directors as a group but to also act as a conduit between the Non-Executive Directors and the executive management team. To facilitate this, Mr Rawlinson chairs meetings of the Non-Executive Directors and of the Independent Non-Executive Directors immediately after each Board meeting. This provides the opportunity to gather feedback and thoughts on Board discussions which are subsequently relayed to the Chairman and/or the executive team as appropriate. A crucial part of the role of the Senior Independent Director is to meet with major shareholders if concerns have not been addressed by the executive team. No such meetings were requested, however, Mr Rawlinson did meet with a number of major investors, together with the Chairman, in January 2018 following his appointment to the role of Senior Independent Director.

### Non-Executive Directors

The Company's Non-Executive Directors hold, or have held, senior positions in the corporate sector with the exception of Sanjay Sarma who has a background in academia in the field of mechanical engineering and technology. They all bring their experience and independent perspective to enhance the Board's capacity to help develop proposals on strategy and to oversee and grow the operations within a sound framework of corporate governance.

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

#### Independence of Non-Executive Directors

The Board considers that all of the Non-Executive Directors serving during the year were independent of the Company. In reaching this conclusion, the Board considered:

- Jorge Born's tenure on the Board of over nine years; and
- Sanjay Sarma's position as a director of Top Flight Technologies, a company in which Eduardo Hochschild has a 1.25% shareholding and a convertible note investment.

Notwithstanding the above, the Board (excluding the Director in question) is of the view that the above circumstances are not considered to be of a nature to materially interfere with the exercise of the respective Director's independent judgement.

**2018 Board meetings**

Directors 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.

Five Board meetings were held during the year, of which four were scheduled meetings and one was an ad-hoc meeting. Attendance at the scheduled meetings was as follows.

| | Independent | Maximum possible attendance at scheduled Board Meetings | Actual attendance at scheduled Board Meetings |
|---|---|---|---|
| **Eduardo Hochschild** Chairman | **No** | 4 | 4 |
| **Graham Birch** Non-Executive Director | **Yes** | 4 | 4 |
| **Jorge Born** Non-Executive Director | **Yes** | 4 | 4 |
| **Ignacio Bustamante** Chief Executive Officer | **No** | 4 | 4 |
| **Eileen Kamerick** Non-Executive Director | **Yes** | 4 | 4 |
| **Michael Rawlinson** Non-Executive Director | **Yes** | 4 | 4 |
| **Dionisio Romero Paoletti** Non-Executive Director | **No** | 4 | 3[1] |
| **Sanjay Sarma** Non-Executive Director | **Yes** | 4 | 3[2] |

1 Mr Romero Paoletti was unable to travel to London in May 2018 due to a pre-existing personal commitment.
2 Mr Sarma was unable to travel to London in May 2018 due to a scheduled trip to Asia as part of his role with MIT.

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 2018 are listed below.

### Safety
- detailed reports on the two accidents that occurred during the year which resulted in three fatalities and the management actions to be taken in light of the findings of the internal investigations; and updates on safety performance and the ongoing implementation of the Safety Culture Transformation Plan (see page 43 for further details).

### Financial
- the stress-tested scenarios and the underlying assumptions in support of the going concern and viability statements;
- considered recommendations of the Audit Committee to adopt the 2017 Annual Report and Accounts and the 2018 Half-Yearly Report including the recommended 2017 final dividend and the 2018 interim dividend;
- the Group's ongoing financial position;
- the 2019 budget; and
- Peruvian tax reforms.

### Strategy
- strategic options to facilitate the Group's growth;
- updates on the Group's innovation projects; and
- the Group's strategic plan.

### Business performance
- detailed updates on the operations with continued regular updates on the operational viability of the Arcata mine;
- consideration of business development projects;
- consideration of unbudgeted strategic initiatives; and
- presentations from the Vice President of Brownfield Exploration on progress against the Group's brownfield objectives and, in particular, the significant level of resources identified at Inmaculada.

### Risk
- the significant risks faced by the Group and the corresponding mitigation plans; and
- the controls introduced following the entry into bankruptcy protection of a long-standing customer with outstanding accounts payables to the Group.

### Governance
- a detailed presentation from the Company Secretary on the 2018 UK Corporate Governance Code and updates on relevant findings of the UK Listing Authority;
- presentation from the Company's legal advisers on Directors' duties under English law and the Market Abuse Regulation;
- an update on the implementation of the 2017 Board evaluation recommendations, the outcome of the 2018 Board evaluation and the form of the 2019 process; a review of the document setting out the division of responsibilities between the Chairman and the CEO (which was approved unamended); and
- the annual reviews of Directors' conflicts of interest and independence of Non-Executive Directors.

### Sustainability
- reviews of the social and political climate in Peru and Argentina and their potential impact on the Group;
- consideration of a strategy to enhance the Group's engagement with local communities including through the use of technology; and
- performance of the Group against the internally-designed environmental corporate scorecard.

### Corporate
- consideration of the Company's purpose, values and cultural attributes as part of the Company's rebranding.

### Investors' views
- feedback from the investor and proxy agencies on the proposed AGM business; and
- views of investors attending the Company's Capital Markets Day.

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

## 2018 Board evaluation

In keeping with past practice, the 2018 Board evaluation process was undertaken internally through one-to-one interviews conducted by the Senior Independent Director assisted by the Company Secretary.

The interviews were structured to seek Directors' views on a number of subject areas including those outlined below.

### The Committees

- Composition and overall workings of the main Board Committees, including specific aspects of the performance of the Audit Committee, as well as of the Brownfield Working Group established to review the Group's progress in this vital source of potential growth; and
- Specific aspects of each Committee's role and scope of responsibilities.

### The Board

- The composition of the Board, focusing on the skills mix after the retirements from the Board;
- The workings of the Board; and
- Consideration of specific aspects of the Board's role including strategy and M&A and stakeholder engagement.

### Culture

- In preparation for reporting against the 2018 UK Corporate Governance Code, consideration was given to perceptions of corporate culture; and
- Discussion on ways in which corporate culture is assessed and monitored by the Board.

In addition to the above, the evaluation took in discussions on performance during 2018, suggestions for topics to be discussed in 2019 and feedback on the performance of the Chairman and fellow Board members.

## Appointments and re-election of Directors

Board nominations are recommended to the Board by the Nominations Committee. There were no new appointments during the year.

The Company has adopted the practice of requiring Directors to seek annual re-election by shareholders in keeping with the UK Corporate Governance Code. The biographies of the Directors can be found on pages 56 and 57.

Under the terms of the Relationship Agreement, the Major Shareholder has (i) the right to appoint up to two Non-Executive Directors to the Board for so long as the Major Shareholder holds an interest of 30% or more in the Company and (ii) the right to appoint one Non-Executive Director for so long as it has an interest of 15% or more in the Company, and in each case to remove any such Director(s) previously appointed.

The Relationship Agreement continues for so long as the Company's shares are traded on the London Stock Exchange or until such times as the Controlling Shareholders (including Eduardo Hochschild) cease to own or control in aggregate a minimum of 15% of the issued share capital or voting rights of the Company.

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

### Board development

It is the responsibility of the Chairman to ensure that the Directors update their knowledge and their skills and are provided with the necessary resources to continue to do so. This is achieved through the various means described as follows. In addition, a part of the Board evaluation process (discussed in the next section) seeks to identify subject matters and topics for presentation to the Board that Directors would find beneficial.

#### 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. In addition, where appointees will serve on any of the Board Committees, sessions with the relevant Committee Chair are organised. Mr Romero Paoletti, who was appointed a Director on 1 January 2018, received a briefing on the responsibilities of Directors of a UK listed company and, in addition, met with various employees from across the organisation.

#### Briefings

The Directors receive regular briefings from the Company Secretary on developments in the areas of corporate law and corporate governance that affect their roles as Directors of a UK listed company. In addition, the Directors have ongoing access to the Company's officers and advisers with presentations arranged during the year from the Group's English legal advisers and corporate brokers.

#### Advice

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

#### Company Secretary

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

#### Board evaluation

The Board is committed to the process of continuous improvement which is achieved in particular by the robust internally-led Board evaluation process (see inset box for aspects covered by the 2018 Board evaluation).

### Implementation of 2017 Board evaluation

A number of actions were taken during the year following the 2017 Board evaluation process. These included:

- the circulation of all Committee papers to the full Board in order to facilitate the flow of information on the committees' activities;
- consideration, by the Nominations Committee, of Board and Executive succession plans;
- a presentation, from the Group's relationship partner at Linklaters LLP, on the Directors' duties under English law and the Market Abuse Regulation; and
- the inclusion, in the monthly management accounts, of a dashboard showing progress made in the brownfield exploration programme.

### 2018 Board evaluation findings

#### Evaluation of the Board and Committees

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

#### Evaluation of the Chairman

The findings of the Chairman's performance evaluation were collated by Michael Rawlinson and discussed between the Non-Executive Directors before being relayed to the Chairman.

#### Outcome

The principal recommendations arising from the 2018 Board evaluation process can be summarised as follows:

- each of the main Board Committees should consider the mitigating actions detailed in the Board Risk Report with regards to the risks that fall within its respective terms of reference;
- informal meetings to be facilitated with those identified in the management succession plan as potential successors to the Vice Presidents;
- in light of the length of time between the board meetings in August and late November/December, that either a report from the Executive team on relevant developments be circulated to the Board or, if necessary, a telephone update meeting be convened;
- a presentation from one of the Company's joint corporate brokers with investor feedback on the Capital Markets Day; and
- for the management talent mapping to reflect the Board's objective of increasing the pool of female employees for senior management roles.

### External Board evaluation

Since the process was introduced, the Directors unanimously consider that the internally-led evaluation has resulted in a number of recommendations that have improved the way the Board and the Committees function. For this reason, an externally led evaluation was not undertaken during the year. The Board acknowledges the benefits of an external appraisal of the overall governance structure and processes and, while it is minded to continue using an internal evaluation, the format of the 2019 evaluation will be kept under review.

## The Board's Committees

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

# Audit Committee report

"In addition to fulfilling its responsibilities in relation to financial reporting, the Committee also focused on a crucial aspect of risk management; preparing for the unexpected."

## Dear Shareholder

I am pleased to introduce the Audit Committee report in respect of its activities during 2018.

The Audit Committee is tasked by the Board to ensure a high quality of financial reporting, the presence of a robust approach to managing risk and implementing a system of internal controls. The ways in which the Audit Committee has fulfilled these responsibilities are described in this report.

In addition, in keeping with past practice, the Committee set management a number of objectives allied with its risk management duties, with the common theme of protecting the business against the unexpected.

### Cybersecurity

The Committee tasked management with a review of the Group's exposure to cybersecurity risks and to implement enhancements where vulnerabilities were identified. This exercise prompted management to commission a risk assessment by PwC which identified a number of improvements in relation to the protection of the Group's industrial and administrative networks and which have all been addressed. Furthermore, the Group's IT infrastructure was subjected to a simulated attack which prompted management to review the security of certain servers.

### Protection of Critical Processes

Management identified a number of processes across the business which, in the event of failure, could result in severe disruption. The robustness of these processes was therefore subjected to testing with mitigation actions identified to minimise the impact of disruption. The processes targeted ranged from the operation of the Inmaculada plant to the Group's payments and financial accounting software platforms and the sales process. Management have worked diligently to ensure that all necessary controls are fully implemented.

### Business Continuity Plan

In order to achieve a state of adequate readiness, management with the support of PWC have carried out a thorough review, of scenarios which could qualify as Business Disruptors. The impacts of these scenarios were analysed and response teams, at both mine site and corporate office locations, have worked together so that responsibilities have been delineated and protocols put in place to facilitate a managed recovery supported by a plan of internal and external communications.

**Eileen Kamerick**
Committee Chair

### 2018 Meeting Attendance

| Members | Independent | Maximum possible attendance | Actual attendance |
|---|---|---|---|
| **Eileen Kamerick** Non-Executive Director and Committee Chair | Yes | 4 | 4 |
| **Michael Rawlinson** Non-Executive Director | Yes | 4 | 4 |
| **Graham Birch** Non-Executive Director | Yes | 4 | 4 |

## Key roles and responsibilities

- To monitor the integrity and material accuracy of the Company's financial statements and related disclosures;
- To monitor the effectiveness of the Company's internal controls and risk management systems and review the preparation of the going concern and viability statements;
- To review, on behalf of the Board, the Company's procedures for detecting fraud, the Company's systems and controls for the prevention of bribery and to review and conclude on non-compliance;
- Oversight of the Internal Audit function, review of its annual work plan and its findings;
- To oversee the relationship with the Company's external Auditor;
- To review the effectiveness of the external audit process; and
- To report to shareholders annually on the Committee's activities including details of the significant audit issues encountered during the year and how they have been addressed.

## Membership

Eileen Kamerick was, during the year under review, and currently serves as, the chair of the Audit Committee. Eileen was formerly a Chief Financial Officer of a number of US-based companies operating in the mining, oil & gas, investment banking and recruitment sectors. Eileen currently serves as the Audit Committee Financial Expert for the AIG Funds and Anchor Series Trust (US mutual funds) and Audit Committee Chair of the Legg Mason Closed End Mutual Funds.

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

Graham Birch was appointed a member of the Committee on 1 January 2018 and is a former director of BlackRock Commodities Investment Trust plc and manager of BlackRock's World Mining Trust and Gold and General Unit Trust.

The Committee members who served during the year under review are considered to be Independent Directors and the Board is satisfied that at least one member has recent and relevant financial experience and that the Committee, as a whole, has competence relevant to the sector in which the Company operates.

For further details on the skills and experience of the Committee members, please refer to the biographical details on pages 56 and 57.

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

## Attendees

The lead partner of the external Auditor, Ernst & Young LLP (EY), the Chairman of the Company, the Chief Executive Officer, the Chief Financial Officer, the Vice President of Legal & Corporate Affairs 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 2017 Annual Report and Accounts and the 2018 Half-Yearly Report were reviewed by the Committee before recommending that they be adopted by the Board. In its review of these financial reports, the Audit Committee reviewed accounting policies, estimates and judgements applied in preparing the relevant statements and the transparency and clarity of disclosures contained within them.
- **Review of audit plans** – In line with its usual practice, the Committee considered reports from the external Auditor on the scope and structure of the review of the half-yearly results and audit of the annual results and any recommendations on the Company's processes and controls.
- **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 51 to 54 for a description of the principal risks and uncertainties faced by the Group during the year.
- **Internal audit** – The Audit Committee continued to oversee and challenge the Group's adoption of a risk-based approach to internal audit. The Audit Committee Chairman receives a quarterly report from the Head of Internal Audit which sets out specific areas covered, improvements being recommended and introduced, and proposals for the programme over the following three months. The CEO and CFO also receive copies of these reports and robustly support the activities of the Internal Audit function. The Committee met with the Head of Internal of Audit without the presence of executive management to discuss, among other things, the resourcing of the function and the scheduled work plan.
- **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. Copies of whistleblowing reports are circulated to the Chair of the Audit Committee who has a preliminary discussion with the Head of Internal Audit on the approach to the investigation. The findings of the investigation are then reported, in the first instance, to the Audit Committee Chair and to the next scheduled meeting of the Audit Committee.
- **Fraud and bribery** – The Audit Committee continued to review and challenge the actions taken by management to promote ethical and transparent working practices.

The Group has adopted a Code of Conduct which describes the values and standards of behaviour expected of our employees and our business partners. In addition, the Group has adopted a specific anti-bribery and anti-corruption policy to reflect the Board's zero tolerance of these types of acts. This policy is circulated to all employees by the CEO on a periodic basis, highlighting the consequences of acting in breach of its provisions which include termination of employment and criminal proceedings.

- **External audit** –The Audit Committee oversees the relationship with the external Auditor who was reappointed following a tender process undertaken in Q1 2016. Following the key criteria used to reappoint the external Auditor, the Audit Committee evaluated the performance of EY in 2018 and concluded that it was appropriate to recommend the re-appointment of EY as external auditor at the 2018 Annual General Meeting. The Audit Committee reviewed the findings of the external Auditor and management letters, and reviewed and approved the audit fees.

During 2019, the Audit Quality Review (AQR) team of the FRC conducted a review of EY's audit of Hochschild's consolidated financial statements for the year ended December 31, 2017. In light of the final report from the AQR team, the Audit Committee requested EY to detail how it planned to respond to the limited improvement areas arising from the FRC report, and obtained assurances on the execution of that plan. Additionally, the AQR team's report noted two particular areas where they considered EY's audit work to be of a high standard, as well as specific examples of good audit practice. The AC welcomes the positive outcome of this regulatory review.

The Audit Committee evaluated the effectiveness of EY and the external audit process as auditor taking into account the results of Hochschild management's internal survey relating to EY's performance over the 2018 financial year as well as views and recommendations from management and its own experiences with the external auditor. Key criteria of the evaluation included resource and expertise, efficiency of the audit process, quality of communication and reporting to the Audit Committee. The AC concluded that EY had performed effectively.

- **Auditor objectivity** – The Audit Committee has adopted a Policy on the Use of External Auditors for the Provision of Non-Audit Services (see later section for more details).
- **Governance and evaluation** – The Audit Committee received updates from the Auditor and the Company Secretary on regulatory and other developments impacting the Committee's role. In relation to the evaluation of the Committee's performance, this was carried out as part of the annual Board evaluation. Specific questions were put to each Board member on various aspects of the performance of the Audit Committee including its responsibilities in overseeing the relationship with the Auditor, and in relation to risk management. General feedback on the Committee's performance was also sought and fed back to the Committee Chair.
- **Committee objectives** – The Audit Committee has continued its initiative of setting specific objectives for itself and management with a view to ensuring the diligent fulfilment of its responsibilities. Details of these objectives are set out in the Committee Chair's introductory letter.
- **Tax Compliance Strategy** – The Audit Committee approved on behalf of the Board a document on the Group's approach to UK tax matters. The document can be found at: www.hochschildmining.com/en/responsibility/tax_compliance_strategy

During the year, the Committee members held meetings with the external Auditor without executive management to discuss matters relating to the 2017 annual audit and the 2018 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 2018 financial statements and how these issues have been addressed.

**(a) Impairments**

The Audit Committee assessed management's analysis which concluded that indicators of impairment in H2 2018 were present with regards to San Jose due to the devaluation of the Argentinian Peso, high level of inflation and the reinstatement of export taxes from September 2018 and hence, was the subject of a full impairment assessment. In addition, impairment tests were carried out with respect to the Volcan and San Felipe projects.

The Audit Committee considered, with regards to San Jose:

- analyst consensus forecasts for silver and gold, which did not show a significant change vs December 2017; and
- the underlying calculation of the impairment test.

The Audit Committee considered, with regards to the Volcan and San Felipe projects, the value in-situ analysis undertaken by management together with the assumptions made therein.

In conclusion, the Audit Committee concurred with management that no impairments be made for the full year ending 31 December 2018.

**(b) Going Concern Assessment**

The Directors must satisfy themselves as to the Group's ability to continue as a going concern for a minimum of 12 months from the approval of the financial statements. The Audit Committee supported the Board in this assessment by considering whether, in adverse circumstances, the Company has adequate liquid resources to meet its obligations as they fall due. In February 2019, the Audit Committee reviewed the Group budget and cash flow forecasts for the going concern period taking into account the Company's anticipated production profiles at each mine, budgeted capital and exploration expenditure and the sensitivity of the cashflow forecasts to movements in metal prices. In addition, the Audit Committee corroborated its assessment through consideration of the processes undertaken by the Auditor in its testing of management's going concern assessment and on the reasonableness of assumptions therein, including their consistency with assumptions and estimates used elsewhere in the preparation of the financial statements. In particular, the Committee challenged management on the feasibility of the mitigating actions and the potential speed of their implementation.

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 60 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.

**(c) Mine rehabilitation provision**

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

In its assessment of the analysis undertaken by management (and, where relevant, by an independent third party), the Audit Committee took into account:

- the basis of the estimation of future rehabilitation costs;
- the discount rate applied;
- significant changes in estimates and the basis and level of new costs; and
- the accounting for the changes in the provisions.

The Audit Committee concluded that the provision is appropriate.

**(d) Revenue recognition**

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

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

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

## Auditor independence

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

### Policy on the use of Auditor for non-audit services

Following the issue of the new consolidated Ethical Standard for Auditors by the Financial Reporting Council, the Audit Committee adopted a revised Policy in 2016 on the use of the Auditor for non-audit services (the 'Revised NAS Policy').

The Revised NAS Policy lists those non-audit services that the external Auditor is specifically prohibited from providing. In summary, these include (a) tax services; (b) bookkeeping; (c) payroll services; (d) designing or implementing internal control or risk management procedures with regards to financial information or related technology systems; (e) valuation services; (f) certain legal services; and (g) corporate finance type services. Certain of these services may be provided by the Auditor subject to the satisfaction of certain criteria ensuring the Auditor's objectivity and the Audit Committee's approval. The Revised NAS Policy requires (i) the Audit Committee and Chief Financial Officer to pre-approve all non-audit services undertaken by the external Auditor and (ii) that the cost of non-audit services rendered by the external Auditor, in any financial year, cannot exceed 70% of the total audit fee for that year. Please refer to the next section entitled '2018 Audit and non-audit fees' for details on the operation of this policy during the year.

### Safeguards

Additional safeguards to ensure auditor objectivity and independence include:

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

### 2018 Audit and non-audit fees

Details of fees paid to the external Auditor are provided in note 30 to the consolidated financial statements.

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

The Company confirms that it has complied with the Order during the year under review. Further to the statement of intent disclosed in last year's Annual Report to amend the Revised NAS Policy so as to include the pre-approval of minor recurring permitted services, the Committee, after further consideration, requires all non-audit engagements, regardless of value, to be the subject of its prior authorisation.

## 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;

– the External Auditor review and observations of the Company's internal control environment;

– review of budgets and reporting against budgets; and

– consideration of progress against strategic objectives.

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

## Audit Committee's assessment

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

### Board's assessment

#### Risk management

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

#### Internal control

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

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

# Nominations Committee report

"In 2018 the Nominations Committee focussed its efforts on the development needs of the Board and planning for the succession of the Directors and senior executives."

## Dear Shareholder

The Nominations Committee played an active role in 2018. It has sought to address the Directors' professional development needs in light of the findings of the 2017 Board evaluation process which identified topics of interest for presentation to the Board. These have been followed by presentations from the Group's English legal advisers and corporate brokers. This programme will continue into the current year when we will consider, among other things, the use of advanced technology in the sector.

In addition, the Committee considered the issue of succession; with regards to the Board as well as senior management. The former serves as a valuable exercise in ensuring an orderly transition of Board positions which strikes a balance between continuity and a refreshing of skills and perspectives.

The senior executive succession plan (known internally as the 'Talent Inventory Review') serves two purposes. Firstly, it provides reassurance that the Company is adequately prepared in the event a critical role needs to be filled. It also identifies the rising talent in the Company whom we seek to retain through the investment in their development. Further details of these aspects of the Committee's work are provided below.

**Eduardo Hochschild**
Committee Chairman

### 2018 Meeting Attendance

| Members | Independent | Maximum possible attendance | Actual attendance |
|---|---|---|---|
| **Eduardo Hochschild** Committee Chairman | No | 2 | 2 |
| **Graham Birch** Non-Executive Director | Yes | 2 | 2 |
| **Jorge Born** Non-Executive Director | Yes | 2 | 2 |
| **Eileen Kamerick** Non-Executive Director | Yes | 2 | 2 |
| **Michael Rawlinson** Non-Executive Director | Yes | 2 | 2 |
| **Dionisio Romero Paoletti** Non-Executive Director | No | 2 | 2 |
| **Sanjay Sarma** Non-Executive Director | Yes | 2 | 2 |

## Key roles and responsibilities

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

## Membership

Graham Birch, Eileen Kamerick, Michael Rawlinson and Dionisio Romero Paoletti were appointed members of the Committee from 1 January 2018.

The Company Secretary acts as Secretary to the Committee.

## Activity during the year

The principal matters considered during the year were:

- under the procedures approved by the Board, consideration of any conflicts arising from external Non-Executive Directorships proposed to be taken by Graham Birch, Eileen Kamerick and Michael Rawlinson. As is usual practice, the Non-Executive Director whose proposed directorship was under consideration did not participate in the respective discussions;
- the succession plan for the Non-Executive Directors. To support its deliberations, the Committee considered a skills matrix which (a) maps the extent to which key skills are represented around the Board table; and (b) identifies any skill gaps that arise on the assumed retirements from the Board within the next five years. The matrix highlights other relevant considerations, such as the requisite independent Board representation and the potential to increase gender diversity. Accordingly, the Committee is able to plan for future Non-Executive appointments both in terms of timing and the profile of potential appointees;
- the succession and development plan for the Group's senior executives known internally as the Talent Inventory Review ('TIR'). The TIR, which is compiled on an annual basis, seeks to ensure that those performing "critical" and "key" roles are retained through the provision of professional development. The TIR identifies (a) "Critical Positions", being those who can make a significant contribution to the Group's strategic success; and (b) "Key Positions" who, may not necessarily occupy a Critical Position but are nevertheless considered desirable due to their specialised skills or knowledge of the Group or exceptional level of performance. In addition to supporting retention, the TIR also identifies the development needs for the successors to the Vice President roles thereby assisting the Chief Executive to plan for senior executive succession;
- the findings of the 2017 Board evaluation process and, in particular, the training needs of the Directors;
- the format of the 2018 Board evaluation process. As explained earlier in this report, it was decided that in light of the continued benefits that have been brought about by past internally led-evaluations, the Board favoured the continuation of this approach in 2018. The format of the 2019 Board evaluation will, however, be kept under review; and
- the findings of the 2018 Board evaluation process (see earlier section of the Corporate Governance Report).

## Appointments to the Board

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

## Diversity policy

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

# Corporate Social Responsibility Committee report

"The year saw many advances in terms of our environmental performance and our interaction with our local communities. However, safety remains a top priority to which we remain committed."

## Dear Shareholder

The Company did some very good work across numerous fronts in 2018; among them are the Company's environmental performance with a significant outperformance of the most stretching ECO Score target and the various community initiatives with their focus on education, digital access, health and socio-economic development. Management have also dedicated a lot of time and effort in embedding a safety-first culture through the extensive Safety Culture Transformation Plan (the 'Plan'). It is therefore, deeply regrettable that two accidents occurred at our mine sites during 2018 which resulted in three fatalities.

The Committee and, indeed the Board as a whole and the management team, remain committed to our zero-tolerance approach to accidents. There are encouraging signs that the Plan is having the desired impact across the business as there was a 46% reduction in the number of High Potential Events in 2018 compared to 2017 (discussed further in the Sustainability Report on page 42).

Additional details on the initiatives implemented during the year can be found on pages 42 to 49.

Finally, I am pleased to report that in order to ensure that the Board is kept informed of employees' views, the Committee has introduced the practice of receiving reports from the Vice President of Human Relations. I look forward to updating shareholders on this new aspect of our role in next year's Annual Report.

**Dr Graham Birch**
Committee Chairman

### 2018 Meeting Attendance

| Members | Independent | Maximum possible attendance | Actual attendance |
|---|---|---|---|
| **Graham Birch** Non-Executive Director and Committee Chairman | Yes | 4 | 4 |
| **Michael Rawlinson** Non-Executive Director | Yes | 4 | 4 |
| **Ignacio Bustamante** Chief Executive Officer | No | 4 | 4 |

## Key roles and responsibilities

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

## Membership

There were no changes to committee membership during the year under review. Sanjay Sarma was appointed a member of the Committee from 1 January 2019.

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 40 to 49.

# Remuneration Committee report

"In 2018, the Remuneration Committee maintained its focus on ensuring that the Group's incentive schemes continued to reward performance for the successful achievement of our strategic objectives."

## Dear Shareholder

Last year, we revised the Directors' Remuneration Policy which we presented to shareholders along with the Annual Report of Remuneration for approval at the 2018 AGM. I am pleased to report that both were approved by the majority of our shareholders with a 96.9% and 84.5% vote for each item respectively. A summary of the policy can be found on pages 78 to 82 with the full policy in the 2017 Annual Report and Accounts.

In addition to considering the usual matters within its terms of reference, the Committee sought advice from its advisers, Mercer Kepler on feedback to the revised Remuneration Policy as well as on external market developments and the latest shareholder guidelines concerning executive remuneration.

Further details on the Committee's work in 2018 and how we seek to reflect the experience of our wider stakeholders in executive pay can be found in the Directors' Remuneration Report from page 77.

**Michael Rawlinson**
Committee Chairman

### 2018 Meeting Attendance

| Members | Independent | Maximum possible attendance | Actual attendance |
|---|---|---|---|
| **Michael Rawlinson** Non-Executive Director and Committee Chairman | **Yes** | 3 | 3 |
| **Graham Birch** Non-Executive Director | **Yes** | 3 | 3 |
| **Eileen Kamerick** Non-Executive Director | **Yes** | 3 | 3 |

## Key roles and responsibilities

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

## Membership

Eileen Kamerick was appointed a member of the Committee on 1 January 2018.

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 or her own remuneration arrangements are considered by the Committee unless otherwise directed by the Committee.

## Activity during the year

Details of the Remuneration Committee's activities during the year are provided in the Directors' Remuneration Report from page 77.

## 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 2018

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

### Principal shareholder contacts

The 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 below, 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.

| Date | Event |
|---|---|
| January (and April, July, October) | Conference calls following the Quarterly Production Report |
| | Chairman and the newly appointed Senior Independent Director met with a number of major investors |
| February | BMO Global Metals & Mining Conference |
| | 2018 Annual Results presentation |
| | UK Roadshow |
| March | Citi Resources Conference |
| May | BoA Merrill Lynch Global Metals, Mining and Steel Conference |
| | Annual General Meeting |
| August | 2018 Half-Yearly Results presentation |
| September | UK Roadshow |
| | Denver Gold Forum |
| November | Capital Markets Day |
| December | Scotia Capital Conference |

An extensive Investor Relations schedule resulted in management holding over 100 investor meetings during the year.

### 2018 AGM

Notice of the 2018 AGM was circulated to all shareholders at least 20 working days prior to the meeting. The Chairs of each of the Board Committees were 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 2018 was 507,232,310 ordinary shares of 25 pence each ('shares'). A total of 3,321,610 shares were issued during the year under the Company's Restricted Share Plan and, as a result, the number of shares in issue as at 31 December 2018 was 510,553,920 shares.

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

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

### Substantial shareholdings

As at 31 December 2018, the Company had been notified of the following interests in the Company's shares in accordance with Chapter 5 of the Financial Conduct Authority's Disclosure Guidance and Transparency Rules:

| | Number of ordinary shares | Percentage of voting rights (indirect) | Percentage of voting rights (direct) |
|---|---|---|---|
| Eduardo Hochschild | 258,565,373[1] | – | 50.644% |
| Majedie Asset Management Limited | 25,384,745 | 4.97% | – |
| Van Eck Associates Corporation[2] | 24,715,437 | – | 4.87% |

1 The shareholding of Mr Eduardo Hochschild is held through Pelham Investment Corporation.
2 The information disclosed is taken from the latest notification received by the Company from Van Eck Associates Corporation in June 2018.

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

### Current share repurchase authority

The Company obtained shareholder approval at the AGM held in May 2018 for the repurchase of up to 50,889,311 shares which represented, at that time, 10% of the Company's issued share capital ('the 2018 Authority'). Whilst no purchases have been made by the Company pursuant to the 2018 Authority, it is intended that shareholder consent will be sought on similar terms at this year's AGM when the 2018 Authority expires.

### Additional share capital information

This section provides additional information as at 31 December 2018.

#### (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 26 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:
  - 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
  - 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) $50m Credit Agreement**
Under the terms and conditions of the $50 million Credit and Guaranty Agreement between, amongst others, the Group and Scotiabank Peru S.A.A, a Change of Control obliges the Group to prepay all Advances (as defined in the agreement) unless any Lender notifies the Group that it is declining any such prepayment in which case the Advances owing to such declining Lender shall not be prepaid.

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

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

## 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 or she was elected by the Company.

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

2014 Listing Rules
Following the implementation, in 2014, of new Listing Rules by the Financial Conduct Authority (in its capacity as the UK Listing Authority), as a company with a controlling shareholder, the election or re-election of any Independent Director must be approved by: (i) all shareholders of the Company; and (ii) the independent shareholders of the Company (i.e. any person entitled to vote on the election of Directors of the Company who 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/her term of office. The office of Director shall be vacated if: (i) s/he is prohibited by law from acting as a Director; (ii) s/he resigns or offers to resign and the Directors resolve to accept such offer; (iii) s/he becomes bankrupt or compounds with his/her creditors generally; (iv) a relevant order has been made by any court on the grounds of mental disorder; (v) s/he is absent without permission of the Directors from meetings of the Board for six months and the Directors resolve that his/her office be vacated; (vi) his/her 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/her to resign and within 30 days of being given notice of such notice s/he so fails to do.

## SUPPLEMENTARY INFORMATION
CONTINUED

### Relationship Agreement
In addition, under the terms of the Relationship Agreement:

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

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

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

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

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

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

## Additional disclosures

### Disclosure table pursuant to Listing Rule 9.8.4C R
For the purposes of LR 9.8.4C R, the information required to be disclosed by LR 9.8.4 R can be found in the following parts of this Annual Report:

| Section | Matter | Location |
|---|---|---|
| (1) | Interest capitalised | Note 15 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 | None |
| (6) | Waiver of future emoluments by a Director | None |
| (7) | Non pre-emptive issues of equity for cash | None |
| (8) | Item (7) in relation to major subsidiary undertakings | None |
| (9) | Parent participation in a placing by a listed subsidiary | None |
| (10)(a) | Contract of significance in which a Director is interested | None |
| (10)(b) | Contract of significance with controlling shareholder | None |
| (11) | Provision of services by a controlling shareholder | Directors' Report |
| (12) | Shareholder waivers of dividends | Directors' Report |
| (13) | Shareholder waivers of future dividends | Directors' Report |
| (14) | Agreement with controlling shareholder | Directors' Report |

# DIRECTORS' REMUNERATION REPORT

## Dear Shareholders

On behalf of the Board, I am pleased to present the Directors' Remuneration Report for the year ending 31 December 2018 which is split into three sections: this Annual Statement, a summary of Directors' Remuneration Policy approved at the 2018 AGM and the Annual Report on Remuneration.

As reported earlier in the Annual Report, 2018 was a successful year in many respects; from an operational perspective there was a record level of production; from a financial perspective the Group generated a robust level of earnings with Adjusted EBITDA of $268 million and reduced debt significantly; and from an exploration perspective the brownfield programme resulted in a material extension to Inmaculada's life-of-mine.

In the Sustainability Report we have showcased the Group's activities and performance in 2018 in the areas of health and safety, community relations, environmental performance and employee engagement. In relation to safety, management continued to implement the various facets of the three-year Safety Culture Transformation Plan launched in early 2018 which has been designed to embed a safety-first culture across the organisation (please see below and page 43 for further details).

### Remuneration in 2018

Last year, we revised the Directors' Remuneration Policy which we presented to shareholders along with the Annual Report of Remuneration for approval at the 2018 AGM. We are pleased to report that both were approved by the majority of our shareholders with a 96.9% and 84.5% vote for each item respectively. A summary of the policy can be found on pages 78 to 82 with the full policy in the 2017 Annual Report and Accounts.

The new Policy came into effect from the date of the AGM. In line with the approved Policy, the Remuneration Committee determined the following;

For 2018, the CEO will receive an annual bonus of 135% of salary (equivalent to 90% of maximum). This bonus outcome reflects the Company's achievement against production, EBITDA, growth, resources and environmental targets which were met in full and which, together, account for 75% of the bonus score. The remaining 25% of the bonus score was dependent on Hochschild's safety targets. In 2018, the first-year implementation of the Safety Culture Transformation Plan (the 'Plan') was completed. This included (a) enhancements to Hochschild's risk management systems, (b) a leadership programme comprising workshops and initiatives to promote safe working, (c) a redesign of the annual training programs for our workers and (d) a comprehensive programme to enhance internal communications on safety. The Board are encouraged that the Plan appears to be having the desired effects as there have been significant reductions in the number of high potential events and lost time safety events in 2018 vs. 2017 of 46% and 35% respectively. The Plan has without doubt played a crucial role in reducing the accident frequency rate to a level which exceeds the most stretching target set for the CEO and which has resulted in the vesting of 15% of the CEO's bonus. However, despite the significant process made, it is with regret, that there were three fatalities during 2018. As a result, the CEO did not meet the accident severity targets; therefore, this element of the bonus, accounting for 10% of maximum, lapsed. The Committee determined that given the significant progress made on safety during the year that no further discretionary reduction on the CEO's bonus was required. Further detail on performance against the bonus scorecard is included on page 85.

During 2018, the CEO was granted a Long-Term Incentive Plan ('LTIP') award of 200% of salary. Vesting will be based on performance over the three financial years to 31 December 2020. Consistent with our approach for 2017 awards, 2018 awards will vest to the extent that relative TSR targets are achieved over the period.

Based on relative TSR performance to 31 December 2018, 100% of the 2016 LTIP award and 43% of the five-year tranche of the legacy 2014 Enhanced Long-Term Incentive Plan ('ELTIP') award will vest in early 2019. These levels of vesting reflect the Company's strong long-term TSR performance over the three-year and five-year periods to 2018. The Committee reviewed overall performance over the three-year and five-year periods and, in particular, in light of the Group's robust financial performance, the successful construction of Inmaculada and brownfield exploration success, it concluded that these vesting outcomes were appropriate and therefore no further discretionary reduction was applied.

### Implementation of Remuneration Policy in 2019

For 2019, the maximum annual bonus opportunity will remain 150% of salary. The bonus payment will be subject to performance against broadly the same measures as those used in 2018. In line with the policy approved by shareholders last year, on-target performance will result in 75% of the bonus vesting which is a c.10% reduction to the same level of performance in 2017. While the Committee considers this to be appropriate, it will continue to monitor alignment with market practice and Hochschild's strategic objectives.

An LTIP award of 200% of salary is proposed for 2019, in line with past years with vesting based on relative TSR vs. mining comparators and the FTSE350 mining sector over three years, with 50% paid in cash after three years with a requirement to apply the balance to purchase Hochschild shares to be held for an additional two years. The Committee recognises that the use of a cash-based LTIP is not standard practice among UK-listed companies but it considers that the revised structure of the plan, which requires shares to be purchased with 50% of any cash entitlement, to be appropriate given the majority shareholder's preference to retain a majority shareholding in the Company. In addition, the Committee is comfortable that the plan retains a strong link to shareholders' interests through the use of a combination of two TSR based vesting conditions.

Further detail on the implementation of Policy for 2019 is included on page 87.

The CEO's base salary remains unchanged at US$700,000.

The Committee has followed the recent changes to the UK Corporate Governance Code, and reporting requirements of the revised Companies (Miscellaneous Reporting) Regulations 2018 which will be apply to the 2019 Directors' Remuneration Report as well as issued guidelines from leading shareholders and bodies such as ISS (Institutional Shareholder Services) and the Investment Association. The Committee has decided to include some of these reporting regulations' disclosures early such as the use of the discretion, the additional performance scenario in the pay scenario charts which reflects full vesting plus 50% share price appreciation on long-term incentive awards and the impact of share price appreciation on the value of vested long-term incentive awards. We have not included a CEO pay ratio as there are only three employees based in the UK, therefore the resulting ratios would not be very meaningful. The Committee will continue to monitor developing remuneration trends including post-exit share ownership guidelines.

I hope you, our shareholders, find this report to be informative. If you should have any queries or comments on any aspect of this year's report, I would encourage you to contact me through the Company Secretary.

**Michael Rawlinson**
Chairman, Remuneration Committee

**DIRECTORS' REMUNERATION REPORT**
CONTINUED

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

As no changes have been made to the Remuneration Policy, which shareholders approved at the 2018 AGM, the full policy is not repeated here. The principal objectives of policy, the Policy Table for both Executive Directors and Non-Executive Directors including notes, treatment of service contracts/letters of appointment of the Board and the updated Pay scenario charts are included below for information, and the full policy can be found in the 2017 Annual Report and Accounts.

## Directors' remuneration policy (unaudited)

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

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

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

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

### Policy Table

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

**Element** Base salary
**Objective and link to strategy** To support recruitment and retention

| Operation | Opportunity | Performance metrics |
|---|---|---|
| Salary is reviewed annually, usually in March, or following a significant change in responsibilities.<br><br>Salary levels are targeted to be competitive and relevant to the global mining sector, with reference to the relative cost of living. The Committee also takes into consideration general pay levels for the wider employee population. | To avoid setting expectations, there is no prescribed maximum salary.<br><br>In respect of existing Executive Directors, it is anticipated that salary increases will generally be in line with the wider employee population. In exceptional circumstances (including, but not limited to, a material increase in job size or complexity, the reversal of a previous salary reduction, or if a Director has not received an increase for a number of years), the Committee has discretion to make appropriate adjustments to salary levels. | None |
| Executive Directors receive Compensation for Time Services ('CTS') and profit share, both of which are provided for by Peruvian law, as well as certain allowances which may include medical insurance, the use of a car and driver, and personal security. | CTS is a legal entitlement for employees in Peru which provides for a fund in the event of termination of employment. CTS in respect of base salary is calculated as one month's wages and is deposited biannually in an employee's interest-accruing bank account and prior to the end of employment, employees can gain access to the deposited amount to the extent it exceeds four months' wages. CTS in respect of other forms of remuneration such as incentive payouts, that are considered to be 'non-extraordinary' is currently calculated at a rate of 1/24th.<br><br>For the profit share, an amount equal to 8% of the relevant Peruvian company's taxable income for the year is distributable to its employees. This amount is mandated by Peruvian law, and any increases are not within the control of the Group. The amount receivable by each Executive Director is determined with reference to annual base salary (plus the annual bonus, if any) and the number of days worked during the calendar year.<br><br>The value of the other benefits varies by role and individual circumstances; eligibility and cost are reviewed periodically.<br><br>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 |

| **Element** Annual bonus<br>**Objective and link to strategy** To achieve alignment with the Group's strategy and commitment to operating responsibly | | |
|---|---|---|
| **Operation** | **Opportunity** | **Performance metrics** |
| Performance measures, targets and weightings are set at the start of the year. At the end of the year, the Committee determines the extent to which targets have been achieved, taking into account individual performance.<br><br>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.<br><br>Deferred bonus is subject to malus, i.e. forfeiture or reduction, in circumstances such as material misstatement or gross misconduct.<br><br>If deferral is applied, the Committee retains the discretion to allow dividends (or equivalent) to accrue over the deferral period in respect of the awards that vest. | The maximum annual bonus opportunity is 150% of salary.<br><br>For 'threshold' and 'target' levels of performance, the bonus earned is up to 50% and up to 75% of maximum, respectively. | Performance is determined by the Committee by reference to Group financial measures as well as the achievement of personal/strategic objectives. The personal/strategic objectives are typically weighted no higher than 30% of maximum.<br><br>The Committee retains discretion to vary year-on-year the weightings for individual measures, to ensure alignment with the business priorities for the year. Performance targets are generally calibrated with reference to the Company's budget for the year. Each objective in the scorecard has a 'threshold', 'target' and 'maximum' performance target, achievement of which translates into a score for each objective.<br><br>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 and individual performance. A review of the quality of earnings is conducted by the Committee to determine whether any adjustments should be made to the reported profit for the purpose of bonus outcomes. This ensures that bonus outcomes are not impacted by unbudgeted non-recurring or one-off items, or circumstances outside of management's control such as material changes in commodity prices that could distort the overall quality of earnings.<br><br>Malus provisions apply, i.e. the Committee has the discretion to reduce bonus payments on the occurrence of an adverse event that is attributable (directly or indirectly) to an act or failure to act by the executive. Such events include those related to health and safety, the environment or community relations.<br><br>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. |

| **Element** Long-Term Incentive Plan ('LTIP')<br>**Objective and link to strategy** To directly incentivise sustained shareholder value creation through operational performance and to support the recruitment of senior positions and longer-term retention | | |
|---|---|---|
| **Operation** | **Opportunity** | **Performance metrics** |
| Awards are made annually, in the form of cash, with vesting subject to the attainment of specific performance conditions and continued employment.<br><br>Awards have a performance and vesting period of at least three years. For LTIP awards made in 2018 and subsequent years, 50% of vested awards is paid immediately on vesting in cash (less tax), and 50% after tax is invested in Company shares and normally required to be held for a further two years. Dividends, if any, will accrue to shares during the holding period. | Maximum annual award level is 200% of salary (267% of salary in exceptional circumstances, such as to aid the recruitment or retention of an Executive Director). | The current performance condition is TSR performance relative to specific sector-based comparator groups, although the Committee has the discretion to adjust the performance measures and/or comparator groups before each cycle to ensure that they remain appropriate.<br><br>Malus provisions apply, i.e. the Committee can reduce or prevent vesting if it determines either that (i) the overall underlying business performance of the Company is not satisfactory or (ii) an act or failure to act, which is attributable (directly or indirectly) to an award-holder has resulted in, among other things, an adverse event related to health and safety, the environment or community relations.<br><br>Details of the TSR comparator groups and targets used for specific LTIP grants are included in the Annual Report on Remuneration. |

In addition to the above elements of remuneration, the Committee may consider it appropriate to grant an award under a different structure, but within the limits sets out in the Policy Table, in order to facilitate the recruitment of an individual, exercising the discretion available under Listing Rule 9.4.2R.

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

## Notes to the Policy Table

### Payments from existing awards

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

### Performance measurement selection and approach to target-setting

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

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

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

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

### Remuneration Policy for other employees

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

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

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

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

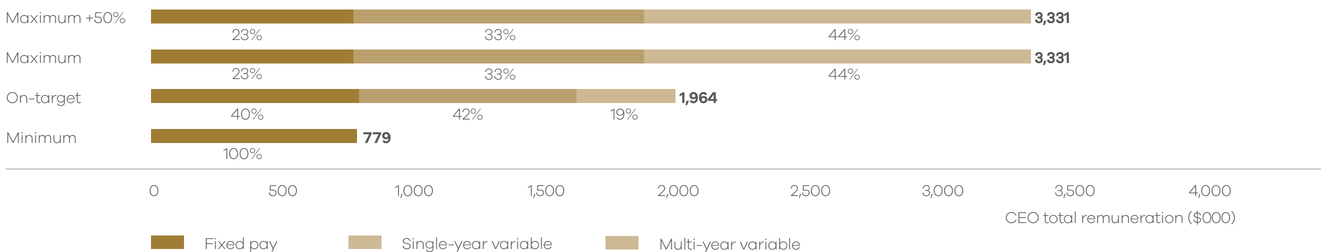
Selected senior employees participate in the LTIP and are required to invest 50% of the vested cash award (on a tax net basis) in the Company's shares and hold these shares for a further two years. These shares will count towards their target shareholding (expressed as a percentage of salary, which will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

## Pay scenario charts

The charts below provide an estimate of the potential future reward opportunities for the CEO, and the potential split between the different elements of remuneration under four different performance scenarios: 'minimum', 'on-target', 'maximum' and 'maximum +50%'.

Potential reward opportunities are based on the proposed Remuneration Policy, applied to the CEO's base salary as at 1 March 2019 of $700,000.

### Performance scenario ($'000)




The chart above excludes the effect of any Company share price appreciation except in the Maximum+50% scenario.

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

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

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

The 'maximum + 50%' scenario reflects the new requirement for a scenario where 50% share price appreciation is included. As the LTI is not paid in shares, this scenario is the same as the 'maximum' scenario.

## Service contracts

| Executive Director | Date of service contract |
|---|---|
| Ignacio Bustamante | 1 April 2007 |

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

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

## Non-Executive Directors

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

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

| Non-Executive Director | Letter of appointment dated | Anticipated expiry of present term of appointment (subject to annual re-election) |
|---|---|---|
| Eduardo Hochschild | 30 January 2015 | 1 January 2022 |
| Dr Graham Birch | 20 June 2011 | 1 July 2020 |
| Jorge Born Jr. | 16 October 2006 | 16 October 2021 |
| Eileen Kamerick | 9 September 2016 | 1 November 2019 |
| Michael Rawlinson | 18 December 2015 | 1 January 2022 |
| Sanjay Sarma | 13 December 2016 | 1 January 2020 |
| Dionisio Romero Paoletti | 18 December 2017 | 1 January 2021 |

The Non-Executive Directors are not eligible to participate in the Company's performance-related incentive plans and do not receive any pension contributions. As part of his change of role from Executive to Non-Executive Chairman on 1 January 2015, the Committee agreed that Mr Hochschild would retain his eligibility for benefits received in respect of his time as an Executive Director, consisting primarily of personal security, car and driver, and medical insurance.

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

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

| Objective | Details | Opportunity | Performance metrics |
|---|---|---|---|
| To attract and retain Non-Executive Directors of the highest calibre with broad commercial and other experience relevant to the Company. | Fee levels are reviewed from time to time, with any adjustments typically effective from 1 March each year.<br><br>The fee paid to the Chairman is determined by the Committee, and base fees to Non-Executive Directors are determined by the Board. Additional fees are payable for acting as Chairman of the Board's Committees and as Senior Independent Director.<br><br>Fee levels are reviewed by reference to FTSE-listed companies of similar size and complexity. Time commitment, level of involvement required and responsibility are taken into account when reviewing fee levels. | NED fees will typically only be increased during the term of this Policy in line with general market levels of NED fee inflation.<br><br>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.<br><br>The maximum aggregate annual fee for all Directors provided in the Company's Articles of Association is £3 million p.a. | None |

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

## Consideration of conditions elsewhere in the Company

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

## Annual report on remuneration

The following section provides details of how Hochschild's 2018 Remuneration Policy was implemented during the financial year ending 31 December 2018, and how the Remuneration Committee intends to implement the Remuneration Policy in 2019. Any information contained in this section of the report that is subject to audit has been marked as such.

### Remuneration Committee membership

The Remuneration Committee was chaired during the year under review by Michael Rawlinson who was appointed as Chairman from 1 January 2018, and its other members were Graham Birch and Eileen Kamerick. The Remuneration Committee has comprised, at all times, of only Independent Non-Executive Directors. The composition of the Remuneration Committee and its terms of reference comply with the provisions of the UK Corporate Governance Code and are available for inspection on the Company's website at www.hochschildmining.com.

Members of senior management attend meetings at the invitation of the Committee. During the year, such members included the Chairman, the CEO and the Vice President of Human Resources. No Director or senior executive is present when his or her 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 three times during the year (details of members' attendance at meetings are provided in the Corporate Governance Report on page 63) and undertook the items of business noted below.

Key activities of the Remuneration Committee in 2018:

- Considered external market developments and best practice in remuneration, and latest shareholder guidelines
- Reviewed and approved incentive outcomes for 2017 (2017 annual bonus and vesting of 2015 LTIP awards and the first tranche of 2014 ELTIP awards)
- Reviewed the CEO's total remuneration, including salary for 2018
- Considered and approved the 2017 Directors' Remuneration Report ('DRR')
- Considered and approved the rules of the 2018 LTIP to be put to shareholders for approval at the 2018 AGM
- Considered investor feedback on the revised Remuneration Policy and 2017 DRR
- Approved the opportunity/award level and performance targets for 2018 annual bonus and LTIP awards
- Considered and approved the CEO's 2019 objectives

### Advisers

During the year, in order to enable the Committee to reach informed decisions on executive remuneration, advice on market data and trends was obtained from independent consultants, Mercer Kepler. Mercer Kepler reports directly to the Committee Chairman, and is a signatory to and abides by the Code of Conduct for Remuneration Consultants (which can be found at www.remunerationconsultantsgroup.com). Other than advice on remuneration, no other services were provided by Mercer Kepler to the Company (or any other part of the MMC group of companies with the exception of unrelated insurance brokerage services). The fees paid to Mercer Kepler in respect of work carried out in 2018 (based on time and materials) totalled £18,730, excluding expenses and VAT.

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

### Summary of shareholder voting at the 2018 AGM

The table below shows the results of the binding vote on the Remuneration Policy and the advisory vote on the 2017 Annual Report of Remuneration at the AGM on 25 May 2018:

| | Remuneration Policy | | 2017 Annual Report of Remuneration | |
|---|---|---|---|---|
| | **Total number of votes** | **% of votes cast** | **Total number of votes** | **% of votes cast** |
| For (including discretionary) | **392,578,326** | **96.92%** | 337,129,308 | 84.54% |
| Against | **12,459,724** | **3.08%** | 61,660,570 | 15.46% |
| Total votes cast (excluding withheld votes) | **405,038,050** | | 398,789,878 | |
| Votes withheld | **7,681** | | 6,255,854 | |

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

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

### Single total figure of remuneration for Executive Directors (audited)

The table below sets out a single figure for the total remuneration received by Ignacio Bustamante, the only Executive Director, for the year ended 31 December 2018 and the prior year:

| | 2018 (US$000) | 2017 (US$000) |
|---|---|---|
| Base salary[1] | **700** | 700 |
| Taxable benefits[2] | **20** | 26 |
| Single-year variable[3] | **945** | 875 |
| Multiple-year variable[4] | **1,634** | 1,635 |
| Restricted shares[5] | **605** | 1,064 |
| Profit share[6] | **–** | – |
| Compensation for Time Service ('CTS')[7] | **191[8]** | 212[9] |
| Tax refunds | **7** | 7 |
| Total | **4,103** | 4,519 |

1 Figures disclosed include certain statutory payments accounted for internally within base salary ('Statutory Supplements') as follows: 2018: $300, 2017: $300.
2 Taxable benefits include: use of a car and driver (2018: $14k; 2017: $20k) and medical insurance (rounded to nearest $000).
3 Payment for performance during the year under the Annual Bonus Plan. See following sections for further details.
4 2018 value comprises: (a) the 2016 LTIP award of $1.4m which will fully vest based on performance to 31 December 2018 and subject to continued employment on the vesting date, and (b) the five-year tranche of the 2014 ELTIP vesting at 43% ($234k using the three-month average share price for the period ending 31 December 2018 of 161.37p) based on performance to 31 December 2018 and subject to continued employment on the vesting date. 2017 value comprises: (a) the 2015 LTIP award of $1m vesting fully based on performance to 31 December 2017 and (b) a restatement, as required by reporting regulations, of the value of the four-year tranche of the 2014 ELTIP vesting at 86.3% ($635k using the share price on the date of vesting of 195.05p, rather than the three-month average share price for the period ending 31 December 2017 which gave a value of $737k). The 2016 LTIP is paid entirely in cash, therefore none of the vested value of this award can be attributed to an increase in share price over the vesting period. The five-year tranche of the 2014 ELTIP is paid in shares. Even though the £-based share price increased over the vesting period by 4%, the $-value of the ELTIP award fell by $63k due to the GBP:USD exchange rate declining by 22% over the same period.
5 2018 value comprises the third tranche of restricted shares granted on 30 December 2014 which vested on 30 December 2018 at a share price of 160.0p; the Committee determined that the individual performance underpin had been met. 2017 value comprises the second tranche of restricted shares granted on 30 December 2014 which vested on 30 December 2017 at a share price of 264p.
6 All-employee profit share mandated by Peruvian law which, in light of the levels of taxable profit generated at the relevant entity level, has resulted in nil payout.
7 For further details on CTS, see page 78.
8 Comprises: CTS on base salary ($58k), 2018 bonus ($39k), 2016 LTIP ($10k), third tranche of vested RSP awards ($25k) and second tranche of the 2014 ELTIP ($58k) (all rounded to nearest $000).
9 Comprises: CTS on base salary ($58k), 2017 bonus ($36k), 2015 LTIP ($42k), second tranche of vested RSP awards ($44k) and first tranche of the 2014 ELTIP ($31k) (all rounded to nearest $000).

**DIRECTORS' REMUNERATION REPORT**
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### 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 2018 and the prior year:

| | Base fee (US$000) | | Additional fees (US$000) | | Taxable benefits (US$000) | | Total (US$000) | |
|---|---|---|---|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Eduardo Hochschild[1] | **400** | 400 | **–** | – | **531** | 555 | **931** | 955 |
| Dr Graham Birch | **93** | 74 | **–** | – | **–** | – | **93** | 74 |
| Jorge Born Jr | **93** | 74 | **–** | – | **–** | – | **93** | 74 |
| Eileen Kamerick | **93** | 74 | **19[2]** | 10[3] | **–** | – | **112** | 84 |
| Michael Rawlinson | **93** | 74 | **37[2]** | – | **–** | – | **131** | 74 |
| Dionisio Romero[4] | **93** | n/a | **–** | n/a | **–** | n/a | **93** | n/a |
| Sanjay Sarma | **93** | 74 | **–** | n/a | **–** | – | **93** | 74 |

All figures are rounded to the nearest $'000.

1 Eduardo Hochschild was an Executive Director until 31 December 2014 and, as reported in the 2015 report, Eduardo Hochschild retained eligibility to receive benefits following his transition to the Non-Executive Chairman role comprising personal security, medical insurance and company car.

2 See below for further details on fees payable to Non-Executive Directors in respect of additional responsibilities. Eileen Kamerick receives such fee in respect of her position as Chair of the Audit Committee. Michael Rawlinson receives such fees in respect of his positions as Senior Independent Director and Chair of the Remuneration Committee.

3 Eileen Kamerick was entitled to receive an additional fee on assuming the Chair of the Audit Committee on 11 May 2017 which, at that time, was payable at £10k pa. Such fees were increased to the current level with effect from 1 September 2017.

4 Dionisio Romero was appointed a Non-Executive Director on 1 January 2018

### Salary and fee adjustments for the year ended 31 December 2018

#### Executive Director

The Committee reviewed the CEO's salary in 2018 and determined that no increase would be awarded.

| Executive Director | Base salary from 1 March 2018 (US$000) | Base salary from 1 March 2017 (US$000) | Percentage increase |
|---|---|---|---|
| Ignacio Bustamante | **700** | 700 | 0% |

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

#### Non-Executive Directors

The Non-Executive Directors' fees have been set at a level to reflect the amount of time and level of involvement required in order to carry out their duties as members of the Board and its Committees. The fees payable to the Non-Executive Directors of the Company as at the date of this report are set out in the table below. All Non-Executive Directors receive a base fee, and additional fees are typically paid for the role of Chairman of the Remuneration Committee, Chairman of the Audit Committee and Senior Independent Director. No change to fees was made in 2018.

A summary of current fee levels is provided below:

| Fee | Fee from 1 March 2018 | Fee from 1 September 2017 | Percentage increase |
|---|---|---|---|
| Chairman's fee | US$400,000 | US$400,000 | 0% |
| Non-Executive Director base fee | £70,000 | £70,000 | 0% |
| Non-Executive Director additional fee | £14,000 | £14,000 | 0% |

## Incentive outcomes for the year ended 31 December 2018 (audited)

### Annual bonus in respect of 2018 performance

Performance against objectives

Objectives for the 2018 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 February 2019.

Details of the bonus paid to the CEO for 2018, including the specific performance metrics, weightings and performance against each of the metrics, are provided in the table below:

| | | Targets | | | | 2018 Assessment | |
|---|---|---|---|---|---|---|---|
| **Objective** | **KPI** | **Target weighting** | **Threshold** | **Target** | **Maximum** | **2018 Result** | **Bonus score** |
| Profitable production and financial results | Production | 25% | 37.5m Oz Ag Eq | 38m Oz Ag Eq | 38.4m Oz Ag Eq | 38.97m Oz Ag Eq | 25% |
| | EBITDA[1] | 15% | US$220m | US$240m | US$250m | US$255.7m | 15% |
| | All-in sustaining cost (AISC)[2] | 15% | US$13.6 Oz | US$13.2 Oz | US$12.9 Oz | US$12.5 Oz | 15% |
| | Brownfields – inferred resources (subject to permitting) | 10% | 40m Oz Ag Eq | 50m Oz Ag Eq | 70m Oz Ag Eq | 130m Oz Ag Eq | 10% |
| Safety & Environmental awareness | Accident frequency rate (LTIFR) | 15% | 3.00 | 2.50 | 2.00 | 1.74 | 15% |
| | Accident Severity Index | 10% | 540 | 450 | 300 | 930 | NIL |
| | ECO score[3] | 10% | 3.0 – 3.49 | 3.3 – 3.99 | ≥ 4 | 5.37 | 10% |
| | | **Bonus Payable (as a percentage of maximum opportunity)** | | | | | **90%** |

1 Adjusted EBITDA is used for the annual bonus and is determined based on EBITDA adjusted to neutralise price effects, export taxes in Argentina and is before the LTIP provision.
2 All-in sustaining cost is adjusted to ensure comparability with the objective set at the beginning of the year and therefore disregards the impact of unbudgeted expenditure such as exploration costs, export taxes in Argentina and the LTIP provision.
3 Please refer to the Sustainability Report on page 40 for further details on the methodology of calculating the Group's ECO score (the internally designed measurement of the Company's environmental performance).

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

The Committee assessed performance against the scorecard and the CEO's performance in 2018. A number of adjustments were made in line with the Company's usual practice to maintain the quality of earnings by primarily disregarding the impact of factors outside of management's control such as the price of silver and gold (as compared to the budgeted prices), the higher provision for vesting of LTIP awards (based on relative Total Shareholder Return), and any budgetary additions approved by the Board. Hochschild has had a successful year in terms of profitable production, cost control and the brownfield exploration programme and, accordingly, the production and financial targets have been met in full. The ECO target has also been exceeded, therefore this element of the bonus also pays in full.

Safety considerations

The Committee has considered, in depth, the Group's safety performance during the year. In 2017, Hochschild implemented a three-year multi-faceted programme known as "The Safety Culture Transformation Plan". This plan comprises of short-term and longer-term actions focusing on (a) enhancing Hochschild's risk management systems, (b) establishing a leadership programme comprising workshops and initiatives to promote safe working, (c) the redesign of the annual training programmes for our workers and (d) a comprehensive programme to enhance internal communications on safety.

The Board are encouraged that the Plan appears to be having a positive impact as there have been significant reductions in the number of high potential events and lost time safety events in 2018 compared to 2017 of 46% and 35% respectively. The Plan has without doubt played a crucial role in reducing the accident frequency rate to a level which exceeds the most stretching target set for the year. This has meant that the frequency rate target for the CEO has been met in full. However, despite these positive developments, it is with regret that there were three fatalities during the year. This has meant that the objective set with reference to the accident severity rate was not met.

The Committee, taking into account the significant improvements in safety over the year, has concluded that the reduction in bonus from the failure to meet this objective represented an appropriate reduction in remuneration and therefore no further reduction was required. The Committee's assessment of performance resulted in the award of a bonus to the CEO of 90% of the maximum opportunity, which equates to 135% of salary.

### 2016 LTIP vesting

On 9 March 2016, Ignacio Bustamante was granted an award under the LTIP with a face value of US$1,400,000. 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<br>Upper tercile (67th percentile): 75% vesting<br>Median (50th percentile): 25% vesting<br>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<br>Median TSR: 25% vesting<br>Straight-line vesting between these points |

1 TSR is calculated on the average of local and common currencies.
2 The 2016 LTIP peer group comprises: Acacia Mining, Agnico-Eagle Mines, Alamos Gold, AngloGold Ashanti, Barrick Gold, Centamin Egypt, Cia des Minas Buenaventura, Coeur Mining, Endeavour Silver, Eldorado Gold, First Majestic Silver, Fortuna Silver Mines, Fresnillo, Gold Fields, Goldcorp, Hecla Mining, IAMGOLD, Kinross Gold, Newmont Mining, Pan American Silver, Petropavlovsk, Polymetal, Randgold Resources, SSR Mining, Tahoe Resources and Volcan Compania Minera.

The Company's TSR in the performance period between 1 January 2016 and 31 December 2018 ranked 92nd percentile versus that for the tailored peer group and outperformed the median of the constituents of the FTSE350 Mining Index by c.12.4% per annum. The Committee is satisfied that the vesting reflects the underlying financial performance over the performance period. Therefore, 100% of the award will vest on 9 March 2019, subject to continued employment on that date.

### 2014 ELTIP vesting

On 20 March 2014, Ignacio Bustamante was granted an award of 1,076,122 shares under the 2014 ELTIP (as adjusted for the rights issue in October 2015). Vesting was dependent on four-, five- and six-year relative TSR performance against a tailored peer group. There was no retesting of performance. Further details of the performance conditions are shown in the table below:

| | |
|---|---|
| Performance periods | 1 January 2014 to 31 December 2017 in respect of 25% of the award<br>1 January 2014 to 31 December 2018 in respect of 25% of the award<br>1 January 2014 to 31 December 2019 in respect of 50% of the award |
| Vesting dates (subject to performance) | 20 March 2018 in respect of 269,030 shares<br>20 March 2019 in respect of 269,030 shares<br>20 March 2020 in respect of 538,062 shares |
| Performance conditions | Relative TSR performance:<br>Upper decile (90th percentile): full vesting<br>Upper quartile (75th percentile): 75% vesting<br>Median (50th percentile): 25% vesting<br>Straight-line vesting between these points |
| TSR comparator group | Acacia Mining, Agnico-Eagle Mines, Alamos Gold, AngloGold Ashanti, Barrick Gold, Centamin Egypt, Cia des Minas Buenaventura, Coeur Mining, Eldorado Gold, Fresnillo, Gold Fields, Goldcorp, Hecla Mining, Highland Gold, IAMGOLD, Kinross Gold, Newmont Mining, Pan American Silver, Petropavlovsk, Polymetal, Randgold Resources, and SSR Mining. |

The second tranche of these shares vested based on the five-year period ending 31 December 2018. The Company's TSR in the performance period between 1 January 2014 and 31 December 2018 ranked 59th percentile versus that for the tailored peer group. The Committee is satisfied that the vesting reflects the robust financial and operational performance over the performance period. Therefore, 43.0% of the award will vest in March 2019, subject to continued employment on the vesting date.

### Scheme interests awarded in 2018 (audited)

Following the approval of the 2018 LTIP by shareholders at the 2018 AGM, Ignacio Bustamante was granted a cash-settled award under the LTIP with a face value of $1.4 million.

Vesting is dependent on three-year relative TSR from 1 January 2018 to 31 December 2020, 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, (ii) an act or failure to act, which is attributable (directly or indirectly) to an award-holder has resulted in, among other things, an adverse event related to health and safety, the environment or community relations, or (iii) on the occurrence of certain trigger events including material misstatement, material failure of risk management, action or omission resulting in serious reputational damage. 50% of the award is settled in cash on vesting (less tax) and 50% after tax will be required to be invested in Hochschild shares and normally required to be held for a further two years. Dividends, if any, will accrue to shares during the holding period. Further details, including vesting schedules, are provided in the table overleaf:

| Executive Director | Grant date | Performance period | Face value of award at grant | Award value for minimum performance |
|---|---|---|---|---|
| Ignacio Bustamante | 25 May 2018 | 1 January 2018 to 31 December 2020 | $1,400,000 | $350,000 |

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

1 TSR is calculated on the basis of common currency.
2 The 2018 LTIP peer group comprises: Acacia Mining, Agnico-Eagle Mines, Alamos Gold, AngloGold Ashanti, Barrick Gold, Centamin Egypt, Cia des Minas Buenaventura, Coeur Mining, Eldorado Gold, Endeavour Silver, First Majestic Silver, Fortuna Silver Mines, Fresnillo, Gold Fields, Goldcorp, Hecla Mining, IAMGOLD, Kinross Gold, Newmont Mining, Pan American Silver, Petropavlovsk, Polymetal, Randgold Resources, SSR Mining, Tahoe Resources, and Volcan Compania Minera.

Details on the leaver and change-of-control provisions in the 2018 LTIP can be found in the 2017 Remuneration Report.

### 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 2019

A summary of how the Remuneration Policy will be applied for the year ended 31 December 2019 is provided below.

### Salary

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

### Annual bonus

The maximum annual bonus opportunity for the CEO for the 2019 financial year will remain at 150% of salary. The bonus payment will be subject to performance against broadly the same measures as those used in 2018. Further disclosure of measures and targets, where not commercially sensitive, will be provided in next year's Annual Report on Remuneration. In line with Remuneration Policy, payout for 'threshold' and 'target' performance will be 50% and 75% of the maximum opportunity, respectively.

As in 2018, the Committee will assess performance against the objectives set and calculate an overall bonus score which will be applied to the maximum bonus opportunity. The bonus will be subject to malus provisions in line with the Remuneration Policy.

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 2019 within the maximum limits described in the Remuneration Policy. The performance conditions will be the same as for 2018 awards.

50% of any vested LTIP award will be paid immediately in cash, with the remaining 50% invested (on an after tax basis) in the Company's shares which are required to be held for a further two years.

Malus provisions will apply to LTIP awards granted in 2019 in line with the Remuneration Policy.

### 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] |
|---|---|---|---|---|
| | 2018 | 2017 | % change | % change |
| Base salary[2] | 700 | 700 | 0% | 6.8% |
| Taxable benefits[3] | 20 | 26 | -23.1% | n/a |
| Single-year variable | 945[4] | 875[4] | 8% | 23.8%[5] |

1 'Other employees' comprise full-time salaried employees in Peru.
2 Base salary only (i.e. excluding Statutory Supplements – see footnote 1 to table on Single total Figure of Remuneration for Executive Directors on page 83).
3 Taxable benefits include the use of a car and driver, and medical insurance (rounded to nearest $000). See footnote 2 to table on Single total Figure of Remuneration for Executive Directors on page 83).
4 The CEO's bonus is calculated with reference to base salary only, i.e. before CTS and tax rebates.
5 Estimated figure due to the unavailability of final actual data as at the date of this report.

### Relative importance of spend on pay

The table below shows the percentage change in total employee pay expenditure and shareholder distributions (that is dividends and share buybacks) from the financial year ended 31 December 2017 to the financial year ended 31 December 2018.

| Distribution to shareholders (US$000) | | | Employee remuneration (US$000) | | |
|---|---|---|---|---|---|
| 2018 | 2017 | % change | 2018 | 2017 | % change |
| 20,000[1] | 17,000[1] | 17.6% | 153,566 | 166,994 | -8.04% |

1 Which, for each year shown, comprises the interim dividend and the final dividend (or in the case of 2018, the proposed final dividend).

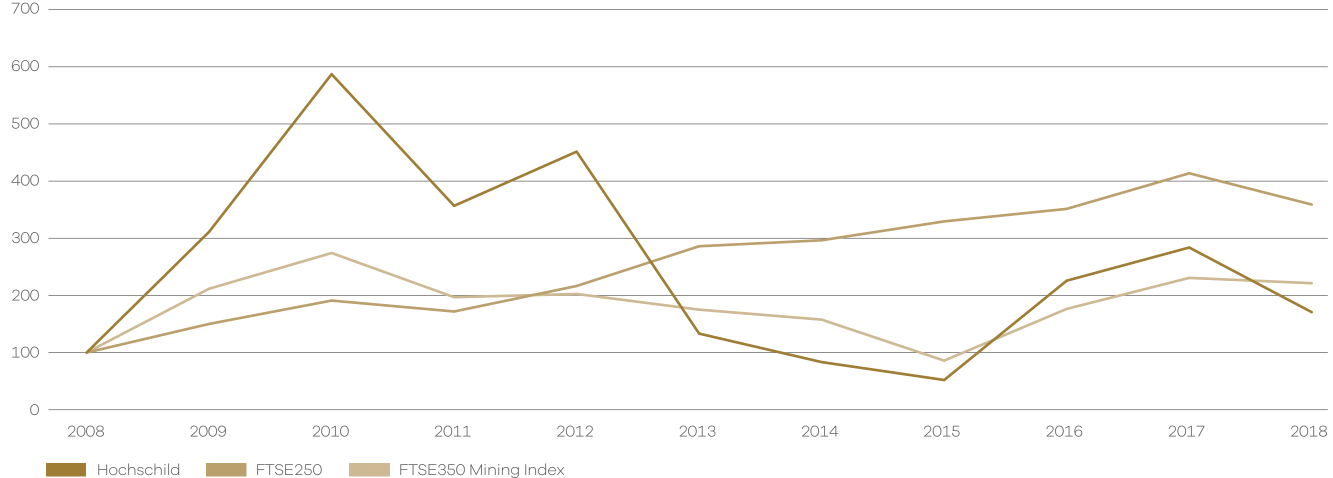
The Directors are recommending the payment of a final dividend of US$10m for the year ended 31 December 2018.

### Pay for performance

The following graph shows the TSR for the Company compared to the FTSE350 Mining Index and FTSE250 Index, assuming £100 was invested on 31 December 2008. The Board considers that the FTSE350 Mining Index is an appropriate published index as it reflects the sector that Hochschild operates in, and the FTSE250 Index provides a view of performance against a broad equity market index of which Hochschild has been a constituent for the majority of the past eight years. The table below details the CEO's single figure remuneration and actual variable pay outcomes over the same period.

**Historical TSR performance**

Growth in the value of a hypothetical £100 holding over the 10 years to 31 December 2018




| CEO | 2009 Miguel Aramburú | 2010[1] Miguel Aramburú | 2010[1] Ignacio Bustamante | 2011 Ignacio Bustamante | 2012 Ignacio Bustamante | 2013 Ignacio Bustamante | 2014 Ignacio Bustamante | 2015 Ignacio Bustamante | 2016 Ignacio Bustamante | 2017 Ignacio Bustamante | 2018 Ignacio Bustamante |
|---|---|---|---|---|---|---|---|---|---|---|---|
| CEO single figure of remuneration ($000) | 1,228 | 1,019 | 1,525 | 1,120 | 1,852 | 999 | 924 | 1,328 | 3,474 | 4,519 | 4,103 |
| Annual bonus outcome (% of maximum) | 100% | 46% | 100% | 100% | 90% | 81% | 67% | 67% | 83% | 83% | 90% |
| LTI vesting outcome (% of maximum) | 0% | 0% | 47% (LTIP) | 0% | 98% (LTIP) | 0% | 0% | 0% | 0% (ELTIP) 90% (LTIP) | 86% (ELTIP) 100% (LTIP) | 43% (ELTIP) 100% (LTIP) |

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

### Directors' interests (audited)

The interests of the Directors and their families in the ordinary shares of the Company as at 31 December 2018 are detailed in the table below.

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

| | Shares held | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Owned outright or vested at 31 Dec 2017 (or date of appointment if later) | Owned outright or vested at 31 Dec 2018 (or date of retirement if earlier) | Vested but subject to holding period | Unvested and subject to performance conditions | Unvested and subject to deferral only | Shareholding requirement (% of salary) | Current shareholding (% of salary) | Requirement met? |
| Ignacio Bustamante | 650,448 | 1,221,317 | 0 | 1,403,722 | 0 | 250% | 346%[1] | Yes |
| Eduardo Hochschild | 258,565,373 | 258,565,373 | | | | | | |
| Dr Graham Birch | 33,750 | 33,750 | | | | | | |
| Jorge Born Jr | – | – | | | | | | |
| Eileen Kamerick | – | – | | | | | | |
| Michael Rawlinson | – | – | | | | | | |
| Dionisio Romero | – | – | | | | | | |
| Sanjay Sarma | – | – | | | | | | |

1 Using the Company's closing share price and GBP/USD exchange rate as at 31 December 2018 (being the last trading day of the year) of 156.05p and £1: $1.27 respectively.

There have been no changes to Directors' shareholdings since 31 December 2018.

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

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

| Ignacio Bustamante | 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 |
|---|---|---|---|---|---|---|---|
| DBP[3] | 16.03.16 | 87p | Nil | 40,383 | £35,133 | n/a | 16.03.18 |
| 2014 ELTIP | 20.03.14 | 155p | Nil | 269,030 | £416,996 | 01.01.14 – 31.12.17 | 20.03.18 |
| 2014 ELTIP | 20.03.14 | 155p | Nil | 269,030 | £416,996 | 01.01.14 – 31.12.18 | 20.03.19 |
| 2014 ELTIP | 20.03.14 | 155p | Nil | 538,062 | £833,996 | 01.01.14 – 31.12.19 | 20.03.20 |
| 2015 LTIP | 18.03.15 | n/a | n/a | n/a | $1m | 01.01.15 – 31.12.17 | 18.03.18 |
| 2016 LTIP | 09.03.16 | n/a | n/a | n/a | $1.4m | 01.01.16 – 31.12.18 | 09.03.19 |
| 2017 LTIP | 08.03.17 | n/a | n/a | n/a | $1.4m | 01.01.17 – 31.12.19 | 08.03.20 |
| 2018 LTIP[4] | 25.05.18 | n/a | n/a | n/a | $1.4m | 01.01.18 – 31.12.20 | 25.05.21 |
| RSP[5] | 30.12.14 | 77p | Nil | 298,314 | £229,046 | n/a | 30.12.18 |
| RSP | 30.12.14 | 77p | Nil | 596,630 | £458,094 | n/a | 30.12.19 |

1 These figures have been updated for the October 2015 rights issue and, in the case of the share price at grant, the share price has been rounded to the nearest penny.
2 The face values of equity-settled incentives are stated in Pounds Sterling, and cash-settled incentives, namely Long-Term Incentive Plan awards, are stated in US dollars (to be paid in US dollars or its equivalent in Peruvian Nuevos Soles). These figures have been updated for the October 2015 rights issue.
3 50% of the 2016 DBP award (which relates to the deferred portion of the 2015 annual bonus) vested in March 2018.
4 See 'Scheme interests awarded in 2018' for further details.
5 This tranche of the 2014 RSP vested on 30 December 2018.

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

### External appointments

The table below details the fees received and retained by Ignacio Bustamante, as the only Executive Director in office during 2018, in respect of his external Directorships.

| Name of company | Fee received |
|---|---|
| Profuturo AFP | US$32,200 |
| Scotiabank Peru SAA | US$52,440 |

Signed on behalf of the Board

**Michael Rawlinson**
Chairman of the Remuneration Committee
19 February 2019

# STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

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

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

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

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

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

## Opinion

In our opinion:

- Hochschild Mining plc's Group financial statements and Parent Company financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2018 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRS as adopted by the European Union as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006, and, as regards the Group financial statements, Article 4 of the IAS Regulation.

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

| Group | Parent company |
|---|---|
| Consolidated statement of financial position as at 31 December 2018 | Statement of financial position as at 31 December 2018 |
| Consolidated income statement for the year then ended | Statement of changes in equity for the year then ended |
| Consolidated statement of comprehensive income for the year then ended | Statement of cash flows for the year then ended |
| Consolidated statement of changes in equity for the year then ended | Related notes 1 to 13 to the financial statements including a summary of significant accounting policies |
| Consolidated statement of cash flows for the year then ended | |
| Related notes 1 to 36 to the consolidated financial statements, including a summary of significant accounting policies | |

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

## Basis for opinion

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

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

## Conclusions relating to principal risks, going concern and viability statement

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

- the disclosures in the Annual Report set out on pages 50 to 54 that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation set out on page 69 in the Annual Report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- the Directors' statement set out on page 60 of the Directors' Report 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
- whether the Directors' statement in relation to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the Directors' explanation set out on page 55 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.

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

Overview of our audit approach

| | |
|---|---|
| **Key audit matters** | – Recoverability of the carrying value of the Group's mining assets<br>– Revenue recognition<br>– Mine rehabilitation provisions |
| **Audit scope** | – We performed an audit of the complete financial information of three components, audit procedures on specific balances for a further two components and for the remaining 13 components we performed other audit procedures.<br>– The components where we performed full or specific audit procedures accounted for 98% of Adjusted EBIDTA, 100% of Revenue and 97% of Total assets. |
| **Materiality** | – Overall Group materiality of US$5.4m which represents 2% of Adjusted EBITDA. |

Key audit matters

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

Strategic report
Governance
Financial statements

| Risk | Our response to the risk | Key observations communicated to the Audit Committee |
|---|---|---|
| **Recoverability of the carrying value of the Group's mining assets**<br>Refer to the Audit Committee Report (page 66); Accounting policies (page 104); and Notes 15, 16 and 17 of the Consolidated Financial Statements (pages 126 to 129)<br><br>At 31 December 2018 the carrying values of the Group's mining assets were:<br><br>Property, plant and equipment: US$849.2m (2017: US$895.7m);<br><br>Evaluation and exploration assets: US$155.2 (2017: US$147.4); and Intangible assets: US$24.4m (2017: US$24.5m).<br><br>IFRS requires companies to test their assets by cash generating units (CGUs) for impairment whenever an indicator exists. An intangible asset with an indefinite useful life is tested for impairment at least annually and whenever there is an indication that the asset might be impaired. For the Group, CGUs represent individual mines and advanced exploration projects.<br><br>Additionally, IFRS requires companies to test the CGUs for impairment reversal at the end of each reporting period by assessing whether there is any indicator that an impairment loss recognised in prior periods (for an asset other than goodwill) may no longer exist, or may have decreased.<br><br>For the Group, the appropriate CGUs are:<br><br>Operating mines: Arcata, Pallancata, Inmaculada and San Jose; and<br><br>Advanced exploration projects: San Felipe, Volcan, Azuca and Crespo.<br><br>The Volcan CGU includes an intangible asset with an indefinite useful life and therefore is tested for impairment at least annually and whenever there is an indication that the asset might be impaired.<br><br>As disclosed in note 15 of the financial statements, indicators of impairment were identified in 2018 with respect to the San Jose and San Felipe CGUs, and therefore management performed impairment tests on those CGUs.<br><br>As a consequence of the above indicators, management estimated the recoverable amount of these assets which did not result in the recognition of an impairment charge or an impairment reversal at any of the CGUs identified above.<br><br>There is a risk that the carrying values of the Group's mining assets might not be recoverable or could require additional reversal of impairments previously recognised. The risk relating to recoverability of the carrying value of mining assets has remained stable in comparison to the prior year. | Our approach focused on the following procedures:<br><br>– Obtained an understanding of management's process and key controls over impairment of mining assets, and walked through the controls, in order to assess their design effectiveness in supporting the prevention, detection or correction of material errors in the financial statements.<br>– Obtained management's assessment of whether any indicators of impairment or reversal of impairment were present during 2018, following the requirements of IAS 36 and IFRS 6.<br>– We challenged the validity and completeness of the indicators identified by management. For this purpose, we considered management's assessment by reference to our knowledge of the business and the following procedures:<br><br>– We independently obtained spot and analyst forecasts of future gold and silver prices as at 31 December 2017 and 2018, and assessed whether the movements were indicators of impairment or impairment reversal;<br>– We obtained and tested relevant support of management's position on market interest rates and other macro-economic factors;<br>– For all operating mines, we assessed the economic performance of the CGUs during the year and identified progress against approved mine plans and budgets, taking into account updated reserves and resources estimates.<br>– For exploration projects we obtained an understanding of management's plans to recover the carrying value in full from successful development or by sale.<br><br>– We obtained the recoverable value models from management for all those CGUs requiring a full impairment assessment and assessed the appropriateness of the methodology applied in preparing the model as well as the arithmetical accuracy of management's model.<br>– With respect to the recoverable value model for the San Jose CGU, we performed the following procedures:<br><br>– We challenged the appropriateness of key assumptions such as price, production volumes, grades, operating cost and capex by comparing to third party/ independent sources or other evidence and performed sensitivity analyses on significant inputs;<br>– We agreed the main inputs to the approved mine plans or budgets, and compared them with historical actual figures where appropriate. Furthermore, we performed an assessment of the accuracy of management forecasting process; and<br>– We involved our valuation specialists to assist us in assessing the appropriateness of the discount rate used in the calculation.<br><br>– With respect to the recoverable value model for the San Felipe and Volcan CGUs, we agreed the main inputs used to information from third party/ independent sources.<br>– In addition, for the Volcan and San Felipe CGUs, we involved our valuation specialists to assist us in assessing the appropriateness of the methodology applied to determine the carrying value of the CGU as well as the key assumptions used therein.<br>– We compared the calculated recoverable value of the San Jose, Volcan and San Felipe CGUs to the associated carrying value, assessing whether any impairment charges, or reversal of previously recognised impairment charges, were necessary.<br>– Furthermore, we considered the appropriateness, sufficiency, and clarity of the impairment-related disclosures provided in the financial statements and disclosures of sensitivities.<br><br>We performed audit procedures at the Group level over this risk area covering 100% of the risk amounts. | As a result of the audit procedures performed, we have concluded that management's impairment indicator analysis and impairment assessment for the Group's CGUs has been carried out appropriately and in accordance with the requirements of IFRS.<br><br>We further concluded that the significant assumptions used in the recoverable value models prepared by management were appropriate, and when applicable, fell within the range of acceptable outcomes.<br><br>Based on the procedures performed, we concur with management's assessment that the carrying value of the San Jose, Volcan and San Felipe CGUs are neither further impaired nor require a reversal of impairment as at 31 December 2018.<br><br>We concluded that the related disclosures in the Group financial statements are appropriate. |

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

| Risk | Our response to the risk | Key observations communicated to the Audit Committee |
|---|---|---|
| **Revenue recognition**<br>Refer to the Audit Committee Report (page 66); Accounting policies (page 104); and Note 4 of the Consolidated Financial Statements (page 118)<br><br>For the year ended 31 December 2018 the Group recognised revenue from operations of US$704.3m (2017: US$722.6m).<br><br>The number of sales contracts with high value of transactions and complexity of terms that define when the title, risks and rewards are transferred to the customer, give rise to the risk that revenue is not recognised in the correct period.<br><br>The risk relating to revenue recognition has remained stable in comparison to the prior year as no significant changes were noted in sales agreements. However, we no longer consider the valuation of the embedded derivative to be part of the significant risk, as gain on embedded derivatives is not material, and there have been no historical misstatements related to the estimation of the provisional price of sales. | Our approach focused on the following procedures:<br><br>– Obtained an understanding of the key controls around the revenue recognition process to ensure that they are designed effectively, supporting the prevention, detection or correction of misstatements in the reported revenue figures;<br>– Read the terms and conditions of the sales contracts and ensured they have been accounted for in line with the Group's revenue recognition policy;<br>– Performed detailed substantive testing procedures over the revenue transactions. This included: agreeing the main inputs to supporting evidence (such as provisional and final invoices, credit/debit notes, bill of ladings, market prices, agreements and bank statements), recalculating the amounts invoiced and recorded as revenue, performing cut-off testing to ensure revenue is recognised in the correct period;<br>– For open sales where provisional pricing applies, we verified with external sources that inputs used were appropriate and recalculated the provisional price adjustment to ensure it was correctly measured;<br>– Performed analytical review procedures comparing current year to prior year, investigating unusual variances, taking into account: commodity type, quantities sold, prices (including discounts) and customers;<br>– Investigated and understood the nature of any significant credits raised post year-end to ensure that transactions were recorded at the correct value in the relevant period;<br>– Tested reconciliation of year-end inventory by agreeing the annual movement of production and sales transactions to the respective reports;<br>– Ensured that the impacts from applying IFRS 15 has been appropriately accounted for within the financial statements, including the relevant disclosures; and<br>– Read and assessed the financial statements disclosures to ensure that presentation and all the disclosure requirements in respect of revenue and the provisional pricing have been included.<br><br>We performed audit procedures in two components under full scope audit, covering 100% of the risk amount, supervised by the Group team. | As a result of the procedures performed we concluded that the provisions for mine rehabilitation activities have been recognised appropriately in accordance with IFRS, and that all required disclosures have been included in the Group financial statements.<br><br>Based on the procedures performed, we consider the judgments and assumptions made by management and the external specialists to be reasonable. |
| **Mine rehabilitation provisions**<br>Refer to the Audit Committee Report (page 66); Accounting policies (page 104); and Note 25 of the Consolidated Financial Statements (page 136)<br><br>At 31 December 2018 management has recorded a mine rehabilitation provision of US$93.9m (2017: US$100.1m).<br><br>Management is required to provide for the costs of environmental rehabilitation and site restoration in accordance with IAS 37 'Provisions, contingent liabilities and contingent assets'.<br><br>Given the high level of judgement and estimation in assessing the method, timing and quantum of the cash flows required to rehabilitate mines, this is an area of audit focus.<br><br>The risk relating to mine rehabilitation provisions has remained stable in comparison to the prior year, however as certain mines are approaching the end of life, this matter still had a greater effect on directing the efforts of the engagement team and therefore we consider it as a key audit matter. | Our approach consisted on the following procedures:<br><br>– Obtained an understanding of management's process to estimate the future restoration costs;<br>– Obtained a detailed understanding of the mine closure reports issued by the external specialists engaged by the Group to update the mine closure plans, and held discussions directly with the specialists, to understand their work and assess the sufficiency of the Group's restoration provisions;<br>– Assessed the objectiveness and competence of the external and internal specialists used by management;<br>– Understood the main changes or lack of changes in estimates and new restoration costs and challenged the rationale behind these. For this purpose, we held discussions with management and the third-party specialist as well as performed comparison to prior year figures and enquired about significant variances;<br>– Performed an overall recalculation of the mine rehabilitation provision, including assessing the appropriateness of the discount rate applied by agreeing the nominal risk-free rate according to the life of each mine unit to independent sources; and<br>– Assessed the appropriateness of the accounting for the changes to these provisions, and ensured that these changes and the provisions were appropriately reflected and disclosed in the Group financial statements.<br><br>We performed audit procedures on two full scope components covering 100% of this risk amount, under the supervision of the Group team | As a result of the procedures performed we concluded that the provisions for mine rehabilitation activities have been recognised appropriately in accordance with IFRS, and that all required disclosures have been included in the Group financial statements.<br><br>Based on the procedures performed, we consider the judgments and assumptions made by management and the external specialists to be reasonable. |

The key audit matters in the current year audit report have not changed since the prior year.

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

**An overview of the scope of our audit**

Tailoring the scope

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

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, of the 18 reporting components of the Group, we selected three components covering entities within the UK, Peru and Argentina, which represent the principal business units within the Group.

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

The reporting components where we performed audit procedures accounted for 98% (2017: 97%) of the Group's Adjusted EBITDA (on an absolute basis), 100% (2017: 100%) of the Group's Revenue and 97% (2017: 96%) of the Group's Total assets. For the current year, the full scope components contributed 98% (2017: 97%) of the Group's Adjusted EBITDA, 100% (2017: 100%) of the Group's Revenue and 89% (2017: 89%) of the Group's Total assets. The specific scope components contributed 8% (2017: 7%) of the Group's Total assets. The audit scope of these specific scope components may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant accounts tested for the Group.

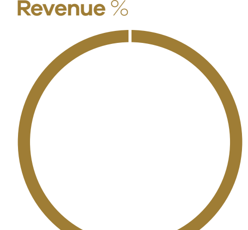
Of the remaining 13 components that together represent 2% of the Group's Adjusted EBITDA, none are individually greater than 2% of the Group's Adjusted EBITDA. For these components, we performed other procedures, including analytical reviews, testing of consolidation journals and enquiry of management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

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

**Adjusted EBITDA** %

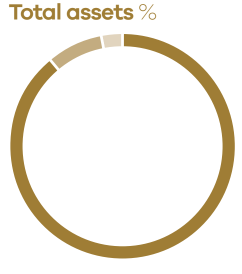
- Full scope components **98%**
- Other procedures **2%**

**Revenue** %



- Full scope components **100%**

**Total assets** %



- Full scope components **89%**
- Specific scope components **8%**
- Other procedures **3%**

**Involvement with component teams**

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

The Group audit team continued to follow a programme of planned visits that has been designed to ensure that the Senior Statutory Auditor visits each of the primary operating locations where the Group audit scope was focused. During the current year's audit cycle, multiple visits were undertaken by the primary audit team (including the Senior Statutory Auditor) to the component teams in Peru and Argentina. These visits involved discussing the audit approach with the component team and any issues arising from their work, and meetings with local management. In addition, the primary team interacted regularly with the component teams where appropriate during various stages of the audit, were responsible for the scope and direction of the audit process, including attending planning and closing meetings, and reviewed key audit working papers on risk areas. This, together with the additional procedures performed at Group level, gave us appropriate evidence for our opinion on the Group financial statements.

**Our application of materiality**

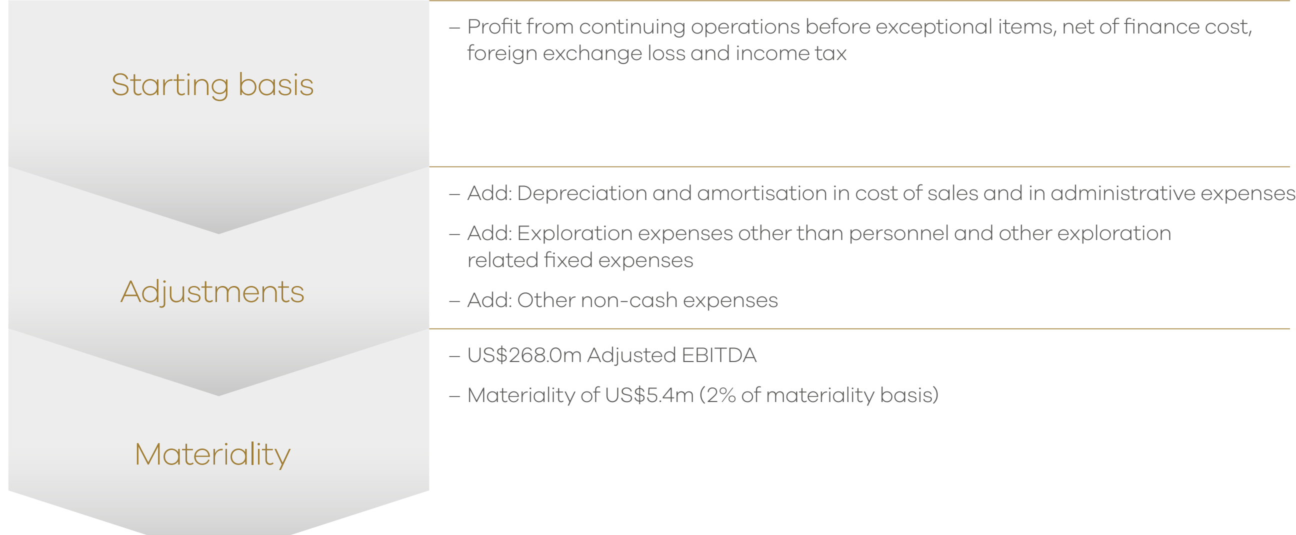
We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

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

**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$5.4 million (2017: US$6.0 million), which is 2% (2017: 2%) of the Group's Adjusted EBITDA as reported in the Strategic Report. We believe that Adjusted EBITDA provides us with an earnings-based measure that is significant to users of the financial statements. This was considered 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. In addition, the Adjusted EBITDA measure is used to assess the Group's compliance with key restrictive covenants on the Group's borrowings.

We determined materiality for the Parent Company to be US$20.9 million (2017: US$21.1 million), which is 1% (2017: 1%) of Equity. The Parent Company materiality is higher than the Group materiality as it is based on Equity, which we considered to be an appropriate basis for materiality for a holding company, as the users of the financial statements focus on a capital-based measured.




During the course of our audit, we reassessed initial materiality and updated the materiality figures based on the forecasted EBITDA figures as at 30 November 2018. The Group materiality was revised downwards due to a reduction in the Adjusted EBITDA. Additionally, upon receipt of final year-end figures we reassessed materiality and concluded it remained appropriate.

**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% (2017: 75%) of our planning materiality, namely US$4.0m (2017: US$4.5m). We have set performance materiality at this percentage due to our understanding of the Group's control environment, and that there have been no significant events that would alter our expectation that there is a low likelihood of misstatements that would be material individually or in aggregate to the financial statements.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement of that component. In the current year, the range of performance materiality allocated to components was US$2.0m to US$4.1m (2017: US$2.2m to US$3.8m).

**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$270k (2017: US$300k), 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.

**Other information**

The other information comprises the information included in the Annual Report set out on pages 1 to 90, including Strategic Report and Governance sections (including Directors' Report, Corporate Governance Report, Supplementary Information, Directors' Remuneration Report and Statement of Directors' Responsibilities), other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information.

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

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

We have nothing to report in this regard.

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

- **Fair, balanced and understandable set out on page 60** – the statement given by the Directors that they consider the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit Committee reporting set out on page 66** – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code set out on page 61** – the parts of the Directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

**Opinions on other matters prescribed by the Companies Act 2006**

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' report have been prepared in accordance with applicable legal requirements

**Matters on which we are required to report by exception**

In the light of the knowledge and understanding of the Group and the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

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

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

**Responsibilities of Directors**

As explained more fully in the Directors' Responsibilities Statement set out on page 90, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

**Auditor's responsibilities for the audit of the financial statements**

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

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

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

Our approach was as follows:

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

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

**Other matters we are required to address**
- We were appointed by the company on 16 October 2006 to audit the financial statements for the year ending 31 December 2006 and subsequent financial periods. Following a competitive tender process, we were reappointed as auditor of the Company for the period ending 31 December 2016 and subsequent financial periods.
- The period of total uninterrupted engagement including previous renewals and reappointments is 13 years, covering periods from our initial appointment in 2006 through to the year ended 31 December 2018.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent Company and we remain independent of the Group and the Parent Company in conducting the audit.
- The audit opinion is consistent with the additional report to the Audit Committee

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

**Mirco Bardella**
Senior statutory auditor
for and on behalf of Ernst & Young LLP, Statutory Auditor

London
19 February 2019

# FINANCIAL STATEMENTS

## CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2018

| | | Year ended 31 December 2018 | | | Year ended 31 December 2017 | | |
|---|---|---|---|---|---|---|---|
| | Notes | Before exceptional items US$000 | Exceptional items (note 10) US$000 | Total US$000 | Before exceptional items US$000 | Exceptional items (note 10) US$000 | Total US$000 |
| **Continuing operations** | | | | | | | |
| **Revenue** | 3,4 | **704,290** | **–** | **704,290** | 722,572 | – | 722,572 |
| Cost of sales | 5 | **(531,788)** | **–** | **(531,788)** | (549,049) | – | (549,049) |
| **Gross profit** | | **172,502** | **–** | **172,502** | 173,523 | – | 173,523 |
| Administrative expenses | 6 | **(45,783)** | **–** | **(45,783)** | (51,283) | – | (51,283) |
| Exploration expenses | 7 | **(34,381)** | **–** | **(34,381)** | (17,199) | – | (17,199) |
| Selling expenses | 8 | **(10,068)** | **–** | **(10,068)** | (11,024) | – | (11,024) |
| Other income | 11 | **8,062** | **–** | **8,062** | 10,192 | – | 10,192 |
| Other expenses | 11 | **(17,144)** | **–** | **(17,144)** | (11,549) | – | (11,549) |
| Impairment and write-off of non-current assets, net | 10 | **(384)** | **–** | **(384)** | (405) | (2,753) | (3,158) |
| **Profit/(loss) from continuing operations before net finance income/(cost), foreign exchange loss and income tax** | | **72,804** | **–** | **72,804** | 92,255 | (2,753) | 89,502 |
| Finance income | 12 | **2,048** | **–** | **2,048** | 5,927 | – | 5,927 |
| Finance costs | 10 and 12 | **(11,194)** | **(16,346)** | **(27,540)** | (26,095) | – | (26,095) |
| Foreign exchange loss | | **(8,946)** | **–** | **(8,946)** | (5,257) | – | (5,257) |
| **Profit/(loss) from continuing operations before income tax** | | **54,712** | **(16,346)** | **38,366** | 66,830 | (2,753) | 64,077 |
| Income tax (expense)/benefit | 13 | **(36,487)** | **4,822** | **(31,665)** | (13,475) | 3,279 | (10,196) |
| **Profit/(loss) for the year from continuing operations** | | **18,225** | **(11,524)** | **6,701** | 53,355 | 526 | 53,881 |
| Attributable to: | | | | | | | |
| Equity shareholders of the Company | | **24,360** | **(11,524)** | **12,836** | 41,035 | 526 | 41,561 |
| Non-controlling interests | | **(6,135)** | **–** | **(6,135)** | 12,320 | – | 12,320 |
| | | **18,225** | **(11,524)** | **6,701** | 53,355 | 526 | 53,881 |
| Basic earnings/(loss) per ordinary share from continuing operations for the year (expressed in US dollars per share) | 14 | **0.05** | **(0.02)** | **0.03** | 0.08 | – | 0.08 |
| Diluted earnings/(loss) per ordinary share from continuing operations for the year (expressed in US dollars per share) | 14 | **0.05** | **(0.02)** | **0.03** | 0.08 | – | 0.08 |

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018

| | | Year ended 31 December | |
|---|---|---|---|
| | Notes | 2018 US$000 | 2017 US$000 |
| **Profit for the year** | | **6,701** | 53,881 |
| **Other comprehensive income to be reclassified to profit or loss in subsequent periods:** | | | |
| Exchange differences on translating foreign operations | | **4** | 139 |
| Change in fair value of financial assets at fair value through other comprehensive income ('OCI') | | **(6,447)** | – |
| Change in fair value of available-for-sale financial assets | 19 | **–** | (323) |
| Recycling of the gain on available-for-sale financial assets | | **–** | (1,354) |
| Other comprehensive loss for the year, net of tax | | **(6,443)** | (1,538) |
| **Total comprehensive income for the year** | | **258** | 52,343 |
| **Total comprehensive income attributable to:** | | | |
| Equity shareholders of the Company | | **6,393** | 40,023 |
| Non-controlling interests | | **(6,135)** | 12,320 |
| | | **258** | 52,343 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018

| | Notes | As at 31 December 2018 US$000 | 2017 US$000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 15 | **849,172** | 895,666 |
| Evaluation and exploration assets | 16 | **155,241** | 147,399 |
| Intangible assets | 17 | **24,363** | 24,544 |
| Financial assets at fair value through other comprehensive income ('OCI') | 18 | **5,296** | – |
| Available-for-sale financial assets | 18 | **–** | 6,264 |
| Trade and other receivables | 19 | **5,451** | 7,487 |
| Other financial assets | 35(e) | **47** | 1,333 |
| Deferred income tax assets | 27 | **1,504** | 2,400 |
| | | **1,041,074** | 1,085,093 |
| **Current assets** | | | |
| Inventories | 20 | **58,035** | 56,678 |
| Trade and other receivables | 19 | **78,736** | 81,066 |
| Income tax receivable | | **20,733** | 21,241 |
| Other financial assets | 35(e) | **–** | 1,258 |
| Cash and cash equivalents | 21 | **79,704** | 256,988 |
| | | **237,208** | 417,231 |
| **Total assets** | | **1,278,282** | 1,502,324 |
| **EQUITY AND LIABILITIES** | | | |
| **Capital and reserves attributable to shareholders of the Parent** | | | |
| Equity share capital | 26 | **225,409** | 224,315 |
| Share premium | 26 | **438,041** | 438,041 |
| Treasury shares | 26 | **–** | (140) |
| Other reserves | 26 | **(223,156)** | (217,061) |
| Retained earnings | | **278,995** | 286,356 |
| | | **719,289** | 731,511 |
| **Non-controlling interests** | | **71,003** | 90,177 |
| **Total equity** | | **790,292** | 821,688 |
| **Non-current liabilities** | | | |
| Trade and other payables | 23 | **787** | 1,081 |
| Borrowings | 24 | **50,000** | 291,955 |
| Provisions | 25 | **94,640** | 104,107 |
| Deferred income | 22 | **31,966** | 30,409 |
| Deferred income tax liabilities | 27 | **71,231** | 56,040 |
| | | **248,624** | 483,592 |
| **Current liabilities** | | | |
| Trade and other payables | 23 | **125,475** | 116,779 |
| Borrowings | 24 | **107,067** | 67,863 |
| Provisions | 25 | **3,153** | 6,203 |
| Deferred income | 22 | **400** | 400 |
| Income tax payable | | **3,271** | 5,799 |
| | | **239,366** | 197,044 |
| **Total liabilities** | | **487,990** | 680,636 |
| **Total equity and liabilities** | | **1,278,282** | 1,502,324 |

These financial statements were approved by the Board of Directors on 19 February 2019 and signed on its behalf by:

**Ignacio Bustamante**
Chief Executive Officer
19 February 2019

## CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018

| | Notes | Year ended 31 December 2018 US$000 | 2017 US$000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash generated from operations | 31 | **222,667** | 287,799 |
| Interest received | | **2,337** | 1,445 |
| Interest paid | | **(28,758)** | (23,942) |
| Payment of mine closure costs | 25 | **(4,494)** | (4,359) |
| Income tax, special mining tax and mining royalty paid | | **(5,810)** | (27,024) |
| **Net cash generated from operating activities** | | **185,942** | 233,919 |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | | **(114,498)** | (119,630) |
| Purchase of evaluation and exploration assets | 16 | **(10,221)** | (4,878) |
| Purchase of intangibles | 17 | **(1,907)** | (16) |
| Purchase of financial assets at fair value through OCI | 18 | **(6,433)** | – |
| Purchase of available-for-sale financial assets | | **–** | (4,383) |
| Proceeds from sale of financial assets at fair value through OCI | | **954** | – |
| Proceeds from sale of available-for-sale financial assets | | **–** | 1,567 |
| Proceeds from sale of other assets | 18 | **30** | 1,570 |
| Proceeds from deferred income | 22 | **2,000** | 4,000 |
| Proceeds from sale of property, plant and equipment | | **94** | 716 |
| **Net cash used in investing activities** | | **(129,981)** | (121,054) |
| **Cash flows from financing activities** | | | |
| Proceeds of borrowings | 24 | **266,500** | 69,500 |
| Repayment of borrowings | 24 | **(463,393)** | (38,000) |
| Purchase of treasury shares | | **(579)** | – |
| Dividends paid to non-controlling interests | 28 | **(10,829)** | (12,585) |
| Dividends paid | 28 | **(19,999)** | (13,996) |
| **Cash flows generated from/(used in) financing activities** | | **(228,300)** | 4,919 |
| Net (decrease)/increase in cash and cash equivalents during the year | | **(172,339)** | 117,784 |
| Exchange difference | | **(4,945)** | (775) |
| Cash and cash equivalents at beginning of year | | **256,988** | 139,979 |
| **Cash and cash equivalents at end of year** | 21 | **79,704** | 256,988 |

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
AS AT 31 DECEMBER 2018

| | | | | | Other reserves | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Notes | Equity share capital US$000 | Share premium US$000 | Treasury shares US$000 | Unrealised gain on available-for-sale financial assets and financial assets at fair value through OCI US$000 | Dividends expired US$000 | Cumulative translation adjustment US$000 | Merger reserve US$000 | Share-based payment reserve US$000 | Total other reserves US$000 | Retained earnings US$000 | Capital and reserves attributable to shareholders of the Parent US$000 | Non-controlling interests US$000 | Total equity US$000 |
| Balance at 1 January 2017 | | 224,315 | 438,041 | (426) | 740 | – | (13,851) | (210,046) | 5,869 | (217,288) | 258,269 | 702,911 | 90,442 | 793,353 |
| Other comprehensive income/(expense) | | – | – | – | (1,677) | – | 139 | – | – | (1,538) | – | (1,538) | – | (1,538) |
| Profit for the year | | – | – | – | – | – | – | – | – | – | 41,561 | 41,561 | 12,320 | 53,881 |
| Total comprehensive income/(expense) for the year | | – | – | – | (1,677) | – | 139 | – | – | (1,538) | 41,561 | 40,023 | 12,320 | 52,343 |
| Exercise of share options | 26(b) | – | – | 286 | – | – | – | – | (48) | (48) | (238) | – | – | – |
| Dividends | 28 | – | – | – | – | – | – | – | – | – | (13,996) | (13,996) | – | (13,996) |
| Dividends to non-controlling interests | 28 | – | – | – | – | – | – | – | – | – | – | – | (12,585) | (12,585) |
| Share-based payments | 26(c) | – | – | – | – | – | – | – | 1,813 | 1,813 | 760 | 2,573 | – | 2,573 |
| Balance at 31 December 2017 | | 224,315 | 438,041 | (140) | (937) | – | (13,712) | (210,046) | 7,634 | (217,061) | 286,356 | 731,511 | 90,177 | 821,688 |
| Other comprehensive income/(expense) | | – | – | – | (6,447) | – | 4 | – | – | (6,443) | – | (6,443) | – | (6,443) |
| Profit for the year | | – | – | – | – | – | – | – | – | – | 12,836 | 12,836 | (6,135) | 6,701 |
| Total comprehensive income/(expense) for the year | | – | – | – | (6,447) | – | 4 | – | – | (6,443) | 12,836 | 6,393 | (6,135) | 258 |
| Sale of financial assets at fair value through OCI | | – | – | – | 3,060 | – | – | – | – | 3,060 | (3,060) | – | – | – |
| Issuance of shares | 26(a) | 1,094 | – | – | – | – | – | – | – | – | – | 1,094 | – | 1,094 |
| Exercise of share options | 26(b) | – | – | 719 | – | – | – | – | (4,675) | (4,675) | 2,862 | (1,094) | – | (1,094) |
| Expiration of dividends | | – | – | – | – | 62 | – | – | – | 62 | – | 62 | – | 62 |
| Dividends | 28 | – | – | – | – | – | – | – | – | – | (19,999) | (19,999) | – | (19,999) |
| Dividends to non-controlling interests | 28 | – | – | – | – | – | – | – | – | – | – | – | (13,039) | (13,039) |
| Purchase of treasury shares | | – | – | (579) | – | – | – | – | – | – | – | (579) | | (579) |
| Share-based payments | 26(c) | – | – | – | – | – | – | – | 1,901 | 1,901 | – | 1,901 | – | 1,901 |
| **Balance at 31 December 2018** | | 225,409 | 438,041 | – | (4,324) | 62 | (13,708) | (210,046) | 4,860 | (223,156) | 278,995 | 719,289 | 71,003 | 790,292 |

## 1 Corporate information

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

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

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

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

These consolidated financial statements were approved for issue by the Board of Directors on 19 February 2019.

The Group´s subsidiaries are as follows:

| | | | Equity interest at 31 December | |
|---|---|---|---|---|
| Company | Principal activity | Country of incorporation | **2018 %** | 2017 % |
| Hochschild Mining (Argentina) Corporation S.A.[1] | Holding company | Argentina | **100** | 100 |
| MH Argentina S.A.[2] | Exploration office | Argentina | **100** | 100 |
| Minera Santa Cruz S.A.[1 and 8] | Production of gold and silver | Argentina | **51** | 51 |
| Minera Hochschild Chile S.C.M.[3] | Exploration office | Chile | **100** | 100 |
| Andina Minerals Chile Ltd.[3] | Exploration office | Chile | **100** | 100 |
| Southwest Minerals (Yunnan) Inc.[4] | Exploration office | China | **100** | 100 |
| Hochschild Mining Holdings Limited[5] | Holding company | England and Wales | **100** | 100 |
| Hochschild Mining Ares (UK) Limited[5] | Administrative office | England and Wales | **100** | 100 |
| Southwest Mining Inc.[4] | Exploration office | Mauritius | **100** | 100 |
| Southwest Minerals Inc.[4] | Exploration office | Mauritius | **100** | 100 |
| Minera Hochschild Mexico, S.A. de C.V.[6] | Exploration office | Mexico | **100** | 100 |
| Hochschild Mining (Peru) S.A.[4] | Holding company | Peru | **100** | 100 |
| Compañía Minera Ares S.A.C.[4] | Production of gold and silver | Peru | **100** | 100 |
| Compañía Minera Arcata S.A.[4] | Production of gold and silver | Peru | **99.1** | 99.1 |
| Empresa de Transmisión Aymaraes S.A.C.[4] | Power transmission | Peru | **100** | 100 |
| Minera Antay S.A.C.[4] | Exploration office | Peru | **100** | 100 |
| Hochschild Mining (US) Inc.[7] | Holding company | USA | **100** | 100 |

1 Registered address: Av. Santa Fe 2755, floor 9, Buenos Aires, Argentina.
2 Registered address: Sargento Cabral 124, Comodoro Rivadavia, Provincia de Chubut, Argentina.
3 Registered address: Av. Apoquindo 4775, office 1002, Santiago de Chile, Chile.
4 Registered address: La Colonia 180, Santiago de Surco, Lima, Peru.
5 Registered address: 17 Cavendish Square, London, W1G 0PH, United Kingdom.
6 Registered address: Bustamante N 2106, Col Altavista, CP 31200, Chihuahua, Ciudad de Mexico, Mexico.
7 Registered address: 1025 Ridgeview Dr. 300, Reno, Nevada 89519, USA.
8 The Group has a 51% interest in Minera Santa Cruz S.A., while the remaining 49% is held by a non-controlling interest. The significant financial information in respect of this subsidiary before intercompany eliminations as at and for the years ended 31 December 2018 and 2017 is as follows:

| | As at 31 December | |
|---|---|---|
| | **2018 US$000** | 2017 US$000 |
| Non-current assets | **173,637** | 184,852 |
| Current assets | **67,317** | 103,792 |
| Non-current liabilities | **(56,894)** | (62,745) |
| Current liabilities | **(42,015)** | (44,726) |
| Equity | **(142,045)** | (181,173) |
| Revenue | **205,367** | 227,094 |
| Profit for the year and total comprehensive income | **(12,518)** | 25,147 |
| Net cash generated from operating activities | **38,707** | 58,308 |
| Net cash used in investing activities | **(44,488)** | (36,199) |
| Cash flow used in financing activities | **(22,617)** | (17,884) |

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

## 2 Significant accounting policies

### (a) Basis of preparation

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

The basis of preparation and accounting policies used in preparing the consolidated financial statements for the years ended 31 December 2018 and 2017 are set out below. The consolidated financial statements have been prepared on an 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 (US$) and all monetary amounts are rounded to the nearest thousand ($000) except when otherwise indicated.

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

#### Changes in accounting policy and disclosures

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those applied in the preparation of the consolidated financial statements for the year ended 31 December 2017. Amendments to standards and interpretations which came into force during the year did not have a significant impact on the Group's financial statements and are as follows:

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

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

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

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

The key issues identified, and the Group's views and perspective are set below.

- Embedded derivatives arising from the sales: As discussed in note 2(p), some of the Group's sales of gold and silver contain provisional pricing features which were considered to be embedded derivatives recorded within sales. The fair value is based on the most recent determined estimate of metal content and the estimated forward price that the entity expects to receive at the end of the quotational period stipulated in the contract. The revaluation of provisionally priced contracts is recorded as an adjustment to revenue. IFRS 15 does not change the assessment of the provisional price adjustment, but they are not considered within the scope of IFRS 15, and consequently have to be disclosed separately (refer to note 4).
- Impact of shipping terms: The Group sells a portion of its production on CIF Incoterms and therefore the Group is responsible for shipping services after the date at which control of the gold and silver passes to the customer. Under IAS 18, these shipping services were not considered to be part of the revenue transaction and thus the Group disclosed them as selling expenses. However, under IFRS 15 the group reclassified the portion of those selling expenses relating to transport of gold and silver from the Group's production plants to the ports and to the customers, and reclassify those costs to cost of sales. The shipping services reclassified for the period ending 31 December 2018 amounted to US$6,102,000. The Group assessed the amount of costs related to shipping services which are considered a separate performance obligation under IFRS 15 and therefore, a portion of the revenue currently recognised when the tittle has passed to the customer will need to be deferred and recognised as the shipping services are subsequently provided. Under IFRS 15 the costs related to shipping services are considered a separate performance obligation and therefore they should be deferred and recognised as the shipping services are subsequently provided. Based on the Group's assessment, the shipping services being provided at the end of the reporting period are immaterial and therefore these have not been deferred. The total shipping services recognised during the year as a separate performance obligation under IFRS 15 amount to $5,485,000 and have been disclosed in note 4.
- IFRS 9 Financial Instruments, applicable for annual periods beginning on or after 1 January 2018.

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

Based on the assessment performed, the new guidance has the following impacts on the classification and measurement of its financial instruments:

- Classification and measurement of the embedded derivatives arising from sales: The financial assets and liabilities arising from the revaluation provisional priced contracts are currently disclosed separately in the balance sheet as part of "other financial assets/liabilities". Under IFRS 9, the embedded derivative will no longer be separated from the host contract and therefore the revaluation of provisionally priced contracts is disclosed within the receivable of the host contract in "trade and other receivables".
- Financial assets at fair value through Other Comprehensive Income ('OCI'): The equity instruments that were classified as available-for-sale financial assets satisfy the conditions for classification as at fair value through other comprehensive income (FVOCI) and therefore there is no impact in classification. Gains and losses accumulated in other comprehensive income are not recycled to the income statement. Furthermore, under IFRS 9 there is no exception to carry investments in entities at costs less any recognised impairment and therefore, fair value will need to be calculated. There are no other significant changes to the accounting treatment of these assets.
- Impairment: The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under IAS 39. The Group applies the simplified approach and records lifetime expected losses on all trade receivables. However, given the short term nature of the Groups receivables, there is not a significant impact in the financial statements.
- Disclosures: The standard introduces expanded disclosure requirements and changes in presentation included in these reports.

The Group also assessed other changes introduced by IFRS 9 that have no impacts in the financial statements as explained below:

- There is no impact on the accounting for financial liabilities, as the new requirements of IFRS 9 only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the group does not have any such liabilities.
- The Group does not currently apply hedge accounting and therefore there are no impacts in the financial statements.
- No impacts in relation to derecognition of financial instruments as the same rules have been transferred from IAS 39 Financial Instruments: Recognition and Measurement.

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

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

### Standards, interpretations and amendments to existing standards that are not yet effective and have not been previously adopted by the Group

Certain new standards, amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2019 or later periods but which the Group has not previously adopted. Those that are applicable to the Group are as follows:

- IFRS 16 Leases, applicable for annual periods beginning on or after 1 January 2019.

  IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, including the exemptions to recognise assets and liabilities for all leases unless the lease term is 12 months or less or when the underlying asset has a low value. Lease costs will be recognised in the income statement over the lease term in the form of depreciation on the right of use asset and finance charges representing the unwinding of the discount on the lease liability. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. The Group has progressed its implementation project, focusing on a review of contracts, aggregation of data to support the evaluation of the accounting impacts of applying the new standard and assessment of the need for changes to systems and processes. Accordingly, the Group has decided to apply the exemption of short-term leases (12 months or above) and determined that only contracts with a value of US$1,000,000 or more will have a significant effect on the Group´s Financial Statements, increasing the assets and liabilities and changing the classification and timing of expenses, so contracts with a value less than US$1,000,000 are not to be considered. As at 31 December 2018, the Group has identified one contract applicable for a total value of US$5,413,000, then since 1 January 2019 the Group will recognise a right of use asset by contract and its corresponding liability and finance expenses.

- IFRIC 23 Uncertainty over income tax treatments, applicable for annual periods beginning on or after 1 January 2019.

  IFRIC 23 clarifies the accounting for uncertainties in income taxes. This interpretation is to be applied to the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. The Interpretation specifically addresses the following:

  - Whether an entity considers uncertain tax treatments separately;
  - The assumptions an entity makes about the examination of tax treatments by taxation authorities;
  - How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and
  - How an entity considers changes in facts and circumstances

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

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

## 2 Significant accounting policies continued

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

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

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

Significant estimates:

– Useful lives of assets for depreciation and amortisation purposes – note 2(e).

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

– Ore reserves and resources – note 2(g).

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

– Recoverable values of mining assets – notes 2(i), 15, 16 and 17.

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

– Mine closure costs – notes 2(m) and 25(1).

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

– Liability for cash-settled share-based payments – note 25(2).

  The Group initially measures the cost of cash-settled transactions with employees using the Monte Carlo model to determine the fair value of the liability incurred. The liability needs to be remeasured at the end of each reporting period up to the date of settlement, with any changes in fair value recognised in the profit or loss. This requires a reassessment of the estimates used at the end of each reporting period, including the anticipated potential changes to the Total Shareholder Return ('TSR') performance, the number of participants in the plan, and levels of interest rates. The assumptions and models used for estimating fair value are discussed in note 25(2).

– Income tax – notes 2(r), 13, 27 and 33.

  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.

  Judgment is also required when determining the provision for taxes as the tax treatment of some transactions cannot be finally determined until a formal resolution has been reached with the tax authorities. Provisions are also made for uncertain exposures which can have an impact on both deferred and current tax. Tax benefits are not recognised unless it is probable that the benefit will be obtained and tax provisions are made if it is probable that a liability will arise (refer to note 33(a)). The final resolution of these transactions may give rise to material adjustments to the income statement and/or cashflow in future periods. The Group reviews each significant tax liability or benefit each period to assess the appropriate accounting treatment.

Critical judgements:

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

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

– Recognition of evaluation and exploration assets and transfer to development costs – notes 2(f), 15 and 16.

Judgement is required in determining when the future economic benefit of a project can reasonably be regarded as assured, at which point evaluation and exploration expenses are capitalised. This includes the assessment of whether there is sufficient evidence of the probability of the existence of economically recoverable minerals to justify the commencement of capitalisation of costs; the timing of the end of the exploration phase, the start of the development phase; and the commencement of the production phase. For this purpose, the future economic benefit of the project can reasonably be regarded as assured when the Board authorises management to conduct a feasibility study, mine-site exploration is being conducted to convert resources to reserves, or mine-site exploration is being conducted to confirm resources, all of which are based on supporting geological information.

– Significant judgement and assumptions for assets classified as held for sale – note 22.

To determine whether an asset should be classified as an asset held for sale in accordance with IFRS 5, consideration should be given as to whether the sale is 'highly probable'. The three main criteria are: There is a plan in place to sell the asset, the sale is due to complete within 12 months of the year end; and that it is unlikely that significant changes to the plan will be made or the sale withdrawn. As disclosed in note 22, the final payment date for the sale of San Felipe property being within more than 12 months, all the three criteria to be considered "highly probable" (as defined by IFRS 5) have not been met and therefore the property has not been classified as an asset held for sale.

**(c) Basis of consolidation**

The consolidated financial statements set out the Group's financial position, performance and cash flows as at 31 December 2018 and 31 December 2017 and for the years then ended, respectively.

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

– power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);

– exposure, or rights, to variable returns from its involvement with the investee; and

– the ability to use its power over the investee to affect its returns.

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

– the contractual arrangement with the other vote holders of the investee;

– rights arising from other contractual arrangements; and

– the Group's voting rights and potential voting rights.

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

Basis of consolidation

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

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

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

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

## 2 Significant accounting policies continued

### Business combinations

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

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for the NCI, and any previously interest held, over the net identifiable assets acquired and the liabilities assumed. Assets acquired and liabilities assumed in transactions separate to the business combinations, such as the settlement of pre-existing relationships or post-acquisition remuneration arrangements, are accounted for separately from the business combination in accordance with their nature and applicable IFRSs. Identifiable intangible assets meeting either the contractual-legal or the separability criterion are recognised separately from goodwill. Contingent liabilities representing a present obligation are recognised if the acquisition date fair value can be measured reliably.

### (d) Currency translation

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

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

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

### (e) Property, plant and equipment

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

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

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

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

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

| | Years |
|---|---|
| Buildings | 3 to 33 |
| Plant and equipment | 5 to 10 |
| Vehicles | 5 |

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## (i) Impairment of non-financial assets
Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment.

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

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

## 2 Significant accounting policies continued

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

### Calculation of recoverable amount

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

The recoverable values of the CGUs, other than San Felipe, are determined using a FVLCD methodology. FVLCD was determined using a combination of level 2 and level 3 inputs to construct a discounted cash flow model to estimate the amount that would be paid by a willing third party in an arm's length transaction.

### Reversal of impairment

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

### (j) Inventories

Inventories are valued at the lower of cost or net realisable value. Cost is determined using the weighted average method.

The cost of work in progress and finished goods (ore inventories) is based on the cost of production. For this purpose, the costs of production include:

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

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

### (k) Trade and other receivables

Current trade receivables are carried at the original invoice amount less provision made for impairment of these receivables. Noncurrent receivables are stated at amortised cost. A provision for impairment of trade receivables is established using the expected credit loss impairment model according IFRS 9. The amount of the provision is the difference between the carrying amount and the recoverable amount and this difference is recognised in the income statement.

### (l) Share capital

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

### (m) Provisions

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

### Mine closure cost

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

Changes to estimated future costs are recognised in the statement of financial position by adjusting the mine closure cost liability and the related asset originally recognised. If, for mature mines, the related mine assets net of mine closure cost provisions exceed the recoverable value, that portion of the increase is charged directly to the income statement. Similarly, reductions to the estimated costs exceeding the carrying value of the mine asset, that portion of the decrease is credited directly to the income statement. For closed sites, changes to estimated costs are recognised immediately in the income statement.

### Workers' profit sharing and other employee benefits

In accordance with Peruvian legislation, companies in Peru must provide for workers' profit sharing equivalent to 8% of taxable income of each year. This amount is charged to the income statement within personnel expenses (note 9) and is considered deductible for income tax purposes. The Group has no pension or retirement benefit schemes.

### Other

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

**(n) Share-based payments**

Cash-settled transactions

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

Equity-settled transactions

The cost of equity-settled transactions is recognised, together with a corresponding increase in other reserves in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that vest. The income statement expense for a period represents the movement in cumulative expense recognised as at the beginning and end of that period and is recognised in personnel expenses (note 9).

**(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 from contracts with costumers is recognised when control of the goods or services is transferred to the costumer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

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 adjustment and hence separated from the sales contract at each reporting date. The provisionally priced metal is revalued based on the forward selling price for the quotational period stipulated in the contract until the quotational period ends. The selling price of gold and silver can be measured reliably as these metals are actively traded on international exchanges. The revaluation of provisionally priced contracts is recorded as revenue.

A proportion of the Group's sales are sold under CIF Incoterms, whereby the Group is responsible for providing freight/shipping services (as principal) after the date that the Group transfers control of the metal in concentrate to its customers. The Group, therefore, has separate performance obligations for freight/shipping services which are provided solely to facilitate sale of the commodities it produces.

Other Incoterms commonly used by the Group are Free On Board (FOB), where the Group has no responsibility for freight or insurance once control of the products has passed at the loading port, and Delivered at Place (DAP) where control of the goods passes when the product is delivered to the agreed destination. For arrangements which have these Incoterms, the only performance obligations are the provision of the product at the point where control passes.

For CIF arrangements, the transaction price (as determined above) is allocated to the metal in concentrate and freight/shipping services using the relative stand-alone selling price method. Under these arrangements, a portion of consideration may be received from the customer in cash at, or around, the date of shipment under a provisional invoice. Therefore, some of the upfront consideration that relates to the freight/shipping services yet to be provided, is deferred. It is then recognised as revenue over time using an output method (being days of shipping/transportation elapsed) to measure progress towards complete satisfaction of the service as this best represents the Group's performance. This is on the basis that the customer simultaneously receives and consumes the benefits provided by the Group as the services are being provided. The costs associated with these freight/shipping services are also recognised over the same period of time as incurred.

Income from services provided to related parties (note 29) is recognised in revenue when services are provided.

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

**(q) Finance income and costs**

Finance income and costs comprise interest expense on borrowings, the accumulation of interest on provisions, interest income on funds invested, unwind of discount, and gains and losses from the change in fair value of derivative instruments.

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

## 2 Significant accounting policies continued

### (r) Income tax

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

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

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

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

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

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

### (s) Uncertain tax positions

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

Movements in interest and penalty amounts in respect of tax provisions are not included in the tax charge, but are disclosed in the income statement. Tax provisions are based on management's interpretation of country specific tax law and the likelihood of settlement. This involves a significant amount of judgement as tax legislation can be complex and open to different interpretation. Management uses in-house tax experts, professional firms and previous experience when assessing tax risks. Where actual tax liabilities differ from the provisions, adjustments are made which can have a material impact on the Group's profits for the year. Refer to note 33(a) for specific tax contingencies.

### (t) Leases

Finance leases, which transfer to the Group substantially all the risks and rewards incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and the reduction of the lease liability so as to achieve a constant periodic rate of interest on the remaining balance of the liability. Finance charges are reflected in the income statement. The depreciation policy for leased assets is consistent with that for similar assets owned.

A lease is classified as an operating lease if it does not transfer substantially all of the risks and rewards incidental to ownership. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

### (u) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

#### Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

Subsequent measurement
For purposes of subsequent measurement, financial assets are classified in four categories:

– Financial assets at amortised cost (debt instruments)

  The Group measures financial assets at amortised cost if both of the following conditions are met:

  – The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows, and
  – The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

  Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

  The Group's financial assets at amortised cost includes trade receivables.

– Financial assets at fair value through OCI (debt instruments)

  The Group measures debt instruments at fair value through OCI if both of the following conditions are met:

  – The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling, and
  – The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

  For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss.

  The Group does not have debt instruments at fair value through OCI.

– Financial assets designated at fair value through OCI (equity instruments)

  Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

  Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

  The Group elected to classify irrevocably its listed and non-listed equity investments under this category.

– Financial assets at fair value through profit or loss

  Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

  Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

  This category includes derivative instruments. Dividends on listed equity investments are also recognised as other income in the statement of profit or loss when the right of payment has been established.

Derecognition
A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e. removed from the Group's consolidated statement of financial position) 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, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

## 2 Significant accounting policies continued

Impairment of financial assets
The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

### Financial liabilities

Initial recognition and measurement
Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts, and derivative financial instruments.

Subsequent measurement
The measurement of financial liabilities depends on their classification, as described below:

– Financial liabilities at fair value through profit or loss

  Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

  Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

  Gains or losses on liabilities held for trading are recognised in the statement of profit or loss.

  Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. The Group has not designated any financial liability as at fair value through profit or loss.

– Loans and borrowings

  This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

  Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

This category generally applies to interest-bearing loans and borrowings.

Derecognition
A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When 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 the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

### Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously. Financial assets and liabilities are recognised when the Group becomes party to the contracts that give rise to them and are classified as financial assets measured at amortised cost, debt instruments measured at fair value through other comprehensive income, equity instruments measured at fair value through other comprehensive income or financial assets measured at fair value through profit or loss.

### (v) Dividend distribution

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

### (w) Cash and cash equivalents

Cash and cash equivalents are carried in the statement of financial position at cost. For the purposes of the statement of financial position, cash and cash equivalents comprise cash on hand and deposits held with banks that are readily convertible into known amounts of cash and which are subject to insignificant risk of changes in value. For the purposes of the cash flow statement, cash and cash equivalents, as defined above, are shown net of outstanding bank overdrafts.

Liquidity funds are classified as cash equivalents if the amount of cash that will be received is known at the time of the initial investment and the risk of changes in value is considered insignificant.

**(x) Exceptional items**

Exceptional items are those significant items which, due to their nature or the expected infrequency of the events giving rise to them, need to be disclosed separately on the face of the income statement to enable a better understanding of the financial performance of the Group and facilitate comparison with prior years. Exceptional items mainly include:

- impairments or write offs of assets, assets held for sale, property, plant and equipment and evaluation and exploration assets;
- gains or losses arising on the disposal of subsidiaries, investments or property, plant and equipment;
- any gain or loss resulting from restructuring within the Group;
- taxes and interests owed by the Group following a change in circumstances surrounding tax disputes, resulting in the exposure being assessed as probable;
- the impact of infrequent labour action related to work stoppages in mine units;
- the penalties generated by the early termination of agreements with providers of the Group;
- the reversal of an accumulation of prior year's tax expenses that resulted from an agreement with the government; and
- the related tax impact of the above items.

**(y) Fair value measurement**

The Group measures financial instruments, such as derivatives, at each statement of financial position date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability, or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, as described in note 24 and 35(e).

For assets and liabilities that are recognised in the financial statements on a recurring basis at fair value, the Group determines whether transfers have occurred between levels in the hierarchy by 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 financial assets, and for non-recurring measurement.

At each reporting date, the Group analyses the movements in the values of assets and liabilities which are required to be 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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
CONTINUED

## 3 Segment reporting

The Group's activities are principally related to mining operations which involve the exploration, production and sale of gold and silver. Products are subject to the same risks and returns and are sold through similar distribution channels. The Group undertakes a number of activities solely to support mining operations including power generation and services. Transfer prices between segments are set on an arm's length basis in a manner similar to that used for third parties. Segment revenue, segment expense and segment results include transfers between segments at market prices. Those transfers are eliminated on consolidation.

For internal reporting purposes, management takes decisions and assesses the performance of the Group through consideration of the following reporting segments:

- Operating units – San Jose, which generates revenue from the sale of gold and silver (dore and concentrate).
- Operating unit – Arcata and Pallancata, which generate revenue from the sale of gold and silver (concentrate).
- Operating unit – Inmaculada, which generates revenue from the sale of gold and silver (dore).
- Exploration, which explores and evaluates areas of interest in brownfield and greenfield sites with the aim of extending the life-of-mine of existing operations and to assess the feasibility of new mines. The exploration segment includes costs charged to the profit and loss and capitalised as assets.
- Other – includes the profit or loss generated by Empresa de Transmisión Aymaraes S.A.C. (a power transmission company that absorbed Empresa de Transmisión Callalli S.A.C. on 1 June 2016).

The Group's administration, financing, other activities (including other income and expense), and income taxes are managed at a corporate level and are not allocated to operating segments.

Segment information is consistent with the accounting policies adopted by the Group. Management evaluates the financial information based on International Financial Reporting Standards (IFRS) as adopted for use in the European Union.

The Group measures the performance of its operating units by the segment profit or loss that comprises gross profit, selling expenses and exploration expenses.

Segment assets include items that could be allocated directly to the segment.

### (a) Reportable segment information

| | Arcata US$000 | Pallancata US$000 | San Jose US$000 | Inmaculada US$000 | Exploration US$000 | Other[1] US$000 | Adjustment and eliminations US$000 | Total US$000 |
|---|---|---|---|---|---|---|---|---|
| **Year ended 31 December 2018** | | | | | | | | |
| Revenue from external customers | 57,836 | 138,221 | 207,431 | 306,108 | – | 340 | – | **709,936** |
| Inter segment revenue | – | – | – | – | – | 6,328 | (6,328) | **–** |
| Total revenue from customers | 57,836 | 138,221 | 207,431 | 306,108 | – | 6,668 | (6,328) | **709,936** |
| Provisional pricing adjustment | (1,199) | (2,378) | (2,064) | (5) | – | – | – | **(5,646)** |
| **Total revenue** | 56,637 | 135,843 | 205,367 | 306,103 | – | 6,668 | (6,328) | **704,290** |
| | | | | | | | | |
| Segment profit/(loss) | (7,314) | 31,226 | 20,289 | 116,361 | (34,800) | 11,178 | (8,887) | **128,053** |
| Others[2] | | | | | | | | **(89,687)** |
| Profit from continuing operations before income tax | | | | | | | | **38,366** |
| | | | | | | | | |
| Other segment information | | | | | | | | |
| Depreciation[3] | (178) | (36,377) | (52,006) | (74,878) | (377) | (4,771) | – | **(168,587)** |
| Amortisation | – | – | (1,324) | (221) | (462) | (84) | – | **(2,091)** |
| Impairment and write-off of assets, net | (38) | (31) | (233) | (56) | – | (26) | – | **(384)** |
| | | | | | | | | |
| Assets | | | | | | | | |
| Capital expenditure | 526 | 27,079 | 44,632 | 57,678 | 1,856 | 2,634 | – | **134,405** |
| | | | | | | | | |
| Current assets | 5,155 | 27,076 | 40,220 | 27,479 | 7 | 3,299 | – | **103,236** |
| Other non-current assets | 6,395 | 84,449 | 172,726 | 517,321 | 195,975 | 51,910 | – | **1,028,776** |
| **Total segment assets** | 11,550 | 111,525 | 212,946 | 544,800 | 195,982 | 55,209 | – | **1,132,012** |
| Not reportable assets[4] | – | – | – | – | – | 146,270 | – | **146,270** |
| **Total assets** | 11,550 | 111,525 | 212,946 | 544,800 | 195,982 | 201,479 | – | **1,278,282** |

1 'Other' revenue relates to revenues earned by Empresa de Transmisión Aymaraes S.A.C.
2 Comprised of administrative expenses of US$45,783,000, other income of US$8,062,000, other expenses of US$17,144,000, write-off of assets (net) of US$384,000, finance income of US$2,048,000, finance expense of US$27,540,000, and foreign exchange loss of US$8,946,000.
3 Includes depreciation capitalised in the Crespo project (US$810,000), and San Jose unit (US$1,783,000).
4 Not reportable assets are comprised of financial assets at fair value through OCI of US$5,296,000, other receivables of US$38,986,000, other financial assets of US$47,000, income tax receivable of US$20,733,000, deferred income tax asset of US$1,504,000 and cash and cash equivalents of US$79,704,000.

| | Arcata US$000 | Pallancata US$000 | San Jose US$000 | Inmaculada US$000 | Exploration US$000 | Other[1] US$000 | Adjustment and eliminations US$000 | Total US$000 |
|---|---|---|---|---|---|---|---|---|
| **Year ended 31 December 2017** | | | | | | | | |
| Revenue from external customers | 77,940 | 120,529 | 227,094 | 296,594 | – | 415 | – | **722,572** |
| Inter segment revenue | – | – | – | – | – | 5,712 | (5,712) | **–** |
| **Total revenue** | 77,940 | 120,529 | 227,094 | 296,594 | – | 6,127 | (5,712) | **722,572** |
| | | | | | | | | |
| Segment profit/(loss) | (4,212) | 48,926 | 43,162 | 73,737 | (17,393) | 10,832 | (9,752) | **145,300** |
| Others[2] | | | | | | | | **(81,223)** |
| Profit from continuing operations before income tax | | | | | | | | **64,077** |
| | | | | | | | | |
| Other segment information | | | | | | | | |
| Depreciation[3] | (17,447) | (19,479) | (49,019) | (107,489) | (413) | (5,228) | – | **(199,075)** |
| Amortisation | – | – | (1,247) | – | (462) | (142) | – | **(1,851)** |
| Impairment and write-off of assets | (43,135) | 31,872 | (205) | (31) | 8,364 | (23) | – | **(3,158)** |
| | | | | | | | | |
| Assets | | | | | | | | |
| Capital expenditure | 17,557 | 18,906 | 36,288 | 52,903 | 2,026 | 868 | – | **128,548** |
| | | | | | | | | |
| Current assets | 5,483 | 21,699 | 47,398 | 22,707 | 30 | 2,570 | – | **99,887** |
| Other non-current assets | 5,859 | 91,065 | 182,138 | 535,840 | 194,777 | 57,930 | – | **1,067,609** |
| **Total segment assets** | 11,342 | 112,764 | 229,536 | 558,547 | 194,807 | 60,500 | – | **1,167,496** |
| Not reportable assets[4] | – | – | – | – | – | 334,828 | – | **334,828** |
| **Total assets** | 11,342 | 112,764 | 229,536 | 558,547 | 194,807 | 395,328 | – | **1,502,324** |

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

## (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** | |
|---|---|---|
| | **2018 US$000** | 2017 US$000 |
| External customer | | |
| USA | **357,096** | 370,035 |
| Korea | **97,943** | 102,596 |
| Switzerland | **89,285** | 73,186 |
| Peru | **70,842** | 45,274 |
| Germany | **32,277** | 34,777 |
| Canada | **28,661** | 60,991 |
| Japan | **26,084** | 8,502 |
| Bulgaria | **2,102** | 27,211 |
| **Total** | **704,290** | 722,572 |
| Inter-segment | | |
| Peru | **6,328** | 5,712 |
| **Total** | **710,618** | 728,284 |

## 3 Segment reporting continued

In the periods set out below, certain customers accounted for greater than 10% of the Group's total revenues as detailed in the following table:

| | Year ended 31 December 2018 | | | Year ended 31 December 2017 | | |
|---|---|---|---|---|---|---|
| | **US$000** | **% Revenue** | **Segment** | US$000 | % Revenue | Segment |
| Bank of Nova Scotia | **162,843** | **23%** | **Inmaculada** | 44,758 | 6% | Inmaculada |
| LS Nikko | **97,943** | **14%** | **Pallancata and San Jose** | 102,596 | 14% | Pallancata and San Jose |
| Republic Metals Corporation | **86,974** | **12%** | **Inmaculada and San Jose** | 116,274 | 16% | Inmaculada and San Jose |
| Asahi Refining USA | **85,136** | **12%** | **Inmaculada** | 130,024 | 18% | Inmaculada |
| Argor Heraus | **74,210** | **11%** | **San Jose** | 48,843 | 7% | San Jose |

Non-current assets, excluding financial instruments and deferred income tax assets, were allocated to the geographical areas in which the assets are located as follows:

| | As at 31 December | |
|---|---|---|
| | **2018 US$000** | 2017 US$000 |
| Peru | **753,016** | 782,659 |
| Argentina | **172,727** | 182,139 |
| Mexico | **38,834** | 38,841 |
| Chile | **64,199** | 63,970 |
| **Total non-current segment assets** | **1,028,776** | 1,067,609 |
| Available-for-sale financial assets | **–** | 6,264 |
| Financial assets at fair value through OCI | **5,296** | – |
| Trade and other receivables | **5,451** | 7,487 |
| Other financial assets | **47** | 1,333 |
| Deferred income tax assets | **1,504** | 2,400 |
| **Total non-current assets** | **1,041,074** | 1,085,093 |

## 4 Revenue

| | Year ended 31 December | |
|---|---|---|
| | **2018 US$000** | 2017 US$000 |
| Gold (from dore bars) | **277,357** | 266,214 |
| Silver (from dore bars) | **131,818** | 144,762 |
| Gold (from concentrate) | **101,492** | 106,101 |
| Silver (from concentrate) | **193,238** | 205,080 |
| Other minerals (from concentrate) | **45** | – |
| Services | **340** | 415 |
| **Total** | **704,290** | 722,572 |

Included within revenue is a loss of US$5,646,000 relating to provisional pricing adjustments arising on sales of concentrates and dore, mainly contributed by provisional pricing of $4,515,000 from silver concentrates and $1,080,000 from gold concentrates (refer to note 2(p)), resulting in total revenue from customers in the amount of US$709,936,000 (2017: included within revenue is a gain of US$2,578,000 relating to provisional pricing adjustments representing the change in the fair value of embedded derivatives).

Included within revenue is a transaction price of US$5,485,000 related to the shipping services provided by the Group to the customers arising on sale of concentrates (US$3,965,000, Gold: US$1,806,000, Silver: US$2,159,000) and dore (US$1,520,000, Gold: US$856,000, Silver: US$664,000) (refer to note 2(p)).

Other sources of revenue are disclosed in note 12.

## 5 Cost of sales

Included in cost of sales are:

| | Year ended 31 December | |
|---|---|---|
| | **2018 US$000** | 2017 US$000 |
| Depreciation and amortisation in cost of sales[1] | **164,819** | 196,150 |
| Personnel expenses (note 9) | **116,065** | 124,507 |
| Mining royalty (note 34) | **5,857** | 6,677 |
| Change in products in process and finished goods | **2,481** | 4,131 |
| Other items[2] | **1,141** | 3,241 |

1 The depreciation and amortisation in production cost is US$164,244,000 (2017: US$196,241,000).
2 Other items includes costs related to stoppage of US$202,000 and termination benefits of US$939,000 at the San Jose mine unit (2017: Other items included costs related to stoppage at Pallancata and San Jose mine units).

## 6 Administrative expenses

| | Year ended 31 December | |
|---|---|---|
| | **2018 US$000** | 2017 US$000 |
| Personnel expenses (note 9) | **28,165** | 34,775 |
| Professional fees | **3,614** | 3,233 |
| Donations | **785** | 586 |
| Lease rentals | **1,372** | 1,474 |
| Travel expenses | **1,061** | 1,020 |
| Communications | **430** | 415 |
| Indirect taxes | **1,041** | 2,173 |
| Depreciation and amortisation | **1,486** | 1,564 |
| Technology and systems | **537** | 686 |
| Security | **784** | 773 |
| Supplies | **145** | 123 |
| Other[1] | **6,363** | 4,461 |
| **Total** | **45,783** | 51,283 |

1 Predominantly related to third-party services of US$3,434,000 (2017: US$1,273,000), technical services of US$144,000 (2017: US$553,000), repair and maintenance of US$480,000 (2017: US$388,000) and impairment of receivables of US$nil (2017: US$79,000).

## 7 Exploration expenses

| | Year ended 31 December | |
|---|---|---|
| | **2018 US$000** | 2017 US$000 |
| **Mine site exploration**[1] | | |
| Arcata | **9,024** | 3,029 |
| Ares | **699** | 69 |
| Inmaculada | **1,732** | 1,127 |
| Pallancata | **2,162** | 1,279 |
| San Jose | **4,224** | 3,407 |
| | **17,841** | 8,911 |
| **Prospects**[2] | | |
| Peru | **815** | 336 |
| USA | **2,928** | – |
| Argentina | **–** | 30 |
| Chile | **2,213** | 267 |
| | **5,956** | 633 |
| **Generative**[3] | | |
| Peru | **4,640** | 1,862 |
| USA | **28** | 398 |
| | **4,668** | 2,260 |
| Personnel (note 9) | **5,397** | 4,646 |
| Others | **519** | 749 |
| **Total** | **34,381** | 17,199 |

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

The increase in exploration expenses is mainly explained by the work performed at the Arcata mine unit trying to identify new possible ore targets and the signature of new agreements related to projects in the United States, Chile and Peru.

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$10,498,000 in 2018 (2017: US$2,600,000).

## 8 Selling expenses

| | Year ended 31 December | |
|---|---|---|
| | **2018 US$000** | 2017 US$000 |
| Transportation of dore, concentrate and maritime freight[1] | **–** | 6,477 |
| Personnel expenses (note 9) | **302** | 296 |
| Warehouse services | **2,032** | 1,742 |
| Taxes[2] | **5,148** | 16 |
| Other | **2,586** | 2,493 |
| **Total** | **10,068** | 11,024 |

1 Since 2018, under IFRS 15 the Group reclassified the portion of the selling expenses relating to transport of gold and silver from the Group's production plants to the ports and to the customer, to cost of sales (2018: US$6,102,000).
2 Corresponds to the export duties in Argentina, applicable since September 2018.

## 9 Personnel expenses

| | Year ended 31 December | |
|---|---|---|
| | **2018 US$000** | 2017 US$000 |
| Salaries and wages | **110,290** | 116,597 |
| Other legal contributions | **23,268** | 26,937 |
| Statutory holiday payments | **7,282** | 7,124 |
| Long-Term Incentive Plan | **4,487** | 9,348 |
| Restricted share plan | **1,374** | 2,090 |
| Termination benefits | **4,101** | 2,228 |
| Other | **2,764** | 2,670 |
| **Total** | **153,566** | 166,994 |

Personnel expenses are distributed as follows:

| | Year ended 31 December | |
|---|---|---|
| | **2018 US$000** | 2017 US$000 |
| Cost of sales | **116,065** | 124,507 |
| Administrative expenses | **28,165** | 34,775 |
| Exploration expenses | **5,398** | 4,646 |
| Selling expenses | **302** | 296 |
| Other expenses | **3,225** | 1,621 |
| Capitalised as property, plant and equipment | **411** | 1,149 |
| **Total** | **153,566** | 166,994 |

Average number of employees for 2018 and 2017 were as follows:

| | Year ended 31 December | |
|---|---|---|
| | **2018** | 2017 |
| Peru | **2,878** | 2,920 |
| Argentina | **1,220** | 1,175 |
| Chile | **3** | 3 |
| United Kingdom | **10** | 10 |
| **Total** | **4,111** | 4,108 |

## 10 Exceptional items

Exceptional items are those significant items which, due to their nature or the expected infrequency of the events giving rise to them, need to be disclosed separately on the face of the income statement to enable a better understanding of the financial performance of the Group and facilitate comparison with prior years. Unless stated, exceptional items do not correspond to a reporting segment of the Group.

| | Year ended 31 December | |
|---|---|---|
| | **2018 US$000** | 2017 US$000 |
| **(Impairment)/impairment reversal and write-off of non-financial assets, net** | | |
| Impairment of assets[3] | – | (43,009) |
| Reversal of impairment of assets[3] | – | 40,256 |
| **Total** | – | (2,753) |
| **Finance costs** | | |
| Expenses related to the repayment of the bond[1] | **(16,346)** | – |
| **Total** | **(16,346)** | – |
| Income tax benefit[2 and 4] | **4,822** | 3,279 |
| **Total** | **4,822** | 3,279 |

**The exceptional items for the year ended 31 December 2018 are as follows:**
1 Premium and other finance expenses related to the repayment of Compañia Minera Ares ("CMA") bond (refer to note 24 (a)).
2 Deferred tax credit generated by the premium and other finance expenses related to the repayment of the CMA bond.

**The exceptional items for the year ended 31 December 2017 are as follows:**
3 Impairment of the Arcata mine unit of US$43,009,000 and reversals of impairment related to the Pallancata mine unit of US$31,892,000 and San Felipe project of US$8,364,000.
4 Deferred tax credit generated by the impairment of the Arcata mine unit, net by the reversal on impairment of the Pallancata mine unit.

## 11 Other income and other expenses before exceptional items

| | Year ended 31 December 2018 | Year ended 31 December 2017 |
|---|---|---|
| | **Before exceptional items US$000** | Before exceptional items US$000 |
| **Other Income** | | |
| Decrease in provision for mine closure (note 25(3)) | – | 1,428 |
| Export credits[1] | **1,287** | 1,613 |
| Lease rentals | **97** | 253 |
| Gain on sale of other assets[2] | – | 1,495 |
| Logistic services | **4,128** | 3,552 |
| Other[3] | **2,550** | 1,851 |
| **Total** | **8,062** | 10,192 |
| **Other expenses** | | |
| Increase in provision for mine closure (note 25(3)) | **(52)** | – |
| Provision of obsolescence of supplies | **(384)** | (542) |
| Contingencies | **(140)** | (347) |
| Donations | **(9)** | (754) |
| Write off of value added tax | **(66)** | (221) |
| Corporate social responsibility contribution in Argentina[4] | **(2,382)** | (3,063) |
| Termination benefits Arcata mine unit[5] | **(1,324)** | – |
| Impairment of receivables[6] | **(5,656)** | (722) |
| Other[7] | **(7,131)** | (5,900) |
| **Total** | **(17,144)** | (11,549) |

1 Corresponds to the benefit of silver refund in Argentina.
2 Corresponds to the gain generated by the sale of mining rights of the Ricky project in 2017.
3 Mainly corresponds to the gain on recovery of expenses of US$930,000 (2017: US$462,000), gain on sale of supplies of US$410,000 (2017: US$nil) and the gain recognised for the Mosquito project of US$400,000 (2017: US$400,000).
4 Relates to a contribution in Argentina to the Santa Cruz province, effective since January 2016 and calculated as a proportion of sales.
5 Due to the redundancy of 107 employees in the Arcata mine unit, aligned with the mine plan for 2018.
6 Mainly related to the accrual of a trade receivable from Republic Metals Corp, a customer declared bankrupt under the United States bankruptcy code chapter 11.
7 Mainly corresponds to the expenses due to care and maintenance of Ares mine unit of US$5,688,000 (2017: US$4,369,000), concessions of US$320,000 (2017: US$491,000) and rentals of US$191,000 (2017: US$205,000).

## 12 Finance income and finance costs before exceptional items

| | Year ended 31 December 2018 Before exceptional items US$000 | Year ended 31 December 2017 Before exceptional items US$000 |
|---|---|---|
| **Finance income** | | |
| Interest on deposits and liquidity funds | **2,001** | 1,696 |
| **Interest income** | **2,001** | 1,696 |
| Gain from changes in the fair value of financial instruments | – | 647 |
| Gain on exchange of available-for-sale financial assets | – | 1,386 |
| Gain on discount of other receivables[1] | **47** | 1,946 |
| Other | – | 252 |
| **Total** | **2,048** | 5,927 |
| **Finance costs** | | |
| Interest on secured bank loans (note 24) | **(4,923)** | (185) |
| Other interest | **(726)** | (813) |
| Interest on bond (note 24) | **(1,392)** | (24,088) |
| **Interest expense** | **(7,041)** | (25,086) |
| Unwind of discount on mine rehabilitation (note 25) | **(368)** | (280) |
| Loss on discount of other receivables[1] | **(1,625)** | – |
| Loss from changes in the fair value of financial instruments[2] | **(1,256)** | – |
| Loss on sale of available-for-sale financial assets | – | (32) |
| Other | **(904)** | (697) |
| **Total** | **(11,194)** | (26,095) |

1 Mainly related to the effect of the discount of tax credits in Argentina and Peru.
2 Related to the fair value adjustments of the warrants of Red Eagle Mining Corporation acquired in 2017.

## 13 Income tax expense

| | Year ended 31 December 2018 | | | Year ended 31 December 2017 | | |
|---|---|---|---|---|---|---|
| | 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** | | | | | | |
| Corporate income tax charge | **8,338** | – | **8,338** | 15,070 | – | 15,070 |
| | **8,338** | – | **8,338** | 15,070 | – | 15,070 |
| **Deferred taxation** | | | | | | |
| Origination and reversal of temporary differences from continuing operations (note 27) | **20,909** | **(4,822)** | **16,087** | 2,755 | (3,279) | (524) |
| Effect of change in income tax rates[1] | – | – | – | (10,780) | – | (10,780) |
| | **20,909** | **(4,822)** | **16,087** | (8,025) | (3,279) | (11,304) |
| **Corporate income tax** | **29,247** | **(4,822)** | **24,425** | 7,045 | (3,279) | 3,766 |
| | | | | | | |
| **Current mining royalties** | | | | | | |
| Mining royalty charge (note 34) | **4,494** | – | **4,494** | 4,201 | – | 4,201 |
| Special mining tax charge (note 34) | **2,746** | – | **2,746** | 2,229 | – | 2,229 |
| **Total current mining royalties** | **7,240** | – | **7,240** | 6,430 | – | 6,430 |
| | | | | | | |
| **Total taxation charge/(credit) in the income statement** | **36,487** | **(4,822)** | **31,665** | 13,475 | (3,279) | 10,196 |

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

## 13 Income tax expense continued

The weighted average statutory income tax rate was 32.2% for 2018 and 31.9% for 2017. This is calculated as the average of the statutory tax rates applicable in the countries in which the Group operates, weighted by the profit/(loss) before tax of the Group companies in their respective countries as included in the consolidated financial statements.

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

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

| | As at 31 December | |
|---|---|---|
| | **2018 US$000** | 2017 US$000 |
| Deferred taxation: | | |
| **Total tax credit in the statement of other comprehensive income** | **–** | – |

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

| | As at 31 December | |
|---|---|---|
| | **2018 US$000** | 2017 US$000 |
| Profit from continuing operations before income tax | **38,366** | 64,077 |
| At average statutory income tax rate of 32.2% (2017: 31.9%) | **12,352** | 20,459 |
| Expenses not deductible for tax purposes | **593** | 776 |
| Deferred tax recognised on special investment regime[1] | **(1,399)** | (1,819) |
| Movement in unrecognised deferred tax[2] | **2,915** | (1,324) |
| Change in statutory income tax rate[3] | **–** | (10,780) |
| Utilisation of losses not previously recognised | **–** | (1,618) |
| Special mining tax and mining royalty deductible for corporate income tax | **(2,136)** | (1,897) |
| Other | **(1,971)** | 1,012 |
| **Corporate income tax at average effective income tax rate of 27.0% (2017: 7.5%) before foreign exchange effect** | **10,354** | 4,809 |
| Special mining tax and mining royalty[4] | **7,240** | 6,430 |
| **Corporate income tax and mining royalties at average effective income tax rate of 45.9% (2017: 17.5%)** | **17,594** | 11,239 |
| Foreign exchange rate effect[5] | **14,071** | (1,043) |
| **Total taxation charge in the income statement at average effective tax rate 82.5% (2017: 15.9%) from continuing operations** | **31,665** | 10,196 |

1 Argentina benefits from a special investment regime that allows for a super (double) deduction in calculating its taxable profits for all costs relating to prospecting, exploration and metallurgical analysis, pilot plants and other expenses incurred in the preparation of feasibility studies for mining projects.
2 Includes the income tax credit on mine closure provision of US$412,000 (2017: US$3,010,000), the tax charge related to the Inmaculada mine unit depreciation of US$1,631,000 (2017: US$3,246,000), the effect of not recognised tax losses of US$1,696,000 (2017: US$949,000) and the unrecognised deferred tax on San Felipe of US$nil (2017: credit of US$2,509,000).
3 The Argentinian government approved a reduction in the statutory income tax rate, from 35% to 30% with effect from 1 January 2018 and 25% with effect from 1 January 2020.
4 Corresponds to the impact of a mining royalty and special mining tax in Peru (note 34).
5 The foreign exchange effect is composed of US$9,311,000 (2017: US$2,893,000) from Argentina and US$4,760,000 (2017: credit of US$3,936,000) from Peru. This mainly corresponds to the foreign exchange effect of converting tax bases and monetary items from local currency to the corresponding functional currency. The main contributor of the foreign exchange effect on the tax charge in 2018 is the devaluation of the Argentinian peso.

## 14 Basic and diluted earnings per share

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

The Company has dilutive potential ordinary shares.

As at 31 December 2018 and 2017, EPS has been calculated as follows:

| | As at 31 December | |
|---|---|---|
| | **2018** | 2017 |
| **Basic earnings/(loss) per share from continuing operations** | | |
| Before exceptional items (US$) | **0.05** | 0.08 |
| Exceptional items (US$) | **(0.02)** | – |
| **Total for the year and from continuing operations (US$)** | **0.03** | 0.08 |
| **Diluted earnings/(loss) per share from continuing operations** | | |
| Before exceptional items (US$) | **0.05** | 0.08 |
| Exceptional items (US$) | **(0.02)** | – |
| **Total for the year and from continuing operations (US$)** | **0.03** | 0.08 |

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

| | As at 31 December | |
|---|---|---|
| | **2018** | 2017 |
| Profit attributable to equity holders of the parent – continuing operations (US$000) | **12,836** | 41,561 |
| Exceptional items after tax – attributable to equity holders of the parent (US$000) | **11,524** | (526) |
| Profit from continuing operations before exceptional items attributable to equity holders of the parent (US$000) | **24,360** | 41,035 |
| Profit from continuing operations before exceptional items attributable to equity holders of the parent for the purpose of diluted earnings per share (US$000) | **24,360** | 41,035 |

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

| | As at 31 December | |
|---|---|---|
| | **2018** | 2017 |
| Basic weighted average number of ordinary shares in issue (thousands) | **508,878** | 507,204 |
| Effect of dilutive potential ordinary shares related to contingently issuable shares (thousands) | **4,018** | 7,768 |
| Weighted average number of ordinary shares in issue for the purpose of diluted earnings per share (thousands) | **512,896** | 514,972 |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
CONTINUED

## 15 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 2018** | | | | | | | |
| **Cost** | | | | | | | |
| **At 1 January 2018** | **1,259,902** | **496,924** | **557,482** | **6,611** | **98,537** | **33,409** | **2,452,865** |
| Additions | 83,106 | 754 | 18,888 | 82 | – | 19,447[3] | 122,277 |
| Change in discount rate | – | – | – | – | (1,126) | – | (1,126) |
| Change in mine closure estimate | – | – | – | – | (1,014) | – | (1,014) |
| Disposals | – | – | (156) | (212) | – | – | (368) |
| Write-offs | – | (176) | (1,094) | (392) | – | (21) | (1,683) |
| Transfers and other movements[2] | 2,508 | 21,948 | 15,327 | 591 | – | (37,869) | 2,505 |
| **At 31 December 2018** | **1,345,516** | **519,450** | **590,447** | **6,680** | **96,397** | **14,966** | **2,573,456** |
| **Accumulated depreciation and impairment** | | | | | | | |
| **At 1 January 2018** | **899,381** | **266,069** | **318,817** | **4,745** | **67,155** | **1,032** | **1,557,199** |
| Depreciation for the year | 100,185 | 32,095 | 31,983 | 476 | 3,848 | – | 168,587 |
| Disposals | – | – | (141) | (191) | – | – | (332) |
| Write-offs | – | (141) | (808) | (350) | – | – | (1,299) |
| Impairment/(reversal of impairment), net | – | – | – | – | – | – | – |
| Transfers and other movements[2] | 129 | 1 | 57 | 27 | – | (85) | 129 |
| **At 31 December 2018** | **999,695** | **298,024** | **349,908** | **4,707** | **71,003** | **947** | **1,724,284** |
| **Net book amount at 31 December 2018** | **345,821** | **221,426** | **240,539** | **1,973** | **25,394** | **14,019** | **849,172** |

1 Within mining properties and development costs there is a balance at 31 December 2018 related to Crespo project (US$26,855,000) that is not currently being depreciated.
2 Transfers and other movements include US$2,379,000 that was transferred from evaluation and exploration assets (note 16).
3 Includes borrowing costs capitalised in property, plant and equipment amounting to US$239,000. The capitalisation rate used was 2.88%.

In 2018, management determined there were triggers of impairment in the San Jose mine unit due to the devaluation of the US$, inflation and the new export tax approved in Argentina since September 2018. Impairment test result did not show a difference versus the carrying value given that the level of devaluation offset inflation and the new export tax. Therefore, no impairment was recognised.

In addition, during 2018, management evaluated the carrying value of the San Felipe Project, not recognising any impairment in the period (refer to note 16).

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

In 2017, management determined there were triggers of impairment in the Arcata mine unit due to difficulties in replacing production with incremental resources and to convert resources into reserves, and there was a significant decrease in production during the year. An impairment test was carried out resulting in an impairment charge of US$43,009,000 (US$39,905,000 in property, plant and equipment and US$3,104,000 and evaluation and exploration assets).

Also in 2017, in the case of the Pallancata mine unit, there was an increase in terms of tonnage, grades, and resources and reserves due to the Pablo vein. An impairment test was carried out resulting in an impairment reversal of US$31,892,000 (US$31,509,000 in property, plant and equipment and US$383,000 and evaluation and exploration assets).

Finally, in 2017 management evaluated the carrying value of the San Felipe Project, recognising an impairment reversal of US$8,364,000 (all in evaluation and exploration assets) (refer to notes 10 and 16).

The recoverable values of the San Jose, Arcata and Pallancata 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, which result in fair value measurements categorised in its entirety as level 3 in the fair value hierarchy, to construct a discounted cash flow model to estimate the amount that would be paid by a willing third party in an arm's length transaction.

In assessing the recoverable value of the San Felipe CGU, given the early stage of the project, the Group applied a value in-situ methodology which applies a realisable 'enterprise value' to unprocessed mineral resources. The enterprise value used is based on observable external market information. Together with the US$31,396,000 (2017: US$29,396,000) recognised as a deferred income (refer to note 22) that will be realised once the option is exercised or terminated; the total recoverable value of the project under a VIU approach amounts to US$37,081,000 (2017: US$37,081,000).

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

**2018**

| US$ per oz. | 2019 | 2020 | 2021 | Long-term |
|---|---|---|---|---|
| Gold | 1,273 | 1,300 | 1,300 | 1,300 |
| Silver | 16.0 | 17.5 | 18.0 | 18.0 |

| | San Jose | San Felipe |
|---|---|---|
| Discount rate (post tax) | 9.5% | n/a |
| Value per in-situ per zinc equivalent tonne (US$) | n/a | 22.12 |

The period of 6 years was used to make the cash flow projections of San Jose mine unit and it is not shorter than the life of mine.

| Current carrying value of CGU, net of deferred tax (US$000) | San Jose | San Felipe |
|---|---|---|
| 31 December 2018 | 138,877 | 37,081 |

**2017**

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

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

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

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

**Sensitivity analysis**

Other than as disclosed below, management believes that no reasonably possible change in any of the key assumptions above would cause the carrying value of any of its 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.

A change in any of the key assumptions would have the following impact in the San Jose mine unit:

| | US$000 |
|---|---|
| Prices (decrease by 10%) | (85,590) |
| Post tax discount rate (increase by 3%) | (9,937) |
| Production costs (increase by 10%) | (56,551) |
| Inflation (increase by 10%) | (19,425) |
| Devaluation of Argentinian peso (increase by 10%) | 20,765 |

With respect to the impairment assessment performed at the San Felipe CGU, a decrease of 10% in the value in-situ per tonne would result in a reversal of impairment of US$504,000, whilst an increase of 10% would result in a reversal of previously recognised impairment of US$647,000.

## 15 Property, plant and equipment continued

| | Mining properties and development costs[1] US$000 | Land and buildings US$000 | Plant and equipment US$000 | Vehicles US$000 | Mine closure asset US$000 | Construction in progress and capital advances US$000 | Total US$000 |
|---|---|---|---|---|---|---|---|
| **Year ended 31 December 2017** | | | | | | | |
| **Cost** | | | | | | | |
| **At 1 January 2017** | **1,180,904** | **488,486** | **536,929** | **6,210** | **95,390** | **24,943** | **2,332,862** |
| Additions | 79,054 | 187 | 16,339 | 29 | – | 28,045[3] | 123,654 |
| Change in discount rate | – | – | – | – | 575 | – | 575 |
| Change in mine closure estimate | – | – | – | – | 2,572 | – | 2,572 |
| Disposals | – | – | (2,927) | (3) | – | – | (2,930) |
| Write-offs | – | (127) | (3,492) | (172) | – | (19) | (3,810) |
| Transfers and other movements[2] | (56) | 8,378 | 10,633 | 547 | – | (19,560) | (58) |
| **At 31 December 2017** | **1,259,902** | **496,924** | **557,482** | **6,611** | **98,537** | **33,409** | **2,452,865** |
| **Accumulated depreciation and impairment** | | | | | | | |
| **At 1 January 2017** | **791,641** | **218,123** | **277,692** | **4,554** | **64,480** | **889** | **1,357,379** |
| Depreciation for the year | 109,642 | 44,431 | 40,356 | 325 | 4,321 | – | 199,075 |
| Disposals | – | – | (2,564) | (3) | – | – | (2,567) |
| Write-offs | – | (98) | (3,152) | (155) | – | – | (3,405) |
| Impairment/(reversal of impairment), net | (2,369) | 3,613 | 8,631 | 24 | (1,646) | 143 | 8,396 |
| Transfers and other movements[2] | 467 | – | (2,146) | – | – | – | (1,679) |
| **At 31 December 2017** | **899,381** | **266,069** | **318,817** | **4,745** | **67,155** | **1,032** | **1,557,199** |
| **Net book amount at 31 December 2017** | **360,521** | **230,855** | **238,665** | **1,866** | **31,382** | **32,377** | **895,666** |

1 Within mining properties and development costs there is a balance at 31 December 2017 related to Crespo project (US$26,016,000) that is not currently being depreciated.
2 Transfers and other movements include US$1,607,000 that was transferred from evaluation and exploration assets (note 16).
3 Includes borrowing costs capitalised in property, plant and equipment amounting to US$601,000, the capitalisation rate used was 8.27%.

## 16 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 2017 | 81,402 | 26,031 | 55,950 | 93,684 | 11,037 | 268,104 |
| Additions | 197 | 208 | – | 768 | 3,705 | 4,878 |
| Disposals | – | – | (500) | – | – | (500) |
| Transfers to property, plant and equipment | – | – | – | – | (2,074) | (2,074) |
| **Balance at 31 December 2017** | **81,599** | **26,239** | **55,450** | **94,452** | **12,668** | **270,408** |
| Additions | 427 | 360 | – | 230 | 9,204 | 10,221 |
| Transfers to property plant and equipment | – | – | – | – | (2,508) | (2,508) |
| **Balance at 31 December 2018** | **82,026** | **26,599** | **55,450** | **94,682** | **19,364** | **278,121** |
| **Accumulated impairment** | | | | | | |
| Balance at 1 January 2017 | 45,876 | 9,878 | 25,834 | 44,381 | 3,150 | 129,119 |
| Transfers to property, plant and equipment | – | – | – | – | (467) | (467) |
| Impairment/(reversal of impairment)[1] | – | – | (8,364) | – | 2,721 | (5,643) |
| **Balance at 31 December 2017** | **45,876** | **9,878** | **17,470** | **44,381** | **5,404** | **123,009** |
| Transfers to property, plant and equipment | – | – | – | – | (129) | (129) |
| **Balance at 31 December 2018** | **45,876** | **9,878** | **17,470** | **44,381** | **5,275** | **122,880** |
| Net book value as at 31 December 2017 | 35,723 | 16,361 | 37,980 | 50,071 | 7,264 | 147,399 |
| **Net book value as at 31 December 2018** | **36,150** | **16,721** | **37,980** | **50,301** | **14,089** | **155,241** |

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

1 At 31 December 2017, the Group has recorded an impairment charge with respect to evaluation and exploration assets of the Arcata mine unit of US$3,104,000, and reversals of impairment with respect to the Pallancata mine unit of US$383,000 and the San Felipe project of US$8,364,000. The calculation of the recoverable values is detailed in note 15.

## 17 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 2017 | 22,157 | 26,583 | 1,856 | 6,686 | 57,282 |
| Additions | – | – | 16 | – | 16 |
| Balance at 31 December 2017 | 22,157 | 26,583 | 1,872 | 6,686 | 57,298 |
| Additions | – | – | 13 | 1,894 | 1,907 |
| Transfer | – | – | 3 | – | 3 |
| **Balance at 31 December 2018** | **22,157** | **26,583** | **1,888** | **8,580** | **59,208** |
| **Accumulated amortisation and impairment** | | | | | |
| Balance at 1 January 2017 | 13,074 | 12,686 | 1,371 | 3,772 | 30,903 |
| Amortisation for the year[4] | 1,089 | – | 158 | 604 | 1,851 |
| Balance at 31 December 2017 | 14,163 | 12,686 | 1,529 | 4,376 | 32,754 |
| Amortisation for the year[4] | 1,113 | – | 212 | 766 | 2,091 |
| **Balance at 31 December 2018** | **15,276** | **12,686** | **1,741** | **5,142** | **34,845** |
| Net book value as at 31 December 2017 | 7,994 | 13,897 | 343 | 2,310 | 24,544 |
| **Net book value as at 31 December 2018** | **6,881** | **13,897** | **147** | **3,438** | **24,363** |

1 The transmission line is amortised using the units of production method. At 31 December 2018 the remaining amortisation period is approximately 7 years (2017: 8 years).
2 Corresponds to the acquisition of water permits of Andina Minerals Group ("Andina"). These permits have an indefinite life according to Chilean law. To determine the fair value less costs of disposal of the Volcan cash-generating unit, which includes the water permits held by the Group, the Group used the value-in-situ methodology. This methodology applies a realisable 'enterprise value' to unprocessed mineral resources which was US$6.70 per gold equivalent ounce of resources at 31 December 2018 (2017: US$7.10). The risk adjusted enterprise value figure has been determined using a combination of level 2 and level 3 inputs, which result in a fair value measurement categorised in its entirety as level 3 in the fair value hierarchy, to estimate the amount that would be paid by a willing third party in an arm's length transaction, taking into account the water restrictions imposed by the Chilean government.
3 Legal rights correspond to expenditures required to give the Group the right to use a property for the surface exploration work, development and production. At 31 December 2018 the remaining amortisation period is from 5 to 20 years (2017: 10 to 20 years).
4 The amortisation for the period is included in cost of sales and administrative expenses in the income statement.

The carrying amount of the Volcan CGU, which includes the water permits, is reviewed annually to determine whether it is in excess of its recoverable amount. No impairments were recognised in 2018 and 2017.

### Key assumptions

| US$ | 2018 | 2017 |
|---|---|---|
| Risk adjusted value per in-situ (gold equivalent ounce) | **6.70** | 7.10 |

| US$000 | 2018 | 2017 |
|---|---|---|
| Current carrying value Volcan CGU | **64,198** | 63,968 |

### 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 exceed its recoverable amount.

The estimated recoverable amount is not materially greater than its carrying value. A change in the value-in-situ assumption could cause an impairment loss or reversal of impairment to be recognised as follows:

| Approximate (impairment)/reversal of impairment resulting from the following changes (US$000) | 2018 | 2017 |
|---|---|---|
| Value per in-situ ounce (10% decrease) | **(6,407)** | (2,667) |
| Risk factor (increase by 5%) | **(1,725)** | (1,095) |
| Risk factor (decrease by 5%) | **1,725** | 9,384 |

## 18 Financial assets at fair value through OCI

| | Year ended 31 December | |
|---|---|---|
| | **2018 US$000** | 2017 US$000 |
| Beginning balance | **6,264** | – |
| Acquisitions[1] | **6,433** | – |
| Fair value change recorded in equity | **(6,450)** | – |
| Disposals[2] | **(951)** | – |
| **Ending balance** | **5,296** | – |

1 Corresponds to the purchase of 591,326,947 shares of REE UNO SpA (REE UNO) (US$2,000,000), 7,519,331 shares of Skeena Resources Limited (Skeena) (US$4,313,000) and 15,600 shares of Cobalt Power Group (Cobalt) (US$120,000).
2 As the investments were not considered to be strategic, the Group sold 14,545,454 shares of Red Eagle with a fair value at the date of sale of US$799,000 and 3,383,000 shares of Santa Cruz Silver Mining with a fair value at the date of sale of US$155,000, generating a loss on disposal of US$2,514,000 and US$546,000 respectively.

The Group made the election at initial recognition to measure the equity investments at fair value through OCI as they are not held for trading.

The fair value at 31 December 2018 is as follows:

| | **US$000** |
|---|---|
| **Listed equity investments:** | |
| Cobalt Power Group | **53** |
| Santa Cruz Silver Mining | **435** |
| Revelo Resources Corp. | **4** |
| Skeena Resources Limited | **1,599** |
| Empire Petroleum Corp. | **19** |
| **Total listed equity investments** | **2,110** |
| **Non-listed equity investments:** | |
| Pembrook Mining Corp. | **–** |
| ECI Exploration and Mining Inc. | **–** |
| Goldspot Discoveries Inc. | **1,240** |
| REE UNO SpA | **1,946** |
| **Total non-listed equity investments** | **3,186** |
| **Total** | **5,296** |

Fair value of the listed shares is determined by reference to published price quotations in an active market and they are categorised as level 1.

The fair value of non-listed equity investments is determined based on financial information available of the companies and they are categorised as level 3.

## 19 Trade and other receivables

| | As at 31 December | | | |
|---|---|---|---|---|
| | 2018 | | 2017 | |
| | **Non-current US$000** | **Current US$000** | Non-current US$000 | Current US$000 |
| Trade receivables (note 35(c)) | **–** | **45,201** | – | 43,209 |
| Advances to suppliers | **–** | **2,950** | – | 4,482 |
| Duties recoverable from exports of Minera Santa Cruz[1] | **1,546** | **1,788** | 1,570 | 2,681 |
| Receivables from related parties (note 29(a)) | **–** | **76** | – | 160 |
| Loans to employees | **744** | **206** | 877 | 353 |
| Interest receivable | **–** | **66** | – | 402 |
| Receivable from Kaupthing, Singer and Friedlander Bank | **–** | **195** | – | 208 |
| Other[2] | **723** | **12,591** | 1,810 | 9,397 |
| Provision for impairment[3] | **–** | **(5,997)** | – | (4,594) |
| Assets classified as receivables | **3,013** | **57,076** | 4,257 | 56,298 |
| Prepaid expenses | **8** | **2,028** | 91 | 3,720 |
| Value Added Tax (VAT)[4] | **2,430** | **19,632** | 3,139 | 21,048 |
| **Total** | **5,451** | **78,736** | 7,487 | 81,066 |

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

1 Relates to export benefits through the Patagonian Port and silver refunds in Minera Santa Cruz, discounted over 24 months (2017: 19 months) at a rate of 9.98% (2017: 5.40%) for dollars denominated amounts and 57.00% (2017: 29.60%) for Argentinian pesos. The loss on the unwinding of the discount is recognised within finance costs (2017: gain on discount is recognised within finance income).

2 Mainly corresponds to account receivables from contractors for the sale of supplies of US$6,111,000 (2017: US$4,773,000), and other tax claims of US3,227,000 (2017: US$3,903,000).

3 Includes the provision for impairment of trade receivable from customers in Peru of US$1,554,000 (2017: US$1,080,000), the impairment of deposits in Kaupthing, Singer and Friedlander of US$195,000 (2017: US$208,000), the impairment of the account receivable from a third party of US$3,233,000 (2017: US$2,501,000) and other receivables of US$1,015,000 (2017: US$805,000).

4 Primarily relates to US$11,462,000 (2017: US$12,829,000) of VAT receivable related to the San Jose project that will be recovered through future sales of gold and silver and also through the sale of these credits to third-parties by Minera Santa Cruz S.A. It also includes the VAT of Compañía Minera Ares S.A.C. of US$6,248,000 (2017: US$6,519,000) and Empresa de Transmisión Aymaraes S.A.C. of US$3,569,000 (2017: US$4,034,000). The VAT is valued at its recoverable amount.

Movements in the provision for impairment of receivables:

| | Individually impaired US$000 |
|---|---|
| At 1 January 2017 | 6,342 |
| Provided for during the year | 1,065 |
| Released during the year[1] | (2,813) |
| At 31 December 2017 | 4,594 |
| Provided for during the year | 5,884 |
| Released during the year[1] | (4,481) |
| **At 31 December 2018** | **5,997** |

1 Corresponds to the reversal of the provision of US$2,000 (2017: US$9,000) and write off of US$4,479,000 (2017: US$2,804,000).

As at 31 December 2018 and 2017, none of the financial assets classified as receivables (net of impairment) were past due.

## 20 Inventories

| | As at 31 December | |
|---|---|---|
| | **2018 US$000** | 2017 US$000 |
| Finished goods valued at cost | **1,543** | 3,011 |
| Products in process valued at cost | **16,085** | 17,099 |
| Products in process accrual | **8,030** | – |
| Raw materials | **–** | – |
| Supplies and spare parts | **37,765** | 41,572 |
| | **63,423** | 61,682 |
| Provision for obsolescence of supplies | **(5,388)** | (5,004) |
| **Total** | **58,035** | 56,678 |

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

Products in process include stockpile and precipitates.

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. At 31 December 2018 and 2017 the Group had no dore on hand included in products in process.

Concentrate is sold to smelters, but in addition could be used as a product in process to produce 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$111,485,000 (2017: US$104,689,000).

Movements in the provision for obsolescence comprise an increase in the provision of US$384,000 (2017: US$542,000) and the reversal of US$nil relating to the sale of supplies and spare parts, that had been provided for (2017: US$2,997,000).

## 21 Cash and cash equivalents

| | As at 31 December | |
|---|---|---|
| | **2018 US$000** | 2017 US$000 |
| Cash at bank | **366** | 335 |
| Liquidity funds[1] | **–** | 2,869 |
| Current demand deposit accounts[2] | **43,095** | 61,612 |
| Time deposits[3] | **36,243** | 192,172 |
| **Cash and cash equivalents considered for the statement of cash flows** | **79,704** | 256,988 |

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 nil days as at 31 December 2018 (2017: average of 29 days).
2 Relates to bank accounts which are freely available and bear interest.
3 These deposits have an average maturity of 14 days (2017: Average of 32 days) (refer to note 35(c)).

## 22 Deferred income

| | As at 31 December | |
|---|---|---|
| | **2018 US$000** | 2017 US$000 |
| San Felipe contract[1] | **31,396** | 29,396 |
| El Mosquito contract[2] | **970** | 1,413 |
| | **32,366** | 30,809 |
| Current balance | **(400)** | (400) |
| Non-current | **31,966** | 30,409 |

1 On 3 August 2011, the Group entered into an agreement with Impulsora Minera Santa Cruz ("IMSC") whereby IMSC acquired the right to explore the San Felipe properties and an option to purchase the related concessions. Under the terms of this agreement the Group has received US$31,396,000 as non-refundable payments at 31 December 2018 (2017: US$29,396,000). These payments will reduce the total consideration that IMSC will be required to pay upon exercise of the option and constitute an advance of the final purchase price, rather than an option premium and, as such, they were recorded as deferred income.

On 30 November 2016, IMSC renegotiated the terms of the agreement, extending the validity of the agreement to 1 December 2017. As a result of this extension, on 9 March 2017 the Group received in payment 13,415,000 ordinary shares of Santa Cruz Silver Mining ("SCSM") quoted in the Toronto Stock Exchange, at the unit price of CAD 0.28 amounting to CAD 3,756,000 equivalent to US$2,780,000. The amount received included valued added taxes of US$384,000 and part consideration of US$2,396,000 recognised as deferred income.

On 28 February 2017, the Group signed a new option agreement with IMSC for the San Felipe properties for a total consideration of US$10,000,000. An initial payment of US$2,000,000 was received in cash on 7 March 2017.

In March 2017, IMSC entered into an agreement with Americas Silver Corporation ('ASC') to assign 100% of its interest in the San Felipe Project.

During 2018 the Group collected US$2,000,000 (January 2018:US$500,000, April 2018: US$500,000 and July 2018: US$1,000,000).

On 15 December 2018, the option to sell the San Felipe property to ASC was extended to 31 December 2020.

2 On 25 April 2017 the Group signed a five-year option agreement with Minas Argentinas S.A. ("MASA") giving MASA the right to explore and the option to purchase the Mosquito property, located in Argentina. The Group has received in cash US$2,000,000, recognising US$970,000 as deferred income at 31 December 2018.

## 23 Trade and other payables

| | As at 31 December | | | |
|---|---|---|---|---|
| | **2018** | | 2017 | |
| | **Non-current US$000** | **Current US$000** | Non-current US$000 | Current US$000 |
| Trade payables[1] | **–** | **69,568** | – | 63,038 |
| Salaries and wages payable[2] | **–** | **36,272** | – | 36,143 |
| Dividends payable | **–** | **2,247** | – | 107 |
| Taxes and contributions | **14** | **6,314** | 32 | 6,425 |
| Guarantee deposits | **–** | **7,922** | – | 6,946 |
| Mining royalties (note 34) | **–** | **506** | – | 684 |
| Accounts payable to related parties (note 29(a)) | **–** | **7** | – | 149 |
| Other | **773** | **2,639** | 1,049 | 3,287 |
| **Total** | **787** | **125,475** | 1,081 | 116,779 |

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

1 Trade payables relate mainly to the acquisition of materials, supplies and contractors' services. These payables do not accrue interest and no guarantees have been granted.

2 Salaries and wages payable relates to remuneration payable. There were Board members' remuneration payable of US$nil (2017: US$nil) and long-term incentive plan awards payable of US$8,215,000 (2017: US$7,520,000) at 31 December 2018.

## 24 Borrowings

| | As at 31 December | | | | | |
|---|---|---|---|---|---|---|
| | 2018 | | | 2017 | | |
| | **Effective interest rate** | **Non-current US$000** | **Current US$000** | Effective interest rate | Non-current US$000 | Current US$000 |
| Bond payable (a) | – | – | – | 8.56% | 291,955 | 8,779 |
| Secured bank loans (b) | | | | | | |
| Pre-shipment loans in Minera Santa Cruz (note 20) | **4.0% to 5.0%** | – | **6,047** | 1.80% to 2.85% | – | 9,043 |
| Bank loans | **2.43% to 3.00%** | **50,000** | **101,020** | 1.75% | – | 50,041 |
| **Total** | | **50,000** | **107,067** | | 291,955 | 67,863 |

**(a) Bond payable**

Relates to the issuance of US$350,000,000 7.75% Senior Unsecured Notes on 23 January 2014, fully repaid on 23 January 2018. The Group repaid the capital of US$294,775,000, plus interests of US$11,423,000, premium of US$11,423,000 and their corresponding withholding tax of US$946,000. The charge in profit and loss during the period is US$17,833,000, of which US$1,487,000 corresponds to the interests and its corresponding withholding tax generated in the period, and the balance of US$16,346,000, recognised as an exceptional item, includes the premium of US$11,423,000, its corresponding withholding tax of US$473,000 and the recognition of the capitalised expenses related to obtaining the bond of US$4,450,000 (refer to note 10).

**(b) Secured bank loans**

Short-term bank loans

Two credit agreements signed by Compañía Minera Ares S.A.C with BBVA Continental with an interest rate of 2.70% and Scotiabank with an interest rate of 3.00%. The carrying value including accrued interest payable at 31 December 2018 is US$50,581,000 and US$50,111,000 respectively. (2017: One credit agreement signed by Compañía Minera Ares S.A.C. with BBVA Continental with an interest rate of 1.75%, the carrying value including accrued interest payable at 31 December 2017 was US$50,041,000 and was repaid on the due date of 10 December 2018).

Medium-term bank loans

Two credit agreements signed by Compañía Minera Ares S.A.C with Nova Scotia Bank with an interest rate of 2.43% and Citibank with an interest rate of 2.43%. The carrying value including accrued interest payable at 31 December 2018 is US$25,164,000 and US$25,164,000 respectively.

The maturity of non-current borrowings is as follows:

| | As at 31 December | |
|---|---|---|
| | **2018 US$000** | 2017 US$000 |
| Between 1 and 2 years | **50,000** | – |
| Between 2 and 5 years | **–** | 291,955 |
| Over 5 years | **–** | – |
| **Total** | **50,000** | 291,955 |

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 | |
|---|---|---|---|---|
| | **2018 US$000** | 2017 US$000 | **2018 US$000** | 2017 US$000 |
| Secured bank loans | **50,000** | – | **47,353** | – |
| Bond payable | **–** | 291,955 | **–** | 306,566 |
| **Total** | **50,000** | 291,955 | **47,353** | 306,566 |

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, and is a Level 1 input.

The movement in borrowings during the year is as follows:

| | As at 1 January 2018 US$000 | Additions US$000 | Repayments US$000 | Reclassifications US$000 | **As at 31 December 2018 US$000** |
|---|---|---|---|---|---|
| **Current** | | | | | |
| Bank loans | 59,084 | 171,567 | (123,584) | – | **107,067** |
| Bond payable | 8,779 | 17,833 | (23,792) | (2,820) | **–** |
| | 67,863 | 189,400 | (147,376) | (2,820) | **107,067** |
| **Non-current** | | | | | |
| Bank loans | – | 100,000 | (50,000) | – | **50,000** |
| Bond payable | 291,955 | – | (294,775) | 2,820 | **–** |
| | 291,955 | 100,000 | (344,775) | 2,820 | **50,000** |
| Accrued interest | (9,745) | (22,900) | 28,758 | 2,820 | **(1,067)** |
| Before accrued interest | 350,073 | 266,500 | (463,393) | 2,820 | **156,000** |

## 25 Provisions

| | Provision for mine closure[1] US$000 | Long-Term Incentive Plan[2] US$000 | Other US$000 | Total US$000 |
|---|---|---|---|---|
| **At 1 January 2017** | **102,429** | **4,649** | **4,449** | **111,527** |
| Additions | – | 8,702 | 347 | 9,049 |
| Accretion | 280 | – | – | 280 |
| Change in discount rate[4] | 863 | – | – | 863 |
| Change in estimates[4] | 856[3] | – | – | 856 |
| Foreign exchange effect | – | – | (352) | (352) |
| Transfer to trade and other payables | – | (7,520) | – | (7,520) |
| Payments | (4,359) | – | (34) | (4,393) |
| **At 31 December 2017** | **100,069** | **5,831** | **4,410** | **110,310** |
| Less: current portion | 4,562 | – | 1,641 | 6,203 |
| Non-current portion | 95,507 | 5,831 | 2,769 | 104,107 |
| **At 1 January 2018** | **100,069** | **5,831** | **4,410** | **110,310** |
| Additions | – | 3,386 | 140 | 3,526 |
| Accretion | 368 | – | – | 368 |
| Change in discount rate[4] | (1,609) | – | – | (1,609) |
| Change in estimates[4] | (479)[3] | – | – | (479) |
| Foreign exchange effect | – | – | (1,614) | (1,614) |
| Transfer to trade and other payables | – | (8,215) | – | (8,215) |
| Payments | (4,494) | – | – | (4,494) |
| **At 31 December 2018** | **93,855** | **1,002** | **2,936** | **97,793** |
| Less: current portion | 1,986 | – | 1,167 | 3,153 |
| **Non-current portion** | **91,869** | **1,002** | **1,769** | **94,640** |

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 2018 and 2017 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 0.30% (2017: 0.14%). Expected cash flows will be over a period from one to 19 years.

2 Corresponds to the provision related to awards granted under the Long-Term Incentive Plan ('LTIP') to designated personnel of the Group. Includes the following benefits: (i) 2018 awards, granted in May 2018, payable in May 2021, as 50% in cash (refer to note 26(c)(iv)), (ii) 2017 awards, granted in March 2017, payable in full on vesting in March 2020. Only employees who remain in the Group's employment on the vesting date will be entitled to vested awards, subject to exceptions approved by the Remuneration Committee of the Board. There are two parts to the performance conditions attached to LTIP awards: 70% is subject to the Company's TSR ranking relative to a tailored peer group of mining companies, and 30% is subject to the Company's TSR ranking relative to the constituents of the FTSE 350 mining index. The liability for the LTIP paid in cash is measured, initially and at the end of each reporting period until settled, at the fair value of the awards, by applying the Monte Carlo pricing model, taking into account the terms and conditions on which the awards were granted, and the extent to which the employees have rendered services to date. Changes to the provision of US$3,386,000 (2017: US$8,702,000) have been recorded as administrative expenses US$3,203,000 (2017: US$8,215,000) and exploration expenses US$183,000 (2017: US$487,000).

The following tables list the inputs to the Monte Carlo model used for the LTIPs as at 31 December 2018 and 2017, respectively:

| | LTIP 2016 | | LTIP 2017 | | LTIP 2018 | |
|---|---|---|---|---|---|---|
| For the period ended | **31 December 2018 US$000** | 31 December 2017 US$000 | **31 December 2018 US$000** | 31 December 2017 US$000 | **31 December 2018 US$000** | 31 December 2017 US$000 |
| Dividend yield (%) | **–** | 0.81 | **1.80** | 0.81 | **1.80** | – |
| Expected volatility (%) | **–** | 4.02 | **2.41** | 4.02 | **3.51** | – |
| Risk–free interest rate (%) | **–** | 0.25 | **0.71** | 0.25 | **0.71** | – |
| Expected life (years) | **–** | 1 | **1** | 2 | **2** | – |
| Weighted average share price (pence £) | **–** | 63.07 | **240.88** | 239.22 | **235.08** | – |

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

3 Based on the 2018 (2017) internal and external review of mine rehabilitation estimates, the provision for mine closure (decreased)/increased by:

| | Arcata US$000 | Ares US$000 | Sipan US$000 | Selene US$000 | Azuca US$000 | Crespo US$000 | Inmaculada US$000 | Pallancata US$000 | Adjustment San Jose US$000 | **Total US$000** |
|---|---|---|---|---|---|---|---|---|---|---|
| At 31 December 2018 | 1,745 | (68) | (11) | (1,131) | 330 | (117) | (903) | (324) | – | **(479)** |
| At 31 December 2017 | (1,131) | 22 | – | (607) | 7 | 43 | 1,191 | 1,385 | (54) | **856** |

4 An expense of US$52,000 related to changes in estimate and discount rates for mines already closed. 2017: an income of US$1,428,000 related to changes in estimate and discount rates for mines already closed and the Arcata mine unit which reduction of the estimated costs exceeded the carrying value of the mine asset, therefore the effect has been recognised directly in the income statement.

## 26 Equity

### (a) Share capital and share premium

Issued share capital

The issued share capital of the Company as at 31 December 2018 is as follows:

| Class of shares | Issued Number | Issued Amount |
|---|---|---|
| Ordinary shares | 510,553,920 | £127,638,480 |

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

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

At 31 December 2018 and 2017, all issued shares with a par value of 25 pence each were fully paid (2018: weighted average of US$0.441 per share, 2017: weighted average of US$0.442 per share).

Rights attached to ordinary shares:

At general meetings of the Company, on a show of hands and on a poll, every member who is present in person or subject to the below, by proxy, has one vote for every share of which they are the holder/proxy. However, in the case of a vote on a show of hands where a proxy has been appointed by more than one member, the proxy has one vote for and one vote against if the proxy has been instructed by one or more members to vote for the resolution and by one or more members to vote against the resolution.

On 2 January 2018 the Group issued 1,660,805 ordinary shares and on 31 December 2018 the Group issued 1,660,805 ordinary shares, under the Restricted Share Plan, to certain employees of the Group.

The changes in share capital are as follows:

| | Number of shares | Share capital US$000 | Share premium US$000 |
|---|---|---|---|
| Shares issued as at 1 January 2017 | 507,232,310 | 224,315 | 438,041 |
| Shares issued according the Restricted Share Plan benefit on 2 January 2018 at GBP 0.25 | 1,660,805 | 564 | – |
| Shares issued according the Restricted Share Plan benefit on 31 December 2018 at GBP 0.25 | 1,660,805 | 530 | – |
| **Shares issued as at 31 December 2018** | **510,553,920** | **225,409** | **438,041** |

### (b) Treasury shares

Treasury shares represent the cost of Hochschild Mining plc shares purchased in the market and held by the trustee of the Hochschild Mining Employee Share Trust to satisfy the award of conditional shares under the Group's Enhanced Long-Term Incentive Plan granted to the CEO (note 2(n)). During 2011, the Group purchased 126,769 shares for the purposes of the plan, for a total consideration of £561,478 (equivalent to US$898,000). No shares were purchased by the Group during 2017.

On 5 April 2018, the Group purchased 205,400 shares for a total consideration of £414,000 (equivalent to US$579,000).

On 20 March 2017, 40,383 Treasury shares with a value of US$286,000 (being the cost incurred to acquire the shares) were transferred to the CEO of the Group with respect to the Deferred Bonus Plan benefit.

On 20 March 2018, 40,383 Treasury shares with a value of US$84,000 (being the cost incurred to acquire the shares) were transferred to the CEO of the Group with respect to the Deferred Bonus Plan benefit.

On 5 April 2018, 232,172 Treasury shares with a value of US$635,000 (being the cost incurred to acquire the shares) were transferred to the CEO of the Group with respect to the Enhanced Long-Term Incentive Plan.

At 31 December 2018 the balance of Treasury shares is 42 (31 December 2017: 67,197) ordinary shares with a value of US$115 (31 December 2017: US$140,000).

### (c) Other reserves

Unrealised gain/loss on available-for-sale financial assets and financial assets at fair value through OCI

Under IAS 39, the Group classified its investments in listed companies as available-for-sale financial assets which are carried at fair value. Consequently, the increase/decrease 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.

According IFRS 9, the Group made the decision to classify its investments in listed and unlisted companies as financial assets at fair value through OCI. The increase/decrease in carrying values, net of the related deferred tax liability, is taken directly to this account where it will remain until disposal, when the cumulative unrealised gains and losses are recycled through retained earnings.

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.

## 26 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.

### Share-based payment reserve

Share-based payment reserve is used to recognise the value of equity-settled share-based payment transactions provided to employees, as a part of their remuneration.

#### Restricted Share Plan ('RSP')

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

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

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

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

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

The RSP does not have an exercise price.

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

On 2 January 2018 the Group issued 1,660,805 ordinary shares and on 31 December 2018 the Group issued 1,660,805 ordinary shares, under the Restricted Share Plan, to certain employees of the Group, including the CEO.

The carrying amount of the share-based payment reserve relating to the RSP at 31 December 2018 is US$3,289,000 (2017: US$6,048,000) with the amount recognised in the consolidated income statement of US$1,374,000 (2017: US$2,090,000).

On 30 December 2017 20% of the options vested, resulting in 1,660,805 ordinary shares that were issued on 2 January 2018.

On 30 December 2018 20% of the options vested, resulting in 1,660,805 ordinary shares that were issued on 31 December 2018.

The balance of shares pending to vest at 31 December 2018 is 3,321,642 (2017: 4,982,447) ordinary shares.

The remaining contract life is one year.

The movement in other reserves during 2018 is as follows:

| | US$000 |
|---|---|
| Balance at 1 January 2018 | 6,047 |
| Vesting at 30 December 2017, shares issued on 2 January 2018 at GBP 0.25 (refer to (a)) | (2,066) |
| Vesting at 30 December 2018, shares issued on 31 December 2018 at GBP 0.25 (refer to (a)) | (2,066) |
| Provision of the period | 1,374 |
| **Balance at 31 December 2018** | **3,289** |

The movement of the shares according the date of vesting is as follows:

| | Number of shares |
|---|---|
| Balance of shares pending to vest at 1 January 2018 | 4,982,447 |
| Shares vested on 30 December 2018 | (1,660,805) |
| **Balance of shares pending to vest at 31 December 2018** | **3,321,642** |

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

The fair value of the awards was determined with respect to the market price of the shares on the grant date. The awards do not entitle the recipients to dividends or payment in lieu of dividends during the vesting period. The carrying amount of the share-based payment reserve relating to the DBP at 31 December 2018 is US$nil (2017: US$43,000) with the amount recognised in the consolidated income statement of US$4,000 (2017: US$34,000).

On 20 March 2017 and 20 March 2018, 40,383 and 40,383 Treasury shares were transferred respectively to the CEO of the Group with respect to the DBP.

The movement in other reserves during 2018 is as follows:

| | US$000 |
|---|---|
| Balance at 1 January 2018 | 44 |
| Provision of the period | 4 |
| Vesting on 20 March 2018, paid with treasury shares with a value of US$2.07 totalling US$84,000 (refer to (b)) | (48) |
| **Balance at 31 December 2018** | **–** |

The movement of the shares according the date of vesting is as follows:

| | Number of shares |
|---|---|
| Balance of shares pending to vest at 1 January 2018 | 40,383 |
| Shares vested on 20 March 2018 | (40,383) |
| **Balance of shares pending to vest at 31 December 2018** | **–** |

Enhanced Long-term Incentive Plan ('ELTIP')
In April 2011 and March 2014, the CEO was granted awards under the ELTIP (397,645 and 1,076,122 shares respectively). Awards were made over conditional shares with a value, on the date of grant, equivalent to six times salary and which vest in tranches over an extended performance period of four, five and six years. Further details on the design of the ELTIP award and numbers of awards granted are included in the Directors Remuneration Report.

The fair value of the option was determined using the Monte Carlo model. The carrying amount of the share-based payment reserve relating to the ELTIP at 31 December 2018 is US$1,359,000 (2017: US$1,543,000). The amount recognised in the consolidated income statement amounts to US$311,000 (2017: US$449,000). In 2017 US$760,000 relating to options that lapsed during the year (204,731 ordinary shares lapsed in 2017) were transferred from the share-based payment reserve to retain earnings.

As at 31 December 2017, 1,076,122 ordinary shares were pending to vest. The vesting percentage of the 25% of the award resulted in 86.3% and on 5 April 2018 the CEO received 232,172 Treasury shares, and US$140,000 was transferred from the share-based payment reserve to retain earnings.

As at 31 December 2018, 807,091 ordinary shares are pending to vest (31 December 2017: 1,076,122 ordinary shares).

The remaining contract life is 1.2 years.

The movement in other reserves during 2018 is as follows:

| | US$000 |
|---|---|
| Balance at 1 January 2018 | 1,543 |
| Provision of the period | 311 |
| Vesting at 20 March 2018, treasury shares received by the CEO on 5 April 2018 with a value of US$2.73 totalling US$635,000 (refer to (b)) | (495) |
| **Balance at 31 December 2018** | **1,359** |

The movement of the shares according the date of vesting is as follows:

| | Number of shares |
|---|---|
| Balance of shares pending to vest at 1 January 2018 | 1,076,122 |
| Shares lapsed on 20 March 2018 (25% of the award) | (36,859) |
| Shares vested on 20 March 2018 | (232,172) |
| **Balance of shares pending to vest at 31 December 2018** | **807,091** |

## 26 Equity continued

### Long-Term Incentive Plan 2018 ('LTIP 2018')

On 25 May 2018 the Group approved the 2018 Long-Term Incentive Plan. The award gives a right to receive a cash payment equivalent to 50% of the prize (cash-settled transaction) (refer to note 25(2)), and the other 50% will be used to acquire shares (equity-settled transaction). Further details on the design of the ELTIP award are included in the Directors' Remuneration Report.

The fair value of the option was determined using the Monte Carlo model.

The remaining contract life is 2.4 years.

The movement in other reserves during 2018 is as follows:

| | US$000 |
|---|---|
| Balance at 1 January 2018 | – |
| Provision of the period | 212 |
| **Balance at 31 December 2018** | **212** |

No shares were vested during the period.

## 27 Deferred income tax

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

| | As at 31 December | |
|---|---|---|
| | **2018 US$000** | 2017 US$000 |
| Beginning of the year | **(53,640)** | (64,944) |
| Income statement charge/(credit) (note 13) | **(16,087)** | 11,304 |
| End of the year | **(69,727)** | (53,640) |

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 | Provisional pricing adjustment US$000 | Others US$000 | Total US$000 |
|---|---|---|---|---|---|
| **Deferred income tax liabilities** | | | | | |
| **At 1 January 2017** | 41,648 | 68,342 | – | 2,824 | 112,814 |
| **Income statement (credit)/charge** | 2,474 | 991 | 201 | (1,197) | 2,469 |
| **At 31 December 2017** | **44,122** | **69,333** | **201** | **1,627** | **115,283** |
| Income statement (credit)/charge | (3,908) | 14,255 | 809 | 49 | 11,205 |
| **At 31 December 2018** | **40,214** | **83,588** | **1,010** | **1,676** | **126,488** |

| | Differences in cost of PP&E US$000 | Provision for mine closure US$000 | Tax losses US$000 | Mine development US$000 | Provisional pricing adjustment US$000 | Others US$000 | Total US$000 |
|---|---|---|---|---|---|---|---|
| **Deferred income tax assets** | | | | | | | |
| **At 1 January 2017** | 16,325 | 19,534 | 946 | 912 | 304 | 9,849 | 47,870 |
| **Income statement credit/(charge)** | 14,347 | (51) | 893 | (110) | (304) | (1,002) | 13,773 |
| **At 31 December 2017** | 30,672 | 19,483 | 1,839 | 802 | – | 8,847[1] | 61,643 |
| **Income statement credit/(charge)** | (4,374) | (1,080) | (1,635) | (109) | – | 2,316 | (4,882) |
| **At 31 December 2018** | **26,298** | **18,403** | **204** | **693** | **–** | **11,163[1]** | **56,761** |

1 Mainly related to long-term incentive plan of US$2,655,000 (2017: US$3,966,000), statutory holiday provision of US$1,113,000 (2017: US$962,000) and inventory of US$635,000 (2017: US$784,000).

The amounts after offset, as presented on the face of the Statement of financial position, are as follows:

| | As at 31 December | |
|---|---|---|
| | **2018 US$000** | 2017 US$000 |
| Deferred income tax assets | **1,504** | 2,400 |
| Deferred income tax liabilities | **(71,231)** | (56,040) |

Tax losses expire in the following years:

| | As at 31 December | |
|---|---|---|
| | **2018 US$000** | 2017 US$000 |
| Unrecognised | | |
| Expire in one year | **465** | 3,517 |
| Expire in two years | **–** | 493 |
| Expire in three years | **4,511** | 42 |
| Expire in four years | **2,861** | 4,320 |
| Expire after four years | **121,583** | 119,461 |
| | **129,420** | 127,833 |

Other unrecognised deferred income tax assets comprise (gross amounts):

| | As at 31 December | |
|---|---|---|
| | **2018 US$000** | 2017 US$000 |
| Provision for mine closure[1] | **6,596** | 7,287 |
| Impairments of assets[2] | **–** | 2,509 |

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 project (note 16).

### Unrecognised deferred tax liability on retained earnings

At 31 December 2018 and 2017, there was no recognised deferred tax liability 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.

## 28 Dividends

| | **2018 US$000** | 2017 US$000 |
|---|---|---|
| **Dividends paid and proposed during the year** | | |
| Equity dividends on ordinary shares: | | |
| Final dividend for 2017: 1.965 US cents per share (2016: 1.38 US cents per share) | **9,999** | 6,997 |
| Interim dividend for 2018: 1.965 US cents per share (2017: 1.38 US cents per share) | **10,000** | 6,999 |
| **Total dividends paid on ordinary shares** | **19,999** | 13,996 |
| **Proposed dividends on ordinary shares:** | | |
| Final dividend for 2018: 1.959 US cents per share (2017: 1.965 US cents per share) | **10,000** | 9,967 |
| | | |
| Dividends paid to non-controlling interests: 0.08 US$ per share (2017: 1.80 US$ per share) | **13,039** | 12,585 |
| **Total dividends paid to non-controlling interests** | **13,039** | 12,585 |

### Dividends per share

The interim dividend paid in September 2018 was US$10,000,000 (1.965 US cents per share). A proposed dividend in respect of the year ending 31 December 2018 of 1.959 US cents per share, amounting to a total dividend of US$10,000,000, is subject to approval at the Annual General Meeting to be held on 6 June 2019 and is not recognised as a liability as at 31 December 2018.

## 29 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 2018 and 2017. 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 | |
|---|---|---|---|---|
| | **2018 US$000** | 2017 US$000 | **2018 US$000** | 2017 US$000 |
| Current related party balances | | | | |
| Cementos Pacasmayo S.A.A.[1] | **76** | 160 | **7** | 149 |
| **Total** | **76** | 160 | **7** | 149 |

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 2018 and 2017, 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 | |
|---|---|---|
| | **2018 US$000** | 2017 US$000 |
| **Expenses** | | |
| Expense recognised for the rental paid to Cementos Pacasmayo S.A.A. | **(200)** | (200) |

Transactions between the Group and these companies are on an arm's length basis.

### (b) Compensation of key management personnel of the Group

| | As at 31 December | |
|---|---|---|
| Compensation of key management personnel (including Directors) | **2018 US$000** | 2017 US$000 |
| Short-term employee benefits | **6,619** | 6,086 |
| Long-Term Incentive Plan, Deferred Bonus Plan and Restricted Share Plan | **2,899** | 5,446 |
| **Total compensation paid to key management personnel** | **9,518** | 11,532 |

This amount includes the remuneration paid to the Directors of the Parent Company of the Group of US$4,601,000 (2017: US$5,439,000).

## 30 Auditor's remuneration

The auditor's remuneration for services provided to the Group during the years ended 31 December 2018 and 2017 is as follows:

| | Amounts paid to Ernst & Young in the year ended 31 December | |
|---|---|---|
| | **2018 US$000** | 2017 US$000 |
| Audit fees pursuant to legislation[1] | **597** | 597 |
| Audit-related assurance services | **53** | 53 |
| Taxation compliance services | **9** | 14 |
| Taxation advisory services | **–** | 29 |
| Other non-audit services[2] | **–** | 18 |
| **Total** | **659** | 711 |

1 The total audit fee in respect of local statutory audits of subsidiaries is US$340,000 (2017: US$350,000).
2 Related to the benchmark on derivatives and IFRS 15 and 9 implementation.

In 2018 and 2017, all fees are included in administrative expenses.

## 31 Notes to the statement of cash flows

| | As at 31 December | |
|---|---|---|
| | **2018 US$000** | 2017 US$000 |
| **Reconciliation of loss for the year to net cash generated from operating activities** | | |
| Profit for the year | **6,701** | 53,881 |
| **Adjustments to reconcile Group loss to net cash inflows from operating activities** | | |
| Depreciation (note 3(a)) | **163,639** | 195,954 |
| Amortisation of intangibles (note 17) | **2,091** | 1,851 |
| Write-off of assets | **384** | 405 |
| Provision of doubtful receivable | **5,656** | – |
| Impairment of assets (note 10) | **–** | 2,753 |
| Gain on sale of available-for-sale financial assets, net | **–** | (1,354) |
| Loss/(gain) on sale of property, plant and equipment | **(61)** | 145 |
| Provision for obsolescence of supplies | **384** | 542 |
| Increase/(decrease) of provision for mine closure | **52** | (1,428) |
| Finance income | **(2,048)** | (4,541) |
| Finance costs | **28,796** | 26,063 |
| Income tax expense | **31,666** | 10,196 |
| Other | **9,045** | 5,464 |
| **Increase/(decrease) of cash flows from operations due to changes in assets and liabilities** | | |
| Trade and other receivables | **(16,242)** | (22,109) |
| Income tax receivable | **–** | – |
| Other financial assets and liabilities | **–** | (3,671) |
| Inventories | **(1,741)** | (165) |
| Trade and other payables | **648** | 22,670 |
| Provisions | **(6,303)** | 1,143 |
| **Cash generated from operations** | **222,667** | 287,799 |

## 32 Commitments

### (a) Mining rights purchase options

During the ordinary course of business, the Group enters into agreements to carry out exploration under concessions held by third parties. Generally, under the terms of these agreements, the Group has the option to acquire the concession or invest in the entity holding the concession. In order to exercise these options the Group must satisfy certain financial and other obligations during the term of the agreement. The options lapse in the event that the Group does not meet its financial obligations. At any point in time, the Group may cancel the agreements without penalty, except where specified below. These agreements are not under non-cancellable/irrevocable clauses.

The Group continually reviews its requirements under the agreements and determines, on an annual basis, whether to proceed with its financial commitment. Based on management's current intention regarding these projects, the commitments at the statement of financial position date are as follows:

| | As at 31 December | |
|---|---|---|
| | **2018 US$000** | 2017 US$000 |
| Commitment for the subsequent 12 months | **1,100** | 3,300 |
| More than one year | **46,369** | 41,200 |

## 32 Commitments continued

### (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 2018 and 2017 are included in production costs (2018:S$11,580,000, 2017: US$12,565,000), administrative expenses (2018: US$1,372,000, 2017: US$1,474,000), exploration expenses (2018: US$1,179,000, 2017: US$519,000) and selling expenses (2018: US$2,000, 2017: US$2,000).

As at 31 December 2018 and 2017, the future aggregate minimum lease payments under the operating lease agreements are as follows:

| | For the year ended 31 December | |
|---|---|---|
| | **2018 US$000** | 2017 US$000 |
| Not later than one year | **1,746** | 2,462 |
| Later than one year and not later than five years | **702** | 764 |

### (c) Capital commitments

| | For the year ended 31 December | |
|---|---|---|
| | **2018 US$000** | 2017 US$000 |
| Peru | **33,625** | 15,925 |
| Argentina | **2,564** | 5,739 |
| | **36,189** | 21,664 |

## 33 Contingencies

As at 31 December 2018 the Group is subject to various claims which arise in the ordinary course of business. No provision has been made in the financial statements and none of these claims are currently expected to result in any material loss to the Group.

### (a) Taxation

Fiscal periods remain open to review by the tax authorities for four years in Peru and five years in Argentina and Mexico, preceding the year of review. During this time the authorities have the right to raise additional tax assessments including penalties and interest. Under certain circumstances, reviews may cover longer periods.

Because a number of fiscal periods remain open to review by the tax authorities, coupled with the complexity of the Group and the transactions undertaken by it, there remains a risk that significant additional tax liabilities may arise. As at 31 December 2018, the Group had exposures totalling US$26,345,000 (2017: US$46,664,000) which are assessed as 'possible', rather than 'probable'. No amounts have been provided in respect of these items. This predominantly relates to potential tax penalties and related interest on intercompany loans.

Notwithstanding this risk, the Directors believe that management's interpretation of the relevant legislation and assessment of taxation is appropriate and that it is probable that the Group's tax and customs positions will be sustained in the event of a challenge by the tax authorities. Consequently, the Directors consider that they have made adequate provision for any future outflow of resources and no additional provision is required in respect of these claims or risks.

### (b) Guarantees

The Group is required to provide guarantees in Peru in respect of environmental restoration and decommissioning obligations. The Group has provided for the estimated cost of these activities (see note 25).

## 34 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 the monthly sales value of mineral concentrates.

The SMT and modified mining royalty are accounted for as an income tax in accordance with IAS 12 "Income Taxes".

c) For companies that have mining projects benefiting from tax stability regimes, mining royalties are calculated and recorded as they were previously, applying an additional new special charge on mining that is calculated using progressive scale rates, ranging from 4% to 13.12% of quarterly operating profit.

d) In the case of the Arcata mine unit, the company left the tax stability agreement, but has maintained the agreement for the mining royalties, such that the Arcata unit is liable for the new SMT but the mining royalties remain payable at the same rate as they were, before the modification in 2011.

As at 31 December 2018, 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$39,000 (2017: US$108,000), US$975,000 (2017: US$1,133,000), and US$279,000 (2017: US$492,000) respectively. The former mining royalty is recorded as 'Trade and other payables', and the new mining royalty and SMT as 'Income tax payable' in the Statement of Financial Position. The amount recorded in the income statement was US$561,000 (2017: US$885,000) representing the former mining royalty, classified as cost of sales, US$4,494,000 (2017: US$4,201,000) of new mining royalty and US$2,727,000 (2017: US$2,229,000) of SMT, both classified as income tax.

### Argentina

In accordance with Argentinian legislation, Provinces (being the legal owners of the mineral resources) are entitled to collect royalties from mine operators. For San Jose, the mining royalty applicable to dore and concentrate is 3% of the pit-head value. As at 31 December 2018, the amount payable as mining royalties amounted to US$467,000 (2017: US$576,000). The amount recorded in the income statement as cost of sales was US$5,296,000 (2017: US$5,792,000).

## 35 Financial risk management

The Group is exposed to a variety of risks and uncertainties which may have a financial impact on the Group and which also impact the achievement of social, economic and environmental objectives. These risks include strategic, commercial, operational and financial risks and are further categorised into risk areas to facilitate consolidated risk reporting across the Group.

The Group has made significant developments in the management of the Group's risk environment which seeks to identify and, where appropriate, implement the controls to mitigate the impact of the Group's significant risks. This effort is supported by a Risk Committee with the participation of the CEO, the Vice Presidents, and the head of the internal audit function. The Risk Committee is responsible for implementing the Group's policy on risk management and internal control in support of the Company's business objectives, and monitoring the effectiveness of risk management within the organisation.

### (a) Commodity price risk

Silver and gold prices have a material impact on the Group's results of operations. Prices are significantly affected by changes in global economic conditions and related industry cycles. Generally, producers of silver and gold are unable to influence prices directly; therefore, the Group's profitability is ensured through the control of its cost base and the efficiency of its operations.

The Group's policy is generally to remain hedge free. However, management continuously monitors silver and gold prices and reserves the right to take the necessary action, where appropriate and within Board approved parameters, to mitigate the impact of this risk.

During 2018 and 2017 the Group had no hedging instruments.

At 31 December 2018 and 2017 the Group is not exposed to commodity price risk on commodity forward contracts.

The Group has price adjustments arising from the sale of concentrate and dore which were provisionally priced at the time the sale was recorded (refer to note 4). 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 |
|---|---|---|
| **2018** | **Gold +/-10%** | **+/-111** |
| | **Silver+/-10%** | **+/-456** |
| 2017 | Gold +/-10% | +/-335 |
| | Silver+/-10% | +/-542 |

## 35 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 |
|---|---|---|---|
| **2018** | | | |
| Pounds sterling | **+/-10%** | **+/-23** | **–** |
| Argentinian pesos | **+/-10%** | **+/-40** | **–** |
| Mexican pesos | **+/-10%** | **+/-939** | **–** |
| Peruvian nuevos soles | **+/-10%** | **-/+334** | **–** |
| Canadian dollars | **+/-10%** | **+/-8** | **+/-343** |
| Chilean pesos | **+/-10%** | **-/+92** | **+/-195** |
| 2017 | | | |
| Pounds sterling | +/-10% | +/-58 | – |
| Argentinian pesos | +/-10% | +/-4,124 | – |
| Mexican pesos | +/-10% | -/+1,945 | – |
| Peruvian nuevos soles | +/-10% | +/-864 | – |
| Canadian dollars | +/-10% | +/-141 | +/-567 |
| Chilean pesos | +/-10% | +/-13 | – |

### (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 noncompliance, 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 2018 and 31 December 2017:

| Summary commercial partners | **As at 31 December 2018 US$000** | **% collected as at 19 February 2019 US$000** | As at 31 December 2017 US$000 | % collected as at 19 February 2018 |
|---|---|---|---|---|
| Trade receivables | **45,201** | **63%** | 43,209 | 41% |

| Cash and cash equivalents – Credit rating[1] | **As at 31 December 2018 US$000** | As at 31 December 2017 US$000 |
|---|---|---|
| A+ | **–** | 6,651 |
| A | **10,165** | 20,700 |
| A- | **3,744** | 29,798 |
| BBB+ | **65,102** | 199,166 |
| BBB | **37** | 61 |
| BBB- | **–** | 6 |
| NA | **656** | 606 |
| **Total** | **79,704** | 256,988 |

1 The long-term credit rating as at 31 January 2019 (2017: 6 February 2018).

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).
– 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).

The company will start a project to improve monitoring of counterparty risk. The project will include private and public information from main counterparties (customers, suppliers, banks and insurance companies).

**(d) Equity risk on financial instruments**

The Group acquires financial instruments in connection with strategic alliances with third parties. The Group constantly monitors the fair value of these instruments in order to decide whether or not it is convenient to dispose of these investments. The disposal decision is also based on management's intention to continue with the strategic alliance, the tax implications and changes in the share price of the investee.

At 31 December 2018 the sensitivity to reasonable movements in the share price of financial assets at fair value through OCI of +/- 25% with all other variables held constant is +/-US$528,000 recognised in equity.

At 31 December 2017 the sensitivity to reasonable movements in the share price of available-for-sale financial assets of +/- 25% with all other variables held constant is +/-US$1,421,000 recognised in equity.

**(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 2018 and 2017, the Group held the following financial instruments measured at fair value:

| Assets measured at fair value | **31 December 2018 US$000** | Level 1 US$000 | Level 2 US$000 | Level 3 US$000 |
|---|---|---|---|---|
| Equity shares (note 18) | 5,296 | 2,110 | – | 3,186 |
| Warrants (note 18) | 47 | 47 | – | – |
| Trade receivables due to price adjustments[1] | 5,555 | – | – | 5,555 |

| Assets measured at fair value | 31 December 2017 US$000 | Level 1 US$000 | Level 2 US$000 | Level 3 US$000 |
|---|---|---|---|---|
| Equity shares (note 18) | 5,683 | 5,683 | – | – |
| Warrants (note 18) | 1,333 | 1,333 | – | – |
| Embedded derivatives[1] | 1,258 | – | – | 1,258 |

1 Sales of concentrate and certain dore volumes are provisionally priced at the time the sale is recorded. The price is then adjusted after an agreed period of time (usually linked to the length of time it takes for the smelter to refine and sell the concentrate or for the refiner to process the dore into gold and silver), with the Group either paying or receiving the difference between the provisional price and the final price. This price exposure is considered a price adjustment and is recorded in 'Revenue' (note 4). Until 2017 the price adjustment was considered as an embedded derivative, recorded in 'Revenue' note 4.

During the period ending 31 December 2018 and 2017, there were no transfers between these levels.

## 35 Financial risk management continued

The reconciliation of the financial instruments categorised as Level 3 is as follows:

| | Unlisted equity shares US$000 | Trade receivables/ price adjustments US$000 | Embedded derivatives liabilities US$000 |
|---|---|---|---|
| Balance at 1 January 2017 | | | (1,726) |
| Acquisitions | 569 | – | – |
| Foreign exchange adjustment | 12 | – | – |
| Changes in fair value of embedded derivatives[1] | – | – | 2,160 |
| Realised embedded derivatives during the period[1] | – | – | 824 |
| Balance at 31 December 2017 | 581 | – | 1,258 |
| Reclassification to trade receivables/price adjustments | – | 1,258 | (1,258) |
| Acquisition | 2,120 | – | – |
| Fair value adjustment | 485 | – | – |
| Changes in fair value of price adjustments[1] | – | (5,646) | – |
| Realised price adjustments during the period | – | 9,943 | – |
| **Balance at 31 December 2018** | **3,186** | **5,555** | **–** |

1 The movement of the period has been recognised in 'Revenue' (note 4).

### (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 2018** | | | | | |
| Trade and other payables | 111,898 | 338 | 564 | – | 112,800 |
| Borrowings | 107,855 | 51,272 | – | – | 159,127 |
| **Total** | **219,753** | **51,610** | **564** | **–** | **271,927** |
| At 31 December 2017 | | | | | |
| Trade and other payables | 104,121 | 352 | 939 | – | 105,412 |
| Borrowings | 82,832 | 22,845 | 329,043 | – | 434,720 |
| Total | 186,953 | 23,197 | 329,982 | – | 540,132 |

### (g) Interest rate risk

The Group has financial assets and liabilities which are exposed to interest rate risk. Changes in interest rates primarily impact loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). The Group does not have a formal policy of determining how much of its exposure should be at fixed or at variable rates. However, at the time of taking new loans or borrowings, management applies its judgement to decide whether it believes that a fixed or variable rate borrowing would be more favourable to the Group over the expected period until maturity.

| | As at 31 December 2018 | | | | |
|---|---|---|---|---|---|
| | 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 | **36,243** | **–** | **–** | **–** | **36,243** |
| Liabilities | **(107,067)** | **–** | **–** | **–** | **(107,067)** |
| **Floating rate** | | | | | |
| Liabilities | **–** | **(50,000)** | **–** | **–** | **(50,000)** |

| | As at 31 December 2017 | | | | |
|---|---|---|---|---|---|
| | Within 1 year US$000 | Between 1 and 2 years US$000 | Between 2 and 5 years US$000 | Over 5 years US$000 | Total US$000 |
| **Fixed rate** | | | | | |
| Assets | 192,172 | – | – | – | 192,172 |
| Liabilities | (67,863) | – | (291,955) | – | (359,818) |
| **Floating rate** | | | | | |
| Assets | 2,869 | – | – | – | 2,869 |

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 -/+US$479,000 effect on profit before tax (2017: +/- US$14,000). The Group is exposed to fluctuations in market interest rates.

This assumes that the amount remains unchanged from that in place at 31 December 2018 and 2017 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 24 and 26).

In 2018 the Group collected US$266,500,000 (2017: US$69,500,000) due to proceeds of borrowings while US$463,393,000 (2017: US$38,000,000) 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.

## 36 Subsequent events

The Group announced its intention to suspend operations at the Arcata mine, in south west Peru, and place it on care and maintenance. It is anticipated that full care and maintenance will be in effect by the second quarter of 2019.

An exploration programme and permitting work are expected to continue along with a regular review of the market conditions for a potential restart of operations in the future.

## PARENT COMPANY STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018

| | Notes | As at 31 December 2018 US$000 | 2017 US$000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Investments in subsidiaries | 5 | **1,648,457** | 2,336,010 |
| | | **1,648,457** | 2,336,010 |
| **Current assets** | | | |
| Other receivables | 6 | **8,392** | 10,463 |
| Cash and cash equivalents | 7 | **792** | 2,182 |
| | | **9,184** | 12,645 |
| **Total assets** | | **1,657,641** | 2,348,655 |
| **EQUITY AND LIABILITIES** | | | |
| Equity share capital | 8 | **225,409** | 224,315 |
| Share premium | 8 | **458,267** | 458,267 |
| Treasury shares | 8 | **–** | (140) |
| Other reserves | | **4,860** | 7,634 |
| Retained earnings | | **719,736** | 1,423,704 |
| **Total equity** | | **1,408,272** | 2,113,780 |
| | | | |
| **Non-current liabilities** | | | |
| Trade and other payables | 9 | **–** | 3,500 |
| Provisions | 10 | **71** | 480 |
| | | **71** | 3,980 |
| **Current liabilities** | | | |
| Trade and other payables | 9 | **249,298** | 230,895 |
| | | **249,298** | 230,895 |
| **Total liabilities** | | **249,369** | 234,875 |
| Total equity and liabilities | | **1,657,641** | 2,348,655 |

The loss of the Company after tax amounted to US$686,831,000 (2017: gain of US$487,315,000).

The financial statements were approved by the Board of Directors on 19 February 2019 and signed on its behalf by:

**Ignacio Bustamante**
Chief Executive Officer
19 February 2019

## PARENT COMPANY STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018

| | Notes | Year ended 31 December 2018 US$000 | 2017 US$000 |
|---|---|---|---|
| **Reconciliation of loss for the year to net cash used in operating activities** | | | |
| Profit for the year | | **(686,831)** | 487,315 |
| **Adjustments to reconcile Company profit to net cash outflows from operating activities** | | | |
| Impairment/(reversal) of impairment on investment in subsidiary | 5 | **687,553** | (491,285) |
| Share-based payments | | **(1,543)** | 449 |
| Finance income | | **(5,207)** | (1,739) |
| Finance costs | | **11** | 19 |
| Income tax | | **–** | – |
| **(Decrease)/increase of cash flows from operations due to changes in assets and liabilities** | | | |
| Other receivables | | **(38)** | 484 |
| Trade and other payables | | **385** | (235) |
| Provision for Long-Term Incentive Plan | | **293** | 795 |
| **Cash used in operating activities** | | **(5,377)** | (4,197) |
| Interest received | | **12** | 45 |
| **Net cash used in operating activities** | | **(5,365)** | (4,152) |
| Cash flows from investing activities | | | |
| Repayment of loans | | **5,553** | – |
| **Net cash generated from investing activities** | | **5,553** | – |
| **Cash flows from financing activities** | | | |
| Dividends paid | | **(19,999)** | (13,996) |
| Purchase of treasury shares | | **(579)** | – |
| Repayment of borrowings | | **(1,500)** | (72) |
| Loans from subsidiaries | | **20,500** | 10,000 |
| **Cash flows used in financing activities** | | **(1,578)** | (4,068) |
| **Net decrease in cash and cash equivalents during the year** | | **(1,390)** | (8,220) |
| Exchange difference | | **(60)** | 61 |
| Other | | **60** | (61) |
| Cash and cash equivalents at beginning of year | | **2,182** | 10,402 |
| **Cash and cash equivalents at end of year** | 7 | **792** | 2,182 |

## PARENT COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018

| | | | | | Other reserves | | | |
|---|---|---|---|---|---|---|---|---|
| | Notes | Equity share capital US$000 | Share premium US$000 | Treasury shares US$000 | Share-based payment reserve US$000 | Total other reserves US$000 | Retained earnings US$000 | Total equity US$000 |
| **Balance at 1 January 2017** | | 224,315 | 458,267 | (426) | 5,869 | 5,869 | 949,863 | 1,637,888 |
| Other comprehensive income | | – | – | – | – | – | – | – |
| Profit for the year | | – | – | – | – | – | 487,315 | 487,315 |
| Total comprehensive profit for the year | | – | – | – | – | – | 487,315 | 487,315 |
| Exercise of share options | 8 | – | – | 286 | (48) | (48) | (238) | – |
| Dividends | 2 | – | – | – | – | – | (13,996) | (13,996) |
| Share-based payments | 2 | – | – | – | 1,813 | 1,813 | 760 | 2,573 |
| **Balance at 31 December 2017** | | **224,315** | **458,267** | **(140)** | **7,634** | **7,634** | **1,423,704** | **2,113,780** |
| Other comprehensive income | | – | – | – | – | – | – | – |
| Profit for the year | | – | – | – | – | – | (686,831) | (686,831) |
| Total comprehensive profit for the year | | – | – | – | – | – | (686,831) | (686,831) |
| Exercise of share options | | 1,094 | – | 719 | (4,675) | (4,675) | 2,862 | – |
| Dividends | | – | – | – | – | – | (19,999) | (19,999) |
| Purchase of treasury shares | | – | – | (579) | – | – | – | (579) |
| Share-based payments | | – | – | – | 1,901 | 1,901 | – | 1,901 |
| **Balance at 31 December 2018** | | **225,409** | **458,267** | **–** | **4,860** | **4,860** | **719,736** | **1,408,272** |

**NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS**
FOR THE YEAR ENDED 31 DECEMBER 2018

## 1 Corporate information

Hochschild Mining plc (hereinafter 'the Company') is a public limited company incorporated on 11 April 2006 under the Companies Act 1985 as a Limited Company and registered in England and Wales with registered number 05777693.

The Company's registered office is located at 17 Cavendish Square, London W1G 0PH, United Kingdom. The Company was incorporated to serve as a holding company to be listed on the London Stock Exchange. The Company acquired its interest in a group of companies to constitute the Hochschild Mining Group ('the Group') pursuant to a share exchange agreement ('Share Exchange Agreement') dated 2 November 2006.

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

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

## 2 Significant accounting policies

### (a) Basis of preparation

The Company's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and are also consistent with IFRS issued by the IASB, as applied in accordance with the Companies Act 2006.

The financial statements of the Company have been prepared on an historical cost basis. The financial statements are presented in US dollars (US$) and all monetary amounts are rounded to the nearest thousand ($000) except when otherwise indicated.

### (b) Going concern

The ability for the Company to continue as a going concern is dependent on Hochschild Mining Holdings Limited providing additional funding to the extent that the operating inflows of the Company are insufficient to meet future cash requirements. As Hochschild Mining Holdings Limited has committed to provide this support, is itself a going concern and can provide financial support if necessary, the Directors have prepared the financial statements for the Company on the going concern basis.

### (c) Exemptions

The Company's financial statements are included in the Hochschild Mining Group consolidated financial statements for the years ended 31 December 2018 and 31 December 2017. As permitted by section 408 of the Companies Act 2006, the Company has not presented its own profit and loss account.

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

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

### (e) Changes in accounting policy and disclosures

The accounting policies adopted in the preparation of the financial statements are consistent with those applied in the preparation of the consolidated financial statement for the year ended 31 December 2018. Amendments to standards and interpretations which came into force during the year did not have a significant impact on the financial statements.

### (f) Currency translation

The functional currency of the Company is the US dollar and is determined by the currency of the primary economic environment in which it operates.

Transactions denominated in currencies other than the functional currency of the Company are initially recorded in the functional currency using the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are remeasured at the rate of exchange ruling at the statement of financial position date. Exchange gains and losses on settlement of foreign currency transactions which are translated at the rate prevailing at the date of the transactions, or on the translation of monetary assets and liabilities which are translated at period-end exchange rates, are taken to the income statement. Nonmonetary assets and liabilities denominated in foreign currencies that are stated at historical cost are translated to the functional currency at the foreign exchange rate prevailing at the date of the transaction.

### (g) Investments in subsidiaries

Subsidiaries are entities over which the Company controls operating and financial policies, generally by owning more than 50% of voting rights. Investments in subsidiaries are recognised at acquisition cost less any provision for impairment. The Company assesses investments for impairment whenever events or changes in circumstances indicate that the carrying value of an investment may not be recoverable. If any such indication of impairment exists, the Company makes an estimate of its recoverable amount. Where the carrying amount of an investment exceeds its recoverable amount, the investment is considered impaired and is written down to its recoverable amount. If, in subsequent periods, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the profit and loss account, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

### (h) Dividends receivable

Dividends are recognised when the Company's right to receive payments is established. Dividends received are recorded in the income statement.

## 2 Significant accounting policies continued

### (i) 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 using the expected credit loss impairment model according to IFRS 9. 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.

### (j) Cash and cash equivalents

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

### (k) Share capital

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

### (l) Provisions

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

### (m) Share-based payments

#### Cash-settled transactions

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

#### Equity-settled transactions

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

### (n) Finance income and costs

Finance income and costs mainly comprise interest income on funds invested, interest expense on borrowings, foreign exchange gains and losses, gains and losses from the change in fair value of derivative instruments and gains and losses on the disposal of available-for-sale investments. Interest income and costs are recognised as they accrue, taking into account the effective yield on the asset and liability, respectively.

### (o) Income tax

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

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

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

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

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

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

**(p) Financial instruments**

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

– Financial assets at amortised cost (debt instruments)

  The Group measures financial assets at amortised cost if both of the following conditions are met:

  – The asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows, and
  – The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

  Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

  The Group's financial assets at amortised cost includes trade receivables.

– Financial assets at fair value through OCI (debt instruments)

  The Group measures debt instruments at fair value through OCI if both of the following conditions are met:

  – The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling, and
  – The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

  For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss.

  The Group's does not have debt instruments at fair value through OCI.

- Financial assets designated at fair value through OCI (equity instruments)

  Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

  Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

  The Group elected to classify irrevocably its listed and non-listed equity investments under this category.

– Financial assets at fair value through profit or loss

  Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

  Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

  This category includes derivative instruments. Dividends on listed equity investments are also recognised as other income in the statement of profit or loss when the right of payment has been established.

## 2 Significant accounting policies continued

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) 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, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Impairment of financial assets

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

### Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts, and derivative financial instruments.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

- Financial liabilities at fair value through profit or loss

  Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

  Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

  Gains or losses on liabilities held for trading are recognised in the statement of profit or loss.

  Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. The Group has not designated any financial liability as at fair value through profit or loss.

- Loans and borrowings

  This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

  Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

  This category generally applies to interest-bearing loans and borrowings.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When 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 the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

Offsetting of financial instruments
Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously. Financial assets and liabilities are recognised when the Group becomes party to the contracts that give rise to them and are classified as financial assets measured at amortised cost, debt instruments measured at fair value through other comprehensive income, equity instruments measured at fair value through other comprehensive income or financial assets measured at fair value through profit or loss.

A detailed description of the Company's policies in respect of financial instruments is included in the Group's financial statements (note 2(u)).

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

## 3 Profit and loss account

The Company made a loss attributable to equity shareholders of US$686,831,000 (2017: gain of US$487,315,000).

## 4 Property, plant and equipment

At 31 December 2018 and 2017 the Company has property, plant and equipment with cost of equipment of US$265,000 which is fully depreciated.

There were no additions during 2017 and 2018.

## 5 Investments in subsidiaries

| | Total US$000 |
|---|---|
| **Year ended 31 December 2017** | |
| Cost | |
| At 1 January 2017 | 2,336,010 |
| At 31 December 2017 | 2,336,010 |
| **Accumulated impairment** | |
| At 1 January 2017 | (491,285) |
| Reversal of impairment | 491,285 |
| At 31 December 2017 | – |
| **Net book value at 31 December 2017** | 2,336,010 |
| **Year ended 31 December 2018** | |
| Cost | |
| At 1 January 2018 | 2,336,010 |
| At 31 December 2018 | 2,336,010 |
| **Accumulated impairment** | |
| At 1 January 2018 | – |
| Impairment of the period | 687,553 |
| At 31 December 2018 | 687,553 |
| **Net book value at 31 December 2018** | **1,648,457** |

The Company tested its investment in subsidiary for impairment in light of decreases in the Company's publicly 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$687,553,000.

In 2017, the Company tested its investment in subsidiary for impairment in light of increases in the prices of gold and silver, as well as increases in the Company's publicly listed share price. As a result of this test, the Company recognised an impairment reversal of the investment in Hochschild Mining Holdings Ltd of US$491,285,000.

The recoverable value of the investment in Hochschild Mining Holdings Limited was determined using a fair value less costs of disposal. The fair value less costs of disposal was determined with reference to the market capitalisation of the Group at 31 December 2017 translated from Pounds Sterling into US Dollars using the year-end exchange rate (both Level 1 inputs), to which a control premium was added based on recent market transactions (a Level 2 input), and subsequently adjusted for the net debt held directly by the Company. A Level 1 input refers to quoted prices in active markets, while a Level 2 input corresponds to other information that can be observed directly or indirectly. Any positive variation in the key assumptions would not have an impact on the impairment reversal recognised. Therefore, an adverse change of 10% of the market capitalisation would result in a reduction of the reversal of impairment by US$86,048,000.

## 5 Investments in subsidiaries continued

The breakdown of the investments in subsidiaries is as follows:

| | As at 31 December 2018 | | | As at 31 December 2017 | | |
|---|---|---|---|---|---|---|
| Name | Country of incorporation | Equity interest % | Carrying value US$000 | Country of incorporation | Equity interest % | Carrying value US$000 |
| Hochschild Mining Holdings Limited | **England & Wales** | **100%** | **1,648,457** | England & Wales | 100% | 2,336,010 |
| **Total** | | | **1,648,457** | | | 2,336,010 |

The list of indirectly held subsidiaries of the Group is presented in note 1 (Corporate information) of the notes to the consolidated financial statements.

## 6 Other receivables

| | Year ended 31 December | |
|---|---|---|
| | **2018 US$000** | 2017 US$000 |
| Amounts receivable from subsidiaries (note 11) | **8,318** | 10,436 |
| Prepayments | **72** | 20 |
| Receivable from Kaupthing, Singer and Friedlander | **195** | 208 |
| Other receivable | **2** | 7 |
| | **8,587** | 10,671 |
| Provision for impairment[1] | **(195)** | (208) |
| **Total** | **8,392** | 10,463 |
| **Less current balance** | **(8,392)** | (10,463) |

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$195,000 accrued in 2008 (2017: US$208,000).

Movements in the provision for impairment of receivables:

| | Total US$000 |
|---|---|
| At 1 January 2017 | 198 |
| Provided for during the year | 10 |
| At 31 December 2017 | 208 |
| Provided for during the year | (13) |
| **At 31 December 2018** | **195** |

As at 31 December 2018 and 2017, none of the financial assets classified as receivables (net of impairment) were past due.

## 7 Cash and cash equivalents

| | Year ended 31 December | |
|---|---|---|
| | **2018 US$000** | 2017 US$000 |
| Bank current account[1] | **519** | 669 |
| Time deposits[2] | **273** | 1,513 |
| **Cash and cash equivalents considered for the cash flow statement** | **792** | 2,182 |

1 Relates to bank accounts which are freely available and bear interest.
2 These deposits have an average maturity of nil days (2017: 32 days).

# 8 Equity

## (a) Share capital and share premium

### Issued share capital

The issued share capital of the Company as at 31 December 2018 is as follows:

| | Issued | |
|---|---|---|
| Class of shares | Number | Amount |
| Ordinary shares | 510,553,920 | £127,638,480 |

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

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

At 31 December 2018 and 2017, all issued shares with a par value of 25 pence each were fully paid (2018: weighted average of US$0.441 per share, 2017: weighted average of US$0.442 per share).

### Rights attached to ordinary shares

At general meetings of the Company, on a show of hands and on a poll, every member who is present in person or subject to the below by proxy, has one vote for every share of which they are the holder/proxy. However, in the case of a vote on a show of hands where a proxy has been appointed by more than one member, the proxy has one vote for and one vote against if the proxy has been instructed by one or more members to vote for the resolution and by one or more members to vote against the resolution.

On 2 January 2018 the Group issued 1,660,805 ordinary shares and on 31 December 2018 the Group issued 1,660,805 ordinary shares, under the Restricted Share Plan, to certain employees of the Group.

The changes in share capital are as follows:

| | Number of shares | Share capital US$000 | Share premium US$000 |
|---|---|---|---|
| Shares issued as at 1 January 2017 | 507,232,310 | 224,315 | 458,267 |
| Shares issued according the Restricted Share Plan benefit on 2 January 2018 | 1,660,805 | 564 | – |
| Shares issued according the Restricted Share Plan benefit on 31 January 2018 | 1,660,805 | 530 | – |
| **Shares issued as at 31 December 2018** | **510,553,920** | **225,409** | **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 Group purchased 126,769 shares for the purposes of the plan, for a total consideration of £561,478 (equivalent to US$898,000). No shares were purchased by the Group during 2017.

On 5 April 2018, the Group purchased 205,400 shares for a total consideration of £414,000 (equivalent to US$579,000).

On 20 March 2017, 40,383 Treasury shares with a value of US$286,000 (being the cost incurred to acquire the shares) were transferred to the CEO of the Group with respect to the Deferred Bonus Plan benefit.

On 20 March 2018, 40,383 Treasury shares with a value of US$84,000 (being the cost incurred to acquire the shares) were transferred to the CEO of the Group with respect to the Deferred Bonus Plan benefit.

On 5 April 2018, 232,172 Treasury shares with a value of US$635,000 (being the cost incurred to acquire the shares) were transferred to the CEO of the Group with respect to the Enhanced Long-Term Incentive Plan.

At 31 December 2018 the balance of Treasury shares is 42 (31 December 2017: 67,197) ordinary shares with a value of US$115 (31 December 2017: US$140,000).

## (c) Other reserves

### Merger reserve

The merger reserve represents the difference between the fair value of the net assets of the Cayman Holding Companies acquired under the Share Exchange Agreement and the nominal value of the shares issued in consideration of such acquisition.

### Share-based payment reserve

Share-based payment reserve is used to recognise the value of equity-settled share-based payment transactions provided to employees, as a part of their remuneration.

Refer to note 26(c) to the consolidated financial statements for details of the share-based payment reserve at 31 December 2018 and 2017.

**NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS** CONTINUED
FOR THE YEAR ENDED 31 DECEMBER 2018

## 9 Trade and other payables

| | As at 31 December | | | |
|---|---|---|---|---|
| | **2018** | | 2017 | |
| | **Non-current US$000** | **Current US$000** | Non-current US$000 | Current US$000 |
| Trade payables | **–** | **447** | – | 485 |
| Payables to subsidiaries (note 11) | **–** | **247,776** | – | 227,324 |
| Remuneration payable | **–** | **904** | – | 943 |
| Taxes and contributions | **–** | **171** | – | 446 |
| Financial guarantees[1] | **–** | **–** | 3,500 | 1,697 |
| **Total** | **–** | **249,298** | 3,500 | 230,895 |

1 The Company provided financial guarantees to certain banks over the bond payable entered into by its subsidiary Compañia Minera Ares S.A.C. The financial guarantee was recognised at its fair value at initial recognition of US$16,361,000. This fair value was determined through the use of certain Level 3 estimates, the most significant of which being the estimated rate of interest Compañia Minera Ares S.A.C. would have been charged were it not for the guarantee provided by the Company. The liability is subsequently amortised on a straight-line basis over the life of the guarantee, and was totally amortised on January 2018, due to the repayment of the bond.

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 | |
|---|---|---|
| | **2018 US$000** | 2017 US$000 |
| Beginning balance | **480** | 419 |
| (Decrease)/increase in provision, net | **(409)** | 61 |
| **At 31 December** | **71** | 480 |
| Less: current portion | **–** | – |
| **Non-current portion** | **71** | 480 |

1 Corresponds to the provision related to cash-settled share-based payment awards granted under the Long-Term Incentive Plan ('LTIP)' to designated personnel of the Company. Includes the following benefits: (i) Long-Term Incentive Plan awards, granted in May 2018, payable in May 2021, (ii) Long-Term Incentive Plan awards, granted in March 2017, payable in March 2020. Only employees who remain in the Company's employment until the vesting date will be entitled to a cash payment, subject to exceptions approved by the Remuneration Committee of the Board. Refer to footnote 2 of note 25 to the consolidated financial statements for details of the LTIP awards and assumptions used for the valuation as at 31 December 2018 and 2017.

## 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 2018 and 31 December 2017.

| | **As at 31 December 2018** | | As at 31 December 2017 | |
|---|---|---|---|---|
| | **Accounts receivable US$000** | **Accounts payable US$000** | Accounts receivable US$000 | Accounts payable US$000 |
| **Subsidiaries** | | | | |
| Compañía Minera Ares S.A.C.[1] | **7,590** | **1,894** | 9,796 | 441 |
| Hochschild Mining Holdings Ltd.[2] | **–** | **245,860** | – | 226,860 |
| Other subsidiaries | **728** | **22** | 640 | 23 |
| **Total** | **8,318** | **247,776** | 10,436 | 227,324 |

1 The account receivable mainly relates to the Deferred Bonus Plan, LTIP 2018 (50% paid in shares), enhanced LTIP 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 2018 of US$1,903,000 (2017: US$857,000). The Company provided certain financial guarantees on behalf of Compañía Minera Ares S.A.C. (note 9).
2 Relates to loans receivable by and payable to Hochschild Mining Holdings Ltd. The loan payable is repayable on demand and is free of interest.

The fair values of the receivables and payables approximate their book values. Transactions between the Company and these companies are on an arm's length basis.

### (b) Compensation of key management personnel of the Company

Key management personnel include the Directors who receive remuneration. The amount of this remuneration totals US$1,017,000 (2017: US$1,365,000).

| Compensation of key management personnel (including directors) | As at 31 December<br>2018<br>US$000 | <br>2017<br>US$000 |
|---|---|---|
| Short-term employee benefits | **1,017** | 915 |
| Long-Term Incentive Plan | **–** | 450 |
| **Total compensation** | **1,017** | 1,365 |

## 12 Dividends paid and proposed

### Dividends per share

The interim dividend paid in September was 2018 were US$10,000,000 (1.965 US cents per share). A proposed dividend in respect of the year ending 31 December 2018 of 1.959 US cents per share, amounting to a total dividend of US$10,000,000, is subject to approval at the Annual General Meeting on 6 June 2019 and is not recognised as a liability as at 31 December 2018.

## 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 |
|---|---|---|---|
| **2018** | | | |
| Pound sterling | **+/-10%** | **+/-20** | **–** |
| 2017 | | | |
| Pound sterling | +/-10% | +/-48 | – |

### (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.

## 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 and cash equivalent held by the Company and Hochschild Mining Holdings Ltd at 31 December 2018 of US$792,000 (2017: US$2,182,000) and US$3,556,000 (2017: US$16,137,000) 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 2018** | | | | | |
| Trade and other payables | **249,174** | **–** | **–** | **–** | **249,174** |
| **At 31 December 2017** | | | | | |
| Trade and other payables | 228,810 | – | – | – | 228,810 |

The table below analyses the maximum amounts payable under financial guarantees provided to Compañía Minera Ares S.A.C. (note 9), considering that if the guarantees were to be called, the guaranteed amounts would be due immediately:

| | Less than 1 year US$000 | Between 1 and 2 years US$000 | Between 2 and 5 years US$000 | Over 5 years US$000 | Total US$000 |
|---|---|---|---|---|---|
| **At 31 December 2018** | | | | | |
| Financial guarantees[1] | **–** | **–** | **–** | **–** | **–** |
| At 31 December 2017 | | | | | |
| Financial guarantees[1] | 294,775 | – | – | – | 294,775 |

1 Not including any accumulated interest that may be payable at the call date.

### (d) Capital risk management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. Management considers as part of its capital the financial sources of funding from shareholders and third-parties (notes 8 and 9). In order to ensure an appropriate return for shareholders' capital invested in the Company, management monitors capital thoroughly and evaluates all material projects and potential acquisitions before submission to the Board for ultimate approval, where applicable.

## PROFIT BY OPERATION[1]

(SEGMENT REPORT RECONCILIATION) AS AT 31 DECEMBER 2018

| Company (US$000) | Arcata | Pallancata | Inmaculada | San Jose | Consolidation adjustment and others | Total/HOC |
|---|---|---|---|---|---|---|
| Revenue | 56,637 | 135,843 | 306,103 | 205,367 | 340 | 704,290 |
| Cost of sales (Pre consolidation) | (62,952) | (103,889) | (189,398) | (177,081) | 1,532 | (531,788) |
| Consolidation adjustment | (177) | (553) | (996) | 194 | 1,532 | – |
| **Cost of sales (Post consolidation)** | (62,775) | (103,336) | (188,402) | (177,275) | – | (531,788) |
| Production cost excluding depreciation | (62,559) | (68,907) | (114,291) | (118,165) | – | (363,922) |
| Depreciation in production cost | (178) | (36,721) | (76,699) | (50,646) | – | (164,244) |
| Other items | – | – | – | (1,141) | – | (1,141) |
| Change in inventories | (38) | 2,292 | 2,588 | (7,323) | – | (2,481) |
| **Gross profit** | (6,315) | 31,954 | 116,705 | 28,286 | 1,872 | 172,502 |
| Administrative expenses | – | – | – | – | (45,783) | (45,783) |
| Exploration expenses | – | – | – | – | (34,381) | (34,381) |
| Selling expenses | (999) | (728) | (344) | (7,997) | – | (10,068) |
| Other income/expenses | – | – | – | – | (9,082) | (9,082) |
| **Operating profit before impairment** | (7,314) | 31,226 | 116,361 | 20,289 | (87,374) | 73,188 |
| Impairment and write-off of assets | – | – | – | – | (384) | (384) |
| Finance income | – | – | – | – | 2,048 | 2,048 |
| Finance costs | – | – | – | – | (27,540) | (27,540) |
| FX loss | – | – | – | – | (8,946) | (8,946) |
| **Profit/(loss) from continuing operations before income tax** | (7,314) | 31,226 | 116,361 | 20,289 | (122,196) | 38,366 |
| Income tax | – | – | – | – | (31,665) | (31,665) |
| **Profit/(loss) for the year from continuing operations** | **(7,314)** | **31,226** | **116,361** | **20,289** | **(153,861)** | **6,701** |

1 On a post exceptional basis.

## Ore reserves and mineral resources estimates

Hochschild Mining plc reports its mineral resources and reserves estimates in accordance with the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves 2012 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 164 to 166 was prepared by or under the supervision of Competent Persons (as defined in the JORC Code). Competent Persons are required to have sufficient relevant experience and understanding of the style of mineralisation, types of deposits and mining methods in the area of activity for which they are qualified as a Competent Person under the JORC Code. The Competent Person must sign off their respective estimates of the original mineral resource and ore reserve statements for the various operations and consent to the inclusion of that information in this report, as well as the form and context in which it appears.

Hochschild Mining plc employs its own Competent Person who has audited all the estimates set out in this report. Hochschild Mining Group companies are subject to a comprehensive programme of audits which aims to provide assurance in respect of ore reserve and mineral resource estimates. These audits are conducted by Competent Persons provided by independent consultants. The frequency and depth of an audit depends on the risks and/or uncertainties associated with that particular ore reserve and mineral resource, the overall value thereof and the time that has elapsed since the previous independent third-party audit.

The JORC Code requires the use of reasonable economic assumptions. These include long-term commodity price forecasts (which, in the Group's case, are prepared by ex-house specialists largely using estimates of future supply and demand and long-term economic outlooks).

Ore reserve estimates are dynamic and are influenced by changing economic conditions, technical issues, environmental regulations and any other relevant new information and therefore these can vary from year to year. Mineral resource estimates can also change and tend to be influenced mostly by new information pertaining to the understanding of the deposit and secondly the conversion to ore reserves.

The estimates of ore reserves and mineral resources are shown as at 31 December 2018, 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$1,150 per ounce and Ag Price: US$15.0 per ounce.

### Attributable metal reserves as at 31 December 2018

| Reserve category | Proved and probable (t) | Ag (g/t) | Au (g/t) | Ag (moz) | Au (koz) | Ag Eq (moz) |
|---|---|---|---|---|---|---|
| **OPERATIONS[1]** | | | | | | |
| **Inmaculada** | | | | | | |
| Proved | 2,700,618 | 153 | 4.4 | 13.3 | 378.3 | 43.9 |
| Probable | 1,195,838 | 205 | 4.4 | 7.9 | 170.9 | 21.7 |
| Total | 3,896,456 | 169 | 4.4 | 21.2 | 549.2 | 65.6 |
| **Pallancata** | | | | | | |
| Proved | 1,498,793 | 281 | 1.1 | 13.6 | 51.2 | 17.7 |
| Probable | 279,843 | 213 | 0.9 | 1.9 | 8.2 | 2.6 |
| Total | 1,778,637 | 271 | 1.0 | 15.5 | 59.3 | 20.3 |
| **San Jose** | | | | | | |
| Proved | 371,108 | 584 | 8.4 | 7.0 | 100.2 | 15.1 |
| Probable | 129,959 | 566 | 7.7 | 2.4 | 32.1 | 5.0 |
| Total | 501,067 | 579 | 8.2 | 9.3 | 132.3 | 20.1 |
| **Grand total** | | | | | | |
| **Proved** | **4,570,519** | **230** | **3.6** | **33.8** | **529.7** | **76.7** |
| **Probable** | **1,605,641** | **235** | **4.1** | **12.1** | **211.2** | **29.3** |
| **Total** | **6,176,159** | **231** | **3.7** | **46.0** | **740.9** | **106.0** |

Note: Where reserves are attributable to a joint venture partner, reserve figures reflect the Company's ownership only. Includes discounts for ore loss and dilution.
1 Operations were audited by P&E Consulting.

## Attributable metal resources as at 31 December 2018[1]

| Resource category | Tonnes (t) | Ag (g/t) | Au (g/t) | Ag Eq (g/t) | Ag (moz) | Au (koz) | Ag Eq (moz) |
|---|---|---|---|---|---|---|---|
| **OPERATIONS** | | | | | | | |
| **Arcata** | | | | | | | |
| Measured | 834,000 | 438 | 1.35 | 547 | 11.7 | 36.1 | 14.7 |
| Indicated | 1,304,000 | 411 | 1.36 | 521 | 17.2 | 56.9 | 21.8 |
| Total | 2,138,000 | 421 | 1.35 | 531 | 29.0 | 93.0 | 36.5 |
| Inferred | 3,533,000 | 371 | 1.26 | 472 | 42.1 | 142.6 | 53.6 |
| **Inmaculada** | | | | | | | |
| Measured | 2,532,000 | 190 | 5.34 | 622 | 15.4 | 434.7 | 50.7 |
| Indicated | 1,430,000 | 248 | 5.25 | 673 | 11.4 | 241.2 | 30.9 |
| Total | 3,962,000 | 211 | 5.31 | 640 | 26.8 | 676.0 | 81.6 |
| Inferred | 11,505,000 | 102 | 3.12 | 355 | 37.7 | 1,154.1 | 131.1 |
| **Pallancata** | | | | | | | |
| Measured | 1,804,000 | 395 | 1.60 | 525 | 22.9 | 92.7 | 30.4 |
| Indicated | 574,000 | 295 | 1.32 | 402 | 5.4 | 24.3 | 7.4 |
| Total | 2,378,000 | 371 | 1.53 | 495 | 28.4 | 117.0 | 37.8 |
| Inferred | 2,314,000 | 310 | 1.28 | 414 | 23.1 | 95.2 | 30.8 |
| **San Jose** | | | | | | | |
| Measured | 719,100 | 627 | 9.41 | 1,389 | 14.5 | 217.6 | 32.1 |
| Indicated | 545,700 | 464 | 6.86 | 1,019 | 8.1 | 120.3 | 17.9 |
| Total | 1,264,800 | 557 | 8.31 | 1,230 | 22.6 | 338.0 | 50.0 |
| Inferred | 864,960 | 386 | 6.73 | 931 | 10.7 | 187.1 | 25.9 |
| **GROWTH PROJECTS** | | | | | | | |
| **Crespo** | | | | | | | |
| Measured | 5,211,000 | 47 | 0.47 | 85 | 7.9 | 78.7 | 14.3 |
| Indicated | 17,298,000 | 38 | 0.40 | 70 | 20.9 | 222.5 | 39.0 |
| Total | 22,509,000 | 40 | 0.42 | 74 | 28.8 | 301.0 | 53.2 |
| Inferred | 775,000 | 46 | 0.57 | 92 | 1.1 | 14.2 | 2.3 |
| **Azuca** | | | | | | | |
| Measured | 191,000 | 244 | 0.77 | 307 | 1.5 | 4.7 | 1.9 |
| Indicated | 6,859,000 | 187 | 0.77 | 249 | 41.2 | 168.8 | 54.9 |
| Total | 7,050,000 | 188 | 0.77 | 250 | 42.7 | 173.5 | 56.7 |
| Inferred | 6,946,000 | 170 | 0.89 | 242 | 37.9 | 199.5 | 54.1 |
| **Volcan** | | | | | | | |
| Measured | 105,918,000 | – | 0.74 | 60 | – | 2,513.1 | 203.6 |
| Indicated | 283,763,000 | – | 0.70 | 57 | – | 6,368.0 | 515.8 |
| Total | 389,681,000 | – | 0.71 | 57 | – | 8,881.1 | 719.4 |
| Inferred | 41,553,000 | – | 0.50 | 41 | – | 670.7 | 54.3 |
| **Grand total** | | | | | | | |
| **Measured** | **117,209,100** | **20** | **0.90** | **92** | **74.0** | **3,377.5** | **347.6** |
| **Indicated** | **311,773,700** | **10** | **0.72** | **69** | **104.3** | **7,202.0** | **687.7** |
| **Total** | **428,982,800** | **13** | **0.77** | **75** | **178.3** | **10,579.6** | **1,035.2** |
| **Inferred** | **67,490,960** | **70** | **1.14** | **162** | **152.6** | **2,463.4** | **352.1** |

1 Prices used for resources calculation: Au: $1,200/oz and Ag: $16.5/oz.

## CHANGE IN ATTRIBUTABLE RESERVES AND RESOURCES

| Ag equivalent content (million ounces) | Category | **Percentage attributable December 2018** | December 2017 Att.[1] | **December 2018 Att.[1]** | Net difference | % change |
|---|---|---|---|---|---|---|
| Arcata | Resource | **100%** | 107.1 | **90.1** | (17.0) | (15.9%) |
| | Reserve | | 12.3 | **–** | (12.3) | (100.0%) |
| Inmaculada | Resource | **100%** | 134.2 | **212.7** | 78.5 | 58.5% |
| | Reserve | | 79.1 | **65.6** | (13.5) | (17.1%) |
| Pallancata | Resource | **100%** | 76.7 | **68.6** | (8.1) | (10.6%) |
| | Reserve | | 18.8 | **20.3** | 1.5 | 7.8% |
| San Jose | Resource | **51%** | 72.0 | **75.9** | 3.9 | 5.4% |
| | Reserve | | 23.5 | **20.1** | (3.4) | (14.6%) |
| Crespo | Resource | **100%** | 55.5 | **55.5** | – | – |
| | Reserve | | – | **–** | – | – |
| Azuca | Resource | **100%** | 110.8 | **110.8** | – | – |
| | Reserve | | – | **–** | – | – |
| Volcan | Resource | **100%** | 773.7 | **773.7** | – | – |
| | Reserve | | – | **–** | – | – |
| **Total** | **Resource** | | 1,330.1 | **1,387.4** | 57.3 | 4.3% |
| | **Reserve** | | 133.7 | **106.0** | (27.7) | (20.7%) |

1 Attributable reserves and resources based on the Group's percentage ownership of its joint venture projects.

## SHAREHOLDER INFORMATION

### Company website
Hochschild Mining plc Interim and Annual Reports and results announcements are available via the internet on our website at www.hochschildmining.com. Shareholders can also access the latest information about the Company and press announcements as they are released, together with details of future events and how to obtain further information.

### Registrars
The Registrars can be contacted as follows for information about the AGM, shareholdings, and dividends and to report changes in personal details:

### By post
Link Asset Services, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU.

### By telephone
If calling from the UK: 0371 664 0300 (calls cost 12p per minute plus your phone company's access charge. Lines are open 9.00am-5.30pm Monday to Friday excluding public holidays in England and Wales).

If calling from overseas: +44 371 664 0300 (calls charged at the applicable international rate).

### Currency option and dividend mandate
Shareholders wishing to receive their dividend in US dollars should contact the Company's registrars to request a currency election form. This form should be completed and returned to the registrars by 24 May 2019 in respect of the 2018 final dividend.

The Company's registrars can also arrange for the dividend to be paid directly into a shareholder's UK bank account. To take advantage of this facility in respect of the 2018 final dividend, a dividend mandate form, also available from the Company's registrars, should be completed and returned to the registrars by 24 May 2019. This arrangement is only available in respect of dividends paid in UK pounds sterling. Shareholders who have already completed one or both of these forms need take no further action.

### Financial calendar

| Dividend dates | 2019 |
|---|---|
| Ex-dividend date | 16 May |
| Record date | 17 May |
| Deadline for return of currency election forms | 24 May |
| Payment date | 12 June |

17 Cavendish Square
London
W1G 0PH
United Kingdom

## FORWARD LOOKING STATEMENTS

This Annual Report contains 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 Annual Report. Nothing in this Annual Report should be construed as a profit forecast.

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**Hochschild Mining PLC**
17 Cavendish Square
London W1G 0PH
United Kingdom

+44 (0) 203 709 3260
info@hocplc.com
www.hochschildmining.com