VOLCAN COMPAÑÍA MINERA S.A.A. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2012 AND 2011

TOGETHER WITH

THE INDEPENDENT AUDITOR'S REPORT

VOLCAN COMPAÑÍA MINERA S.A.A. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2012 AND 2011

CONTENTS

Tel: +511 2225600
Fax: +511 5137872
www.bdo.com.pe

PAZOS, LOPEZ DE ROMAÑA, RODRIGUEZ
Sociedad Civil de Responsabilidad Limitada
Av. Camino Real 456
Torre Real, Piso 5
San Isidro
LIMA 27- PERU

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
VOLCAN COMPAÑÍA MINERA S.A.A.

We have audited the consolidated financial statements of **VOLCAN COMPAÑÍA MINERA S.A.A. AND SUBSIDIARIES**, which comprise the consolidated statement of financial position as of December 31, 2012 and 2011, and the consolidated statements of results, of comprehensive results, of changes in equity and of cash flows for the years ended December 31, 2012 and 2011, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

The Management of the Parent Company is responsible for the preparation and fair presentation of these financial statements according to International Financial Reporting Standards (IFRS). This responsibility includes: designing, implementing, and maintaining appropriate internal control in preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making according estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We have conducted our audit in accordance with International Audit Standards as approved by the Board of Deans of Peru Public Accountants' Professional Association. Those standards require that we comply with ethical requirements and plan and perform the audit in order to obtain reasonable assurance on whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Parent Company and Subsidiaries' preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by the Parent Company Management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of **VOLCAN COMPAÑÍA MINERA S.A.A. AND SUBSIDIARIES** as of December 31, 2012 and 2011, of their financial performance and cash flows for the years then ended, in accordance with International Financial Reporting Standards.

Lima, Peru
February 19, 2013

Pazos, López de Romaña
Rodríguez

Countersigned by

________________________ (Partner)
Luis Pierrend Castillo
CPA Registration Nº 01-03823

VOLCAN COMPAÑÍA MINERA S.A.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS OF DECEMBER 31, 2012 AND 2011
(In thousand US Dollars)

ASSETS	Notes	2012	2011
CURRENT ASSETS			
Cash and cash equivalents	5	574,855	154,123
Trade accounts receivable, net	6	114,724	126,947
Other accounts receivable	7	264,302	145,448
Other financial assets	8	30,042	20,296
Inventories, net	9	118,744	97,545
Total current assets		1,102,667	544,359
NON-CURRENT ASSETS			
Other accounts receivable	7	13,231	6,515
Other financial assets	8, 18 (a)	40,377	8,533
Investments in associates	1 (b)	66,217	61,055
Property, plant and equipment, net	10	660,889	500,913
Mining titles & concessions, and exploration, development & stripping costs	11	744,319	642,438
Deferred income tax assets	16(b)	15,513	16,984
Total non-current assets		1,540,546	1,236,438
Total assets		2,643,213	1,780,797

LIABILITIES AND EQUITY	Notes	2012	2011
CURRENT LIABILITIES			
Trade accounts payable	12	186,679	148,116
Other accounts payable	13	88,135	107,260
Other financial liabilities	8	59,463	43,465
Financial obligations	14	92,903	45,538
Total current liabilities		427,180	344,379
NON-CURRENT LIABILITIES			
Long-term financial obligations	14	613,242	14,965
Deferred income tax liability	16(b)	155,642	124,189
Provision for contingencies	28 (f)	16,585	17,005
Provision for the closure of mining units	15(b)	53,622	41,366
Total non-current liabilities		839,091	197,525
Total liabilities		1,266,271	541,904
NET EQUITY	17		
Issued capital		1,282,774	1,142,894
Shares in treasury		(224,538)	(217,917)
Other capital reserves		99,233	85,376
Capital reserve		10,800	4,309
Unrealized results		14,322	(10,189)
Accumulated results		194,351	234,420
Total net equity		1,376,942	1,238,893
Total liabilities and net equity		2,643,213	1,780,797

The accompanying notes to the financial statements are part of this statement.

VOLCAN COMPAÑÍA MINERA S.A.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF RESULTS

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011
(In thousand US Dollars)

	Notes	2012	2011
NET SALES	20	1,160,785	1,211,614
COST OF SALES	21	(736,567)	(613,698)
Gross profit		424,218	597,916
OPERATIONAL (EXPENSES) REVENUES:			
Administrative expenses	22	(58,898)	(60,799)
Selling expenses	23	(35,876)	(26,072)
Other revenues	24	65,138	39,295
Other expenses	24	(55,023)	(39,985)
		(84,659)	(87,561)
Operating profit		339,559	510,355
FINANCIAL REVENUES (EXPENSES):			
Revenues	25	47,222	17,404
Expenses	25	(72,700)	(19,354)
Net gain (loss) from derivative financial instruments	18(c)	17,617	(12,630)
		(7,861)	(14,580)
Profit before income tax		331,698	495,775
INCOME TAX	16 (a)	(120,748)	(166,875)
Net profit		210,950	328,900
Weighted average of the number of issued and outstanding shares (in thousands)	26	3,172,115	2,839,519
Basic and diluted earnings per share	26	0.067	0.116

The accompanying notes to the financial statements are part of this statement.

VOLCAN COMPAÑÍA MINERA S.A.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF COMPREHENSIVE RESULTS

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011
(In thousand US Dollars)

	Notes	2012	2011
Net profit		210,950	328,900
OTHER COMPREHENSIVE RESULTS			
Net variation in unrealized gain on derivative financial instruments	18 (c)	35,016	50,422
Income tax	18 (c)	(10,505)	(15,127)
Other comprehensive results, net of income tax		24,511	35,295
Total comprehensive results		235,461	364,195

The accompanying notes to the financial statements are part of this statement.

VOLCAN COMPAÑÍA MINERA S.A.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN THE NET EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011
(In thousand US Dollars)

	NUMBER OF SHARES								
	COMMON A SHARES	COMMON B SHARES	ISSUED CAPITAL US$(000)	SHARES IN TREASURY US$(000)	OTHER CAPITAL RESERVES US$(000)	CAPITAL RESERVE US$(000)	UNREALIZED RESULTS US$(000)	ACCUMULATED RESULTS US$(000)	TOTAL US$(000)
Balance as of December 31, 2010	928,082,954	1,557,765,234	950,900	(203,000)	68,807	9,062	(45,484)	240,471	1,020,756
Net profit	-	-	-	-	-	-	-	328,900	328,900
Net variation of unrealized gain on derivative financial instruments (Note 18 (c))	-	-	-	-	-	-	35,295	-	35,295
Capitalization of profit	208,195,483	311,405,565	191,994	-	-	-	-	(191,994)	-
Appropriation	-	-	-	-	16,569	-	-	(16,569)	-
Dividends distribution	-	-	-	-	-	-	-	(56,526)	(56,526)
Dividends advance payment	-	-	-	-	-	-	-	(65,191)	(65,191)
Sale of shares in treasury held by subsidiaries	-	5,180	-	5	-	-	-	-	5
Purchase of shares of the Company by a subsidiary	(41,876,241)	-	-	(14,922)	-	(4,753)	-	-	(19,675)
Effect from conversion	-	-	-	-	-	-	-	(4,671)	(4,671)
Balance as of December 31, 2011	1,094,402,196	1,869,175,979	1,142,894	(217,917)	85,376	4,309	(10,189)	234,420	1,238,893
Net profit	-	-	-	-	-	-	-	210,950	210,950
Net variation of unrealized gain on derivative financial instruments (Note 18 (c))	-	-	-	-	-	-	24,511	-	24,511
Capitalization of profit	112,638,193	168,477,047	139,880	-	-	-	-	(139,880)	-
Appropriation	-	-	-	-	13,857	-	-	(13,857)	-
Dividends distribution	-	-	-	-	-	-	-	(68,443)	(68,443)
Dividends advance payment	-	-	-	-	-	-	-	(29,039)	(29,039)
Purchase of shares of the Company by a subsidiary	(15,428,854)	(2,824,558)	-	(1,621)	-	1,491	-	-	(130)
Adjustment	-	-	-	(5,000)	-	5,000	-	-	-
Effect from conversion	-	-	-	-	-	-	-	200	200
Balance as of December 31, 2012	1,191,611,535	2,034,828,468	1,282,774	(224,538)	99,233	10,800	14,322	194,351	1,376,942

The accompanying notes to the financial statements are part of this statement.

VOLCAN COMPAÑÍA MINERA S.A.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011
(In thousand US Dollars)

	2012	2011
OPERATING ACTIVITIES:		
Collection of sales	1,173,008	1,237,528
Payments to suppliers and third parties	(816,050)	(685,229)
Payments to employees	(186,455)	(170,710)
Payments of income tax and other taxes	(119,353)	(195,350)
Other operating collections	207,511	283,676
	------------	------------
NET CASH INCREASE FROM OPERATING ACTIVITIES	258,661	469,915
	------------	------------
INVESTMENT ACTIVITIES:		
Acquisition of property, plant and equipment	(232,321)	(131,330)
Acquisition of investments in shares	(5,162)	(60,139)
Disbursements for acquisition of mining concessions	(12,696)	(13,323)
Disbursements for exploration, development and stripping activities	(135,781)	(122,596)
	------------	------------
NET CASH DECREASE FROM INVESTMENT ACTIVITIES	(385,960)	(327,388)
	------------	------------
FINANCING ACTIVITIES:		
Increase of financial obligations	45,642	17,592
Issue of bonds	600,000	-
Sale of shares in treasury	-	5
Purchase of shares in treasury	(129)	(19,675)
Payment of dividends	(68,443)	(121,716)
Dividends advance payment	(29,039)	-
	------------	------------
NET CASH INCREASE (DECREASE) FROM FINANCING ACTIVITIES	548,031	(123,794)
	------------	------------
NET INCREASE OF CASH AND CASH EQUIVALENTS	420,732	18,733
CASH AND CASH EQUIVALENT AT THE BEGINNING OF THE YEAR	154,123	135,390
	------------	------------
CASH AND CASH EQUIVALENT AT THE END OF THE YEAR (Note 5)	574,855	154,123
	========	========

VOLCAN COMPAÑÍA MINERA S.A.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011
(In thousand US Dollars)

	2012	2011
RECONCILIATION OF NET RESULTS WITH		
CASH FROM OPERATING ACTIVITIES:		
Net profit	210,950	328,900
Plus (less) adjustments in net profit:		
Depreciation and amortization	119,950	103,904
Estimate of doubtful accounts receivable	-	852
Net changes in assets and liabilities		
Increase of operating assets -		
Accounts receivable, net	(113,347)	(29,524)
Inventories	(21,199)	(26,617)
Increase of operating liabilities -		
Trade accounts payable	38,563	43,815
Other accounts payable	23,744	48,585
	----------	----------
NET CASH FROM		
OPERATING ACTIVITIES	258,661	469,915
	=======	=======

The accompanying notes to the financial statements are part of this statement.

VOLCAN COMPAÑÍA MINERA S.A.A. AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2012 AND 2011

1. IDENTIFICATION AND ECONOMIC ACTIVITY

(a) Identification

Volcan Compañía Minera S.A.A. (hereinafter “the Company”, “THE Parent Company” or “Volcan”) was incorporated in Peru, in the city of Lima, on February 1, 1998 through the merger of Volcan Compañía Minera S.A., incorporated in June 1943, and Empresa Minera Mahr Túnel S.A., acquired by the Company in a privatization process that took place in year 1997.

Shares making up the Company share capital are listed in the Lima Stock Exchange (see Note 17 (a)).

The registered office and administrative headquarters of the Company and its subsidiaries are located at Av. Manuel Olguín No. 375 – Santiago de Surco, Lima.

(b) Economic Activity

The Company is engaged, on its own account, in the exploration and exploitation of mining claims and in the extraction, concentration, treatment, and commercialization of polymetallic ores. Until January 2011, it operated as part of its structure two mining units of its own located in the departments of Pasco and Junín, in the Peruvian central highlands (*sierra central*). In February 2011, the Cerro de Pasco Unit was split as a result of a simple reorganization process keeping control on this subsidiary (see (d)). In these enters, it produces concentrates of zinc, copper, lead, and silver.

The Company Management administers and manages all of the operations of its subsidiaries and the subsidiaries of its subsidiaries.

Between the months of April and July 2011, in order to diversify the group operations, the Company, through its subsidiary Paragsha, acquired 20.63% of the shares of the company Cementos Polpaico S.A. domiciled in Chile for US$ 58 million, as of December 31, 2012 it has 22.69% of shares resulting from an increase of shares for US$62 million.

In the month of January 2011, in order to have the group a Company to supply energy to them, subsidiary Empresa Administradora Chungar S.A.C. acquired 100% of the shares of Compañía Energética del Centro S.A.C. for a value of US$ 12,500 thousand. Although as of December 2012 it is operating, there is a plant expansion project to serve the entire group.

In the month of November 2011, in order to finance the mining projects it was resolved to issue bonds for US$ 600 million in a first tranche. These were placed in February 2012 (See section (f) of this Note).

(c) Approval of the consolidated financial statements

The consolidated financial statements as of December 31, 2011 were approved in General Shareholders' Meeting held on March 22, 2012. Those corresponding to December 31, 2012 have been approved by the Company Management on February 13, 2013 and will be submitted to the Board of Directors and to the Shareholders for approval within the terms required by Law. In the opinion of the Company General, the accompanying consolidated financial statements will be approved without changes in a Meeting of the Board of Directors and General Shareholders' Meeting to be held in the first quarter of 2013.

(d) Split

By resolution of the General Shareholders' Meeting dated January 27, 2011 and in order to transfer to another company the Cerro de Pasco Unit, a simple reorganization was resolved to separate the equity block including the assets that made up the Cerro de Pasco Unit for US$ 386,600 thousand (equivalent to S/. 1,021,082 thousand), transferring to Empresa Administradora de Cerro S.A.C. (hereinafter "Cerro"), such split equity and receiving for that the shares of Cerro corresponding to such contribution, accounting for 99.99% of its capital.

According to Shareholders' resolution, the effective date of the split was February 1, 2011.

(e) The consolidated financial statements as of December 31, 2012 and 2011 include the financial statements of the following subsidiaries:

Name of the Subsidiary	Percentage of direct and indirect capital interest	
	2012	2011
Empresa Administradora Chungar S.A.C.	99.99	99.99
Empresa Explotadora de Vinchos Ltda. S.A.C.	99.99	99.99
Empresa Minera Paragsha S.A.C.	99.99	99.99
Compañía Minera El Pilar S.A.C.	100.00	100.00
Compañía Minera Alpamarca S.A.C. (*)	100.00	100.00
Shalca Compañía Minera S.A.C. (*)	100.00	100.00
Minera Aurífera Toruna S.A.C. (*)	80.00	80.00
Compañía Minera Huascarán S.A.C. (*)	100.00	100.00
Empresa Administradora de Cerro S.A.C.	99.99	99.99
Minera San Sebastián AMC S.R.L.	100.00	100.00
Compañía Energética del Centro S.A.C. (**)	100.00	100.00
Hidroeléctrica Huanchor S.A.(***)	99.99	-
Empresa de Generación Eléctrica Baños S.A.(***)	99.99	-

(*) They are in turn subsidiaries of Empresa Minera Paragsha S.A.C.

(**) It is in turn subsidiary of Empresa Administradora Chungar S.A.C.

(***) Electric power generation companies acquired in 2012.

A brief description of each subsidiary is given below:

- Empresa Administradora Chungar S.A.C. was incorporated in Peru, in the city of Lima, on August 15, 1996 through the merger of Empresa Administradora S.A. and Compañía Minera Chungar S.A. It is a subsidiary of Volcan since September 2000. It has a mining unit located in the department of Pasco. It is engaged in the exploration, development and exploitation of mining deposits, basically zinc, copper, and lead-bearing ore.

- Empresa Explotadora de Vinchos Ltda. S.A.C. was incorporated in Peru, in the city of Lima, on January 27, 1925. It is a subsidiary of Volcan since September 2000. It has a mining unit in the department of Pasco, which activity of concentrates production goes back to year 1990. From December 1997 to date, the subsidiary carries out through experts, different geologic and mining studies as part of the process of geologic and exploration redefinition of its mining claims; and it is engaged in lead and silver exploration. As from September 2004 it has resumed the exploitation and processing of ore extracted from its mining concessions; to that effect it uses the San Expedito concentrating plant owned by Volcan.

- Empresa Minera Paragsha S.A.C. was incorporated in Peru, in the city of Lima, on December 27, 1996 by virtue of resolution 026-96-CEPRI-CENTROMIN dated May 6, 1996. It is a subsidiary of Volcan since May 2000. It is engaged in mining exploration, exploitation, assignment and usufruct, being its main activity the exploration of its mining concessions with financing provided by the Parent Company or the other companies of the group. The Company Management considers that it will continue with the financial support provided by the Parent Company due to the strategic importance it has for the Volcan Group.

- Compañía Minera El Pilar S.A.C. was incorporated in Peru, in the city of Lima, on August 19, 1947. It is a subsidiary of Volcan since September 2007. It is engaged in the exploration, development and exploitation of mining deposits, basically of zinc, copper and lead-bearing ore, being its main activity the exploration of its mining concessions with financing provided by the Parent Company or the other companies of the Group.

- Compañía Minera Alpamarca S.A.C. was incorporated in Peru, in the city of Lima, on November 2, 2006. It is a subsidiary of Paragsha since November 2006. It is engaged in the exploration, development and exploitation of mining deposits, basically of zinc, copper and lead-bearing ore, being its main activity the exploration and development of its mining concessions with financing provided by the Parent Company or the other companies of the Group.

- Shalca Compañía Minera S.A.C. was incorporated in Peru, in the city of Lima, on December 6, 2006. It is a subsidiary of Paragsha since December 2006. It is engaged in the exploration, development and exploitation of mining deposits, basically of zinc, copper and lead-bearing ore, being its main activity the exploration of its mining concessions with financing provided by the Parent Company or the other companies of the Group.

- Minera Aurífera Toruna S.A.C. was incorporated in Peru, in the city of Lima, on January 25, 2005. It is a subsidiary of Paragsha since March 2007. It is engaged in the exploration, development and exploitation of mining deposits, basically gold-bearing ore, being its main activity the exploration of its mining concessions with financing provided by the Parent company or the other companies of the Group.

- Compañía Minera Huascarán S.A.C. was incorporated in Peru, in the city of Lima, on May 12, 2007. It is a subsidiary of Paragsha since February 2008. It is engaged in the exploration, development and exploitation of mining deposits, basically gold-bearing ore, being its main activity the exploration of its mining concessions with financing provided by the Parent company or the other companies of the Group.

- Empresa Administradora de Cerro S.A.C. was incorporated in Peru, in the city of Lima, on December 29, 2010. It is a subsidiary of Volcan since February 2011. It is engaged in the exploration, development and exploitation of mining deposits, basically zinc, lead and copper-bearing ore.

- Minera San Sebastián AMC S.R.L. was incorporated in Peru, in the city of Cerro de Pasco, on November 12, 2001. It is a subsidiary of Volcan since February 2011. It is engaged in the exploration, development and exploitation of mining deposits, basically zinc, copper, and lead-bearing ore.

- Compañía Energética del Centro S.A.C. was incorporated in Peru, in the city of Lima, on June 23, 2008. It is a subsidiary of Chungar since January 2011. It is engaged in the development and operation of hydroelectric projects.

- Hidroeléctrica Huanchor S.A.C. was incorporated in Peru, in the city of Lima, and is engaged in electric power generation activities, having Huanchor, Tamboraque I and II hydroelectric power plants. The Company acquired through selling agreement dated February 29, 2012 all of the shares held by Minera Corona S.A. in Hidroeléctica Huanchor S.A.

- Empresa de Generación Energética Río Baños S.A.C. was incorporated in Peru, in the city of Lima, on June 23, 2010. It has Hydroelectric Power Plant Baños V This project is developed at the confluence of the Quiles river with the Baños river, both tributary of the Chancay river.

(f) Issue of bonds

By resolution of the General Shareholders' Meeting held on November 4, 2011, the Company approved the issue of obligations for up to US$ 1,100,000,000 (One Thousand One Hundred Million US Dollars), or its equivalent in Nuevos Soles, to be placed in the international and/or local market, with a first tranche for up to US$ 600,000,000 (Six Hundred Million US Dollars), to finance mining and energy projects in the next five years.

In the Company Board meeting held on January 16, 2012, it was resolved to approve the issue of bonds, under Rule 144A and Regulation S of the United States Securities Act, for up to US$ 600,000,000 (Six Hundred Million US Dollars) subject to the terms and conditions to be determined by the attorneys-in-fact designated by the Parent Company to that effect and the market conditions.

On February 2, 2012 bonds were issued and the so called "Senior Notes due 2022" were placed in full for $ 600,000,000 in the international market at an annual rate of 5.375% with maturity in 10 years through installments due from August 2, 2012 to February 2, 2022. Interests will be paid through semiannual installments from August 02, 2012 to February 2, 2022. It is worth noting that the demand to underwrite the bonds by investors interested in acquiring them reached US$ 4,809 million US Dollars. Payment of the first installment for US$ 16,125 was made on August 02, 2012 according to the amortization schedule.

2. BASIS OF PRESENTATION, ACCOUNTING PRINCIPLES AND PRACTICES

The main accounting principles adopted by the Company to prepare and present its accompanying consolidated financial statements, which have been consistently applied for the years presented, are given below.

2.1. Basis of preparation

Statement of compliance -

The accompanying financial statements are prepared in accordance with International Financial Reporting Standards (hereinafter "IFRS"), issued by the International Accounting Standards Board (hereinafter "IASB"), effective as of December 31, 2012 and 2011.

Responsibility for the information -

The Company Management is responsible for the information contained in these consolidated financial statements, which expressly state that the principles and criteria included in the IFRS issued by IASB have been applied in full.

Basis of measurement -

The consolidated financial statements have been prepared in historical cost terms, based on the accounting records kept by the Company and its subsidiaries, except for derivative financial instruments at fair value through profit or loss. The accompanying consolidated financial statements are presented in US Dollars, and all of the values have been rounded to thousands, unless stated otherwise.

Principle of Consolidation -

The consolidated financial statements include all the accounts of the Company and its subsidiaries in which it holds an interest of over 50 percent in their net equity and/or it has control. All material intercompany balances and transactions have been eliminated.

See the list of companies included in the consolidated financial statements in note 1(e).

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using similar accounting principles and policies.

2.2. Significant accounting judgments, estimates and assumptions

Preparing the consolidated financial statements under IFRS requires that the Management makes judgments, estimates and assumptions to assess the reported figures of assets and liabilities, the disclosure of contingent assets and liabilities as of the date of the consolidated financial statements, as well as the reported figures of revenues and expenses for the years ended December 31, 2012 and 2011.

In the opinion of the Management, these estimates were made based on its better knowledge of relevant facts and circumstances as of the date of preparation of the consolidated financial statements; however, final results may differ from the estimates included in the consolidated financial statements. Any difference between such estimates and subsequent actual amounts will be accounted in the results of the year in which they occur. The Company Management does not expect that variations, if any, will have a significant effect on the consolidated financial statements.

The significant estimates considered by the Management in preparing the consolidated financial statements include:

(a) Assessment of reserves and mineral resources

The Company and its subsidiaries compute their reserves using methods generally applied by the mining industry and according to international guidelines.

Reserves represent estimated quantities of proven and probable ore, which under the current conditions can be economically and legally extracted from the mining concessions of the Company and its subsidiaries. Resources represent the measured and indicated quantities of ore with a lower degree of certainty and is determined based on blocks of adjacent reserves and/or diamond drilling holes. The process to estimate the quantities of reserves and resources is complex and requires making subjective decisions at the time of assessing all of the geological, geophysical, engineering and economic information available. Reviews of the estimates of reserves and resources may occur due to, among other reasons, to data or geological assumption reviews, changes in assumed prices, production costs and results of exploration activities.

Changes in estimates of reserves and resources may affect other accounting estimates, mainly the useful life of mining units, which influences the depreciation of property, plant and equipment that are directly related to the mining activity, the amortization of exploration and development costs, the provision for mine closure, the assessment of the recoverability of deferred assets, and the period of amortization of mining concessions.

(b) Functional currency (Note 2.4 (a))

The Company has considered the US Dollar as its functional and presentation currency, as it reflects the economic essence of the pertinent events and circumstances of its main operations and transactions, which are established and settled mainly in US Dollars.

(c) Provision for closure of mining units (Note 15 (b))

The Company computes a provision for the closure of mining units on an annual basis. In order to assess such provision, it is necessary to make significant estimates and assumptions, as many factors exist that will affect the final liabilities for these obligations. These factors include scope estimates and the costs of closure activities, technological changes, changes in the regulations, increases in costs compared to inflation rates and changes in discount rates. Such estimates and/or assumptions may result in actual expenses in the future, which may differ from the amounts estimated at the time of setting up the provision. The provision as of the reporting date represents the best Management's estimate of the present value of future costs for the closure of mining units.

(d) Production unit method (Notes 10 and 11)

Proven and probable reserves, as well as measured and indicated resources are used at the time of assessing the depreciation and amortization of specific assets of the mine. This results in charges for depreciation and/or amortization proportionate to the exhaustion of the remaining useful life of the mine production. Each useful life is estimated based on: i) physical asset limitations, and ii) new assessments of economically feasible reserves. These computations require the use of estimates and assumptions, which include the amount of estimated reserves and estimates of future capital disbursements. Changes in the production unit methods adopted by the Company are accounted prospectively.

(e) Costs of mine exploration and development (Note 11)

Applying the Company policy for mine exploration and development costs requires the Management's judgment to assess whether it is probable that economic benefits enter the Company as a result of future exploratory phases. The assessment of ore reserves and resources is a complex estimation process involving levels of uncertainty depending on sub-classifications, and such estimates directly affect the classification between mine exploration and development cost and the period of amortization for the cost of development. This policy requires that the Company Management makes certain estimates and assumptions about future events and specific circumstances to assess whether it is economically feasible to access, extract, process, and sell ore. Estimates and assumptions may change if there is new information available. Therefore, in case there is information available giving signs about the unrecoverability of certain disbursements that had been capitalized as development costs, they should be charged to the results of the year in which the new information available is known.

(f) Impairment of non-financial assets (Notes 10 and 11)

The Company assesses at the end of every year whether there is any sign that the value of its assets has been impaired. If such sign exists, the Company makes an estimate of the recoverable amount of the asset. The recoverable amount of the asset is the highest of its fair value less costs of sale and its value in use, and it is assessed, for each asset separately (cash generating unit), unless the asset does not generate any cash flows that are clearly independent from other assets or groups of assets. This assessment requires using estimates and assumptions such as long-term ore prices, discount rates, and costs of operation, among others.

A cash generating unit is the smallest group of assets that can be identified, named mining unit, which continuous use generates cash entries separate from the cash flows generated by other assets or groups of assets. To assess cash flow generating units, the Company has considered whether there is an active market for the ore and metals produced by a mining unit.

When the book value of an asset or a cash generating unit exceeds its recoverable amount, the asset is considered that has lost value and is then reduced to the recoverable amount. To assess the value in use, the estimated future flows are discounted at their present value at a discount rate before taxes that reflects the current market evaluation of the money value in time and the asset specific risks.

Loss on impairment is recognized in the consolidated statement of results under operating expenses. Loss on impairment recognized in previous years is reversed if there is a change in the estimates used the last time that a loss on impairment was recognized. Reversion cannot exceed the resulting book value, net of depreciation, in case a loss on impairment had not been recognized for the asset in previous years. Such reversion is recognized in the consolidated statement of results.

(g) Stripping costs (Note 2.4 (k.2))

The costs of removing waste rock or waste material to access the ore body (stripping costs), incurred by the Company before the mining project operation begins, are capitalized as part of the mine development cost and will be amortized as from the time in which production begins and as a function of the mine reserves.

Computation requires the using judgments and making estimates such as estimate of waste rock tons to be removed during the mine zone lifetime and the economically recoverable reserves to be extracted as a result of that. Changes in a mine life and design will usually result in changes in the expected stripping ratio (stripping/ore reserves ratio). Changes are accounted prospectively.

(h) Contingencies (Note 28)

Contingencies are assets or liabilities that result from past events, which existence will be confirmed only if future events somehow beyond the Company control actually happen.

Contingent assets are not recorded in the consolidated financial statements, but disclosed in notes when the contingency has a probable degree.

Contingent liabilities are recorded in the consolidated financial statements when it is considered likely that they are confirmed in time and can be reasonably quantified; otherwise they are only disclosed in notes to the consolidated financial statements.

(i) Fair value of financial instruments (Note 30)

In cases in which the fair value of financial assets and liabilities recorded in the consolidated statement of financial position do not result from active markets, they are assessed using valuation techniques including the discounted cash flow model. When possible, details feeding these models are taken from observable markets; but when that is not the case, a degree of discretional judgment is required to assess fair values. These judgments include considering data such as liquidity risk, credit risk and volatility. Changes in assumptions regarding these factors may affect the reported fair value of financial instruments.

(j) Date of production begin

The Company assesses the situation of each mine in development to assess when the production stage begins. The criteria used to assess the date of begin are determined based on the nature of each mining project, the complexity of the respective facility and its location. The Company considers different criteria as relevant to assess when the mine is substantially complete and ready for its planned use. Some of these criteria include but are not limited to:

- The level of capital expenses compared to estimated development costs.
- Termination of a reasonable period to test the mine facility and equipment.
- The capacity to produce tradable metal (within the specifications).
- The capacity to maintain a continuous production of metals.

When a mine development project enters the production stage, certain costs cease to be capitalized to be then considered as inventory or expenses, except in the case of costs that qualify for their capitalization (additions or improvements of mining assets), underground mine exploitation or exploitable reserve exploitation. It is also the time in which depreciation or amortization starts.

(k) Recovery of deferred tax assets (Note 16)

An assessment is required to determine whether the deferred tax assets should be recognized in the consolidated statement of financial position. Deferred tax assets require that the Management assesses the likeliness that the Company generates taxable profit in future periods to use the deferred tax assets. Estimates of future taxable revenues are based on operations cash flow projections and the application of current tax regulations in each jurisdiction. To the extent that future cash flows and taxable revenues differ significantly from estimates, this may have an impact on the Company capacity to realize the net deferred tax assets recorded on the reporting date.

(l) Inventories (Note 9)

The net realization value test is made on an annual basis and represents the future price of sale based on metal selling prices as of the reporting date, less the estimated cost of completion and the costs that are necessary to make the sale. To compute the long-term inventory value, the Management additionally considers that the value of money in time reduces the net realization value.

Estimate for loss in the net realization value is computed based on a specific analysis that is made by the Management on an annual basis (see Note 2.4(i)). Loss is charged to results in the year in which the need of such estimate is established.

Ore inventories are measured estimating the number of added or removed tons. Head grade is computed based on assay measurements and the percentage of recoverability based on the expected processing method.

Tons of concentrate are verified with counts made from time to time.

(m) Fair value hierarchy (Note 30)

When the fair value of financial assets and liabilities recorded in the consolidated statement of financial position cannot be assessed in active markets, their fair value is assessed using valuation techniques including the discounted cash flow model. The data of these models are taken from observable markets, if possible, but when that is not the case, a degree of judgment is required to assess the fair value. Judgments include liquidity risk, credit risk, and volatility. Changes in assumptions regarding these factors may affect the recorded fair value of financial instruments.

2.3. New accounting standards and changes to the existing standards, applicable as from year 2012:

Standard and matter	**Effective date**
IFRS 7, 'Financial Instruments: Disclosures', on the transfer of financial assets (revised)	Jul 1, 2011
Amendment to IFRS 1, 'First Time Adoption' on hyperinflation and fixed dates (revised)	Jul 1, 2011
IAS 12, 'Income Tax', on deferred tax (revised)	Jan 1, 2012
IAS 1, 'Presentation of Financial Statements' on other comprehensive revenues (revised).	Jul 1, 2012

These revised standards applied for the first time for the financial statements as of December 31, 2012 have had no implication or impact thereon.

2.4. Summary of significant accounting principles and practices

(a) Transactions in foreign currency

Transactions and balances in foreign currency

Transactions in foreign currency (any currency other than the functional currency) are initially translated to the functional currency using the current exchange rates of the transaction dates. In the conversion of foreign currency the exchange rates set by the Superintendence of Banking, Insurance and Pension Fund Managers (SBS) are used. Monetary assets and liabilities in foreign currency are later adjusted to the functional currency using the current exchange rate of the date of the consolidated statement of financial position. Gain or loss on exchange difference resulting from the settlement of such transactions and the translation of monetary assets and liabilities in foreign currency at the year end exchange rates are recognized in the consolidated statement of results.

Non-monetary assets and liabilities in foreign currency, which are recorded in historical costs, are translated to the functional currency using the current exchange rates of the original transaction dates.

(b) Financial assets

Initial recognition and measurement

The Company classifies its financial assets under the following categories: Financial assets at fair value through profit or loss, loans and accounts receivable, investments held to maturity, and financial assets available for sale. At the time of initial recognition, financial assets are measured at their fair value. The Company determines the classification of its financial assets after their initial recognition and, when appropriate, it re-evaluates such determination at the end of every year.

Every financial asset is first recognized at their fair value plus the direct costs attributed to the transaction, except for financial assets at fair value which transaction costs are recognized under results.

Purchases and sales of financial assets requiring the delivery of assets within a period of time established by a regulation or market convention (conventional transactions) are recognized on the date of negotiation, that is, on the date in which the Company undertakes to sell the asset.

The Company financial assets include cash and cash equivalent, financial assets at fair value with changes in results, trade accounts receivable, other accounts receivable, and embedded derivative for sale of concentrates, included under other financial assets.

Subsequent measurement -

Subsequent measurement of financial assets depends on their classification, as detailed below:

Financial assets at fair value with change through results

Financial assets at fair value with change through results include assets held for trading, and financial assets designated at the time of their initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if acquired with the purpose of selling them or repurchase then in a near future. This category includes derivative financial instruments taken by the Company that are not designated as hedging instruments in hedging relationships as defined in IAS 39. Financial assets at fair value with change results through are accounted in the consolidated statement of financial position for their fair value and changes in such fair value are recognized as financial revenues or costs in the consolidated statement of results.

At the time of initial recognition, the Company did not classify any financial asset at their fair value with changes in results.

The Company assesses financial assets held for trade, other than derivatives, to assess whether the intention to sell them in a near future continues to be appropriate. When the company cannot trade these financial assets due to the market inactivity and the Management's intention to sell them in a near future has changed, the Company may consider reclassify them due to such circumstances. The reclassification of loans and accounts receivable or financial assets available for sale will depend on the nature of the asset. Such assessment does not affect any financial asset at fair value through profit or loss that had used the fair value option at the time of its designation.

Embedded derivatives contained in commercial contracts are accounted as separate derivatives and are recorded at their fair value of the economic characteristics and associated risks are not directly related to the commercial contract and if this contract has not been classified as a trading financial asset or at fair value through profit or loss. Gain or loss on changes in the fair value of embedded derivatives is recorded in the consolidated statement of results.

Accounts receivable -

The Company has the following accounts under this category: Trade accounts receivable and other accounts receivable, which are expressed at the transaction value, net of an allowance for doubtful accounts when applicable.

All these instruments are derivative financial assets, with fixed or assessable payments, that are not quoted in an active market. After their initial recognition, loans and accounts receivable are kept at their amortized cost using the effective interest rate method, less any allowance for bad debts.

The Company assesses as of the date of its consolidated financial statements whether there is objective evidence that a loss on impairment has resulted in a loss on impairment of the asset value (such as likeliness of insolvency, significant financial difficulties of the debtor, lack of payment of the principal or interests or any observable information indicating that estimated future flows associated to accounts receivable have decreased). The loss amount is measured as the difference between the asset book value and the present value of future estimated cash flows, discounted at an effective interest rate, original or applicable for similar transactions. The book value of the account receivable is reduced using a valuation account. The loss amount is recognized in the consolidated statement of results. Impaired accounts receivable are written off when considered as bad debts.

If in a later period the loss amount decreases, the Company reinvests it crediting it to the consolidated statement of results.

Impairment of financial assets -

The Company evaluates at the end of each year, whether there is evidence that a financial asset or group of financial assets show impairment. A financial asset or group of financial assets are considered affected if, and only if, there is objective evidence of impairment as a result of one or more events subsequent to the asset initial recognition ("loss event") and when such loss event has an impact on estimated future cash flows of the financial asset or group of financial assets that can be estimated on a reliable basis. Evidence of impairment may be a sign that debtors or a group of debts is experiencing significant financial difficulties, default or delay in the payment of the principal or interests, likeliness of financial reorganization or bankruptcy, and when observable data indicate that there is a significant reduction in the estimated future cash flows, such as changes in delays or economic conditions correlated with failure to pay.

(c) Financial liabilities

Initial recognition and measurement -

Financial liabilities within the scope of IAS 39 are classified as: financial liabilities at fair value through profit or loss, loans or derivatives designated as hedging instruments, as appropriate.

The Company determines the classification of its financial liabilities when they are initially recognized. All of the financial liabilities are initially recognized at fair value, except in the case of loans in which they are recognized at the fair value of cash received, less costs directly attributable to the transaction.

The Company financial liabilities include trade accounts payable, other accounts payable, financial obligations and provision for the closure of mining units.

Subsequent measurement -

Subsequent measurement of financial liabilities depends on their classification, as detailed below:

Financial liabilities at fair value with change through results -

Financial liabilities at fair value with change through results include financial liabilities held for trading and financial assets designated at the time of their initial recognition as at fair value through profit or loss. This category includes derivative financial instruments underwritten by the Company that have not been designated as hedging instruments. Separate embedded derivatives are also classified as trading unless designated as instruments of effective hedging. Gain or loss on liabilities held for trading is recognized in the consolidated statement of results. The Company has not designated any financial liability at the time of its initial recognition at fair value with change through profit or loss.

Loans accruing interests -

After their initial recognition, loans accruing interests are subsequently measured at their amortized cost using the effective rate interest rate method. Gain and loss are recognized in the consolidated statement of results when liabilities are written off, as well as through the process of amortization of the effective interest rate. Amortized costs are computed considering any discount or premium on the acquisition and commissions or costs that are an integral part of the effective interest rate. The effective interest rate is included under financial cost in the consolidated statement of results.

(d) Derecognition of financial assets and liabilities

Financial assets -

A financial asset (or when applicable part of a financial asset and part of a group of similar financial assets) is written off when:

(i) The rights to receive cash flows of the asset has terminated; or

(ii) The Company has transferred its rights its receive cash flows of the asset or has assumed an obligation to pay the received cash flows in full immediately to a third party under a pass-through agreement;

(iii) The Company has transferred substantially all of the risks and benefits of the asset or, if it has not transferred or withheld substantially all of the risks and benefits of the asset, it has transferred its control.

In case the Company transfers its rights to receive cash flows from an asset or enters a transfer agreement, but it has not transferred substantially all of the risks and still holds control of the asset, it should recognize an associated liability. The transferred asset and associated liability are measured on a base that reflects the rights and obligations the Company had withheld.

Financial liabilities -

A financial liability is derecognized when the obligation to pay ends, is cancelled, or expires. When an existing financial liability is replaced by another one of the same lender under significantly different conditions, or the conditions are materially modified, such replacement or modification is treated as a write off of the original liability and the recognition of a new liability, recognizing the difference between them in the period results.

(e) Offsetting Financial Instruments

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is an effective legal right at that moment to offset the recognized amounts and if the intention exists to settle in net terms or to realize the assets and settle the liabilities simultaneously.

(f) Fair value of financial instruments

The fair value of financial instruments traded in active markets on each reporting date is assessed by reference to prices quoted in the market or stock brokers' price quotations (purchase price for long positions and selling price for short positions), with no deduction for transaction costs.

In the case of financial instruments that are not traded in an active market, the fair value is assessed using suitable valuation techniques. Such techniques may include comparing with recent market transactions, reference to the present fair value of another instrument that is substantially equal, the analysis of adjusted flow of funds or other valuation models.

There have been no changes in the valuation techniques as of December 31, 2012 and 2011. (See note 30).

(g) Cash and cash equivalents

The heading presented in the Company consolidated statement of financial position includes all cash balances and term deposits, including term deposits with maturity of one months and more.

(h) Investments in associates

It includes investments in companies in which an interest between 20 percent and 50 percent of the net equity is held and in which significant influence is exercised. These investments are recorded at cost.

(i) Inventories

Inventories, including products in process, are valued at the lesser of cost or net realization value. The net realization value is the estimated selling price in the regular course of operations, less estimated costs of termination and costs needed to make the sale.

The cost is assessed based on a weighted average, except for inventories receivable, which are shown at the specific cost of acquisition. The cost of finished products and product in process includes the cost of contractors' services, consumption of materials and supplies, cost of direct labor, other direct costs and manufacturing overhead expenses (based on the regular operation capacity established as the present production) and excludes financing expenses and exchange differences.

Estimate for loss on the realization value is computed based on a specific analysis that is made by the Management on an annual basis and is charged to results in the year in which the need of such estimate is determined.

(j) Property, Plant and Equipment

It is presented at cost less depreciation. The initial cost of an asset comprises its purchase price or its manufacturing cost, including nonrefundable tariffs and purchasing taxes and any other cost necessary to put such asset in operation, the initial estimate of the obligation to rehabilitate and, in the case of qualifying assets, the cost of indebtedness and any cost directly attributable to putting such assets in operation.

Depreciation -

Production unit method

Depreciation of buildings and other mining constructions is computed per unit of production based on economically recoverable and measured and indicated resources of the mining unit.

Units of production are measured in recoverable metric tons of lead, copper and zinc. Depreciation rate per units of production takes into consideration the expenses disbursed to date.

Straight-line method

Depreciation of other assets is computed following the straight-line method based on the lesser of estimated useful life of the asset or remaining useful life of the mining unit. Useful lives used include:

	Years
Buildings and other constructions for administrative use	33
Infrastructure of environmental compliance program	10
Machinery and equipment	Between 3 and 10
Transport units	5
Furniture and fixture and computer equipment	Among 4, 5 and 10
Various equipment	Between 5 and 10

A fixed asset item or a significant component is removed at the time of disposal or when no economic benefits or subsequent disposal are expected. Any gain or loss resulting at the time of removal of the fixed asset (computed as the difference between revenues from the sale and the book value of the asset) is included in the consolidated statement of results in the year in which the asset is removed.

Residual value, useful life, and depreciation and amortization methods are reviewed and adjusted prospectively of appropriate, at the end of every year.

Maintenance and minor repairs -

Major maintenance or repair expenses include the cost of replacement of assets or parts of assets and the overhaul costs. Disbursements are capitalized when an asset or part of an asset is replaced that was separately depreciated and is removed in books, and it is likely that the future economic benefits associated with such asset or part of asset flow to the Company during an additional useful life period.

When the replaced part of the asset was not considered separately as a component, the replacement value is used to estimate the book value of the replaced assets, which is immediately written off. All other daily maintenance costs are recognized as expenses as they are incurred.

(k) Mining titles & concessions, and exploration, development & stripping costs

(k.1) Mining titles and concessions

Mining titles correspond to ore reserves and costs for the acquisition of mining concessions occurred in previous years. Mining titles represent the Company title on mining properties containing the acquired ore reserves. Mining titles that are related to ore reserves are amortized following the production unit method based on proven and probable reserves and measured and indicated resources.

Mining concessions correspond to exploration titles in zones of interest for the Company. Mining concessions are capitalized in the consolidated statement of financial position and represent the Company title on mining properties of geological interest. Mining concessions are amortized as from the production phase based on the production unit method, using proven and probable reserves and measured and indicated resources together with future development expenses approved by the Company Management. In case the Company abandons such concessions, associated costs are written off in the consolidated statement of results.

At the year end, the Company assesses for each mining unit whether there is any sign that the value of its mining rights has been impaired. If such sign exists, the Company makes an estimate of the recoverable amount of the asset. See paragraph 2.2(f).

(k.2) Stripping cost

Stripping costs incurred in the development of a mine before production begin are capitalized as part of the mine construction cost and subsequently amortized along the useful life of the mine based on production units.

When a mine operates various open pits which are considered as separate operations for mining planning purposes, stripping costs are accounted separately by reference to the ore of each separated pit. However, if pits are much integrated for mining planning effects, the second pit and subsequent pits are considered as extensions of the first pit when accounting the stripping costs. In such cases, the initial stripping (for instance, the removal of waste rock and other waste material) of the second pit and subsequent pits is considered as stripping of the production phase related with the combined operation.

Stripping costs incurred later during the operation production phase are deferred in the most appropriate form to agree the cost with the related economic benefits. The amount of deferred stripping costs is based on the mine average stripping ratio, which is obtained dividing the mined wasted rock tonnage by the amount of mined ore. The stripping costs incurred in the period are deferred to the extent that the relation of the period in course exceeds the life of the mine stripping ratio. Such deferred costs incurred are then charged to results to the extent that, in subsequent periods, the ratios of the period in course are below the mine average ratio. Mine average stripping ratio is based on proven and probable reserves, and measured and indicated resources that are economically recoverable. Changes are accounted prospectively as from the date of the change.

(k.3) Mine exploration and development costs

Exploration costs are capitalized only to the extent to which they are estimated to be economically recoverable through successful exploitation in the future or, when the activities in the area of interest are in progress and no such a stage has been reached that allows making a fairly assessment on whether economically recoverable reserves exist. These costs include mainly used materials and fuel, topographic survey costs, drilling costs, and payments made to contractors. For that purpose, economically recoverable benefits of exploration projects can be duly assessed when any of the following conditions are met: i) the Board of directors authorizes the Management to perform the project feasibility study, and ii) the exploration objective is to convert resources in reserves or confirm resources. Exploration costs in operating zones incurred in evidencing potential resources are charged to operating costs. Exploration costs are amortized just like development costs.

Costs associated with the mine development stage are capitalized. Development costs needed to maintain production are charged to the period results as they are incurred.

Development costs are amortized since the production begin and amortized using the production unit method. Development costs are amortized based on proven and probable reserves, and on measured and indicated resources to which they are related, together with future development expenses approved by the Company Management.

(m) Leases

Assessing whether a contract is or contains a lease is made based on the substance of the contract on the date of beginning thereof. It is necessary taking into consideration whether the contract compliance depends on the use of a specific asset or assets or whether the contract transfers the right to use the asset. After the lease begins, it is only possible to reassess the asset if one of the following considerations is applicable:

(i) There is a change in the contracting terms, which is not the contract renewal or postponement.

(ii) An option of renewal has been exercised or a postponement has been granted, unless the renewal or postponement is provided within the contract terms.

(iii) There is a change in determining whether compliance depends on a specific asset; or

(iv) There is a substantial change in the asset.

If the revaluation is made, the lease accounting will start of cease as from the date in which the change of circumstances gives place to the revaluation in the case of scenarios (i), (iii) or (iv), and on the date of renewal of begin of the period of postponement for scenario (ii).

Embedded lease.-

All Take-or-Pay contracts are reviewed, at the time of their initial recognition in order to identify embedded leases.

(n) Intangibles

Intangibles (software) are recorded at their initial recognition and then, at the initial cost less the corresponding accumulated amortization. Intangibles are amortized using the straight-line method based on their estimated useful life, which is of 10 years. The amortization period and method are reviewed at the end of every year.

(ñ) Provisions

General -

A provision is recognized only when the Company has any (legal or implicit) present obligation resulting from a past fact, an outflow of resources will be likely required for its liquidation, and a reliable estimation of the obligation amount can be made. Provisions are reviewed from time to time and are adjusted to reflect the best estimate available as of the date of the consolidated statement of financial position. A provision related expense is shown in the consolidated statement of results. When significant, provisions are discounted at its present value using a rate that reflects the specific risks related with the liability. When the discount is made, the provision increase for the time elapsing is recognized as a financial expense.

Provision for closure of mining units -

At the time of the initial recording of the liability for this obligation is presented at its fair value, having as contra account a higher book value of long lasting assets related to development costs and fixed assets.

Later, the liability increases in each period to reflect the cost for interest considered in the initial estimation of the fair value and, in addition, the capitalized cost is depreciated and/or amortized based on the useful life of the related asset. When settling the liability, the Company records any gain or loss that may be generated in the year results. Changes in the fair value of the obligation or in the useful life of related assets resulting from the review of initial estimates are recognized as an increase or decrease of the book value of the obligation and related asset of Property, Plant and Equipment. Any reduction in a mine closure liability and, therefore, any deduction of the related asset cannot exceed the book value of such asset. If it does, any excess over the book value is immediately carried to the consolidated statement of results.

If the change in the estimate may result in an increase in the closure liability and, therefore, an addition to the book value of the asset, the Company is required to take into consideration whether it is a sign of impairment of the asset as a whole and perform tests of impairment. Also, in the case of mature mines, if the reviewed mining assets, net of provisions for closure, exceed the recoverable value, such portion of the increase is directly charged to expenses. In the case of already closed mines, changes in the estimated costs are immediately recognized under results. Likewise, any closure liabilities that may result from the phase of production of a mine should be included under expenses when incurred.

(o) Recognition of revenues

Revenues are recognized to the extent it is likely that economic benefits will flow to the Company. Revenues are measured at the fair value of the received or receivable contra account, excluding discounts. The following criteria should be met for revenue recognition:

Sales of concentrates -

Revenues for the sale of concentrates are recognized when the significant risks and benefits inherent to their title are transferred to the purchaser, which takes place at the time of physical ore delivery according to the means of delivery provided in commercial contracts.

As for the measurement of the revenue for the sale of concentrates, on the date of recognition of the sale, the Company recognizes the revenue for sale based on a provisional selling value, according to quotations on such date, and such sales are subject to a final price adjustment at the end of a contractually established period, usually ranging between 30 and 180 days upon delivery of the concentrate to the customer. Exposure to metals price change generates an embedded derivative that should be separated from the commercial contract. For this purpose, at the closing of each year, the selling price initially used is estimated according to the future price for the quotation period provided in the contract. Thus, the difference in estimating the selling value is recorded as an increase or reduction of net sales.

Revenues from interests -

Revenues from interests are recognized based on the proportion of time elapsed, using the effective interest rate method.

Other revenues -

Other revenues are recognized when accrued.

Exchange differences corresponding to the adjustment of monetary items represented in foreign currency that are favorable for the Company are recognized as financial revenues when the exchange rate fluctuates.

(p) Recognition of costs and expenses

Cost of sales corresponds to the production cost of the products commercialized by the Company and is recorded when they are delivered to the customer.

Other expenses are recognized when accrued.

Exchange differences corresponding to the adjustment of monetary items represented in foreign currency that are not favorable for the Company are recognized as financial expenses when the exchange rate fluctuates.

(q) Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualified asset are capitalized and added to the cost of the project up to the moment in which assets are considered substantially ready for their planned use, that is, when they are able to generate commercial production. When specific-purpose loans had been requested in a project, the capitalized amount represents the actual costs incurred to obtain the loan. When surplus funds are available in the short term from the specific-purpose loan, the gain generated on the temporary investment are capitalized and deducted from the total cost of debt. When the funds used to finance a project are part of the general debt, the capitalized amount is computed using the weighted average of the rates applicable to the Company general debt during the period. All other costs of debt are recognized in the consolidated statement of results in the period in which they are incurred.

(r) Income tax

Current

Income tax is computed based on non-consolidated financial statements and is shown for the accumulated amount resulting from each subsidiary expected to be paid to the tax authorities. The legal standards and rates used to compute amounts payable are the ones effective on the date of the consolidated statement of financial position.

Current income tax related with equity items is recognized in the consolidated statement of changes in net equity and not in the consolidated statement of results. The Management makes from time to time an assessment of the tax position in which the tax regulation is subject to interpretation and recognizes provisions when necessary.

Deferred -

Deferred income tax is recognized using the liabilities method, considering temporary differences between the tax and accounting basis of assets and liabilities, as of the date of the consolidated statement of financial position.

Mining royalties and special tax on mining -

Mining royalties and special tax on mining are accounted when they have the characteristics of an income tax. That is, when they are imposed by the Government and are based on a net amount (revenues less expenses), rather than being computed based on produced quantity or percentage of revenues, after temporary differences adjustment.

Consequently, payments made by the Company to the Government for mining royalties and special tax on mining should be considered to be treated as if they were an income tax.

(s) Derivative financial instruments

Derivatives that do not qualify as hedging instruments -

Derivative contracts are recognized as assets and liabilities at fair value in the consolidated statement of financial position. Any changes in the fair value of derivative contracts that do not qualify as hedging instruments are recorded in the heading "Net gain (loss) on derivative financial instruments" of the consolidated statement of results.

Derivatives qualified as hedging instruments -

In order to manage particular risks, the Company applies hedge accounting to the transactions that meet the specific criteria for that.

At the beginning of the hedge relationship, the Company formally documents the relationship between the hedged item and the hedging instrument; including risk nature, objective and strategy for undertaking the hedge and the method to be used to assess the hedging relationship effectiveness.

Also at the beginning of the hedging relationship, a formal assessment is made to ensure that the hedging instrument is highly effective to offset the risk designated in the hedged item. Hedges are formally assessed on a quarterly basis. A hedge is considered as highly effective if it is expected that any changes in the cash flows, attributed to the risk hedged during the period for which the hedge is designated, are offset and are in a range of 80 to 125 percent.

As of December 31, 2012 and 2011, the Company has contracted derivative instruments under the form of de "Asian-Style Swaps" and "Option Collars" on metal quotes that qualify as cash flow hedging instruments.

For cash flow hedges that qualify as such, the effective part of gain or loss on the hedging instrument is initially recognized in the consolidated statement of net equity under “Unrealized results”. The ineffective part of gain or loss on the hedging instrument is initially is recognized in the consolidated statement of results under “Financial expenses.” When the hedged cash flow affects the consolidated statement of results, the gain or loss on the hedging instrument is recorded in heading “Net sales” of the consolidated statement of results.

Embedded derivatives contained in host contracts are accounted as a separate derivative and recorded at their fair value if the economic characteristics and associated risks are not directly related to the host contract and such contract has not been designated as a trading financial asset or at fair value through results. Gain or loss on changes in the fair value of embedded derivatives are recorded in the heading Sales of the consolidated statement of results. As of December 31, 2012 and 2011, the Company only holds embedded derivatives related to its commercial sales contracts

Classification as current or non-current -

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or are separated in a current part and a non-current part based on the assessment of facts and circumstances (for instance, underlying contracted cash flows).

Embedded derivatives that are not closely related with the main contract are consistently classified with the cash flows of the main contract.

Derivative instruments designated as effective hedging instruments are classified according to the underlying hedged item classification. The derivative instrument is separated in a current part and a non-current part only if the separation can be reliably made.

(t) Basic and diluted earnings per share

Basic and diluted profit per share has been computed based on the same weighted average of common and investment shares outstanding as of the date of the consolidated statement of financial position. When the number of shares changes as a result of the capitalization of withheld profit, split or consolidation of shares, computation of basic and diluted earnings per share is retroactively adjusted for the presented periods. If the change occurs after the date of the consolidated financial statements, but before they are disclosed, earnings per share computation for all presented periods should be based on the new number of shares.

(u) Segments

An operating segment is a component of an entity: (i) that develops business activities from which it can obtain revenues and incur in expenses (including related revenues and expenses for transactions with other components of the same entity), (ii) which operating results are regularly reviewed by the Management to make decisions about the resources that should be allocated to the segment and assess its performance, and (iii) for which confidential financial information is available. See note 27.

2.5 Amendments and new IFRS issued but not effective as of the date of the consolidated financial statements.

The amendments to current and new IFRS, issued by IASB and approved by the Peruvian Standards Board as of December 31, 2012, applicable to the Company, which effectiveness will begin on a subsequent date, are shown below. The Management estimates that amendments and IFRS applicable to the Company will be fairly considered in the preparation of the Company consolidated financial statements on the date on which they are actually effective:

- IFRS 7 "Financial Instruments". Amendments to IFRS 9 Financial Instruments mean that entities applying IFRS 9 for the first time need not restate prior periods but should provide the modified disclosures, some of which are stated in IFRS 7. New disclosures in IFRS 7 include:

  a) Changes in the classification of financial assets and financial liabilities, which are shown separate

  b) Financial assets and financial liabilities which have been reclassified to measure them at amortized cost as a result of transition to IFRS 9

  Amendments require the disclosure of information that will allow users of an entity financial statement assess the potential effect of any plans to offset with net balances, including rights to set off associated with the entity recognized financial assets and financial liabilities about the entity financial position.

- IFRS 9 "Financial Instruments: Classification and Measurement". IFRS 9 was issued to supersede IAS 39 and apply it to the classification and measurement of financial assets and liabilities as defined in such standard. It is effective as from years beginning January 1, 2015.

- IFRS 10 – "Consolidated Financial Statements". It establishes the principles for the presentation and preparation of consolidated financial statements when an entity controls one or more entities. IFRS 10 replaces the requirements for consolidation of SIC 12: Special Purpose Entities, and IAS 27: Consolidated and Separate Financial Statements.

- IFRS 11 – "Joint Arrangements". The standard discusses inconsistencies in the reporting of joint arrangements by requiring a single method to account for interests in jointly controlled entities focusing on their rights and obligations, rather than their legal form. IFRS 11 supersedes IAS 31 Interests in Joint Ventures and SIC 13: Jointly Controlled Entities – Non-Monetary Contributions by Venturers.

- IFRS 12 "Disclosure of Interests in Other Entities". It establishes disclosure requirements for all types of interests in other entities, including jointly-controlled entities, associates, special purpose entities and other forms of off-balance sheet investment.

- IFRS 13 "Fair Value Measurement". It establishes new requirements for fair value measurement, improves international standard consistency and reduces complexity when providing a definition of fair value and a source for its measurement, as well as the disclosure requirements for its use through IFRS.

- IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine". It clarifies the requirements to account for deferred costs in the production phase of a surface mine. This interpretation clarifies when the stripping cost in the production phase should be recognized as an asset and how it should be measured, at initial recognition and subsequently. The Company is applying this IFRIC 20 according to the classified criteria.

- IAS 1 "Presentation of Financial Statements – Presentation of Items in the statement of comprehensive results". The amendments to the Standard are associated with the grouping of items presented in the statement of comprehensive income. Items that may be reclassified to the statement of results in a future period may be presented separately from the items that will never be reclassified. The amendment affects only the presentation and has no impact on the Company financial position or its performance.

- IAS 16 "Property, Plant and Equipment". Spare parts and servicing equipment are required to be classified as property, plant and equipment when so defined, and inventories when they meet this definition.

- IAS 19 "Employee Benefits". IASB issued various amendments to IAS 19. Such changes include from fundamental changes to clarifications and y paraphrasing.

- IAS 27 "Separate Financial Statements". As a consequence of the issuing of IFRS 10 and IFRS 12, IAS 27 is limited to the accounting for subsidiaries, jointly controlled entities and associates in the separated financial statements.

- IAS 28 "Investments in Associates and Joint Ventures". As a consequence of the issuing of IFRS 11 and IFRS 12, IAS 28 has been renamed as IAS 28 Investment in Associates and Joint Ventures and describes the application of the equity method for investments in joint ventures in addition to associates.

- IAS 32 "Presentation". Amendments address inconsistencies in current practice when applying the offsetting criteria. They explain:

  - The meaning of ‘currently has a legally enforceable right to set-off’
  - Some gross settlement systems may be considered equivalent to net settlement.

  Improvements explain that income tax relating to distributions to holders of an equity instrument and income tax relating to transaction costs of an equity instrument, should be accounted according to IAS 12 Income Tax. Consequently, depending on the circumstances, these income tax entries may be recognized in net equity or in results.

- IAS 34 "Interim Financial Reporting". Segment information for total assets and liabilities. Improvements explain that total assets and liabilities for a particular reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change in the total assets and liabilities amount disclosed in the entity’s previous annual financial statements for that segment. At present, there is no reference to the amounts being regularly reported to the chief operating decision maker.

3. STANDARDIZATION

The consolidated statements of financial position as of December 31, 2012 and 2011, and the consolidated statements of results, comprehensive results, net equity, and cash flows for the year ended December 31, 2012 and 2011, are included in this report for comparative purposes, have been prepared in accordance with IFRS, with a consistent application of accounting principles and criteria.

4. TRANSACTION IN NUEVOS SOLES

Transactions in foreign currency (Nuevos Soles) are made at the exchange rates published by the Superintendence of Banking, Insurance and Pension Fund Managers (SBS). As of December 31, 2012, the exchange rates issued by such institution were US$ 0.3923 for buying and US$ 0.3920 for selling transactions (US$ 0.3711 for buying and US$ 0.3708 for selling transactions as of December 31, 2011), and have been applied by the Company in assets and liabilities accounts, respectively.

As of December 31, 2012 and 2011, the Company had the following assets and liabilities in Nuevos Soles:

	2012 S/.(000)	2011 S/.(000)
Assets		
Cash and cash equivalents	346,307	36,238
Other accounts receivable	259,669	131,793
	605,976	168,031
Liabilities		
Trade accounts payable	(122,460)	(70,558)
Other accounts payable	(164,622)	(248,846)
	(287,082)	(319,404)
Net assets (liabilities)	318,894	(151,373)

5. CASH AND CASH EQUIVALENTS

A breakdown of this heading is given below:

	2012 US$(000)	2011 US$(000)
Cash	94	96
Fixed fund	20	26
Bank checking accounts	67,640	117,589
Term deposits (a)	154,764	35,009
Savings	-	576
Mutual funds (b)	9,067	381
Funds subject to restriction	510	446
Investment-grade Corporate Bonds (c)	342,760	-
	574,855	154,123

(a) Breakdown of term deposits as of December 31, 2012 and 2011, which are kept in local first-rank financial entities, is given below:

Date	Nominal currency	Original terms	Annual interest rate %	US$(000)
2012				
Dec 31, 2011	US Dollars	1 to 3 months	0,36	35,009
Nov 08, 2012	Nuevos soles	6 months	4.05	19,616
Nov 07, 2012	Nuevos soles	6 months	4.17	46,571
Nov 07, 2012	Nuevos soles	6 months	4.05	36,208
Nov 09, 2012	Nuevos soles	3 months	3.85	17,360

				154,764
				=======
2011				
Dec 31, 2011	US Dollars	1 to 3 months	0,36	35,009
				=======

(b) The Company maintains mutual funds with Interbank Interfondos and BBVA Banco Continental. These funds have variable return and during year 2012 they have generated revenues for approximately S/. 244 thousand equivalent to US$ 93 thousand (for year 2011, revenues amount to S/. 1,692 thousand, equivalent to US$ 614 thousand).

(c) It corresponds to short-term bonds in foreign currency belonging to investment-grade Corporations. These bonds were acquired through international first-rank financial entities and have generated revenues for US$ 3,024 thousand in year 2012.

6. TRADE ACCOUNTS RECEIVABLE, NET

A breakdown of this heading is given below:

Description	2012 US$(000)	2011 US$(000)
Invoices	132,325	144,548
Allowance for doubtful accounts (a)	(17,601)	(17,601)
	----------	----------
	114,724	126,947
	=======	=======

Accounts receivable are denominated in US Dollars, have current maturity, accrue no interests and lack specific securities. Trade accounts receivable past due or to become due are being collected in the first quarter of the following year. The Company presents an analysis of accounts receivable of the Company rated according to their aging in Note 29(b).

(a) As of December 31, 2012 and 2011, the Company Management considers that, except for accounts receivable allowance as doubtful accounts, it has no other bad debts, as its main customers are well renowned in the international market and show no financial problems at the closure of the period. Furthermore, although it has some accounts receivable that are 90 and 180 days old, this is regular in the mining sector because final settlement agreement may take between three and six months once the ore is shipped. See Note 2.4(o).

In the opinion of the Company Management, the allowance for doubtful accounts is enough to hedge the risk of failure to pay as of the date of the consolidated statement of financial position.

7. OTHER ACCOUNTS RECEIVABLE

A breakdown of this heading is given below:

Description	2012 US$(000)	2011 US$(000)
Loans to related entity (a)	77,848	54,709
Advances granted	69,796	36,012
Tax credit favorable for the Company, Value Added Tax	35,766	19,497
Income Tax Credit	15,284	2,258
Loans to third parties (b)	25,698	19,796
Claims to National Superintendence of Tax Administration (SUNAT)	7,420	5,708
SEDAPAL	7,023	-
Prepaid insurance	7,018	3,726
Commission for bond issuing	4,006	-
Interest on portfolio of bonds	3,270	-
Public works for taxes	2,448	-
Regional and local public investment	2,814	113
Accountable advances	2,266	769
Loans to personnel (c)	4,443	5,098
Taxes recoverable (d)	9,268	2,556
Estimate for doubtful accounts (e)	(1,618)	(1,466)
Other minor	4,783	3,187
	277,533	151,963
Non-current part	13,231	6,515
Current part	264,302	145,448

(a) It corresponds to loans made to related entity Compañía Minera Vichaycocha S.A.C. to be used for working capital, which accrue interests at the market rate and are considered of current maturity.

(b) They include loans to third parties, which accrue interests at the market rate and are considered of current maturity.

(c) These loans accrue interests according to collective bargaining agreement.

(d) It includes mainly refund requests to the Tax Administration for the following: in the Company they correspond to fines for unpaid withholdings for US$ 3,199 from December 2001 to March 2002 and Income Tax of year 2001 for US$ 2,703, and in the Subsidiary, Empresa Administradora Chungar S.A.C., they correspond to the exporter VAT credit balance for US$ 3,297 of August, September and December 2004. In the opinion of the Company Management and its legal counselors, the application will have a favorable result for the companies. This balance is considered of non-current maturity.

(e) In the opinion of the Company Management, the estimate for doubtful accounts is enough to hedge the risk of failure to pay as of the date of the consolidated statement of financial position.

The activity of the allowance for doubtful accounts for the years ended December 31, 2012 and 2011 was as follows:

	2012 US$(000)	2011 US$(000)
Initial balances	(1,466)	(814)
Additions, Note 23	(152)	(852)
Decreases	-	200
	-------	-------
Final balances	(1,618)	(1,466)
	=====	=====

The Company presents an analysis of other accounts receivable of the Company rated according to their aging in Note 29(b).

8. OTHER FINANCIAL ASSETS AND LIABILITIES

A breakdown of this heading is given below:

Receivable:

	2012 US$(000)	2011 US$(000)
Embedded derivatives	883	-
Hedging:		
- Settled	2,607	8,843
- Provisions in equity (outstanding settlement)	66,929	19,986
	69,536	28,829
	70,419	28,829
Less: Non-current portion, Note 18 (a)	40,377	8,533
Current part (a)	30,042	20,296

(a) It includes coverage transactions to become due in 2013 for US$ 26,552 thousand (US$ 11,453 thousand in 2011) (See Note 18 (a)) and US$ 2,608 thousand (US$ 8,843 thousand in 2011) due at the year closing.

(b) Coverage contracts have been traded basically with various international first-rank financial entities. The main ones include Bank of America Merril Lynch, J. Aron & Co., Morgan Stanley & Co. International, Societe Generale / New York, BBVA Banco Continental, Morgan Stanley Capital Group, JP Morgan, Standard Bank Pic, BNP Paribas New York, Credit Suisse International y Mitsui & Co. Precious Metals Inc.

Payable:

	2012 US$(000)	2011 US$(000)
Embedded derivatives	633	8,923
Hedging: (b)		
- Settled	12,365	-
- Provisions in equity (outstanding settlement)	46,465	34,542
	58,830	34,542
	59,463	43,465

(a) In 2012 it includes coverage transactions to become due in 2013 for US$ 46,465 thousand (US$ 34,542 thousand in 2011) (See Note 18 (a)) and US$ 12,365 thousand due at the year closing.

9. INVENTORIES, NET

A breakdown of this heading is given below:

Description	2012 US$(000)	2011 US$(000)
Concentrates	40,480	32,037
Raw material (extracted ore)	31,885	30,137
Various supplies	50,084	38,839
Inventories in transit	783	1,020
Estimate for obsolescence of spare parts and supplies	(4,488)	(4,488)
	118,744	97,545

The Corporate Management estimates that the balances presented under inventories do not exceed their net realization values as of December 31, 2012 and 2011.

In the opinion of the Company Management, the estimate for obsolescence of spare parts and supplies properly hedges such risk as of December 31, 2012 and 2011.

10. PROPERTY, PLANT AND EQUIPMENT, NET

The activity and breakdown of this heading is given below:

2012	BALANCES AS OF DECEMBER 31, 2011 US$(000)	ADDITIONS US$(000)	REMOVALS US$(000)	TRANSFERS AND ADJUSTMENTS US$(000)	BALANCES AS OF DECEMBER 31, 2012 US$(000)
Cost					
Land	4,930	1,014	-	61	6,005
Buildings and other constructions	87,853	32,083	-	99,919	219,855
Infrastructure of environmental compliance program	22,022	-	-	-	22,022
Machinery and equipment	271,034	25,556	(2,440)	6,947	301,097
Transport units	14,166	123	(486)	573	14,376
Furniture and fixture and computer equipment	6,099	3,393	(1)	-	9,491
Various equipment	281,248	23,185	(7)	10,980	315,406
Units in transit	12,096	13,447	-	(11,326)	14,217
Works in progress (a)	203,916	133,520	-	(108,940)	228,496
	903,364	232,321	(2,934)	(1,786)	1,130,965
Accumulated depreciation					
Buildings and other constructions	23,868	10,697	-	(2)	34,563
Infrastructure of environmental compliance program	19,178	1,037	-	-	20,215
Machinery and equipment	201,855	33,524	(1,815)	(6,200)	227,364
Transport units	10,640	1,544	(333)	(1)	11,850
Furniture and fixture and computer equipment	4,551	420	-	1	4,972
Various equipment	142,359	22,561	(3)	6,195	171,112
	402,451	69,783	(2,151)	(7)	470,076
Net cost	500,913				660,889
2011					
COST	775,163	131,330	(2,604)	(525)	903,364
ACCUMULATED DEPRECIATION	340,306	63,618	(1,472)	(1)	402,451
Net cost	434,857				500,913

(a) The main projects under Works in progress as of December 31, 2012 and 2011 are given below:

In the Company:

Projects	2012 US$000	2011 US$000
Supplementary Plant Paragsha Oxides	27,636	11,734
Heightening of Ocroyoc Dam –elev. 4265	12,065	9,620
Re-mil SV PB – Paragsha Plant	-	8,468
Tailings Deposit, Andaychagua Alto – Stage II	13,366	6,917
Study of Tailings Dam, Andaychagua Alto	-	5,395
Expansion of Victoria Plant to 4,000 TPD	-	4,535
Expansion of San Expedito Plant to 1,200 TPD	-	3,648
New Water Recirculation System, OCROYOC	3,247	3,204
Tailings Deposit # 6 - Heightening elev. 4,016.60	-	3,171
Expansion of San Expedito Plant to 1800 TPD	-	3,140
Pasco village	2,688	2,688
Building QUBO - Implementation	-	2,494
Stand-By Thermal Power Plant	-	2,210
Pumping System – Acid and Mine Waters	-	1,941
New substation - Paragsha 1c	-	1,895
Nickel plant – preliminary works	-	1,834
Heightening of OCROYOC Dam –elev. 4268	-	1,747
North Rumiallana – West side – highway 2.4km	-	1,713
Separation of Mine and Surface Neutral Waters	-	1,619
Mine pumping system, San Cristóbal, lv. 1,020 – 920	-	1,565
Study of Slope Stability	-	1,365
Heightening of Marh Tunel Tailings Yard # 6	3,058	1,364
OCROYOC Dam - Tailings Pumping System	1,343	1,343
Tailings Deposit, CHUMPE	1,858	1,264
Heightening of Animón Tailings Deposit, elev. 4214	-	1,203
Expansion of Paragsha Plant to 13,500 TPD – stage I	-	1,170
Digital communication system, Andaychagua mine	1,709	1,124
Impact study, Oxides Plant	2,591	1,114
Pumping System – lv 9 to lv 5 – Pumping Chambers	1,865	1,103
Supply Plant, Petroperu Cerro	1,069	1,069
Thickener 70 * 70 – acquisition and mounting	-	1,025
New Pumping System, lv 1,000, Andaychagua	-	980
Mine concrete slab at lv 630 - 730 - 780 -820	1,131	937
New Tailings Dam, Cerro	-	914
Installation of tailings pipelines 19 and 14, OCROYOC	-	908
Construction of education institute Horacio Zevallos	-	891
Construction of education institute Almirante Graú	888	888
Laying of two tailings pipelines	-	883
Study and construction of New Tailings Dam	-	882
Technological Infrastructure System-Yauli	1,590	868
Larox Plate Filter pf4.7, 3.5 MT/hour	-	833
	----------	----------
(carried forward)	76,104	101,666

Projects	2012 US$000	2011 US$000
(brought forward)	76,104	101,666
Lf 50 kv SE Pomacocha SE San Antonio SE	2,473	-
Digital communication system, San Cristobal mine	2,056	-
New substation Pomacocha – San Cristóbal	2,017	-
Andaychagua shaft	1,634	-
Concrete Plant inside Mine – Chambers	-	669
Comprehensive Building Improvement, Mahr Tunel Plant	-	667
Pump Station at level 1,000 Andacychagua	-	641
Hydrogeological Study, New Tailings Deposit, Andaychagua	-	638
Mine concrete slab on ramps 05-06-04 and BY PASS	1,726	618
Heightening, Rumichaca, elev. 4,230	4,361	603
Pumping system, lv 900 - 800 - -678 – Andaychagua Mine	698	554
New substation, Andaychagua	-	521
Digital communication system, Ticlio mine	883	518
New Paragsha plant, basic engineering	348	348
Pl09 New Tailings Yard Rumichaca	-	122
Water Pumping System, Ticlio mine	-	-
Slurry Pumping System in Garacalzón	-	-
Other minor	33,378	20,994
	----------	----------
	125,678	128,559
	----------	----------
Other minor in Subsidiaries	23,404	13,568
	----------	----------
Subtotal	149,082	142,127
	=======	=======

In Subsidiary Empresa Administradora Chungar S.A.C.:

Projects	2012 US$000	2011 US$000
Construction of Hydroelectric Power Plant Baños V	-	15,742
JACOB TIMMERS Shaft - New (Montenegro zone)	15,338	9,705
LT 220 KV Paragsha II - FRANCOISE	12,404	8,058
Heightening of Tailings deposit, Animón, elev.. 4618	16,427	6,248
Expansion of Animon Plant to 5000 fmpd	8,427	-
Heightening of Tailings Deposit, Animón, stage IA	-	4,870
Hydroelectric Power Plant, Chancay, 110 MV - Studies- Civil Engineering Works-Infrastructure-Expense	2,197	1,770
LT 22.9 KV SE, Baños IV – Hydroelectric Power Plant Huanchay 21km	1,156	1,156
Pavement of Rampa Mirko and Crucero roads	-	733
Pump System, Esperanza lv 175	727	674
Road Vichaycocha -Shagua 6.74 KM	-	627
Data Center - Chungar	1,305	556
Holding Tanks – Concentrates, ZN and PB	-	550
Optimization of Power Circuit inside Mine	544	495
Other minor	20,889	10,605
	----------	----------
Subtotal	79,414	61,789
	=======	=======
Total	228,496	203,916
	=======	=======

The main projects under Works in progress are estimated to be completed between 2013 and 2016.

(b) The net cost of buildings under financial leasing amounts to US$ 8,628 thousand, and the net cost of machinery and equipment under financial leasing amounts to US$ 20,765 thousand. The disbursement in year 2012 amounted to US$ 9,764 thousand. The amounts payable in 2013 amount to US$ 12,903 thousand, and to US$ 13,242 thousand in years 2014 to 2017.

(c) The Company maintains insurance policies covering their main assets according to the policies established by the Management.

11. MINING TITLES & CONCESSIONS, AND
EXPLORATION, DEVELOPMENT & STRIPPING COSTS

The activity and breakdown of this heading is given below:

	BALANCES AS OF DECEMBER 31, 2011 US$(000)	ADDITIONS US$(000)	TRANSFERS AND ADJUSTMENT US$(000)	BALANCES AS OF DECEMBER 31, 2012 US$(000)
Cost				
Mining titles and concessions (a)	280,310	12,696	(8,296)	284,710
Exploration Costs (b)	273,882	40,769	(40,248)	274,403
Development costs (c)	432,950	79,939	51,830	564,719
Closure of mining units (d)	41,542	13,573	-	55,115
Other intangibles	8,214	1,500	284	9,998
	1,036,898	148,477	3,570	1,188,945
Accumulated amortization				
Mining titles and concessions (a)	140,186	4,658	-	144,844
Exploration Costs (b)	44,099	7,934	(3,498)	48,535
Development costs (c)	201,575	34,856	(1,439)	234,992
Closure of mining units (d)	4,220	2,056	4,937	11,213
Other intangibles	4,380	663	(1)	5,042
	394,460	50,167	(1)	444,626
Net cost	642,438			744,319

(a) Mining titles and concessions

The activity and breakdown of this heading is given below:

	Balances as of December 31, 2011 US$(000)	Additions US$(000)	Adjustments US$(000)	Balances as of December 31, 2012 US$(000)
Cost				
Yauli	133,956	2,090	-	136,046
Cerro de Pasco	92,283	-	-	92,283
Animón	24,172	-	16	24,188
Paragsha and subsidiaries	12,084	-	(8,236)	3,848
Vinchos	2,387	-	1	2,388
San Sebastián	2,018	330	(1)	2,347
Other concessions	13,410	10,276	(76)	23,610
	280,310	12,696	(8,296)	284,710
Accumulated amortization				
Yauli	77,232	3,516	(1)	80,747
Cerro de Pasco	48,939	905	-	49,844
Animón	13,011	128	-	13,139
Paragsha and subsidiaries	17	3	-	20
Vinchos	987	7	1	995
Other concessions	-	99	-	99
	140,186	4,658	-	144,844
Net cost	140,124			139,866

(b) Exploration Costs

The activity and breakdown of this heading is given below:

	Balances as of December 31, 2011 US$(000)	Additions US$(000)	Transfers US$(000)	Balances as of December 31, 2012 US$(000)
Cost				
Yauli	75,354	15,010	-	90,364
Cerro de Pasco	103,551	7,560	(46,985)	64,126
Animón	23,838	8,974	-	32,812
Paragsha and subsidiaries	38,771	3,774	6,737	49,282
Vinchos	25,485	699	-	26,184
El Pilar	5,813	1,755	-	7,568
San Sebastian	1,070	2,997	-	4,067
	273,882	40,769	(40,248)	274,403
Accumulated amortization				
Yauli	22,519	3,491	-	26,010
Cerro de Pasco	6,418	839	-	7,257
Animón	5,191	1,536	-	6,727
Paragsha and subsidiaries	4,790	339	(3,498)	1,631
Vinchos	5,181	1,729	-	6,910
	44,099	7,934	(3,498)	48,535
Net cost	229,783			225,868

(c) Development costs

The activity and breakdown of this heading is given below:

	Balances as of December 31, 2011 US$(000)	Additions US$(000)	Transfers US$(000)	Balances as of December 31, 2012 US$(000)
Cost				
Yauli	166,665	44,588	4,937	216,190
Cerro de Pasco	181,350	9,597	52,641	243,588
Animón	53,502	12,286	-	65,788
Paragsha and subsidiaries	12,940	12,491	(5,748)	19,683
Vinchos	18,493	977	-	19,470
	432,950	79,939	51,830	564,719
Accumulated amortization				
Yauli	90,207	19,641	-	109,848
Cerro de Pasco	80,149	4,556	-	84,705
Animón	23,687	7,915	-	31,602
Paragsha and subsidiaries	1,441	-	(1,441)	-
Vinchos	6,091	2,744	2	8,837
	201,575	34,856	(1,439)	234,992
Net cost	231,375			329,927

(d) Closure of mining units

The activity and breakdown of this heading is given below:

	Balances as of December 31, 2011 US$(000)	Additions US$(000)	Transfers US$(000)	Balances as of December 31, 2012 US$(000)
Cost				
Closure of mining units	41,542	13,573	-	55,115
Accumulated amortization				
Closure of mining units	4,220	2,056	4,937	11,213
Net cost	37,322			43,902

12. TRADE ACCOUNTS PAYABLE

A breakdown of this heading is given below:

	2012 US$(000)	2011 US$(000)
Invoices	138,665	104,730
Drafts	117	117
Provisions for contractors' services (a)	47,897	43,269
	186,679	148,116

Trade accounts payable mainly originate from the acquisition of materials, supplies, spare parts and services rendered by third parties. These obligations are mainly denominated in US Dollars, have current maturity, and accrue no interests. No specific security has been granted for such obligations. The Company policy to manage liquidity risk and aging of accounts payable is outlined in Note 29(c).

(a) They correspond to services received from contractors in December 2012 and 2011, who have not issued their invoices at the year closing.

13. OTHER ACCOUNTS PAYABLE

A breakdown of this heading is given below:

	2012 US$(000)	2011 US$(000)
Remunerations and employees' profit sharing (a)	44,107	55,413
Advances from customers	-	8,268
Interests on bonds payable (b)	13,438	-
Detraction payable	9,219	-
Royalties payable	8,485	-
Retirement fund	815	-
Corporate Income Tax corresponding to the Company and its Subsidiaries	963	18,517
Value Added Tax	196	6,449
Employees' length of service compensation	1,999	1,384
Employees' supplementary occupational risk insurance premiums	541	804
Value Added Tax – Withholdings	300	1,298
Income Tax withheld from personnel	1,284	1,022
Contributions to the Social Security Health Insurance agency (EsSalud)	680	500
Contributions to pension fund managers	603	462
Derivative instruments	-	88
Court withholdings	791	660
Contributions to the Public Pension System	337	249
Other	4,377	12,146
	88,135	107,260

The Company policy to manage liquidity risk and aging of accounts payable is outlined in Note 29(c).

(a) As of December 31, 2012 and 2011, it includes mainly US$ 24,026 thousand and US$ 33,205 mil for employees' profit sharing.

(b) They correspond to accrued interests for the August-December 2012 period on bonds issued by the Company (See Note 14).

14. FINANCIAL OBLIGATIONS

(a) This heading includes the following debts:

NAME OF CREDITORS	Contract	ORIGINAL AMOUNT US$(000)	SECURITY GRANTED	INTEREST RATE	MATURITY	Total 2012 US$(000)	Total 2011 US$(000)
Loans:							
Citibank for (US$ 16,MM)	-	16,000	None	2.10 percent	Feb-12	-	16,251
Citibank for (US$ 21,MM)	-	21,000	None	2.10 percent	May-12	-	21,329
Citibank N.A.	-	40,000	None	2.10 percent	Aug-13	40,000	-
The Bank of Nova Scotia	-	40,000	None	Libor +0.9%	Nov-13	40,000	-
Bonds:							
Traded Bonds	-	600,000		5.375 percent	Feb-22	600,000	-
Financial leasing:							
Interbank	Various	-	The leased goods themselves	Between 4.00 and 5.52 percent	Between Feb-13 and Aug-15	19,065	18,258
Scotiabank	Various	-	The leased goods themselves	Between 3.85 and 4.30 percent	Between Dec-13 and Dec-15	5,422	2,728
Banco de Crédito del Perú	32657AFB	2,005	The leased goods themselves	5.75 percent	Dec-17	1,658	1,937
Total financial obligations						706,145	60,503
Non-current part						613,242	14,965
Current part						92,903	45,538

(b) The debt amortization schedule as of December 31, 2012 and 2011 is as follows:

Year	2012 US$(000)	2011 US$(000)
2012	65	45,538
2013	92,838	8,479
2014	8,992	4,522
2015	3,530	1,245
2016	350	350
2017	370	369
2022	600,000	-
	706,145	60,503

15. ENVIRONMENTAL OBLIGATIONS

(a) Provision for the closure of environmental liabilities

On July 6, 2004, the Congress of the Republic issued Law 28271, "Law regulating Environmental Liabilities in the Mining Activity" The purpose of this Law is regulating the identification of the environmental liabilities of the mining activity and financing for remediation of the affected areas. According to this regulation, an environmental liability corresponds to the impact caused in the environment by mining operations that are currently abandoned or inactive.

On December 9, 2005, the Regulations to Law 28271 were published, previous to that Law 28526 was published on May 25, 2005 providing that those responsible for environmental liabilities have a term of one year as from the date of effectiveness of the regulations to submit the Environmental Liabilities Closure Plan; such term expired December 11, 2006. The Consolidated Text of Administrative Procedure provides that Environmental Liabilities Closure Plans can be submitted in conceptual engineering or budget terms.

On December 11, 2006, the Company has submitted the Environmental Liabilities Closure Plan; such submission was made only in conceptual engineering terms and no budget was included. Such liability is to be recognized increasing an assets account and is to be amortized in the term of execution of the Plan, which, according to Law is 3 years, and exceptionally 4 years; besides, such liability is to be recognized at the present value of future estimated cash flows expected to be disbursed.

As of this date there is no environmental liability to remediate. All previously existing ones have been incorporated in the Mine Closure Plan update for the respective mining units.

The Corporate Management is assessing the possibility to initiate exploitation works in various mining concessions, in order to be able to identify the economic effect of environmental liabilities, which, once proven to be feasible, would be remediated according to Law 28090; otherwise the closure activities will be postponed according to Law 28271.

(b) Provision for the closure of mining units

On October 14, 2003, the Congress of the Republic issued Law 28090 to regulate the obligations and procedures that mining titleholders shall comply in preparing, filing and implementing the Mine Closure Plan, as well as the granting of the corresponding environmental performance bonds to guarantee compliance of the corresponding investment commitments, subject to the principles of environmental protection, preservation and reclaiming. The regulations for Law Nº 28090 were published on August 16, 2005.

During 2011 and 2012 the Company has filed with the Ministry of Energy and Mines the updates for the valued Mine Closure Plan of its main mining units.

As of December 31, 2012, the Company has recognized liabilities amounting to US$ 53,622 thousand corresponding to all of its mining units (US$ 41,366 thousand as of December 31, 2011) related to its obligations for the their future closure:

Mining Unit	2012 Future Value US$(000)	2011 Future Value US$(000)
Andaychagua	3,944	3,577
Ticlio	3,746	3,122
San Cristóbal	5,619	5,296
Cerro de Pasco	28,150	17,095
Carahuacra	4,654	4,432
Animon	3,729	4,200
Vinchos	3,780	3,644
Total	53,622	41,366

The activity of the provision for the closure of mining units and exploration projects is given below:

	US$(000)
Balance as of December 31, 2011	41,366
Disbursements	(555)
Year provision	11,090
Increase for provision present value update	1,721
Balance as of December 31, 2012	53,622

The provision for the closure of the mining unit accounts for the present value of costs of closure expected to be incurred between years 2013 and 2030. Estimated costs for the closure of mining unit are based on a study prepared by an independent expert in compliance with current environmental regulations. Provision for the closure of mining unit corresponds mainly to activities that have to be carried out to restore the mining unit and zones affected by the exploitation activities. The main works to be carried out correspond to earth movement, re-vegetation works and plant dismantling. Closure budgets are regularly reviewed to take into account any significant change in the studies made. However, the costs for the closure of the mining unit will depend on the market prices of the required closure works that will reflect future economic conditions. Likewise, the time in which disbursements will be made depends on the useful life of the mine, which will depend on future metal quotations.

As of December 31, 2012, the future value of the provision for mining unit closure and environmental liabilities is US$ 74,156 thousand, which has been discounted using the risk free annual rate of 1.85 percent, resulting in an updated liability of US$ 53,622 thousand (US$ 53,169 thousand as of December 31, 2011 using the risk free annual rate of 2.71 percent, resulting in an updated liability of US$ 41,366 thousand). The Company considers that this liability is enough to comply with current environment protection as approved by the Ministry of Energy and Mines.

16. INCOME TAX

(a) Income tax expenses shown in the consolidated statement of results for years 2012 and 2011 include:

	2012 US$(000)	2011 US$(000)
Income tax		
Current	82,085	115,659
Deferred	13,995	22,741
	----------	----------
	96,080	138,400
Tax on mining royalties (i)	23,273	28,475
Contribution to the mining retirement fund (ii)	1,395	-
	----------	----------
	120,748	166,875
	=======	=======

(i) It corresponds to mining royalties that Companies have to pay as titleholders of mining concessions in valuable consideration for the exploitation of metallic and non-metallic resources in compliance with Law 28258 “Mining Royalty Act” as amended by Law 27988 dated September 28, 2011.

(ii) It corresponds to the contribution of 0.5% of the annual income recorded by mining, metallurgical and iron and steel entities before taxes as supplementary payment, additional to retirement, disability and survival pensions of mining, metallurgical and iron and steel employees, as provided in Law 29741, effective as from year 2012.

(b) The Company recognizes the effects of temporary differences between the accounting and the tax base. A breakdown of this heading, according to the items that originated them, is given below:

	As of December 31, 2011 US$(000)	credit (charge) to the consolidated statement of results US$(000)	Effect from conversion US$(000)	As of December 31, 2012 US$(000)
Deferred assets with effects on results				
Estimate for impairment of supplies	1,268	-	78	1,346
Provision for closure of mining units	1,793	450	933	3,176
Vacations pending payment	1,778	372	4	2,154
Embedded derivative for sale of concentrates	2,677	(2,677)	-	-
Provision for contingencies	5,101	(223)	115	4,993
Loss on fair value of premiums (call)	-	3,163	110	3,273
Loss on fair value of financial assets (portfolio of bonds)	-	35	1	36
Adjustment of sales	-	535	-	535
Deferred assets with effects on unrealized results				
Unrealized loss on derivative financial instruments	4,367	(4,367)	-	-
Deferred assets	16,984	(2,712)	1,241	15,513
Deferred liabilities through results				
Amortization of mining titles & concessions, and exploration, development & stripping costs	(102,458)	(15,031)	(13,386)	(130,875)
Deemed cost of fixed assets	(19,699)	2,090	-	(17,609)
Embedded derivative for sale of concentrates	-	(78)	3	(75)
Interests on portfolio of bonds	-	(917)	(28)	(945)
Other minor	(2,032)	(1,668)	3,700	-
Deferred liabilities with effects on unrealized results				
Unrealized loss on derivative financial instruments	-	(6,138)	-	(6,138)
Deferred liabilities	(124,189)	(21,742)	(9,711)	(155,642)

(c) The reconciliation of the income tax effective rate with the legal rate for years 2012 and 2011 is given below:

	2012 US$(000)	%	2011 US$(000)	%
Accounting profit before income tax	307,030	100	467,300	100
Theoretical income tax	92,109	30	140,190	30
Non-deductible expenses, net	3,971	1.29	(1,790)	(0.38)
	96,080	31.29	138,400	29.62

17. NET EQUITY

(a) Issued capital

It is represented by 1,362,307,564 class “A” shares with right to vote and 2,037,653,026 class “B” shares with no right to vote but right to preference dividend distribution; such right is not cumulative. From the total, 151,144,542 class “A” shares and 2,824,558 class “B” shares are held by subsidiary Empresa Minera Paragsha S.A.C., and 19,542,922 class “A” shares by subsidiary Empresa Administradora Chungar S.A.C., and 8,565 class “A” shares by subsidiary Compañía Minera Alpamarca S.A.C. All common shares are fully subscribed and paid and have a face value of S/. 1.00 (Nuevos Soles) per share.

Both class “A” and class “B” common shares listed in the Lima Stock Exchange were frequently traded by the stock market. As of December 31, 2012, their quotation was S/. 4.24 and S/. 2.59 per share, respectively (S/. 4.50 and S/. 2.99 per share, respectively, as of December 31, 2011). The trading frequency for class “A” shares was 45 percent, and for class “B” shares 100 percent.

The shareholding structure as of December 31, 2012 and 2011 is as follows:

Percentage of individual interest in issued share capital	Number of shareholders		Percentage of total equity interest	
	2012	2011	2012	2011
Less than 0.20	569	655	1.92	1.95
0.20 to 1.00	7	7	4.12	3.98
1.01 to 5.00	8	9	19.79	20.88
5.01 to 10.00	2	2	16.18	15.30
10.01 to 20.00	1	1	11.09	10.99
Over 20.01	1	1	46.90	46.90
	-----	-----	--------	--------
	588	675	100.00	100.00
	===	===	======	======

The General Shareholders' Meeting held on March 22, 2012 approved an increase of the issued share capital through capitalization of profit for S/. 281,115,240, (equivalent to US$ 139,881,965) corresponding to the profit of year 2011, thus increasing the issued share capital from S/. 3,118,845,350 to S/. 3,399,960,590, which represents the delivery of 9.01343% in paid-up shares, both for Class "A" and Class "B" shares, which was realized on May 4, 2012. The issue of 112,638,193 new Class "A" shares and 168,477,047 new Class "B" shares was also originated.

The General Shareholders' Meeting held on March 24, 2011 approved a share capital increase for S/. 368,174,402, (equivalent to US$ 136,041,360) corresponding to the profit of year 2010, thus increasing the share capital from S/. 2,599,244,302 to S/. 2,967,418,704, which represents the delivery of 14.16467 % in paid-up shares, both for Class "A" and Class "B" shares.

Likewise, in Meeting of the Board of Directors held on July 14, 2011, it was resolved to increase the share capital by S/.151,426,646, (equivalent to US$ 55,952,524) corresponding to the capitalization of the profit balance of year 2010 and accumulated results , thus increasing the share capital from S/. 2,967,418,704 to S/. 3,118,845,350, which represents the delivery of 5.1030 % in paid-up shares, both for Class "A" and Class "B" shares.

(b) Shares in treasury

It corresponds to own shares acquired by the subsidiaries.

(c) Other capital reserves

It includes a special reserve to pay social responsibility expenses related to the communities and communities around the mining operations. Likewise, the effect of dividends and the result obtained for the disposal of shares in treasury is credited to or debited from this account.

(d) Capital reserve

In accordance with the General Corporate Law, a minimum 10 percent of distributable annual earnings, income tax deducted, is required to be transferred to a legal reserve until it equals 20 percent of the paid-in share capital. The legal reserve may offset loss or may be capitalized, and in both cases it is an obligation to replenish it.

According to article 229 of the New Business Act, the Company may capitalize the legal reserve, but must replenish it in the year immediately after profits are obtained.

(e) Unrealized results

It corresponds to unrealized gain (loss) on derivative instruments to hedge cash flows (Note 18). This unrealized gain or loss originates because the commodities price was agreed at a value that was higher or lower that their settlement value.

(f) Accumulated results

They may be capitalized or distributed as dividends, by resolution of the Shareholders' Meeting. Dividends and any other form of distributed profit are subject to the Income Tax at a 4.1% rate on the distributed amount to be borne by the shareholders or company members, which is only applicable to such shareholder who is an individual domiciled or not in Peru, or to such juridical person which is non-domiciled in Peru. According to the General Corporate Act, dividends appropriation must be proportionate to the shareholders contribution.

18. HEDGING DERIVATIVE FINANCIAL INSTRUMENTS

The Company uses derivative instruments to reduce the market risks to which it is exposed. Risks are mainly referred to the effects of changes in the prices of the metals commercialized by the Company, which show constant fluctuations. The Management's intention is to maintain derivative instruments to hedge any fluctuations in the prices of its metals, mainly zinc.

(a) Ore quote hedging transactions

Hedging contracts: Swap Contracts -

During years 2012 and 2011, the Company entered price hedging transaction contracts (swaps) to secure future flows from its sales. Hedging transactions critical terms have been negotiated with the brokers so that they match the terms negotiated in the related commercial contracts.

Hedging contracts: zero-cost option collars -

During years 2012 and 2011, the Company entered price hedging zero-cost option collars to secure future flows from its sales for years 2012 and 2013. Hedging transactions critical terms have been negotiated with the brokers so that they match the terms negotiated in the related commercial contracts.

Through hedging zero-cost options a maximum and a minimum price are set. When the average price for the quotation period is above the maximum price set, the purchase option in favor of the counterpart is activated generating a payment for the Company for the difference between both prices. On the other hand, when the average price for the quote period is below the maximum price set, the selling option in favor of the Company is activated generating a collection for the difference between both prices.

As of December 31, 2012, the Company has the following current hedging transactions receivable:

Metal	Total volume FMT	Periods	Fair Value US$(000)
Swap Contracts			
Silver	11,358,925	Jan 2013 and Sep 2015	30,203
Copper	383	Jan and Jun 2013	135
Zinc	27,283	Jan and Jun 2013	1,068
Gold	150	Jan and Mar 2013	7
Total swap contracts fair value			31,413
Zero-cost option collar contracts			
Silver	75,000	Between Jan 2012 and Mar 2013	145
Total collar contracts fair value			145
Scaling Contracts			
Silver	1,075,000	Between Jan 2013 and Dec 2014	197
Copper	2,475	Between Jan 2013 and Dec 2014	1,023
Lead	18,675	Between Jan 2013 and Dec 2015	6,053
Zinc	129,804	Between Jan 2013 and Dec 2015	28,098
Total scaling contract fair value			35,371
Total fair value of hedging instruments receivable			66,929
Less - Non-current part (Note 8)			(40,377)
Current part (Note 8)			26,552

As of December 31, 2011, the Company has the following current hedging transactions receivable:

Metal	Total volume FMT	Periods	Fair Value US$(000)
Swap Contracts			
Silver	464,600	Jan 2012 – Aug 2012	3,607
Copper	215	Jan 2012 – Apr 2012	207
Lead	4,180	Jan 2012 – Aug 2012	1,113
Zinc	1,100	Jan 2012 – Apr 2012	1,111
Gold	610	Jan 2012 – Mar 2012	112
Total swap contracts fair value			6,150
Zero-cost option collar contracts			
Silver	6,666,000	Jan 2012 – Dec 2014	13,409
Total collar contracts fair value			13,409
Scaling Contracts			
Copper	2,025	Jan 2012 – Dec 2014	91
Lead	2,400	Jan 2012 – Dec 2014	168
Zinc	5,400	Jan 2012 – Dec 2014	168
Total scaling contract fair value			427
Total fair value of hedging instruments receivable			19,986
Less – non-current part			(8,533)
Current part			11,453

As of December 31, 2012, the Company has the following hedging transactions payable:

Metal	Total volume FMT	Periods	Fair Value US$(000)
Swap Contracts			
Silver	3,149,996	Jan 2013 – Dec 2013	(44,623)
Copper	962	Jan 2013 – Apr 2013	(119)
Lead	11,160	Jan 2013 – Dec 2014	(1,327)
Zinc	11,606	Jan 2013 – Dec 2013	(432)
Gold	530	Jan 2013 – Apr 2013	36

Total swap contracts fair value (Note 8)			(46,465)
			======

As of December 31, 2011, the Company has the following hedging transactions payable:

Metal	Total volume FMT	Periods	Fair Value US$(000)
Swap Contracts			
Silver	2,495,380	Jan 2012 – Oct 2012	(30,269)

Total swap contracts fair value			(30,269)
			======
Zero-cost option collar contracts			
Silver	300,000	Apr 2012 – Oct 2012	(1,353)

Total collar contracts fair value			(1,353)
			======
Scaling Contracts			
Zinc	25,550	Jan 2012 – Dec 2012	(2,920)

Total scaling contract fair value			(2,920)
			======
Total fair value of hedging instruments payable			(34,542)
			======

(b) The hedging of cash flows from sales to be made in future years has been assessed by the Company Management as highly effective. Effectiveness has been measured using the flow offset method, as the Company Management considers that this is the method that better reflects the purpose of managing the risk in relation to the hedge.

(c) The variation under the equity heading "Unrealized results in hedging derivative financial instruments, net" is as follows:

	Hedging derivative financial instruments US$(000)	Income tax US$(000)	Unrealized (loss) gain on hedging derivative financial instruments, net US$(000)
Balances as of January 1, 2011	(64,978)	19,494	(45,484)
Loss on hedge transactions settled during the period	(12,630)	3,789	(8,841)
Unrealized gain on hedging derivative financial instruments	63,052	(18,916)	44,136
Total variation in hedging derivative financial instruments	50,422	(15,127)	35,295
Balances as of December 31, 2011	(14,556)	4,367	(10,189)
Gain on hedging transactions settled during the period	17,617	(5,285)	12,332
Unrealized gain on hedging derivative financial instruments	17,399	(5,220)	12,179
Total variation in hedging derivative financial instruments	35,016	(10,505)	24,511
Balances as of December 31, 2012	20,460	(6,138)	14,322

(d) Embedded derivative for quote variation in concentrate sales contracts

As of December 31, 2012 and 2011, temporary settlements (in metric tons of zinc, lead and copper) held as of that date, their final settlement periods, and the fair value of embedded derivatives include:

As of December 31, 2012:

Concentrate	Qty DMT	Quote period 2012	Fair Value US$(000)
Receivable -			
Zinc	17,987	Jan 2013 – Mar 2013	863
Lead	189	Jan 2013 – Mar 2013	20

			883
			=====
Payable -			
Copper	1,640	Jan 2013 – Jan 2013	(633)
			=====

As of December 31, 2011:

Concentrate	Qty DMT	Quote period 2012	Fair Value US$(000)
Payable -			
Copper	3,366	Jan 2012 – Feb 2012	(1,170)
Zinc	25,877	Jan 2012 – Jun 2012	(1,539)
Bulk silver	2,357	Jan 2012 – Mar 2012	(506)
Lead	16,895	Jan 2012 – Mar 2012	(5,708)
	---------		--------
	48,495		(8,923)
	======		=====

As of December 31, 2012 and 2011, the fair value of embedded derivatives generated gain of US$ 8,972 thousand and loss of US$ 15,688 thousand, respectively, as shown under “Net sales” in the consolidated statement of results. Future quotes of the dates on which open positions as of December 31, 2012 and 2011, are expected to be settled are taken from London Metal Exchange publications.

(e) Fair value hierarchy -

The Company uses the following hierarchy to assess and disclose financial instruments that are measured at fair value using measurement technique:

Level 1: Quoted prices (w/o adjustments) in an active market for identical assets and liabilities.

Level 2: Other techniques for all that information or data other than quoted prices included under Level 1 that are directly or indirectly available.

Level 3: Techniques using information with significant effect on fair value measurement that are not based on information observable in the market.

Financial instruments measured at fair value applied by the Company use level 1 valuation techniques for the periods ended December 31, 2012 and 2011.

No transfers have occurred between fair value hierarchy levels during periods 2012 and 2011.

19. TAXATION

(a) Tax Authorities have the power to review and, is appropriate, correct the Income Tax assessed by the Company and subsidiaries in the four years following the year of tax return filing. Income Tax and VAT returns for the following years are subject to audit by tax authorities:

Entity	Years open to review by tax authorities
Volcan Compañía Minera S.A.A.	2008, 2009, 2010 and 2011
Empresa Administradora Chungar S.A.C.	2008, 2009, 2010 and 2011
Empresa Explotadora de Vinchos Ltda. S.A.C.	2008, 2009, 2010 and 2011
Empresa Minera Paragsha S.A.C.	2008, 2009, 2010 and 2011
Compañía Minera El Pilar S.A.C.	2008, 2009, 2010 and 2011
Compañía Minera Alpamarca S.A.C.	2008, 2009, 2010 and 2011
Shalca Compañía Minera S.A.C.	2008, 2009, 2010 and 2011
Minera Aurífera Toruna S.A.C.	2008, 2009, 2010 and 2011
Compañía Minera Huascarán S.A.C.	2008, 2009, 2010 and 2011
Empresa Administradora de Cerro S.A.C.	2010, 2011 and 2012
Minera San Sebastian AMC S.R.L.	2008, 2009, 2010 and 2011
Compañía Energética del Centro S.A.C.	2008, 2009, 2010 and 2011
Hidroeléctrica Huanchor S.A.C.	2011
Empresa de Generación Eléctrica Baños S.A.C.	2010 and 2011

Due to the fact that differences may emerge in the interpretation made by the Tax Administration based on the regulations applicable by the Company, it is not possible to anticipate if additional tax liabilities will result from eventual reviews. Any additional tax, delay, surcharge and interests, if any, will be recognized in the results of the year in which the difference of opinion with the Tax Administration is resolved. The Company Management estimates that no material liabilities will result from these possible reviews.

(b) The Company and its Subsidiaries are subject to the Peruvian tax regime. The Income Tax rate applicable to entities is 30%. If the company distributes its profit fully or partially, it shall apply an additional rate of 4.1% on the distributed amount, which will be borne by the shareholders, provided that they are individuals or entities domiciled abroad.

The 4.1% rate tax will be borne by the entity and will apply on any amount or delivery in kind resulting third-class taxable income that may represent an indirect disposition not subject to subsequent tax control, including amounts charged to expenses and not declared revenues.

As from January 1, 2007 taxpayers shall settle and pay 4.1% the tax directly, without a previous audit by the Tax Administration being required, within one month upon the date of indirect income disposition, together with its monthly obligations. As from January 1, 2008, in case it is not possible to determine the time in which the indirect disposal of income was made, the tax is to be paid within the month following the date in which the expense was accrued, and it if it is not possible to determine the date in which the expense was accrued, the tax is to be paid in the monthly of January of the year following the year in which the indirect disposal of income was made.

For the assessment of the Income Tax, Value Added Tax and Excise Tax, if any, the assessment of transfer prices for transactions with related entity or entities resident in countries or territories of low or no taxation must be accompanied with documents, information and a Transfer Price Survey, as appropriate, supporting the market value used and the criteria considered for their assessment. Furthermore, a Sworn Statement of Transfer Prices must be filed according to the regulations in force.

In opinion of the Management, there will be no major contingencies for the Company as of December 31, 2012 from the application of these regulations. In any case, any assessment on such regard by the tax authorities would be recognized in the year in which it occurs.

(c) As from August 2012, new rules have been incorporated for the assessment of Income Tax payments on account.

Provisions include that companies shall credit as payment on account, the higher amount resulting from comparing the monthly installment assessed according to the procedure outlined in the new wording of article 85, paragraph a) and the installment resulting from applying 1.5% to the net income obtained in the same month.

Furthermore, specific rules have been provided to modify the ratios applicable for the assessment of payments on account.

As from August 2012, for Income Tax withholding of non domiciled to proceed at a rate of 15% for technical assistance services, the obligation has been eliminated to file a tax return issued by the non domiciled entity (where the service provision and the accounted revenues are filed). Likewise, it has been provided that the technical assistance local user is obliged to obtain and file with SUNAT a report issued by an auditing firm certifying that the technical assistance has been actually given, provided that the consideration for technical assistance services, in one single contract, included its delays and/or amendments, exceed 140 tax units.

(d) As from year 2013, Transfer Prices provisions no longer apply regarding the Value Added Tax.

(e) For tax purposes, any goods subject to financial leasing, corresponding to agreements undersigned as from January 1, 2001, are considered as fixed assets of the lessee, and are accountably recorded according to International Accounting Standards, while the depreciation will be made according to the Income Tax Law.

As an exception, and previous to the fulfillment of certain assumptions, the goods subject matter of the agreement can be depreciated during the term of the agreement.

(f) As from 2004 special measures to fight evasion and informality have been approved, requiring the use of certain payment means for money obligations (Bankarization) and creating the Financial Transactions Tax, levying a wide range of transactions in local or foreign currency made mainly through the Financial System.

In those cases in which obligations are paid by means other than the delivery of money or without using the required payment means, the tax shall double the tax rate and always on any amount exceeding 15% of the respective entity obligations so settled.

As from April 1, 2011, the aliquot was reduced to 0.005%.

(g) A Constitutional Court Decision declared the Additional Income Tax Advance Payment unconstitutional, making its effects retroactively effective as from the date on which the provisions creating it were published.

(h) Law 28424 has established the Temporary Tax on Net Assets, effective as from January 1, 2005, as a new tax on equity payable by third-class income earners subject to the General IT Regime. The effectiveness of this tax, originally of temporary nature, was successively extended giving it a permanent nature.

This tax base is the value of net assets recorded in the balance sheet as of December 31, of the year previous to the one on which payment is applicable, after deducting the depreciations and amortizations admitted by the Income Tax Law. For year 2012, on the referred basis, the first million Nuevos Soles (S/. 1,000,000) shall not be subject to tax, while the aliquot of 0.4% applies to any excess.

The Temporary Tax on Net Assets can be paid in cash or in nine monthly installments between April and December of the same year. The amount paid as Temporary Tax on Net Assets can be used as credit against the income tax of the year to which it corresponds or as a credit against the regularization income tax of the corresponding year.

20. NET SALES

(a) The Company and Subsidiaries revenues result basically from the sale of zinc, lead and copper concentrates. The table below shows a breakdown of the net sales per concentrate in years 2012 and 2011:

Description	2012 US$(000)	2011 US$(000)
Net sales per concentrate:		
Zinc	486,353	504,187
Lead	488,742	523,423
Copper	145,704	179,304
Bulk silver	27,225	33,261
Nickel	-	180
	1,148,024	1,240,355
Embedded derivative (c)	8,972	(15,688)
Adjustment of open temporary settlements	3,789	(13,223)
Sale of fluxes and oxides	-	170
	1,160,785	1,211,614

(b) Net sales of concentrates to customers per geographic area are given below:

	2012 US$(000)	2011 US$(000)
Peru	772,810	979,147
America	252,648	42,075
Asia	95,324	200,145
Europe	27,242	18,988
	1,148,024	1,240,355

(c) Embedded derivative

The Company and Subsidiaries' sales of concentrates are based on commercial contracts, according to which a temporary value is assigned to the sales, which are to be adjusted at a future final quote. Sales adjustment is considered as an embedded derivative that should be separated from the contract. Commercial contracts are related to market prices (London Metal Exchange). Embedded derivative does not qualify as a hedging instrument; therefore, changes in the fair value are charge to results. As of December 31, 2012 and 2011, the Company holds embedded derivatives based on future prices (forwards) of the expected settlement date, as final prices will be established in subsequent months as provided in the commercial contracts. Temporary selling value adjustment is recorded as an adjustment to current net sales.

(d) Concentration of sales

In year 2012, the three most important customers accounted for 69% of total sales (79% of total sales in year 2011). As of December 31, 2012, 76% of accounts receivable is related to these customers (78% as of December 31, 2011). The Company sales of concentrate are made to locally and internationally renowned companies.

(e) Commitments to sell

As of December 31, 2012, the Company maintains commitments with third parties for the sale of lead, zinc and copper concentrates for 328,473 MTH, 1,765,131 MTH and 39,954 MTH (341,080 MTH, 1,903,506 MTH and 68,677 MTH as of December 31, 2011), respectively until year 2015. These sales will be made at the market price.

21. COST OF SALES

A breakdown of this heading is given below:

Description	2012 US$(000)	2011 US$(000)
Initial inventory of concentrates, Note 9	32,037	15,738
Initial inventory of raw material (extracted ore), Note 9	30,137	26,602
Production cost		
Rent, energy and other expenses	354,946	288,233
Supplies used	188,819	143,291
Labor	78,193	75,546
Depreciation and amortization	105,355	99,061
Employees' profit sharing	19,445	27,401
Less – final inventory of concentrates, Note 9	(40,480)	(32,037)
Less - final inventory of raw material (extracted ore), Note 9	(31,885)	(30,137)
	736,567	613,698

22. ADMINISTRATIVE EXPENSES

A breakdown of this heading is given below:

	2012 US$(000)	2011 US$(000)
Personnel charges	30,006	29,981
Professional fees	6,139	6,425
Insurance	8,881	7,909
Mail and telecommunication, and other minor expenses	9,623	10,427
Employees' profit sharing	4,249	6,057
	---------	---------
	58,898	60,799
	======	======

23. SELLING EXPENSES

A breakdown of this heading is given below:

	2012 US$(000)	2011 US$(000)
Freight	23,254	15,548
Shipping expenses	4,829	3,737
Various services	7,641	5,935
Doubtful accounts	152	852
	---------	---------
	35,876	26,072
	======	======

24. OTHER OPERATING REVENUES (EXPENSES)

A breakdown of this heading is given below:

	2012 US$(000)	2011 US$(000)
Revenues		
Revenue for sale of various supplies	38,106	32,222
Recovery of provision for contingencies	10,366	-
Revenue from sale of energy	8,716	-
Ore treatment and other services to third parties	3,223	4,314
Insurance indemnification	1,548	-
Disposal of fixed assets	191	-
Other	2,988	2,759
	---------	---------
	65,138	39,295
	======	======

	2012 US$(000)	2011 US$(000)
Expenses		
Cost of sales of various supplies	(37,839)	(31,819)
Cost of ore treatment and other services to third parties	(1,474)	(1,347)
Cost of energy sales	(4,324)	-
Tax administrative penalties	(5,581)	(2,112)
Provision for contingency	(2,208)	-
Expenses of previous years	-	(512)
Cost of pit in subsidiary	(918)	-
Write off of fixed assets	(844)	(706)
Non-deductible various expenses	(1,691)	(3,320)
Other	(144)	(169)
	---------	---------
	(55,023)	(39,985)
	======	======

25. FINANCIAL REVENUES (EXPENSES)

A breakdown of this heading is given below:

	2012 US$(000)	2011 US$(000)
Revenues		
Gain on exchange difference	36,047	13,323
Interests on term deposits	4,075	1,791
Redemption of acquired bonus	3,024	-
Interests on loans	3,152	1,838
Other financial revenues	924	452
	---------	---------
	47,222	17,404
	======	======
Expenses		
Interests and expenses on bank loans	(2,644)	(1,587)
Financial leasing interests	(1,208)	(821)
Interests on issued bonds	(30,373)	-
Loss on exchange difference	(37,257)	(15,974)
Commissions and other expenses	(1,218)	(972)
	---------	---------
	(72,700)	(19,354)
	======	======

26. BASIC AND DILUTED EARNINGS PER SHARE

Computation of basic and diluted earnings per share in the years ended December 31, 2012 and 2011 (in thousand US Dollars, except for the information on common and investment shares) is given below:

	2012 US$(000)	2011 US$(000)
Net year profit US$(000)	210,950	328,900
Common shares - thousand units	3,172,115	2,839,519
Basic and diluted net earnings per share of the year	0.067	0.116

Basic and diluted earnings per share are the same because no reducing effects on profit exist.

No other transactions related to common or potential common shares have existed between the reporting date and the date of these consolidated financial statements.

27. DISCLOSURE OF INFORMATION BY SEGMENTS

IFRS 8 "Operating segments" require that companies present their financial information taking into account the reported information that is internally used by the Management to assess operating segments results and distribute the resources of such segments. The Management uses business and geographic segments of the Company to make operating decisions. A business segment is a differentiable component of an entity that supplies an individual product or service or a group of products or related services, which is subject to risks and return, which are different from other business segments. A geographic segment is a differentiable component of an entity that is engaged in supplying products or services within a particular economic environment and is subject to risks and return, which are different from those of other components operating in other economic environments.

The only segment for the Company is mining.

28. COMMITMENTS AND CONTINGENCIES

In the Company:

(a) Labor proceedings

As of December 31, 2012 there are labor claims amounting to S/. 11,210 thousand (equivalent to US$ 4,394 thousand) for the payment of remuneration-related benefits, occupational disease and others in process of appeal and/or pending judgment.

There are also 6 proceedings (3 for replacement, 2 for annuity, and 1 for collective bargain agreement closure) for which it has not been possible to assess the claimed amount; plus 2 proceedings pending response for production bonds.

(b) Civil proceedings

As of December 31, 2012 there are civil complaints for a total of S/. 533 thousand (equivalent to US$ 209 thousand) for damage compensation and filed by people affected by actions proper of the Company business and they are in process of appeal and/or pending judgment.

(c) Tax proceedings

As of December 31, 2012, the Company keeps various administrative proceedings pending resolution with the National Superintendence of Tax Administration (SUNAT), for various tax assessment resolutions, including fines and interests, totaling S/. 307,801 thousand (equivalent to US$ 120,659 thousand).

Assessment resolutions for tax, fines and interests correspond, in SUNAT's opinion, to failure to pay taxes and to withhold taxes from third parties, as well as for the application of different criteria in assessing the tax basis for the settlement of third-class income tax and value added tax of years 1998 to 2003. Up to date these assessment resolutions are in a claim and/or appeal process before SUNAT and tax court.

(d) Proceedings filed with Municipal Authorities

As of December 31, 2012, the Company keeps various administrative proceedings pending resolution with District Municipalities for various fine resolutions and orders to pay property taxes for S/. 2,681 thousand (equivalent to US$ 1,051 thousand), which are currently subject to claim.

(e) Claim for environmental damage

As of December 31, 2012, the Company keeps various environmental proceedings pending resolution with Osinergmin, for failure to comply with provisions contained in the mining health and safety regulations for S/. 11,749 thousand (equivalent to US$ 4,606 thousand).

Also, on May 31, 2005, the Association of Municipalities of the Junín Region filed a claim against the Company and two other companies with the judicial authority of Junín. Such claim seeks compensation in the form of payment of US$ 5,000 thousand for the repair of damages caused to the Mantaro river basin starting years before the Company bought the mining units located in the referred basin subject matter of the claim.

In opinion of the Company Management and its legal consultants, based on arguments *de jure* and *de facto,* no additional liabilities will result from all these proceedings that are significant for the Company.

(f) The Company Management, based on the opinion of independent advisors and has made a review of all tax, labor, civil and administrative proceedings, among other, assessing a provision for probable contingencies for US$ 16,585 thousand (US$ 17,005 thousand in 2011).

In the opinion of the Company Management and its legal advisors this provision covers probable contingencies on which an exhaustive review was made and no provision additionally to the assessed one should be set up.

In subsidiary Empresa Administradora Chungar S.A.C.:

(a) Labor proceedings

As of December 31, 2012 there are labor claims amounting to S/. 254 thousand (equivalent to US$ 100 thousand) for the payment of remuneration-related benefits, occupational disease and others in process of appeal and/or pending judgment.

(b) Civil proceedings

As of December 31, 2012 there are civil complaints for a total of S/. 1,067 thousand (equivalent to US$ 418 thousand) for damage compensation and filed by people affected by actions proper of the Subsidiary business and they are in process of appeal and/or pending judgment.

(c) Claim for environmental damage

As of December 31, 2012, the Subsidiary keeps various environmental proceedings pending resolution with Osinermin, for failure to comply with provisions contained in the mining health and safety regulations for S/. 1,168 thousand (equivalent to US$ 458 thousand).

(d) Tax proceedings

As of December 31, 2012, the subsidiary keeps various administrative proceedings pending resolution with the National Superintendence of Tax Administration (SUNAT), for various assessment resolutions for tax, fines and interests totaling S/. 30,589 thousand (equivalent to US$ 11,991 thousand).

Assessment resolutions for tax, fines and interests correspond in SUNAT's opinion, to failure to pay taxes and to withhold taxes from third parties, as well as the application of different criteria. Assessment resolutions for tax, fines and interests correspond, in SUNAT's opinion, to failure to pay taxes and to withhold taxes from third parties, as well as for the application of different criteria in assessing the tax basis for the settlement of third-class income tax and value added tax of years 2001 to 2005. In 2009 the subsidiary filed claims against the resolutions issued by the tax administration, which were declared unfounded by a resolution. In February 2009, the subsidiary filed an appeal against the above referred resolutions, requesting SUNAT to move up such appeal to the Fiscal Court. Likewise, through Resolution N° 08974-3-2000, the Fiscal Court dismissed the claim made against the assessment and the corresponding fine corresponding to the audit made in year 2001. In January 2010, the subsidiary filed with the Superior Court of Justice of Lima a contentious administrative complaint requesting the partial nullity of the above referred resolution.

(e) Proceedings filed with Municipal Authorities

As of December 31, 2012, the Subsidiary keeps various administrative proceedings pending resolution with District Municipalities for various fine resolutions and orders to pay property taxes for S/. 1,067 thousand (equivalent to US$ 418 thousand), which are currently subject to claim.

In opinion of the Subsidiary Management and its legal advisors, based on de jure and de facto foundations, no additional liabilities will result from all these proceedings that are significant.

In Subsidiary Empresa Administradora Cerro S.A.C.:

(a) Labor proceedings

As of December 31, 2012 there are labor claims amounting to S/. 1,565 thousand (equivalent to US$ 613 thousand) for the payment of remuneration-related benefits, occupational disease and others in process of appeal and/or pending judgment.

(b) Proceedings filed with Municipal Authorities

As of December 31, 2012, the Subsidiary keeps various administrative proceedings pending resolution with District Municipalities for various fine resolutions and orders to pay property taxes for S/. 1,636 thousand (equivalent to US$ 641 thousand), which are currently subject to claim.

(c) Claim for environmental damage

As of December 31, 2012 a criminal complaint filed by the mayor of the Province Municipality of Junín against the Subsidiary legal representative et al for the reported offense of environmental pollution of the Chinchaycocha Lake filed with the Attorney General's Office Specialized on Environmental Matters of the Pasco Province, as the investigated events correspond to such jurisdiction.

In opinion of the Subsidiary Management and its legal advisors, based on de jure and de facto foundations, no additional liabilities will result from all these proceedings that are significant.

In Subsidiary Empresa Explotadora de Vinchos Ltda S.A.C.:

(a) Claim for environmental damage

As of December 31, 2012, the Subsidiary keeps various environmental proceedings pending resolution with Osinermin, for failure to comply with provisions contained in the mining health and safety regulations for S/. 436 thousand (equivalent to US$ 171 thousand).

In opinion of the Subsidiary Management and its legal advisors, based on *de jure* and *de facto* foundations, no additional liabilities will result from all these proceedings that are significant.

In the other subsidiaries:

In opinion of the Corporate Management and its legal consultants, there are no major lawsuits or complaints pending to be solved or other contingencies against them as of December 31, 2012.

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The activities of the Company and subsidiaries expose them to a variety of financial risks: The main risks that may adversely affect the Company and Subsidiaries financial assets and liabilities, as well as their future cash flows include: Ore price variation risk, interest rate risk, liquidity risk, and exchange risk, and credit risk. The Company Management risk management program tries to minimize the potential adverse effects in its financial performance.

The Company Management is aware of the market conditions and, based on its knowledge and experience, it revises and agrees policies to manage each of these risks, as outlined below. Likewise, a sensitivity analysis is included that intends to show the Company financial statements sensitivity to changes in market variables and show the impact in the consolidated statement of result, or equity, if any. Financial instruments that are affected by market risks include accounts receivable, accounts payable, embedded derivatives, and hedging derivative financial instruments.

Sensitivity has been prepared for the years ended December 31, 2012 and 2011, using the amounts of financial assets and liabilities held as of that dates.

It is a Company Management policy not to hold derivative instruments for speculation purposes. As outlined in Note 18 to the consolidated financial statements, the Company Management makes hedging transactions on ore price using some derivative instruments existing in the financial market.

The Board of Directors revises and approves the policies to manage each of these risks, which are outlined below:

(a) Market risk

Market risk is the risk that the fair value of future cash flows from financial instruments fluctuates as a result of changes in market prices. Market prices applicable for the Company include two types of risks: ore price variation risk, and interest rate risk. Financial instruments affected by market risks include loans, deposits and derivative financial instruments.

The sensitivity analysis in this section is related to the position as of December 31, 2012 and 2011. The sensitivity analysis has been prepared based on the fact that the proportion of financial instruments in foreign currency will stay constant.

(a.1) Exchange rate risk

It is a policy of the Company Management to invoice the sale of its (local and foreign) products mainly in US Dollars. Exchange rate risk emerges mainly in deposits and other accounts payable in foreign currency (Nuevos Soles). The Company Management mitigates the effect of exposure to foreign currency by making almost all of its transactions in its functional currency. It holds minor amounts in foreign currency (Nuevos Soles), which is used to cover its needs in such currency (taxes and remunerations).

As of December 31, 2012, the Company and Subsidiaries have recorded a net exchange rate loss of US$ 1,210 thousand (in year 2011, a net exchange rate loss of US$ 2,651), for the effect of conversion of balances on foreign currency to the functional currency.

A table showing the effects on results of a fair variation in foreign currency exchange rates maintaining all the other variables constant:

	Exchange rate increase (decrease)	Effect on results profit (loss) US$(000)
2012		
Exchange Rate	10%	3,284
Exchange Rate	(10%)	(4,013)
2011		
Exchange Rate	+10%	15,064
Exchange Rate	(10%)	(18,412)

(a.2) Price risk

The Company and Subsidiaries are exposed to commercial risks resulting from changes in ore market prices. In order to hedge the risk resulting from a fall of the price of metals to be traded, the Company Management entered derivative contracts qualifying as cash flow hedging, see Note 18(a).

For hedging control and follow up, the Company approved the hedging policy "Policy for Metal Price Hedging," which is executed and monitored together with the Policy for Financial Risk Management. Likewise, the Company Management has a Hedging Committee which purpose is to mitigate risks associated with variations and volatility in the prices of the metals it produces.

As of December 31, 2012, the fair value of embedded derivatives contained in commercial contracts amounts to S/. 1,516 thousand (see Note 18 (d)). The estimate corresponding to temporary settlements pending final settlement, which were closed in January 2013, was reduced by 3 percent compared to the actual settled value. In the case of settlements still kept at their temporary value as of December 31, 2012, their estimate was also reduced by 3 percent due to a fall in the quotes of metals produced as from the second half of January.

As for future prices (copper, lead, and zinc) as of December 31, 2012 and 2011, and market value, as of such dates, of such hedging derivative financial instruments contracted by the Company; an analysis is presented of market value sensitivity of this position against a variation of 10 percent for relevant prices; while the rest of the variables stay constant:

	Effect on unrealized gain (loss) on hedging derivative financial instruments, net US$(000)
2012	
Increase of 10 percent in future quotations	
Hedges with maturity in 2013	(34,107)
Hedges with maturity in 2014	23,862
Hedges with maturity in 2015	4,249

	(5,996)
	======
Decrease of 10 percent in future quotations	
Hedges with maturity in 2013	7,866
Hedges with maturity in 2014	34,614
Hedges with maturity in 2015	18,046

	60,526
	======

	Effect on unrealized gain (loss) on hedging derivative financial instruments, net US$(000)
2011	
Increase of 10 percent in future quotations	
Hedges with maturity in 2012	(12,236)
Hedges with maturity in 2013	(4,557)
Hedges with maturity in 2014	(1,187)

	(17,980)
	======
Decrease of 10 percent in future quotations	
Hedges with maturity in 2012	9,417
Hedges with maturity in 2013	6,240
Hedges with maturity in 2014	3,350

	19,007
	======

(a.3) Interest rate risk

The Company and Subsidiaries have significant assets, such as term deposits, which are placed in first-rank financial institutions, and accrue interests at market current rates; the Company and Subsidiaries operating revenues and cash flows are independent from changes in market interest rates.

(b) Credit risk

The Company and Subsidiaries' credit risk arises from the inability of debtors to meet the payment of their already accrued obligations. Therefore, the Company management deposits its funds surplus in first-rank financial institutions, establishes conservative credit policies and is constantly assessing the market conditions in which they operate, for which they use risk rating reports for commercial and credit transactions, and makes hedging transactions with renown brokers of the London Metal Exchange. Therefore, the Company Management does not expect incurring in significant credit risk loss.

Credit risk concentration exists when changes in economic, industrial, or geographic changes occur that similarly affect the counterparts related with the Company and Subsidiaries. The Company sales of concentrates are made to locally and internationally renowned companies. Transactions are made with various counterparts with credit solvency, thus mitigating any significant credit concentration.

Trade accounts receivable are denominated in US Dollars, their maturity date is the date of issue of the payment receipt, and their amount is made effective on the days following maturity. The sales made by the Company and Subsidiaries are to locally and foreign customers. As of December 31, 2012, the 3 most important customers of the Company and Subsidiaries accounted for 69% of total sales (79% of total sales in year 2011). The Company Management makes an assessment on such debts which collection is estimated as changing in order to set up a provision for bad debts.

An analysis is given below of the Company and Subsidiaries' financial assets rated according to their aging, considering the period from the date of maturity to the date of the consolidated statement of financial position:

Description	2012			2011		
	Past due US$(000)	To become due US$(000)	Total US$(000)	Past due US$(000)	To become due US$(000)	Total US$(000)
Trade accounts receivable	48,315	66,409	114,724	101,945	25,002	126,947
Other accounts receivable	110,411	153,891	264,302	56,145	89,303	145,448
	158,726	220,300	379,026	158,090	114,305	272,395

(c) Liquidity risk

The prudent administration of the liquidity risk implies maintaining enough cash and cash equivalent and the possibility to commit financing and/or have financing committed through a proper amount of credit sources. The Company Management maintains adequate levels of cash and cash equivalent; furthermore, for having companies with economic support, it has enough credit capacity to access credit facilities from first-rank financial entities.

The Company Management is permanently monitoring its liquidity reserves, based on cash flow projections.

An analysis is given below of the Company and Subsidiaries' financial liabilities rated according to their aging, considering the period from the date of maturity to the date of the consolidated statement of financial position:

	Less than 1 year US$(000)	Between 1 and 2 years US$(000)	Between 2 and 10 years US$(000)	Total US$(000)
As of December 31, 2012				
Trade accounts payable	186,679	-	-	186,679
Other accounts payable	88,135	-	-	88,135
Other financial liabilities	59,463	-	-	59,463
Financial obligations	92,903	8,992	604,250	706,145
Total	427,180	8,992	604,250	1,040,422
As of December 31, 2011				
Trade accounts payable	148,116	-	-	148,116
Other accounts payable	107,260	-	-	107,260
Other financial liabilities	43,465	-	-	43,465
Financial obligations	45,538	8,479	6,486	60,503
Total	344,379	8,479	6,486	359,344

(d) Capital management

The objective is to safeguard the capacity of Company and Subsidiaries to continue as ongoing concern in order to provide returns for shareholders and benefits for stakeholders and maintain an optimal structure that allows reducing capital cost.

The Company Management manages its capital structure and makes adjustments to face changes in the market economic conditions. The Company Management policy is to finance all of its short and long-term projects with own operating resources. To maintain or adjust the capital structure, the Company Management may adjust the payment of dividends to shareholders, return capital to its shareholders, or issue new shares. There have been no changes in the objectives, policies or procedures during the years ended December 31, 2012 and 2011.

30. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following amounts correspond to financial assets and liabilities shown in the consolidated statement of financial position, classified by categories according to IAS 39:

	2012 US$(000)	2011 US$(000)
Financial assets and liabilities at fair value through results		
Cash	68,264	118,733
Term deposits	154,764	35,009
Embedded derivative	883	-
Investment-grade corporate bonds (c)	342,760	-
Total	566,671	153,742
Investments available for sale		
Mutual funds	9,067	381
Accounts receivable		
Accounts receivable, short and long term	379,026	272,395
Financial liabilities at amortized cost		
Financial obligations	706,145	60,504
Trade accounts payable	186,679	148,116
Other accounts payable	88,135	107,260
Total	980,959	314,880
Financial assets and liabilities at fair value with changes in other comprehensive results		
Hedge of cash flow	14,322	(10,189)

Fair value is defined as the amount for which an asset could be exchanged or an asset could be settled between knowledgeable willing parties in a current transaction, assuming the entity is an ongoing concern.

Based on the above, a comparison between the book values and fair values of the Company and Subsidiaries' financial instruments presented in the consolidated statement of financial position. The table does not include the fair value of non-financial assets and liabilities.

	2012		2011	
	Book value US$(000)	Fair value US$(000)	Book value US$(000)	Fair value US$(000)
Financial assets				
Cash and cash equivalents	574,855	574,855	154,123	154,123
Trade accounts receivable	114,724	114,724	126,947	126,947
Other accounts receivable	277,533	277,533	151,963	151,963
Financial liabilities				
Trade accounts payable	186,679	186,679	148,116	148,116
Other accounts payable	88,135	88,135	107,260	107,260
Financial obligations	706,145	706,145	60,503	60,503

When a financial instrument is traded in a liquid and active market, its market set price in an actual transaction give the best evidence of its fair value. When there is no market set price or it cannot be an indicative of the instrument fair value, to assess such fair value, the market value of another substantially similar instrument can be used, the analysis of discounted flows, or other applicable techniques; which are significantly affected by the assumptions used. Notwithstanding the Company Management has used its better judgment in estimating the fair value of its financial instruments, any technique to make such estimate involves certain level of inherent fragility. As a result of this, the fair value cannot be an indicative of the net realization value or settlement value of financial instruments.

The following methods and assumptions were used to estimate fair values:

Financial instruments which fair value is similar to the book value –
For financial assets and liabilities that are liquid or have short-term maturity (less than three months), such as cash and cash equivalent, accounts receivable, accounts payable and other current liabilities, it is considered that the book value is similar to the fair value.

The Company Management makes transactions with derivative financial instruments with financial entities with investment grade credit rating. Derivative financial instruments are valued according to the market valuation techniques, the main contracted products being metal quote hedging derivative instruments.

The most frequent valuation technique applied includes flow projections using models and present value computation. Models incorporate various variables as the credit risk rating of the counterpart entity, and ore price future quotes.

Financial instruments at fix and variable rates –

The fair value of financial assets and liabilities at fixed and variable rates at amortized cost is assessed comparing market interest rates at their initial recognition with current market rates related to similar financial instruments. The estimated fair value of deposits accruing interests is assessed through discounted cash flows using market interest rates in the prevailing currency with similar maturity and credit risks.

31. TRANSACTIONS THAT HAVE NOT GENERATED FUNDS TURNOVER

(a) During years 2012 and 2011, charges (credits) have been recorded in the following accounts and for the following descriptions, which do not generate cash flow:

	VARIOUS ACCOUNTS RECEIVABLE		INVESTMENTS		CLOSURE OF MINING UNITS		PROVISION FOR THE CLOSURE OF MINING UNITS		CAPITAL RESERVE	
	2012 US$(000)	2011 US$(000)	2012 US$(000)	2011 US$(000)	2012 US$(000)	2011 US$(000)	2012 US$(000)	2011 US$(000)	2012 US$(000)	2011 US$(000)
The subsidiaries Empresa Minera Paragsha S.A.C. and Empresa Administradora Chungar S.A.C. earned dividends in cash from the Company and they were credited to the Capital Reserve. The equity increase in the subsidiary caused an increase in the Company investments.	-	-	4,642	3,321	-	-	-	-	(4,642)	(3,321)
The Company and subsidiaries Empresa Administradora Chungar S.A.C. and Empresa Explotadora de Vinchos Ltda. S.A.C. and Empresa Administradora Cerro S.A.C. have recorded a provision for mine closure.	-	-	-	-	13,591	802	(13,591)	(802)	-	-
Dividends distributed by subsidiary Empresa Minera Paragsha S.A.C. are pending collection	-	4,564	-	(4,564)	-	-	-	-	-	-
Subsidiaries Empresa Minera Paragsha S.A.C. and Empresa Administradora Chungar S.A.C. generated net profits for selling shares of the Company to third parties in the Lima Stock Exchange; this profit was credited to Capital Reserve. The equity increase in the subsidiary caused an increase in the Company investments.	-	-	-	151,448	-	-	-	-	-	(151,448)
	-	4,564	4,642	150,205	13,591	802	(13,591)	(802)	(4,642)	(154,769)

(b) Transaction requiring no accounting at all

Buildings and machinery were acquired under financial leasing for US$ 12,985 thousand (US$ 20,258 thousand in 2011), US$ 11,107 thousand of which is pending payment as of December 31, 2012 (US$ 14,966 thousand in 2011) accounted under financial obligations.

32. REMUNERATIONS OF KEY PERSONNEL

Remuneration of the Group key personnel and Directors considers all of the payments they receive. The total for all that amounts to approximately US$ 19 million and US$ 15.9 million for the years 2012 and 2011, respectively.

***