

VOLCAN COMPAÑÍA MINERA S.A.A. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2015 AND 2014

TOGETHER WITH

THE INDEPENDENT AUDITOR'S REPORT

VOLCAN COMPAÑÍA MINERA S.A.A. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2015 AND 2014

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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, 2015 and 2014, and the consolidated statements of income, of comprehensive income, of changes in equity and of cash flows for the years then ended, and a summary of significant accounting policies and other accompanying explanatory notes, 1 through 35.

Management's Responsibility for the Financial Statements

The Parent Company Management is responsible for the preparation and fair presentation of these financial statements according to International Financial Reporting Standards (IFRS) and for the internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing applicable in Peru, 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 in 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 set up audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Parent Company and Subsidiaries' internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management of the Parent Company, as well as evaluating the overall presentation of the financial statements.

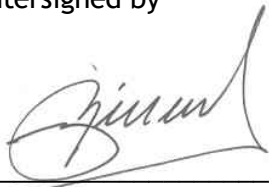
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2015 and 2014, of their financial performance and cash flows for the years then ended, in accordance with International Financial Reporting Standards.

Lima, Peru
February 19, 2016

Countersigned by



(Partner)

Luis Pierrend Castillo
CPA N° 01-03823



VOLCAN COMPAÑÍA MINERA S.A.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS OF DECEMBER 31, 2015 AND 2014

(In thousand US Dollars)

<u>ASSETS</u>				<u>LIABILITIES AND EQUITY</u>			
	<u>Notes</u>	<u>2015</u>	<u>2014</u>		<u>Notes</u>	<u>2015</u>	<u>2014</u>
CURRENT ASSETS				CURRENT LIABILITIES			
Cash and cash equivalents	5	192,307	174,363	Bank overdrafts		14,043	16,060
Trade accounts receivable, net	6	55,247	83,450	Financial obligations	12	198,662	201,765
Other accounts receivable	7	352,356	361,079	Trade accounts payable	13	165,294	228,847
Other financial assets	8	14,508	32,528	Other accounts payable	14	53,453	65,044
Inventories, net	9	106,968	197,236	Other financial liabilities	8	104,480	96,209
		-----	-----			-----	-----
Total current assets		721,386	848,656	Total current liabilities		535,932	607,925
		-----	-----			-----	-----
				NON-CURRENT LIABILITIES			
				Long-term financial obligations	12	623,571	620,270
				Other financial liabilities	8	143,949	12,041
				Deferred income tax liabilities	16 (b)	143,749	190,992
				Provision for contingencies	29	5,514	11,171
				Provision for closure of mining units	15 (b)	72,381	63,610
						-----	-----
				Total non-current liabilities		989,164	898,084
						-----	-----
				Total liabilities		1,525,096	1,506,009
						-----	-----
NON-CURRENT ASSETS				NET EQUITY			
Other accounts receivable	7	31,050	40,765	Issued capital	17	1,531,743	1,531,743
Other financial assets	8	48,935	92	Shares in treasury		(240,450)	(240,342)
Investments in associates and third parties		1,861	4,333	Other capital reserves		119,837	118,731
Property, plant and equipment, net	10	1,087,110	1,245,825	Capital reserve		20,296	20,329
Mining titles & concessions, and exploration, development & stripping costs, net	11	392,488	767,623	Unrealized profit or loss		(25,563)	(21,931)
Deferred income tax assets	16 (b)	269,765	89,761	Accumulated profit (loss)		(378,364)	82,516
		-----	-----			-----	-----
Total non-current assets		1,831,209	2,148,399	Total net equity		1,027,499	1,491,046
		-----	-----			-----	-----
Total assets		2,552,595	2,997,055	Total liabilities and net equity		2,552,595	2,997,055
		=====	=====			=====	=====

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

VOLCAN COMPAÑÍA MINERA S.A.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

(In thousand US Dollars)

	<u>Notes</u>	<u>2015</u>	<u>2014</u>
NET SALES	20	794,514	1,042,351
COST OF SALES	21	(663,202)	(865,746)
		-----	-----
Gross profit		131,312	176,605
		-----	-----
OPERATING (EXPENSES) REVENUE:			
Administrative expenses	22	(47,065)	(54,558)
Selling expenses	23	(43,023)	(49,050)
Other revenue	24	56,247	186,000
Other expenses	24	(115,415)	(78,224)
Impairment of non-financial assets	10, 11 & 25	(568,624)	(85,385)
		-----	-----
		(717,880)	(81,217)
		-----	-----
Operating (loss) profit		(586,568)	95,388
		-----	-----
FINANCIAL REVENUE (EXPENSES):			
Revenue	26	73,739	29,096
Expenses	26	(118,576)	(49,941)
		-----	-----
		(44,837)	(20,845)
		-----	-----
(Loss) profit before income tax		(631,405)	74,543
INCOME TAX	16 (a)	177,493	(17,720)
		-----	-----
Net (loss) profit		(453,912)	56,823
		=====	=====
Weighted average of the number of issued and outstanding shares (in thousands)	27	3,858,733	3,865,936
		=====	=====
Basic and diluted (loss) earnings per share	27	(0.118)	0.015
		=====	=====

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

VOLCAN COMPAÑÍA MINERA S.A.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

(In thousand US Dollars)

	<u>Notes</u>	<u>2015</u>	<u>2014</u>
Net (loss) profit		(453,912)	56,823
		-----	-----
OTHER COMPREHENSIVE INCOME:			
Items that may be subsequently reclassified to the year profit or loss:			
Unrealized variation for derivative financial instruments	18 (c)	(4,173)	(26,939)
Income tax	18 (c)	1,169	8,082
		-----	-----
Other comprehensive income, net of income tax		(3,004)	(18,857)
		-----	-----
Items that will not be reclassified to profit or loss:			
Adjustment for deferred income tax	18 (c)	(628)	(10,105)
		-----	-----
Total comprehensive income		(457,544)	27,861
		=====	=====

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, 2015 AND 2014

(In thousand US Dollars)

	NOTE	NUMBER OF SHARES		ISSUED CAPITAL US\$(000)	SHARES IN TREASURY US\$(000)	OTHER CAPITAL RESERVES US\$(000)	CAPITAL RESERVE US\$(000)	UNREALIZED PROFIT OR LOSS US\$(000)	ACCUMULATED PROFIT (LOSS) US\$(000)	TOTAL US\$(000)
		COMMON A SHARES	COMMON B SHARES							
Balance as of December 31, 2013		1,310,344,032	2,230,193,708	1,427,768	(233,856)	110,736	14,209	(3,074)	159,344	1,475,127
Net variation of unrealized gain on derivative financial instruments	18 (c)	-	-	-	-	-	-	(18,857)	-	(18,857)
Capitalization of profit		134,876,233	201,739,293	103,975	-	-	-	-	(103,975)	-
Appropriation		-	-	-	-	7,995	-	-	(7,995)	-
Distribution of dividends	17 (a)	-	-	-	-	-	-	-	(17,847)	(17,847)
Advance on dividends	17 (a) 32	-	-	-	-	-	-	-	(7,116)	(7,116)
Purchase of shares of the Company by a subsidiary		(17,148,260)	(1,010,280)	-	(6,486)	-	6,120	-	-	(366)
Adjustment for deferred income tax		-	-	-	-	-	-	-	(10,105)	(10,105)
Effect from conversion		-	-	-	-	-	-	-	13,387	13,387
Net profit		-	-	-	-	-	-	-	56,823	56,823
Balance as of December 31, 2014		1,428,072,005	2,430,922,721	1,531,743	(240,342)	118,731	20,329	(21,931)	82,516	1,491,046
Net variation of unrealized gain on derivative financial instruments	18 (c)	-	-	-	-	-	-	(3,632)	-	(3,632)
Appropriation		-	-	-	-	1,106	-	-	(1,106)	-
Distribution of dividends	17 (a)	-	-	-	-	-	-	-	(5,862)	(5,862)
Purchase of shares of the Company by a subsidiary		(318,347)	-	-	(108)	-	(33)	-	-	(141)
Net loss		-	-	-	-	-	-	-	(453,912)	(453,912)
Balance as of December 31, 2015		1,427,753,658	2,430,922,721	1,531,743	(240,450)	119,837	20,296	(25,563)	(378,364)	1,027,499

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, 2015 AND 2014

(In thousand US Dollars)

	<u>Notes</u>	<u>2015</u>	<u>2014</u>
OPERATING ACTIVITIES:			
Collection of sales		982,220	1,203,121
Revenue from hedging transactions		25,373	11,511
Refund of credit balance subject to benefit		25,327	59,070
Payments to suppliers and third parties		(714,662)	(885,251)
Payments to employees		(90,614)	(117,817)
Payments of income tax and other taxes		(8,163)	(26,741)
Other operating collections		(11,271)	(13,840)
		-----	-----
INCREASE IN CASH AND CASH EQUIVALENTS FROM OPERATING ACTIVITIES		208,210	230,053
		-----	-----
INVESTMENT ACTIVITIES:			
Acquisition of property, plant and equipment	10	(117,302)	(307,833)
Sale of issue of shares and dividends received		7,938	-
Acquisition of investments in shares		-	(870)
Disbursements for exploration, development and stripping activities	11	(64,275)	(106,439)
		-----	-----
NET DECREASE IN CASH AND CASH EQUIVALENTS FROM INVESTMENT ACTIVITIES		(173,639)	(415,142)
		-----	-----
FINANCING ACTIVITIES:			
Increase in financial obligations	12	36,377	155,073
Purchase of shares in treasury		(141)	(366)
Payment of interests		(36,179)	(32,250)
Payment of dividends		(16,684)	(32,619)
		-----	-----
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS FROM FINANCING ACTIVITIES		(16,627)	89,838
		-----	-----
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		17,944	(95,251)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR			
		174,363	269,614
		-----	-----
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR (Note 5)		192,307	174,363
		=====	=====

VOLCAN COMPAÑÍA MINERA S.A.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

(In thousand US Dollars)

	<u>Notes</u>	<u>2015</u>	<u>2014</u>
RECONCILIATION OF NET PROFIT OR LOSS WITH CASH AND CASH EQUIVALENTS FROM OPERATING ACTIVITIES:			
Net (loss) profit		(453,912)	56,823
Plus (less) adjustments to net (loss) profit:			
Depreciation and amortization	10 & 11	155,026	161,496
Allowance for impairment of assets	10 & 11	568,624	85,385
Disposal of property, plant and equipment	10	3,586	4,440
Impairment (valuation) of oxide and pyrite stockpiles	24	69,291	(91,449)
Net changes in assets and liabilities			
(Increase) decrease of operating assets -			
Accounts receivable, net		46,641	30,495
Inventories		(70,472)	2,448
(Decrease) increase of operating liabilities -			
Trade accounts payable		(63,553)	(22,567)
Other accounts payable		(47,021)	2,982
		-----	-----
NET INCREASE OF CASH AND CASH EQUIVALENTS FROM OPERATING ACTIVITIES		208,210	230,053
		=====	=====

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, 2015 AND 2014

1. IDENTIFICATION, ECONOMIC ACTIVITY AND OTHER CORPORATE MATTERS

(a) Identification

Volcan Compañía Minera S.A.A. (hereinafter “the Company”, “the Parent Company”, “Volcan” or “Volcan Group”) was incorporated in Peru, in the city of Lima, on February 1, 1998 through 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 Olgún # 375, Santiago de Surco, Lima. The mining operation centers and hydroelectric power plant are located in the departments of Cerro de Pasco, Junín and 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, two mining units of its own located in the departments of Pasco and Junín, in the Peruvian central highlands (*sierra central*) operated as part of its structure. In February 2011, the Cerro de Pasco Unit was split from the Company as a result of a simple reorganization process but it has always kept control over this subsidiary. In these units, 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.

As of December 31, 2015 certain units of the subsidiaries given below have reduced and paralyzed their operations: Empresa Minera Alpamarca S.A.C. (Río Pallanga mine) Empresa Administradora Cerro S.A.C. (Raúl Rojas pit), and Empresa Explotadora Vinchos Ltda. S.A.C. (Vinchos mine).

Subsidiary Empresa Administradora Chungar S.A.C. owner of 100% shares of Compañía Energética del Centro S.A.C. sold in June 2014 its subsidiary Compañía Energética del Centro S.A.C., generating a net gain of US\$ 11.7 million. The strategy of focusing new investments on growing mining projects and hydroelectric power plants near the Company operations was determinant in the decision to sell.

Furthermore, in an action aligned with the referred strategy, the subsidiary acquired Central Hidroeléctrica Tingo S.A., an hydroelectric power plant located in the province of Huaral, Department of Lima with a capacity of 1.25 MW and 82 km of transmission lines of 22.9 and 50 KV for USD 13.5 million, having a similar fair value. In the future, this power plant will be expanded to a minimum of 8.8 MW and will be connected to the Alparmarca unit or to the national interconnected system.

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 bonds were placed in February 2012 (See (f) of this Note).

(c) Approval of the consolidated financial statements

The consolidated financial statements as of December 31, 2014 were approved in General Shareholders' Meeting held on March 20, 2015. Those corresponding to December 31, 2015 have been approved by the Company Management on February 12, 2015 and will be submitted to the Board of Directors and to the Shareholders for approval within the terms required by Law. In the Company Management's opinion, the accompanying consolidated financial statements will be approved without changes in the Meeting of the Board of Directors and in the General Shareholders' Meeting to be held in the first quarter of 2015.

(d) Ore price

During recent years, average price reduction for lead ore (US\$ 1,786 in 2015 and US\$ 2,096 in 2014), silver ore (US\$ 15.7 in 2015 and US\$ 19.1 in 2014) and zinc ore (US\$ 2,162 in 2015 and US\$ 1,933 in 2014) exploited by the Volcan Group has caused profit to be significantly diminished. This is reflected in the net profit of year 2014 for US\$ 56,823 thousand and the loss of year 2015 for US\$ 453,912 thousand mainly resulting from the recognition in the year of impairment of mining units, investments, fixed assets and inventories. To offset this situation, Management has been applying a plan to reduce costs and expenses that has allowed it to continue generating profit (without considering the effect of impairment), and it estimates that this metal ore price downtrend will reverse in the coming years. Consequently, in the medium term, through downsizing and ore price improvement, revenue will increase and the net profit of the Volcan Group will improve.

- (e) The consolidated financial statements as of December 31, 2015 and 2014 include the financial statements of the following subsidiaries:

<u>Name of the Subsidiary</u>	<u>Percentage of direct and indirect capital interest</u>	
	<u>2015</u>	<u>2014</u>
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
Compañía Minera Alpamarca S.A.C. (*)	100.00	100.00
Shalca Compañía Minera S.A.C. (****)	-	100.00
Minera Aurífera Toruna S.A.C. (*)	80.00	80.00
Compañía Minera Huascarán S.A.C. (*) (****)	-	100.00
Empresa Administradora de Cerro S.A.C.	99.99	99.99
Minera San Sebastián AMC S.R.L.	100.00	100.00
Hidroeléctrica Huanchor S.A. (**)	100.00	100.00
Empresa de Generación Eléctrica Baños S.A. (**)	99.99	99.99
Compañía Hidroeléctrica Tingo S.A. (***)	99.99	99.99
Óxidos de Pasco S.A.C.	99.99	-

- (*) They are in turn subsidiaries of Empresa Minera Paragsha S.A.C.
- (**) Electric power generation companies acquired in 2012. In June 2015 Compañía Energética del Centro S.A.C. was sold to third parties. They are in turn subsidiaries of Empresa Administradora Chungar S.A.C.
- (***) Electric power generation company acquired in 2015. It is in turn subsidiary of Empresa Administradora Chungar S.A.C.
- (****) They were taken over in a merger process by Empresa Administradora Chungar S.A.C. (See 1 (f))

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 lead and silver ore concentrate production activity 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; and 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 Volcan Group. 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 entities of the Volcan 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 entities of the Volcan 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 entities of the Volcan 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 entities of the Volcan 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 entities of the Volcan 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, 2011. 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.
- Hidroeléctrica Huanchor S.A.C. was incorporated in Peru, in the city of Lima. It is engaged in electric power generation activities, having Huanchor, Tamboraque I and II hydroelectric power plants. The Company acquired through sales agreement dated February 29, 2012 all of the shares held by Minera Corona S.A. in Hidroeléctrica 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 is a subsidiary of Hidroeléctrica Huanchor S.A.C. and has hydroelectric power plant Baños V. This project is in progress and is developed at the confluence of the Quiles river with the Baños river, both tributary of the Chancay river.
- Compañía Hidroeléctrica Tingo S.A. was incorporated on March 4, 2009 and started operations on May 1, 2009. It is a subsidiary of Empresa Administradora Chungar S.A.C. and its main purpose is to engage in the operation and maintenance of power generating plants and electric power transmission systems. It has hydroelectric power plant Tingo of 1.25 MW and 82 km of transmission lines of 22.9 and 50 kV.

- Óxidos de Pasco S.A.C. was incorporated and became effective in Peru, in the city of Cerro de Pasco, on October 1, 2015; it is a subsidiary of Volcan. It is engaged in the exploitation, development and exploration of mining deposits, basically zinc, lead, silver and copper-bearing ore.

(f) Merger

The General Shareholders' Meeting of Empresa Administradora Chungar S.A.C. held on August 31, 2015 approved the draft merger by which Empresa Administradora Chungar S.A.C. took over Compañía Minera El Pilar S.A.C., Compañía Minera Huascaran S.A.C., Compañía Minera Llacsacocha S.A.C, Shalca Compañía Minera S.A.C., and Recursos Troy S.A.C. The merger became effective on September 31, 2015.

The taken over equity block is made up as follows:

	Compañía Minera El Pilar S.A.C. (*)	Compañía Minera Huascaran S.A.C. (**)	Compañía Minera Llacsacocha S.A.C.	Shalca Compañía Minera S.A.C. (**)	Recursos Troy S.A.C.
<u>Assets</u>					
Cash and cash equivalents	15	-	1	4	-
Accounts receivable from subsidiaries and affiliates	6	2	-	1	-
Other accounts receivable	2,025	692	8	23	-
Inventories, net	193	51	-	-	-
Investments in shares, net	5	-	-	-	-
Property, machinery and equipment, net	6,467	215	-	-	-
Mining rights and concessions, net	10,489	4,199	-	195	3,521
Deferred income tax assets	-	-	-	-	-
	-----	-----	-----	-----	-----
Total assets	19,200	5,159	9	223	3,521
	-----	-----	-----	-----	-----
<u>Liabilities</u>					
Trade accounts payable	52	32	-	4	-
Accounts payable to subsidiaries and affiliates	18,978	4,929	7	216	-
Other accounts payable	3	8	-	1	21
Income tax liabilities	-	3	-	-	-
Provision for contingencies	-	110	-	-	-
	-----	-----	-----	-----	-----
Total liabilities	19,033	5,082	7	221	21
	-----	-----	-----	-----	-----
Net value of equity block taken over by Empresa Administradora Chungar S.A.C.	167	77	2	2	3,500
	=====	=====	===	====	=====

This transaction was made formal through Public Deed registration on October 19, 2015.

(*) It is a subsidiary of Volcan Compañía Minera S.A.A.

(**) They are subsidiaries of Compañía Minera Paragsha S.A.C.

(g) Split

The General Shareholders' Meeting of Empresa Administradora Cerro S.A.C. resolved on August 20, 2013 the draft split of an equity block made up by assets and liabilities related to the Oxide Plant.

The split became effective on October 1, 2015, upon verification of compliance of the requirements set forth in the above mentioned draft split.

As a result of the split becoming effective, the company Óxidos de Pasco S.A.C. was incorporated, which received the split Equity Block.

<u>Assets</u>	
Accounts receivable from subsidiaries and affiliates	26,003
Other accounts receivable	46,982
Inventories, net	72,421
Property, machinery and equipment, net	340,014

Total assets	485,420

<u>Liabilities</u>	
Trade accounts payable	2,903
Accounts payable to subsidiaries and affiliates	295,127
Other accounts payable	547
Deferred income tax liabilities	25,368

Total liabilities	323,945

Net value of split equity block contributed to Óxidos de Pasco S.A.C.	161,475
	=====

This transaction was made formal through Public Deed registration on October 01, 2015.

(h) 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 Soles, to be placed in the international and/or local markets, 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 US 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” for \$ 600,000,000 were placed in full in the international market at an annual rate of 5.375% with maturity in 10 years. Interests will be paid through semiannual installments from August 2, 2012 to February 2, 2022. No covenant of compliance has been established for this obligation. Interests have been paid off on time when due despite current financial difficulties. Management estimates there will be no problem to continue paying off this obligation.

These funds were mainly used in growing projects, including the Silver Oxides Plant located at the Cerro de Pasco unit and the new Alparmarca-Río Pallanga unit.

- (i) Trust Agreements on Management and Guarantee entered with Banco Internacional del Perú S.A.A. (hereinafter “Interbank”)

For control operating reasons, two of such agreements were entered; one on August 05, 2014 by and between “Interbank” (trustee) and Volcan Compañía Minera S.A.A. (trustor), and a second one on August 07, 2014 by and between Interbank (trustee), Empresa Administradora Chungar S.A.C. (trustor), and Empresa Administradora Cerro S.A.C. (trustor), under which trust assets were granted for management and guarantee, and the referred entities transferred to Interbank the beneficial ownership of Cash Flows credited to their Collection Accounts. These trust agreements are being fulfilled and allow ensuring cash flows to the obligations of the Companies involved.

2. ACCOUNTING PRINCIPLES AND PRACTICES FOLLOWED BY THE COMPANY AND ITS SUBSIDIARIES

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, 2015 and 2014.

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 and equity. The accompanying consolidated financial statements are presented in US Dollars, and all of the values have been rounded to thousands, unless stated otherwise.

On December 15, 2015 Law # 30381 became effective providing that the name of the Peruvian Monetary Unit shall change from Nuevo Sol to Sol, which symbol "S/". This amendment results in no equivalency change.

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.

The list of companies included in the consolidated financial statements is shown in note 1(e).

Subsidiaries' financial statements 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 consolidated financial statements under IFRS requires that 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 revenue and expenses for the years ended December 31, 2015 and 2014.

In Management's opinion, 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 profit or loss may differ from estimates included in the consolidated financial statements. Any difference between such estimates and subsequent actual amounts will be accounted in the profit or loss 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.

Significant estimates considered by 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, which 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. The estimates of reserves and resources may be reviewed due, among other reasons, to reviews of data or geological assumptions, changes in assumed prices, production costs, and exploration activity results.

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

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

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

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

The Company and its Subsidiaries compute a provision for 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 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. And, in case there is information available giving signs about the irrecoverability of certain disbursements that had been capitalized as development costs, they should be charged to profit or loss of the year in which the new information available is known.

In year 2015 as a consequence of the ore price situation and of the downsizing and reduction of investment and expenses in the operations, the Company has recognized an impairment of mine exploration and development costs.

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

The Company assesses whether there is any of impairment of its assets and executes it at the end of every year. 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 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, costs of operation, among other.

A cash generating unit is the smallest identifiable group of assets, known as mining unit, which continuous use generates cash inflows separate from cash flows generated by other assets or groups of assets. To identify 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 carrying amount 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, estimated future flows are discounted at their present value using a discount rate before taxes, which reflects the current market assessment of the money value in time and the asset specific risks.

Loss on impairment is recognized in the consolidated statement of income under operating expenses. Loss on impairment recognized in prior 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 carrying amount, net of depreciation, in case a loss on impairment had not been recognized for the asset in prior years. Such reversion is recognized in the consolidated statement of income.

(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 using judgments and making estimates such as estimates of waste rock tons to be removed during the mine zone lifetime and the economically recoverable reserves that will 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 29)

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 occur.

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 31)

In cases in which the fair value of financial assets and liabilities recorded in the consolidated statement of financial position do not arise 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; otherwise, a degree of discretionary 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 and its Subsidiaries assess the situation of each mine in development to determine when the production stage will begin. 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 and its Subsidiaries consider 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 Management assesses the likelihood that the Company generates taxable profit in future periods to use the deferred tax assets. Estimated future taxable revenue is 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 revenue 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, Management additionally considers that the value of money in time reduces the net realization value.

Allowance for loss in the net realization value is computed based on a specific analysis made by Management on an annual basis (see Note 2.4(h)). Loss is charged to profit or loss in the year in which the need of such allowance 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 31)

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 The standards that became effective for 2015 are listed below; they were adopted, but none of them had a material effect on the financial statements.

- Annual Improvements to IFRS 2010 - 2012 cycle. The eight amendments were related to seven Standards.

IFRS		Subject to change
IFRS 2	Share-based payments	Definition of vesting condition
IFRS 3	Business combinations	Accounting for contingent consideration in a business combination
IFRS 8	Operating segments	Aggregation of operating segments
		Reconciliation of the total of a reportable segment's assets to the entity's assets.
IFRS 13	Fair value measurement	Short-term trade accounts receivable and payable
IAS 16	Property, plant and equipment	Revaluation method - proportionate restatement of accumulated depreciation
IAS 24	Related party disclosures	Key management personnel
IAS 38	Intangible assets	Revaluation method - proportionate restatement of accumulated depreciation

- Annual Improvements to IFRS 2011 - 2013 cycle. The four amendments were related to four Standards.

IFRS		Subject to change
IFRS 1	First-time adoption of International Financial Reporting Standards	Meaning of "effective IFRS"
IFRS 3	Business combinations	Scope exceptions for joint ventures
IFRS 13	Fair value measurement	Scope of paragraph 52 (portfolio exemption)
IAS 40	Investment property	Clarifying the interrelationship of IFRS 3 and IAS 40 when classifying an investment property or owner-occupied property

- Annual Improvements to IFRS 2012 - 2014 cycle.

IFRS	
IFRS 9	Financial Instruments: Amendments
IAS 10	Consolidated financial statements: Amendment to IFRS 10 and IAS 28
	It refers to accounting for sale or contribution of assets between investor and its associate or joint venture.
IFRS 11	Joint Arrangements: Amendments to the acquisition of interests in joint operations
IFRS 27	Separated financial statements: Amendment
	Using the equity method is allowed

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 income.

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 and its Subsidiaries classify their 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 and its Subsidiaries determine the classification of their financial assets after their initial recognition and, when appropriate, they re-evaluate 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 profit or loss.

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 financial assets of the Company and its Subsidiaries include cash and cash equivalents, financial assets at fair value through profit or loss, trade accounts receivable, other accounts receivable, and embedded derivatives for the 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 through profit or loss -

Financial assets at fair value through profit or loss 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 through profit or loss are accounted in the consolidated statement of financial position for their fair value and changes in such fair value are recognized as financial revenue or costs in the consolidated statement of income.

At the time of initial recognition, the Company did not classify any financial asset at their fair value through profit or loss.

Embedded derivatives contained in commercial agreements 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 agreement and if this agreement 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 income.

Loans and 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 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 held at amortized cost using the effective interest rate method, less any allowance for bad debts.

The Company and its Subsidiaries assess as of the date of their consolidated financial statements whether there is objective evidence of loss on impairment of assets (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 carrying amount and the present value of future estimated cash flows, discounted at an effective interest rate, original or applicable for similar transactions. The carrying amount of the account receivable is reduced using a valuation account. The loss amount is recognized in the consolidated statement of income. 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 income.

Impairment of financial assets -

The Company and its Subsidiaries evaluate at the end of each year, whether there is evidence of impairment of a financial asset or group of financial assets. 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 and its Subsidiaries determine the classification of their 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.

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

Subsequent measurement -

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

Financial liabilities at fair value through profit or loss -

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial 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 income.

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 income when liabilities are derecognized, 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 income.

(d) Derecognition of financial assets and financial liabilities

Financial assets -

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

- (i) The rights to receive cash flows of the asset has terminated; or
- (ii) The Company and its Subsidiaries have transferred their rights to receive cash flows from the asset or have assumed an obligation to pay the received cash flows in full immediately to a third party under a pass-through agreement; and
- (iii) The Company and its Subsidiaries have transferred substantially all of the risks and benefits of the asset or, if they have not transferred or withheld substantially all of the risks and benefits of the asset, they have transferred their control.

In case the Company and its Subsidiaries transfer their rights to receive cash flows from an asset or enter a transfer agreement, but they have not transferred substantially all of the risks and still hold control of the asset, they 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 paid off, 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 derecognition of the original liability and the recognition of a new liability, recognizing the difference between them in the period profit or loss.

(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, 2015 and 2014. (See note 31).

(g) Cash and cash equivalents

The heading presented in the Company statement of financial position includes all cash balances, time deposits, mutual funds, investment-grade corporate bonds, which are short-term, highly liquid and readily convertible into cash and have free availability, and investments abroad.

On the other hand, for the purpose of presentation in the statement of cash flows, it includes cash, mutual funds and time deposits, with original maturity of six months or less but liquidable at any time. It also includes short-term investment-grade Corporate Bonds because they are highly liquid in the Company Management's opinion. Maturities of up to six months are considered of immediate liquidity because they offer a higher return, as if they had been taken to three months.

(h) 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 in transit, which are shown at the specific cost of acquisition. The cost of finished products and products 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.

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

(i) Investments in associates and third parties

It includes investments in entities in which an interest between 20 percent and 50 percent of the net equity is held, where significant influence but no control is exercised. These investments are recorded at cost.

(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. The units of production depreciation method 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:

	<u>Years</u>
Buildings and other constructions	33
Infrastructure of environmental compliance program	10
Machinery and equipment	3 to 10
Transport units	5
Furniture and fixture and computer equipment	Among 4, 5 & 10
Various equipment	5 to 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 revenue from the sale and the carrying amount of the asset) is included in the consolidated statement of income 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, which was separately depreciated and which carrying amount was removed from the books, is replaced and the future economic benefits associated with such asset or part of asset are likely to 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 carrying amount 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 prior 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 income.

At the year end, for each cash generating unit, the Company assesses 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) of this Note.

(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 profit or loss 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 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 profit or loss as they are incurred.

Development costs are amortized as from 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.

(l) Leases

Assessing whether an agreement is or contains a lease is made based on the substance of the agreement on the date of beginning thereof. It is necessary taking into consideration whether the agreement compliance depends on the use of a specific asset or assets or whether the agreement 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 contractual terms, which is not the agreement 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 agreement 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 or 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 or begin of the period of postponement for scenario (ii).

Financial leasing

In financial leasing transactions the method used consists of showing under fixed assets the total cost of the agreement and its corresponding liability for the same amount, equal to the fair value of the leased good, or if lower, at the present value of the leasing minimum payments, as assessed at the leasing begin. Financial expenses are charged to profit or loss in the period in which they become due, and depreciation of assets is charged to profit or loss based on their useful life or term of the agreement.

Embedded lease -

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

(m) Intangibles

Intangibles (software) (Note 11) 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.

(n) Provisions

General -

A provision is recognized only when the Company has a present (legal or constructive) obligation resulting from a past event, an outflow of resources will be likely required for its settlement, 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 income. When significant, provisions are discounted at their present value using a rate that reflects the specific risks related to the liability. When the discount is made, the provision increase for the span of time is recognized as a financial expense.

Provision for closure of mining units -

At the time of the initial recognition of the liability for this obligation it is recorded at fair value, having as contra account a higher carrying amount of long lasting assets related to development costs and fixed assets.

Subsequently, 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, any gain or loss that may result is recorded by the Company in the year profit or loss. 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 carrying amount 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 carrying amount of such asset. If it does, any excess over the carrying amount is immediately taken to the consolidated statement of income.

If the change in the estimate may result in an increase in the closure liability and, therefore, an addition to the carrying amount 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 profit or loss. 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 revenue

Revenue is recognized to the extent it is likely that economic benefits will flow to the Company. Revenue is 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 -

Revenue from the sale of concentrates is 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 agreements.

As for the measurement of revenue from the sale of concentrates, on the date of recognition of the sale, the Company recognizes the revenue from 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

agreement. 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 agreement. Thus, the difference in estimating the selling value is recorded as an increase or reduction of net sales.

Revenue from interests -

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

Other revenue -

Other revenue is 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 revenue 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 income 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. 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 income. 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 bases 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 (revenue less expenses), rather than being computed based on produced quantity or percentage of revenue, after temporary differences adjustment.

Consequently, payments made by the Company to the Government for mining royalties and special tax on mining should be considered and 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 income.

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, 2015 and 2014, the Company has contracted derivative instruments under the form of "Swaps" and "Option Collars", "European-style options" and "exotic options" 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 profit or loss". The ineffective part of gain or loss on the hedging instrument is initially is recognized in the consolidated statement of income. When the hedged cash flow affects the consolidated statement of income, the gain or loss on the hedging instrument is recorded in heading "Net sales" of the consolidated statement of income.

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 profit or loss. Gain or loss on changes in the fair value of embedded derivatives are recorded in the heading Sales of the consolidated statement of income. As of December 31, 2015 and 2014, the Company only holds embedded derivatives related to its commercial sales agreements

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 agreement are consistently classified with the cash flows of the main agreement.

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 earnings 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) Employee Benefits

The Company has short-term obligations for employee benefits including salaries, length of service compensation, salary-related contributions, legal bonuses and profit sharing. These obligations are recorded on a monthly basis charged to the statement of comprehensive income as they become due.

(v) Segments

An operating segment is a component of an entity: (i) that develops business activities from which it can obtain revenue and incur in expenses (including related revenue and expenses for transactions with other components of the same entity), (ii) which operating profit or loss is regularly reviewed by 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 28.

3. STANDARDIZATION

The consolidated statements of financial position as of December 31, 2015 and 2014, and the consolidated statements of income, comprehensive income, net equity, and cash flows for the year ended December 31, 2015 and 2014, 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 SOLES

Transactions in foreign currency (Soles) are made at the exchange rates published by the Superintendence of Banking, Insurance and Pension Fund Managers (SBS). As of December 31, 2015 the exchange rates issued by such institution were US\$ 0.2934 for buying and US\$ 0.2930 for selling transactions (US\$ 0.3355 for buying and US\$ 0.3346 for selling transactions as of December 31, 2014), and have been applied by the Company in assets and liabilities accounts, respectively.

As of December 31, 2015 and 2014, the Company had the following assets and liabilities in Soles:

	<u>2015</u> S/	<u>2014</u> S/
<u>Assets</u>		
Cash and cash equivalents	40,015	258,736
Trade accounts receivable, net	2,421	2,313
Other accounts receivable	720,498	690,416
	-----	-----
	762,934	951,465
	-----	-----
<u>Liabilities</u>		
Trade accounts payable	(113,332)	(144,708)
Other accounts payable	(145,223)	(159,647)
VAT deposit of trade accounts receivable	(46,823)	(78,179)
Financial obligations	(585,920)	(317,295)
	-----	-----
	(891,298)	(699,829)
	-----	-----
Net (liabilities) assets	(128,364)	251,636
	=====	=====

5. CASH AND CASH EQUIVALENTS

A breakdown of this heading is given below:

	<u>2015</u> US\$(000)	<u>2014</u> US\$(000)
Cash and fixed fund	42	83
Bank checking accounts	89,221	82,238
Time deposits (a)	28,612	29,000
Mutual funds	11,616	-
Funds subject to restriction	410	636
Investments abroad (b)	62,406	62,406
	-----	-----
	192,307	174,363
	=====	=====

- (a) A breakdown of time deposits as of December 31, 2015 and 2014 that subsidiary Empresa Administradora Chungar S.A.C. maintains in local first-rank financial entities, is given below. In 2015, part of these deposits were settled to use them as working capital and to pay off obligations of the Company.

<u>Date</u>	<u>Nominal currency</u>	<u>Original terms</u>	<u>Annual interest rate</u> %	US\$(000)
Dec 31, 2015	U.S. Dólares	1 to 3 months	0.36%	28,612 =====
Dec 31, 2014	U.S. Dólares	1 to 3 months	0.36%	29,000 =====

- (b) It corresponds to highly liquid investments abroad listed in the Santiago de Chile Stock Exchange.

6. TRADE ACCOUNTS RECEIVABLE, NET

A breakdown of this heading is given below:

	<u>2015</u> US\$(000)	<u>2014</u> US\$(000)
Invoices	78,519	105,997
Allowance for doubtful accounts (a)	(17,601)	(17,601)
Adjustment of sales (b)	(5,671)	(4,946)
	-----	-----
	55,247	83,450
	=====	=====

Accounts receivable are denominated in US Dollars, have current maturity, accrue no interests and lack specific guarantees. Trade accounts receivable past due or to become due are being collected in the first quarter of the following year. The Company presents a breakdown of its accounts receivable rated according to their aging in Note 30(b).

- (a) As of December 31, 2015 and 2014, the Company Management considers that, except for accounts receivable estimated as doubtful accounts, it has no bad debts. Its main customers are well renowned in the international market and show no financial problems at the year ending. 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, 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.

- (b) It corresponds to adjustments in settlements for the sale of concentrates.

7. OTHER ACCOUNTS RECEIVABLE

A breakdown of this heading is given below:

<u>Description</u>	<u>2015</u> US\$(000)	<u>2014</u> US\$(000)
Tax credit favorable for the Company, Value Added Tax	115,947	116,644
Loan to related entities (a)	99,138	95,653
Loans to third parties (b)	54,084	48,303
Credit for Income Tax and temporary tax on net assets (c)	33,641	43,716
Sale of CEC shares (d)	21,000	26,500
Advance payments granted to contractors	10,456	20,562
Deferred costs and expenses	8,315	4,120
Accounts receivable from contractors	8,244	3,670
Taxes recoverable (e)	7,201	8,232
Other minor	5,253	4,790
Public works for taxes, in progress	4,421	7,483
Claims to SUNAT for seizures	4,307	4,924
Corporación Minera Castrovirreyña	2,853	2,853
Claims to the Regulatory Agency	2,849	2,537
Commission for bond issuing	2,775	3,281
Certificate of Regional and Local Public Investment (f)	1,707	1,629
Prepaid insurance	1,300	3,014
Loans to personnel (g)	1,240	1,354
Accountable advances	293	2,245
Dividends receivable	-	1,952
Allowance for doubtful accounts (h)	(1,618)	(1,618)
	-----	-----
	383,406	401,844
	-----	-----
Non-current part	31,050	40,765
	-----	-----
Current part	352,356	361,079
	=====	=====

- (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 accrue interests at the market rate and are considered of current maturity.
- (c) It corresponds mainly to the balance of income tax payments on account and payments corresponding to the temporary tax on net assets.

- (d) The balance of US\$ 21 million corresponds to the balance receivable from the sale of Compañía Energética del Centro S.A.C. made in June 2014 by subsidiary Empresa Administradora Chungar S.A.C. to Odebrecht Energía del Perú S.A. This balance will be collected between years 2016 and 2019.
- (e) It includes mainly refund requests to the Tax Administration for the following: in the Company they correspond to fines for failure to pay withheld taxes for US\$ 2,392 thousand from December 2001 to March 2002 and Income Tax of year 2001 for US\$ 2,022, and in the Subsidiary, Empresa Administradora Chungar S.A.C., they correspond to the exporter VAT credit balance for US\$ 2,466 of April, June, July, August, September and December 2004. In the opinion of the Company Management and its legal advisors, the application will have a favorable result for the companies. This balance is considered of non-current maturity.
- (f) It corresponds to the certificate for completed works pending application for taxes. The Company has continued participating in the execution of projects under the Works for Taxes regime provided in Law 29230. En el 2015, se terminó el proyecto "Mejoramiento y ampliación del sistema de alcantarillado y agua potable en Ticlacayán, Pasco", con una inversión de S/ 13.5 MM el cual benefició a un total de 2,314 pobladores.

Furthermore, during year 2015 the execution of the following projects continued: "Potable Water, Sewerage and Waste Water Treatment in Huayllay- Pasco" (S/ 11.7 MM), "Potable Water, Sewerage and Water Treatment in the District of Yauli" (S/ 9.9 MM) - in consortium with Ferreyros and Chinalco, and "Construction of Roads and Sidewalks in Av. 9 de Enero in Chaupimarca, Cerro de Pasco" (S/ 5.4 MM). And the execution of the following project began: "Expansion and Improvement of the Potable Water and Sewerage System in the townof San Agustin" - Huaychao, District of Huayllay, Province and Department of Pasco" (S/ 7 MM) - in consortium with Ferreyros and Unimaq.

- (g) These loans accrue interests at an annual effective rate of 3 percent.
- (h) In the opinion of the Company Management, 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.

The Company presents an analysis of other accounts receivable of the Company rated according to their aging in Note 30 (b).

8. OTHER FINANCIAL ASSETS AND LIABILITIES

A breakdown of this heading is given below:

Receivable:

	<u>2015</u> US\$(000)	<u>2014</u> US\$(000)
Embedded derivatives	1,151	2,918
	-----	-----
Derivative financial instruments:		
Settled	14,981	7,182
Provisions in the Statement of Income	43,960	21,523
Provisions in Equity (Note 18 (a))	3,351	997
	-----	-----
	62,292	29,702
	-----	-----
	63,443	32,620
	-----	-----
Less non-current part:		
Settled	(6,776)	-
Provisions in the Statement of Income	(40,422)	(92)
Provisions in Equity (Note 18 (a))	(1,737)	-
	-----	-----
Non-current part	(48,935)	(92)
	-----	-----
Current part (a)	14,508	32,528
	=====	=====

Hedging contracts have been traded basically with various international first-rank financial entities. The main ones include Bank of America Merrill Lynch, J. Aron & Co., Morgan Stanley & Co. International, Societe Generale / New York, Morgan Stanley Group, JP Morgan, Standard Bank Pic, BNP Paribas New York, Natixis, Cargill Incorporated, Macquarie Bank Limited y The Bank of Nova Scotia.

- (a) In 2015 it includes hedging transactions to become due in 2016 for US\$ 1,614 thousand (US\$ 997 thousand in 2014).

Payable:

	<u>2015</u> US\$(000)	<u>2014</u> US\$(000)
Embedded derivatives	3,972	1,901
	-----	-----
Derivative financial instruments:		
Settled	68,528	28,705
Provisions in the Statement of Income	30,425	5,750
Provisions in equity (Note 18 (a))	38,855	32,327
Prepaid contracts	93,000	39,567
	-----	-----
	230,808	106,349
Other financial Instruments:		
Foreign exchange forward associated to loan	8,978	-
Foreign exchange swaps associated to loan	4,671	-
	-----	-----
	13,649	-
	-----	-----
	248,429	108,250
	-----	-----
Less non-current part:		
Settled	(56,466)	-
Provision in profit or loss	(12,071)	(2,845)
Provisions in equity (Note 18 (a))	(28,912)	(9,196)
Prepaid contracts	(46,500)	-
	-----	-----
Non-current part	(143,949)	(12,041)
	-----	-----
Current part (b)	104,480	96,209
	=====	=====

- (a) In 2015 it includes hedging transactions to become due in 2016 for US\$ 9,943 thousand (US\$ 23,131 thousand in 2014).

9. INVENTORIES, NET

A breakdown of this heading is given below:

	As of Dec <u>31, 2015</u> US\$(000)	As of Dec <u>31, 2014</u> US\$(000)
Concentrates	19,335	24,789
Raw material (extracted ore)	28,726	31,466
Various supplies	54,618	53,638
Inventories in transit	1,025	382
Valuation of oxide and pyrite stockpiles, net of allowance in 2015 for S/ 69,291 (a)	7,752	91,449
Allowance for obsolescence of spare parts and supplies	(4,488)	(4,488)
	----- 106,968 =====	----- 197,236 =====

The Company Management estimates that the balances presented under inventories do not exceed their net realization values as of December 31, 2015 and 2014.

- (a) In December 2014, the Company Management, based on a technical study, recorded an allowance for valuation of the stockpiles of oxide and pyrite concentrates kept in the Cerro de Pasco unit of US\$ 91.5 million. In December 2015 as a result of the fall in prices, the valuated Stock Piles were measured at fair value; therefore the Company recognized a loss for US\$ 69,291 thousand (See Note 24).
- (b) In the opinion of the Company Management, the allowance for obsolescence of spare parts and supplies properly hedges such risk as of December 31, 2015 and 2014.

10. PROPERTY, PLANT AND EQUIPMENT, NET

The movement and breakdown of this heading is given below:

<u>YEAR 2015</u>	<u>BALANCES AS OF DEC 31, 2014 US\$(000)</u>	<u>ADDITIONS US\$(000)</u>	<u>DISPOSALS US\$(000)</u>	<u>TRANSFERS AND ADJUSTMENTS US\$(000)</u>	<u>IMPAIRMENT OF ASSETS US\$(000)</u>	<u>BALANCES AS OF DEC 31, 2015 US\$(000)</u>
COST						
Land	6,337	1	-	-	-	6,338
Buildings and other constructions	751,954	24,539	(352)	135,180	(182,945)	728,376
Infrastructure of environmental compliance program	22,846	-	-	-	-	22,846
Machinery and equipment	308,685	13,494	(16,414)	2,899	-	308,664
Transport units	12,315	(7)	(138)	(1)	-	12,169
Furniture and fixture and computer equipment	12,937	141	-	27	-	13,105
Various equipment	428,379	17,121	(569)	460	-	445,391
Units in transit	-	1,061	(210)	(367)	-	484
Works in progress (a)	277,131	60,952	(70)	(138,005)	(617)	199,391
	-----	-----	-----	-----	-----	-----
	1,820,584	117,302	(17,753)	193	(183,562)	1,736,764
	-----	=====	=====	=====	=====	-----
ACCUMULATED DEPRECIATION						
Buildings and other constructions	78,262	41,693	(31)	(1)	-	119,923
Infrastructure of environmental compliance program	21,470	337	-	-	-	21,807
Machinery and equipment	241,280	18,769	(13,714)	-	-	246,335
Transport units	10,410	512	(117)	1	-	10,806
Furniture and fixture and computer equipment	6,386	931	-	-	-	7,317
Various equipment	216,951	26,820	(305)	-	-	243,466
	-----	-----	-----	-----	-----	-----
	574,759	89,062	(14,167)	-	-	649,654
	-----	=====	=====	=====	=====	-----
Net cost	1,245,825					1,087,110
	=====					=====

<u>YEAR 2014</u>	<u>BALANCES AS OF DEC 31, 2013 US\$(000)</u>	<u>ADDITIONS US\$(000)</u>	<u>DISPOSALS US\$(000)</u>	<u>TRANSFERS AND ADJUSTMENTS US\$(000)</u>	<u>BALANCES AS OF DEC 31, 2014 US\$(000)</u>
COST					
Land	6,014	254	-	69	6,337
Buildings and other constructions	235,647	129,156	-	387,151	751,954
Infrastructure of environmental compliance program	22,022	102	-	722	22,846
Machinery and equipment	308,122	15,676	(24,601)	9,488	308,685
Transport units	13,803	297	(1,785)	-	12,315
Furniture and fixture and computer equipment	10,469	2,396	(15)	87	12,937
Various equipment	348,209	38,291	(386)	42,265	428,379
Units in transit	8,635	661	-	(9,296)	-
Works in progress (a)	593,945	121,000	(1,640)	(436,174)	277,131
	-----	-----	-----	-----	-----
	1,546,866	307,833	(28,427)	(5,688)	1,820,584
	-----	=====	=====	=====	-----
ACCUMULATED DEPRECIATION					
Buildings and other constructions	47,076	31,186	-	-	78,262
Infrastructure of environmental compliance program	21,010	458	-	2	21,470
Machinery and equipment	238,319	24,869	(21,914)	6	241,280
Transport units	11,412	703	(1,703)	(2)	10,410
Furniture and fixture and computer equipment	5,654	746	(15)	1	6,386
Various equipment	193,344	23,968	(355)	(6)	216,951
	-----	-----	-----	-----	-----
	516,815	81,930	(23,987)	1	574,759
	-----	=====	=====	=====	-----
Net cost	1,030,051				1,245,825
	=====				=====

- (a) A breakdown of the projects under Works in progress as of December 31, 2015 and 2014 is given below:

In the Company:

<u>Projects</u>	<u>2015</u> US\$000	<u>2014</u> US\$000
Shaft, Andaychagua	13,503	12,720
Heightening, Rumichaca, elev. 4,218	12,058	7,804
Tailings deposit, Rumi- thickened tailings deposit system	5,385	1,585
Tailings Deposit, Chumpe	4,699	4,691
Supporting liabilities, permanent work	2,994	2,591
Pumping system, mine - installations	1,221	1,154
Heightening, Andaychagua , elev. 4402-4408	1,069	-
Heightening of Marh Tunel 4036	993	-
Victoria Plant 4700 MTPD	895	-
Technological infrastructure system -Yauli	827	827
Construction of chemical laboratory	805	632
Household waste water plant	770	700
Tailings deposit, Mahr Tunel # 3	678	678
Household waste water plant, Carahuacra	642	530
Central shaft mining unit Carahuacra	629	629
Arquimides project	609	609
Comprehensive water management plan, San Cristobal	538	538
Neutralization plant, Huacracocha zone	523	430
Drinking water treatment plant	464	454
Installation of cc45 filter in Victoria plant	448	448
Construction and transport of shotcrete	387	387
Scada measurement system, Yauli	296	295
Vibratory screen, 8 x 16, installations	276	276
Oh mill, Marcy, 8.0x6.0, #4	266	266
Electro-hydraulic hoppers - San Cristóbal	257	257
Overhaul crane link belt 70 tn	255	255
Storage yard, Carahuacra	232	232
Hydraulic j-113 jumbo overhaul	230	230
New substation, Pomacocha - San Cristóbal	50	50
Temporary waste storage, Andaychagua	-	241
Tailings Deposit # 6 - Mahr Tunel - Stages IV and V	-	10,158
Heightening, Rumichaca, elev. 4219	-	6,580
Tailings deposit, Andaychagua Alto - Stage III	-	6,108
Tailings Deposit # 6 - Mahr Tunel - Stage III	-	3,117
Primary circuit SB - replacement of Mill	-	3,016
Infrastructure for cemented fill, Andaychagua	-	1,514
Heightening, Rumichaca, elev. 4,230	-	603
Installation of shotcrete plant, Andaychagua	-	494
Installation of high frequency screen	-	469
Implementation of SAP management proceses	-	465
Comprehensive cover, Victoria plant	-	451
Comprehensive cover, Andaychagua plant	-	438
Transmission line 4.16 kv s.e. - Letts shaft	-	433

<u>Projects</u>	<u>2015</u> US\$000	<u>2014</u> US\$000
New substation, San Cristóbal 50/10.5 kv	-	424
Heightening of Rumichaca tailings deposit - interests	-	398
Bay expansion 50kv San Antonio substation	-	333
Concentrates shed, Carahuacra	-	308
Installation of 11,400 cfm blower, Andaychagua	-	244
Other projects	16,957	16,257
	-----	-----
Subtotal	68,956	91,319
	-----	-----

En la Subsidiaria Empresa Administradora
Chungar S.A.C.:

<u>Projects</u>	<u>2015</u> US\$000	<u>2014</u> US\$000
Heightening of Tailings deposit, Animón, elev 4614	34,144	32,609
Hydroelectric power plant project, Rucuy	31,215	12,768
Acquisition of housing, expansion	5,732	-
Outer bypass road, Huayllay	5,318	3,998
Water pumping system, mine-level 175	3,442	1,942
Main substation - capacity expansion	2,380	2,380
Hydroelectric power plant, 110 MV, Chancay	2,376	2,376
Tailings deposit Naticocha	1,713	645
1-stage pumping system in mine	1,561	203
Expansion of Animón substation, stage 2	1,154	1,083
Overflow channel, Baños V	1,058	965
Modernization of winch, Esperanza, motor- braking system	979	979
Communications System, Hydroelectric Power Plants BAÑOS and CHICRIN	782	782
Construction of settling ponds - stage 2	741	739
Transmission line 22.9 kv, Chungar-Islay	477	477
Mounting of equipment, civil works (psi 30)/pe-2ch00010	411	411
Household waste water treatment plant	409	409
Camp La Rinconada - 24 people	393	393
Accesses-platforms-covers, concentrating plant	358	358
Improvement of electro mechanic system, concentrating plant	306	306
Electric substation, ramp Mirko o	300	285
Mine water treatment and surface water intake system	243	243
Distribution substation 2*1000 kva - Mirko es	199	199
Waste rock deposit, Islay	199	199
Hydroelectric power plant Pacaros	191	191
Electric substation, ramp Mirko e	185	185
Overhaul of crusher, Metso HP 400	178	178
Construction of dump truck washing site	175	175
Heightening of tailings deposit, elev. 4614 - interests	174	174

<u>Projects</u>	<u>2015</u> US\$000	<u>2014</u> US\$000
Jacob Timmers shaft	172	161
Mine energy system - repowering	170	170
Hydroelectric power plant Chancay 110 lv - community relations, non-deductible	135	135
Hydroelectric power plant Chancay 110 lv - community relations, deductible	129	129
Pumping system by vertical move, hydrog study	125	125
Expansion to 5,000 MTD, Animon Plant	110	110
Electric substation integration tunnel, Islay	109	109
Distribution substation 2*1000 kva	109	109
Expansion of copper concentrate unit	101	101
Transmission line, 220 KV, Paragsha II - FRANCOISE	-	26,181
Pump system installation, Esperanza lv 150	-	801
Pump System, Esperanza lv 175	-	745
Pumping system, Montenegro lv 150	-	731
Communication and data network	-	689
Inner equipment maintenance workshop, lv 200	-	507
Hydroelectric power plant Chancay 2	448	448
Instal of water reinforcement, Shagua-Vicha road	-	361
Mine equipment shop, lv 200 - infrastructure	-	355
Perimeter fence hydroelectric power plant Baños V	-	339
Equipment shop, Islay	-	296
Camp - 24 people	-	243
First aid post	-	210
Pumps and motors tank C - installation	-	206
Hydroelectric power plant Rucuy	188	188
New IQF logistic warehouse	-	180
Baños VI - feasibility study - engineering	-	160
Electric substation	-	174
System to control lamps and people location	-	163
Automation, hydroelectric power plant Shagua	-	154
System of pumps stand by-deep cone	-	143
Fitting out of quarrey, Islay	-	124
Automation, hydroelectric power plants Baños II and Huanchay	-	118
Other projects	9,758	8,076
Subtotal	----- 108,347 -----	----- 108,393 -----

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

<u>Projects</u>	<u>2015</u> US\$000	<u>2014</u> US\$000
Channel of pipelines for tailings neutralization	1,188	1,188
Supply Plant Petroperu Cerro	1,069	1,069
Depósito Ocroyoc - Armor stone revetments	719	-
Infrastructure for cemented fill, Andaychagua	558	558
Plant expansion study -biot	470	470
New plant Paragsha, basic engineering	348	348
Industrial spillway treatment plant	79	283
Heightening of Ocroyoc Dam -elev. 4272	-	18,997
Heightening of Ocroyoc Dam -elev. 4268	-	15,551
Supplementary Plant Paragsha Oxides	-	2,373
Repowering of San Expedito Plant to 1800	-	1,528
Heightening of Ocroyoc Dam -elev. 42	-	1,491
Ocroyoc Dam - pumping system	-	1,343
Tests April - June- 2015- oxide plant	-	1,235
Overhead expenses-heightening, Ocroyoc dam	-	659
Heightening, agreements and development, deductible	-	548
Reconfiguration of circuits to treat 6500 dmt	-	220
Other projects	1,507	1,960
	-----	-----
Subtotal	5,938	49,821
	-----	-----
Other minor in Subsidiaries	16,150	27,598
	-----	-----
Total	199,391	277,131
	=====	=====

The main projects under Works in progress are estimated to be completed between 2016 and 2018.

- (b) The net cost of buildings and machinery and equipment under financial leasing amounts to US\$ 18,622 thousand and US\$ 25,745 thousand, respectively. The disbursement in year 2015 amounted to US\$ 17,533 thousand. The amounts payable in 2016 amount to US\$ 13,060 thousand, and to US\$ 13,000 thousand in years 2017 to 2019.
- (c) The Company maintains insurance policies covering their main assets according to the policies established by Management.

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

The movement and breakdown of this heading is given below:

<u>2015</u>	<u>BALANCES AS OF DEC 31, 2014 US\$(000)</u>	<u>ADDITIONS US\$(000)</u>	<u>ALLOWANCE FOR IMPAIRMENT OF ASSETS US\$(000)</u>	<u>TRANSFERS AND ADJUSTMENTS US\$(000)</u>	<u>BALANCES AS OF DEC 31, 2014 US\$(000)</u>
<u>Cost</u>					
Mining titles and concessions (a)	292,747	3,521	(37,310)	(1,676)	257,282
Exploration costs (b)	308,351	8,647	(121,061)	3,477	199,414
Development costs (c)	667,684	52,014	(226,691)	(56,514)	436,493
Closure of mining units (d)	64,676	8,780	-	-	73,456
Other intangibles	14,265	93	-	1,035	15,393
	-----	-----	-----	-----	-----
	1,347,723	73,055	(385,062)	(53,678)	982,038
	-----	-----	-----	-----	-----
<u>Accumulated amortization</u>					
Mining titles and concessions (a)	158,874	7,525	-	1	166,400
Exploration costs (b)	70,414	8,748	-	-	79,162
Development costs (c)	326,491	43,259	-	(56,514)	313,236
Closure of mining units (d)	17,439	5,247	-	-	22,686
Other intangibles	6,882	1,185	-	(1)	8,066
	-----	-----	-----	-----	-----
	580,100	65,964	-	(56,514)	589,550
	-----	-----	-----	-----	-----
Net cost	767,623				392,488
	=====				=====

As a result of the fall in prices and y the paralyzation of Cash-Generating Units (CGU's) and applying IAS 36 "Impairment of Assets", the Company has recognized loss on impairment for US\$ 385,063 thousand (US\$ 85,385 thousand in 2014).

In Management's opinion, the balance of allowance for impairment of long-lasting assets is enough to properly hedge the risks of impairment of long-lasting assets of the Company as of the date of the consolidated statement of financial position.

<u>2014</u>	<u>BALANCES AS OF DEC 31, 2013 US\$(000)</u>	<u>ADDITIONS US\$(000)</u>	<u>ALLOWANCE FOR IMPAIRMENT OF ASSETS US\$(000)</u>	<u>TRANSFERS AND ADJUSTMENT US\$(000)</u>	<u>BALANCES AS OF DEC 31, 2014 US\$(000)</u>
<u>Cost</u>					
Mining titles and concessions (a)	303,461	1,677	-	(12,391)	292,747
Exploration costs (b)	304,920	33,895	(30,456)	(8)	308,351
Development costs (c)	648,624	69,968	(54,929)	4,021	667,684
Closure of mining units (d)	97,256	-	-	(32,580)	64,676
Other intangibles	11,333	899	-	2,033	14,265
	-----	-----	-----	-----	-----
	1,365,594	106,439	(85,385)	(38,925)	1,347,723
	-----	-----	-----	-----	-----
<u>Accumulated amortization</u>					
Mining titles and concessions (a)	150,071	8,803	-	-	158,874
Exploration costs (b)	56,842	13,571	-	1	70,414
Development costs (c)	274,545	51,947	-	(1)	326,491
Closure of mining units (d)	13,184	4,254	-	1	17,439
Other intangibles	5,892	991	-	(1)	6,882
	-----	-----	-----	-----	-----
	500,534	79,566	-	-	580,100
	-----	-----	-----	-----	-----
Net cost	865,060				767,623
	=====				=====

(a) Mining titles and concessions

The movement and breakdown of this heading is given below:

<u>Year 2015</u>	Balances as of Dec 31, 2014 US\$(000)	Additions US\$(000)	Allowance for impairment of assets US\$(000)	Transfers US\$(000)	Adjust- ments US\$(000)	Balances as of Dec 31, 2015 US\$(000)
<u>Cost</u>						
Yauli	137,330	-	-	-	-	137,330
Cerro de Pasco	92,283	-	(37,252)	-	-	55,031
Animón	41,642	3,521	-	185	-	45,348
Paragsha and subsidiaries	3,846	-	-	-	-	3,846
Vinchos	2,387	-	(58)	-	-	2,329
San Sebastián	2,347	-	-	-	-	2,347
Other concessions	12,912	-	-	(1,861)	-	11,051
	-----	-----	-----	-----	-----	-----
	292,747	3,521	(37,310)	(1,676)	-	257,282
	-----	=====	=====	=====	=====	-----
<u>Accumulated amortization</u>						
Yauli	(89,319)	(3,825)	-	-	-	(93,144)
Cerro de Pasco	(50,709)	(427)	-	-	-	(51,136)
Animón	(17,666)	(3,248)	-	-	-	(20,914)
Paragsha and subsidiaries	(4)	-	-	-	-	(4)
Vinchos	(1,007)	-	-	-	-	(1,007)
Other concessions	(170)	(25)	-	-	-	(195)
	-----	-----	-----	-----	-----	-----
	(158,875)	(7,525)	-	-	-	(166,400)
	-----	=====	=====	=====	=====	-----
Net cost	133,872					90,882
	=====					=====
 <u>Year 2014</u>						
Cost	303,461	1,677	-	-	(12,391)	292,747
	-----	=====	=====	=====	=====	-----
Accumulated amortization	(150,071)	(8,803)	-	-	(1)	(158,875)
	-----	=====	=====	=====	=====	-----
Net cost	153,390					133,872
	=====					=====

(b) Exploration Costs

The movement and breakdown of this heading is given below:

<u>Year 2015</u>	Balances as of Dec 31, 2014 US\$(000)	<u>Additions</u> US\$(000)	Allowance for impairment of assets US\$(000)	<u>Transfers</u> US\$(000)	Balances as of Dec 31, 2015 US\$(000)
<u>Cost</u>					
Yauli	104,539	3,708	-	-	108,247
Cerro de Pasco	39,350	(4,298)	(33,991)	2,624	3,685
Animón	53,397	6,629	(32,930)	12,328	39,424
Paragsha and subsidiaries	70,382	2,603	(36,802)	(3,380)	32,803
Vinchos	27,153	-	(17,338)	-	9,815
El Pilar	8,245	(150)	-	(8,095)	-
San Sebastian	5,285	155	-	-	5,440
	----- 308,351	----- 8,647	----- (121,061)	----- 3,477	----- 199,414
	-----	=====	=====	=====	-----
<u>Accumulated amortization</u>					
Yauli	(35,331)	(4,421)	-	-	(39,752)
Cerro de Pasco	(7,905)	(24)	-	-	(7,929)
Animón	(12,484)	(1,672)	-	1	(14,155)
Paragsha and subsidiaries	(4,880)	(2,631)	-	(1)	(7,512)
Vinchos	(9,814)	-	-	-	(9,814)
	----- (70,414)	----- (8,748)	----- -	----- -	----- (79,162)
	-----	-----	-----	-----	-----
Net cost	237,937				120,252
	=====				=====
<u>Year 2014</u>					
Cost	304,920	33,895	(30,456)	(8)	308,351
	-----	=====	=====	=====	-----
Accumulated amortization	(56,842)	(13,571)	-	(1)	(70,414)
	-----	=====	=====	=====	-----
Net cost	248,078				237,937
	=====				=====

In December 2015, the Company Management has recognized an allowance for impairment of its assets related to underground mine in the Cerro de Pasco unit.

(c) Development costs

The movement and breakdown of this heading is given below:

<u>Year 2015</u>	Balances as of Dec 31, 2014 US\$(000)	<u>Additions</u> US\$(000)	Allowance for impairment of assets US\$(000)	<u>Transfers</u> US\$(000)	Balances as of Dec 31, 2015 US\$(000)
<u>Cost</u>					
Yauli	301,322	31,404	(55,069)	(30,964)	246,693
Cerro de Pasco	194,805	93	(95,680)	(15,547)	83,671
Animón	92,586	19,461	(21,482)	2,395	92,960
Paragsha and subsidiaries	58,303	1,056	(47,670)	(4,778)	6,911
Vinchos	20,668	-	(6,790)	(7,620)	6,258
	-----	-----	-----	-----	-----
	667,684	52,014	(226,691)	(56,514)	436,493
	-----	=====	=====	=====	-----
<u>Accumulated amortization</u>					
Yauli	(163,865)	(26,624)	-	30,964	(159,525)
Cerro de Pasco	(90,318)	(17)	-	15,547	(74,788)
Animón	(55,141)	(10,655)	-	-	(65,796)
Paragsha and subsidiaries	(3,289)	(5,964)	-	2,384	(6,869)
Vinchos	(13,878)	-	-	7,620	(6,258)
	-----	-----	-----	-----	-----
	(326,491)	(43,260)	-	56,515	(313,236)
	-----	-----	-----	-----	-----
Net cost	341,193				123,257
	=====				=====
<u>Year 2014</u>					
Cost	648,624	69,968	(54,929)	4,021	667,684
	-----	-----	-----	-----	-----
Accumulated amortization	(274,545)	(51,945)	-	(1)	(326,491)
	-----	-----	-----	-----	-----
Net cost	374,079				341,193
	=====				=====

In December 2015, the Company Management has recognized an allowance for impairment of its assets related to underground mine in the Cerro de Pasco unit.

(d) Closure of mining units

The movement and breakdown of this heading is given below:

	Balances as of Dec 31, 2014 US\$(000)	Additions US\$(000)	Transfers and adjustments US\$(000)	Balances as of Dec 31, 2015 US\$(000)
<u>2015</u>				
<u>Cost</u>				
Closure of mining units	64,676	8,780	-	73,456
	-----	-----	-----	-----
<u>Accumulated amortization</u>				
Closure of mining units	(17,439)	(5,247)	-	(22,686)
	-----	-----	-----	-----
Net cost	47,237			50,770
	=====			=====
<u>2014</u>				
Cost	97,256	-	(32,580)	64,676
	-----	-----	-----	-----
Accumulated amortization	(13,184)	(4,254)	(1)	(17,439)
	-----	-----	-----	-----
Net cost	84,072			47,237
	=====			=====

12. FINANCIAL OBLIGATIONS

(a) This heading includes the following debts:

<u>NAME OF CREDITORS</u>	<u>Agreement</u>	<u>ORIGINAL AMOUNT</u> US\$(000)	<u>GUARANTEE GRANTED</u>	<u>INTEREST RATE</u>	<u>MATURITY</u>	<u>Total</u>	
						<u>2015</u> US\$(000)	<u>2014</u> US\$(000)
<u>Loans:</u>							
Scotiabank	-	40,000	None	1.10 percent	Mar-15	-	40,000
Scotiabank	-	40,000	None	1.10 percent	Mar-15	-	40,000
BBV Banco Continental	various	106,156	None	Between 4.70 & 5.00 percent	Mar-15	-	106,156
Scotiabank	-	246,320	None	4.85 percent	Mar-16	72,171	-
BBV Banco Continental	-	154,800	None	4.50 percent	Mar-16	45,356	-
BBV Banco Continental	-	184,800	None	4.45 percent	Mar-16	54,146	-
Itau Unibanco S.A.	-	27,500	None	3.15 percent + 3M libor rate	Jul-22	27,500	-
Itau Unibanco S.A.	-	10,000	None	1 percent + 2M libor rate	Feb-16	10,000	-
<u>Bonds:</u>							
Bonos negociados (1)	-	600,000		5.375 percent	Feb-22	587,000	600,000
<u>Financial Leasing:</u>							
Interbank	Varios	-	The leased goods themselves	Between 2.50 & 4.79 percent	Between Jan 16 & Jul 18	9,326	16,281
Scotiabank	Varios	-	The leased goods themselves	Between 3.20 & 4.68 percent	Between Jan 16 & Dec 19	11,539	16,536
Banco de Crédito del Perú	32657AFB	2,005	The leased goods themselves	5.75 percent	Dec 17	719	1,077
BBVA Banco Continental	506075	1,039	The leased goods themselves	Between 3.20 & 3.90 percent	Between Jan 16 & Jul 18	4,476	1,985
Total financial obligations						822,233	822,035
Non-current part						623,571	620,270
Current part						198,662	201,765
						=====	=====

(1) Traded bonds were issued on February 2, 2012 and were fully placed in the international market designated as "Senior Notes Due 2022" for \$ 600,000 thousand at an annual rate of 5.375 percent with 10-year maturity. Interests are being paid through semiannual installments from August 02, 2012 to February 2, 2022. Their amortized cost is similar to their carrying amount. This obligation has not established any type of covenant or restriction in compliance.

- (b) The debt amortization schedule as of December 31, 2015 and 2014 is as follows:

<u>Year</u>	<u>2015</u> US\$(000)	<u>2014</u> US\$(000)
2015	-	201,765
2016	198,662	10,414
2017	6,940	4,510
2018	3,344	2,630
2019	2,716	2,716
2022	610,571	600,000
	-----	-----
	822,233	822,035
	=====	=====

13. TRADE ACCOUNTS PAYABLE

A breakdown of this heading is given below:

	<u>2015</u> US\$(000)	<u>2014</u> US\$(000)
Invoices	133,842	183,593
Drafts	2	117
Provisions for contractors' services (a)	31,450	45,137
	-----	-----
	165,294	228,847
	=====	=====

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 guarantee has been granted for such obligations. The Company policy to manage liquidity risk and aging of accounts payable is outlined in Note 30(c).

- (a) They correspond to services received from contractors in December 2015 and 2014, who have not issued their invoices at the year closing.

14. OTHER ACCOUNTS PAYABLE

A breakdown of this heading is given below:

	<u>2015</u> US\$(000)	<u>2014</u> US\$(000)
Remunerations and employees' profit sharing (a)	17,877	21,883
Advances from customers	249	-
Dividends payable (b)	1,010	11,058
Interest payable on bonds (c)	13,438	13,438
Withholdings for VAT deposits payable	6,302	7,156
Royalties payable (Note 2.4 (r) and 16 (a) (i))	3,238	3,612
Interest payable on financial obligations	6,097	2,758
Mining retirement fund	67	1,204
Corporate Income Tax corresponding to the Company and its Subsidiaries	133	428
Employees' length of service compensation	1,152	248
Employees' supplementary occupational risk insurance premiums	423	469
Value Added Tax - Withholdings	68	100
Income tax withheld from personnel	671	397
Contributions to the Social Security Health Insurance agency (EsSalud)	722	304
Contributions to pension fund managers	382	493
Court-ordered withholdings	1,020	692
Contributions to the Public Pension System	189	63
Other minor	415	741
	-----	-----
	53,453	65,044
	=====	=====

The Company policy to manage liquidity risk and aging of accounts payable is outlined in Note 30(c).

- (a) As of December 31, 2015 and 2014, it includes mainly US\$ 7,039 thousand and US\$ 9,072 thousand for employees' profit sharing.
- (b) In Meeting held on December 22, 2014, the Board of Directors approved the payment of dividends on account of profit corresponding to year 2014 for S/ 20.9 million (equivalent to US\$ 7.1 million), which were paid off on January 20, 2015.
- (c) It corresponds to accrued interests on bonds issued by the Company (See Note 12) corresponding to the August-December 2015 period.

15. ENVIRONMENTAL OBLIGATIONS

(a) Provision for environmental liabilities closure plan

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 February 2016 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.

(b) Provision for 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 28090 were published on August 16, 2005.

During 2015 and 2014 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, 2015, the Company has recognized liabilities amounting to US\$ 72,381 thousand corresponding to all of its mining units (US\$ 63,610 thousand as of December 31, 2014) related to its obligations for the their future closure:

<u>Mining Unit</u>	2015 Future Value US\$(000)	2014 Future Value US\$(000)
Alpamarca	3,383	3,115
Andaychagua	7,181	6,507
Ticlio	4,245	3,780
San Cristóbal	11,181	10,430
Cerro de Pasco	12,778	9,515
Carahuacra	22,078	19,868
Animon	4,663	4,207
Vinchos	6,872	6,188
	-----	-----
Total	72,381	63,610
	=====	=====

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

	US\$(000)
Balance as of Dec 31, 2014	63,610
Disbursements	(24)
Increase for update of provision present value	8,795

Balance as of Dec 31, 2015	72,381
	=====

The provision for closure of the mining unit accounts for the present value of costs of closure expected to be incurred between years 2016 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 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, 2015, the future value of the provision for closure of mining unit and environmental liabilities is US\$ 159,488 thousand, which has been discounted using the risk free annual rate of 12.44 percent, resulting in an updated liability of US\$ 72,381 thousand (US\$ 159,488 thousand as of December 31, 2014 using the risk free annual rate of 12 percent, resulting in an updated liability of US\$ 63,610 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 income for years 2015 and 2014 include:

	<u>2015</u> US\$(000)	<u>2014</u> US\$(000)
Income tax		
Current	(18,776)	(26,264)
Deferred	208,521	23,631
	-----	-----
	189,745	(2,633)
Tax on mining royalties (i)	(11,935)	(14,653)
Contribution to the mining retirement fund (ii)	(317)	(434)
	-----	-----
	177,493	(17,720)
	=====	=====

- (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 Dec 31, 2014 US\$(000)	Credit (charge) to the consolidated statement of income US\$(000)	Rate change US\$(000)	Effect from conversion US\$(000)	As of Dec 31, 2015 US\$(000)
<u>Deferred assets</u>					
<u>through profit or loss</u>					
Impairment of non- financial assets	23,202	159,214	752	(2,907)	180,261
Allowance for impairment of supplies	1,195	-	39	(150)	1,084
Provision for closure of Mining Units	16,379	4,674	557	(2,052)	19,558
Embedded derivative for sale of concentrates	-	793	-	-	793
Vacations pending payment	1,764	368	57	(221)	1,968
Provision for contingencies	2,995	(2,321)	97	(375)	396
Adjustment of sales	1,336	377	43	(167)	1,589
Tax loss of subsidiary	33,486	22,146	1,084	(4,196)	52,520
Mining royalty	921	23	32	(115)	861
<u>Deferred assets</u>					
<u>through unrealized</u>					
<u>profit or loss</u>					
Unrealized loss on derivative financial instruments	8,483	2,252	-	-	10,735
Deferred assets	89,761	187,526	2,661	(10,183)	269,765
	=====	=====	=====	=====	=====

	As of Dec 31, 2014 US\$(000)	Credit (charge) to the consolidated statement of income US\$(000)	Rate change US\$(000)	Effect from conversion US\$(000)	As of Dec 31, 2015 US\$(000)
<u>Deferred liabilities</u>					
<u>through profit or loss</u>					
Amortization of mining titles & concessions, and exploration, development & stripping costs	(157,515)	36,742	(5,296)	22,498	(103,571)
Valuation of oxide and pyrite stockpiles	(24,700)	(13,467)	(801)	3,069	(35,899)
Estimated of securities disposal	(2,486)	456	(81)	309	(1,802)
Unpaid hedges	(921)	837	(30)	114	-
Capitalization of expenses for issue of bonds	(795)	111	(26)	99	(611)
Embedded derivative for sale of concentrate	(273)	248	(9)	34	-
Gain on fair value of hedges and premiums	(4,258)	2,101	(138)	529	(1,766)
Other minor	(44)	(278)	217	5	(100)
	-----	-----	-----	-----	-----
Deferred liabilities	(190,992)	26,750	(6,164)	26,657	(143,749)
	=====	=====	=====	=====	=====

- (c) The reconciliation of the income tax effective rate with the legal rate for years 2015 and 2014 is given below:

	<u>2015</u> US\$(000)	<u>%</u>	<u>2014</u> US\$(000)	<u>%</u>
Accounting (loss) profit before income tax	(643,657)	100	59,456	100
	-----	----	-----	----
Theoretical income tax	(180,224)	(28)	17,837	30
Non-deductible expenses, net	(9,521)	(1)	(15,204)	(25.57)
	-----	----	-----	----
Income tax (credit) expenses	(189,745)	(29)	2,633	4.43
	=====	====	=====	=====

17. NET EQUITY

(a) Issued capital

It is represented by 1,633,414,553 class “A” shares with right to vote and 2,443,157,622 class “B” shares with no right to vote but right to preference dividend distribution; such right is not cumulative. From the total, 182,218,550 class “A” shares and 12,234,901 class “B” shares are held by subsidiary Empresa Minera Paragsha S.A.C., and 23,432,075 class “A” shares by subsidiary Empresa Administradora Chungar S.A.C., and 10,270 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 one Sol 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, 2015, their quotation was S/ 1.09 and S/ 0.190 per share, respectively (S. 1.50 and S/ 0.72 per share, respectively, as of December 31, 2014). As of December 31, 2015, class “A” shares has a 20 percent frequency trading, while class “B” shares has a 100 percent frequency trading (20 percent for class “A” shares and 100 percent for class “B” shares as of December 31, 2014).

The shareholding structure as of December 31, 2015 and 2014 is as follows:

<u>Percentage of individual interest in issued capital</u>	<u>Number of shareholders</u>		<u>Total equity interest percentage</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Less than 0.20	543	566	0.47	1.86
0.20 to 1.00	29	6	5.41	4.04
1.01 to 5.00	8	8	19.80	19.80
5.01 to 10.00	6	6	52.83	52.83
10.01 to 20.00	2	2	21.49	21.47
	-----	-----	-----	-----
	588	588	100.00	100.00
	====	====	=====	=====

The Mandatory Annual Shareholders' Meeting held on March 26, 2015 resolved to distribute dividends in cash to its shareholders corresponding to 2014 profit for S/ 31, 490,475 (equivalent to US\$ 10,168,058). Such dividends were paid off in May 2015.

In Meeting held on December 22, 2014, the Board of Directors approved the payment of dividends in cash on account of 2014 profit for S/ 20,993,650 (equivalent to US\$ 7,116,492). Such dividends have been paid off as of January 20, 2015.

It also resolved to distribute dividends in cash to its shareholders corresponding to 2013 profit for S/ 57,780,413 (equivalent to US\$ 17,847,459). Such dividends have been paid off on April 22, 2014.

The Mandatory Annual Shareholders' Meeting held on March 20, 2014 resolved to increase the share capital by S/ 336,615,526, (equivalent to approximately US\$ 103,975,232) corresponding to capitalization of the 2013 profit balance and drawing on capital reserve, thus increasing the share capital from S/ 3,739,956,649 to S/ 4,076,572,175, which represents the delivery of 9% 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

In accordance with the General Business Act, a minimum 10 percent of distributable annual earnings, income tax deducted, is required to be transferred to a legal reserve until it equals 20% 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 profit is obtained.

(d) Capital reserve

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.

(e) Unrealized profit or loss

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 than their settlement value, as appropriate.

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. Management intends to maintain derivative instruments to hedge any fluctuations in the prices of its metals.

(a) Ore quote hedging transactions

Hedging contracts: Swap Contracts -

During years 2015 and 2014, the Company entered price hedge transaction contracts (swaps) to secure future flows from its sales, as well as treatment expenses subject to scaling contracts that increase them in upward scenarios. Hedging transactions critical terms have been negotiated with the brokers so that they match the terms negotiated in the related commercial agreements.

Hedging contracts: zero-cost option collars -

During years 2015 and 2014, the Company entered price hedging contracts through zero-cost option to guarantee future flows from its sales for years 2015 to 2018, as well as treatment expenses subject to scaling contracts that increase them in upward scenarios. Hedging transactions critical terms have been negotiated with the brokers so that they match the terms negotiated in the related commercial agreements.

Hedging through 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. Otherwise, when the average price for the quotation 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.

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. Management's intention is to maintain derivative instruments to hedge any fluctuations in the prices of its metals, mainly zinc and silver.

As of December 31, 2015, the Company has the following current hedging transactions receivable:

<u>Metal</u>	<u>Total volume FMT/OZ</u>	<u>Periods</u>	<u>Fair Value US\$(000)</u>
Swap Contracts			
Silver	974,000	Jan 2016 to Apr 2016	386
Zinc	1,890	Jan 2016 to Dec 2016	679
Copper	300	Jan 2016 to Apr 2016	520
Lead	238		29

Total fair value of swap contracts			1,614

Option contracts			
Copper	7,800	Jan 2017 to Dec 2017	940
Silver	360,000	Jan 2017 to Dec 2017	797

Total fair value of option contract			1,737

Total fair value of hedging instruments receivable			3,351

Less - Non-current part (Note 8)			(1,737)

Current part (Note 8)			1,614
			=====

As of December 31, 2014, the Company had the following current hedging transactions receivable:

<u>Metal</u>	<u>Total volume FMT/OZ</u>	<u>Periods</u>	<u>Fair Value US\$(000)</u>
Swap Contracts			
Silver	95,672	Jan to Feb 2015	504
Zinc	2,008	Feb to Apr 2015	(113)
Copper	651	Jan to Mar 2015	92
Lead	438	Jan to Jun 2015	136

Total fair value of swap contracts			619

“Three-way collar” contracts			
Copper	75	Jan 2015	(2)
Zinc	1,400	Jan 2015	374

Total fair value of “Three-way collar” contract			372

Copper option contract	27	Jan 2015	6

Total fair value of option contract			6

Total fair value of hedging instruments receivable			997

Less - Non-current part (Note 8)			-

Current part (Note 8)			997
			====

As of December 31, 2015, the Company had the following current hedging transactions payable:

<u>Metal</u>	<u>Total volume FMT/OZ</u>	<u>Periods</u>	<u>Fair Value US\$(000)</u>
Swap Contracts			
Silver	671,320	Jan 2016 - Oct 2016	353
Copper	814	Jan 2016 - Mar 2016	180
Zinc	4,743	Jan 2016 - Jan 2017	(776)
Lead	483	Jan 2016 - Mar 2016	(12)

Total fair value of swap contracts			(255)

“Three-way collar” contracts			
Silver	150,000	May 2016 - Jul 2016	(1,476)
Copper	2,230	Jun 2016 - Sep 2016	(4,769)
Lead	975	Jan 2016 - Jan 2017	(244)

Total fair value of “Three-way collar” contract			(6,489)

Min-Max Option collar contracts			
Copper	1,000	Nov 2016 - Dec 2016	(3,252)

Total fair value of Min-Max option collar contract			(3,252)

Option contracts			
Silver	49,776	Jan 2016 - Mar 2016	(17)
Copper	38,600	Jan 2017 - Jul 2018	(14,345)
Lead	40,847	Oct 2017-Dec 2018	(2,246)
Zinc	139,913	Jan 2016 - Dec 2018	(12,251)

Total fair value of option contract			(28,859)

Total fair value of hedging instruments payable			(38,855)

Less - Non-current part (Note 8)			28,912

Current part (Note 8)			(9,943)
			=====

As of December 31, 2014, the Company had the following current hedging transactions payable:

<u>Metal</u>	<u>Total volume FMT/OZ</u>	<u>Periods</u>	<u>Fair Value</u>
Swap Contracts			
Silver	1,465,091	Jan and Aug 2015	(1,196)
Copper	962	Jan and Apr 2015	85
Zinc	28,497	Jan 2015 and Feb 2016	(362)
Lead	589	Jan 2015 and Feb 2016	63

Total fair value of swap contracts			(1,410)

Scaling Contracts			
Silver	1,029,000	Jan 2015 and Jan 2016	(9,944)
Copper	2,000	Aug and Sep 2016	(983)
Lead	1,800	Feb 2016 and Jan 2017	(175)
Zinc	1,500	Jan 2015	143

Total fair value of scaling contracts			(10,959)

Zero-cost option collar contracts			
Silver	75,000	Jan and Mar 2015	312
Copper	8,000	May and Dec 2016	(13,278)

Total fair value of zero-cost option collar contract			(12,966)

Option-buying contracts			
Silver	5,062,856	Jan and Mar 2015	(6,104)
Copper	82	Feb and Mar 2015	(6)
Zinc	21,002	Jan and Dec 2015	(882)

Total fair value of option buying contract			(6,992)

Total fair value of hedging instruments payable			(32,327)

Less - Non-current part (Note 8)			9,196

Current part (Note 8)			(23,131)
			=====

- (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 gain or loss on hedging derivative financial instruments, net” is as follows:

	Hedging derivative financial instruments <u>US\$(000)</u>	Income tax <u>US\$(000)</u>	Unrealized (loss) gain on hedging derivative financial instruments, <u>net</u> <u>US\$(000)</u>
Balances as of December 31, 2013	(4,392)	1,318	(3,074)
	-----	-----	-----
Gain or loss on hedging transactions settled during the period	(622)	187	(435)
Unrealized gain or loss on hedging derivative financial instruments	(26,317)	7,895	(18,422)
	-----	-----	-----
Total variation in hedging derivative financial instruments	(26,939)	8,082	(18,857)
	-----	-----	-----
Balances as of December 31, 2014	(31,331)	9,400	(21,931)
	-----	-----	-----
Gain or loss on hedging transactions settled during the period	(4,430)	614	(3,816)
Unrealized gain or loss on hedging derivative financial instruments	257	(73)	184
	-----	-----	-----
Total variation in hedging derivative financial instruments	(4,173)	541	(3,632)
	-----	-----	-----
Balances as of December 31, 2015	(35,504)	9,941	(25,563)
	=====	=====	=====

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

As of December 31, 2015 and 2014, temporary settlements (in metric tons and ounces (OZ) of copper, silver, zinc, and lead) held as of that date, their final settlement periods, and the fair value of embedded derivatives include:

As of December 31, 2015:

<u>Concentrate</u>	<u>Qty</u> DMT/OZ	<u>Quotation</u> <u>period 2016</u>	<u>Fair</u> <u>Value</u> US\$(000)
Receivable -			
Zinc	44,152	Jan 2016 - Feb 2016	903
Lead	11,127	Feb 2016 - Mar 2016	232
Silver	523	Feb 2016	16

			1,151
Payable -			
Copper	669	Jan 2016	(24)
Silver	7,922	Jan 2016 - Apr 2016	(758)
Zinc	33,355	Jan 2016 - Feb 2016	(1,175)
Lead	11,397	Jan 2016 - Feb 2016	(891)
Bulk	1,395	Apr 2016	(1,124)

			(3,972)

			(2,821)
			=====

As of December 31, 2014:

<u>Concentrate</u>	<u>Qty</u> DMT/OZ	<u>Quotation</u> <u>period 2015</u>	<u>Fair</u> <u>Value</u> US\$(000)
Receivable -			
Zinc	22,654	Jan 2015 - Mar 2015	188
Lead	4,653	Jan 2015 - Feb 2015	2,730

			2,918
			=====
Payable -			
Copper	1,652	Jan 2015 - Mar 2015	(211)
Silver	5,806	Jan 2015 - Mar 2015	(853)
Zinc	33,105	Jan 2015 - Mar 2015	(114)
Lead	2,736	Jan 2015 - Feb 2015	(723)

			(1,901)

			1,017
			=====

As of December 31, 2015 and 2014, the fair value of embedded derivatives generated loss for US\$ 8,696 thousand and gain for US\$ 451 thousand, respectively, as shown under "Net sales" in the consolidated statement of income. Future quotes of the dates on which open positions as of December 31, 2015 and 2014 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, 2015 and 2014.

No transfers have occurred between fair value hierarchy levels during periods 2015 and 2014.

19. TAXATION

(a) Current tax framework

The Company and its subsidiaries are subject to the Peruvian tax regime. As of December 31, 2015 income tax rate is 28 percent (30 percent as of December 31, 2014) on taxable profit and legal entities not domiciled in Peru and individuals are subject to an additional tax of 6.8 percent (4.1 percent as of December 31, 2014) on received dividends.

According to Law 30296, as published on December 31, 2014, the income tax rate will be progressively reduced to 27% in years 2017 and 2018, and to 26% as from year 2019. Furthermore, the referred law foresees a progressive increase in the rate applicable to the tax on dividends of 6.8% to 8.0% in years 2017 and 2018; and to 9.3% in year 2019 and future years. It is worth noting that dividend distributions and any other form of profit distribution on Accumulated profit (loss) obtained until December 31, 2014 a 4.1% rate will be applied.

(b) Years open to fiscal review

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. IT and VAT tax returns for the following years are subject to audit by tax authorities:

<u>Entity</u>	<u>Years open to review by tax authorities</u>
Volcan Compañía Minera S.A.A.	2010, 2011, 2012, 2013, 2014 & 2015
Empresa Administradora Chungar S.A.C.	2013, 2014 & 2015
Empresa Explotadora de Vinchos Ltda. S.A.C.	2011, 2012, 2013, 2014 & 2015
Empresa Minera Paragsha S.A.C.	2011, 2012, 2014 & 2015
Compañía Minera El Pilar S.A.C. (1)	2011, 2012, 2013, 2014 & 2015
Compañía Minera Alpamarca S.A.C.	2011, 2012, 2013, 2014 & 2015
Shalca Compañía Minera S.A.C. (1)	2011, 2012, 2013, 2014 & 2015
Minera Aurífera Toruna S.A.C. (1)	2011, 2012, 2013, 2014 & 2015
Compañía Minera Huascarán S.A.C. (1)	2011, 2012, 2013, 2014 & 2015
Empresa Administradora de Cerro S.A.C.	2011, 2013, 2014 & 2015
Minera San Sebastian AMC S.R.L.	2011, 2012, 2013, 2014 & 2015
Hidroeléctrica Huanchor S.A.C.	2011,2012, 2013, 2014 & 2015
Empresa de Generación Eléctrica Baños S.A.C.	2011, 2012, 2013, 2014 & 2015
Compañía Hidroeléctrica Tingo S.A.	2011, 2012, 2013, 2014 & 2015
Óxidos de Pasco S.A.C.	2015

- (1) As from September 1, 2015, as a result of the merger process involving the takeover of these subsidiaries, Empresa Administradora Chungar S.A.C. became the only titleholder of the rights and obligations that may appear from the review by the tax authorities.

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 profit or loss 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.

(c) Transfer prices

For the income tax assessment purposes, the prices and amounts of such considerations that may have been agreed in transactions with related entities or carried out from, to or through countries or territories of low or no taxation, are required to have documentation and information available that supports the valuation methods and criteria applied in their assessment. The Tax Administration is entitled to request the Company to provide this information. Based on the analysis of the Company transactions, in the opinion of Management and its legal advisors, there will be no major contingencies for the Company as of December 31, 2015 and 2014 from the application of these regulations.

20. NET SALES

- (a) The Company and Subsidiaries revenues result basically from the sale of zinc, lead and silver concentrates. Detail of net sales per concentrate in years 2015 and 2014 is given below:

<u>Description</u>	<u>2015</u> US\$(000)	<u>2014</u> US\$(000)
Net sales per concentrate:		
Zinc	427,314	574,001
Lead	197,083	275,289
Copper	25,083	52,256
Silver	85,461	110,904
Silver in bulk	2,314	-
Silver bars	61,525	17,514
	-----	-----
	798,780	1,029,964
Gain (loss) on:		
Fair value in financial instruments	4,729	15,717
Execution of financial instruments (Note 18 c))	(4,430)	(622)
Embedded derivative (c) (Note 18 (d))	(8,696)	451
Adjustment of open temporary settlements	4,131	(3,159)
	-----	-----
	794,514	1,042,351
	=====	=====

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

	<u>2015</u> US\$(000)	<u>2014</u> US\$(000)
Peru	454,737	594,577
The Americas/USA	84,834	54,158
Asia	216,587	280,053
Europe	42,622	101,176
	----- 798,780 =====	----- 1,029,964 =====

- (c) Embedded derivative

The Company and Subsidiaries' sales of concentrates are based on commercial agreements, 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 agreement. Commercial agreements 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 profit or loss. As of December 31, 2015 and 2014, 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 agreements. Temporary selling value adjustment is recorded as an adjustment to current net sales.

- (d) Concentration of sales

In year 2015, the three most important customers accounted for 56% of total sales (67% of total sales in year 2014). As of December 31, 2015, 39% of accounts receivable is related to these customers (52% as of December 31, 2014). The Company sales of concentrate are made to locally and internationally renowned companies.

- (e) Commitments to sell

As of December 31, 2015, the Company maintains commitments with third parties for the sale of lead, zinc and copper concentrates for 222,241 WMT, 1,341,732 WTM and 35,730 WMT (146,258 WMT, 1 WMT and 189,991 WMT as of December 31, 2015), respectively until year 2017. As for dore bars, sales amount to 4,500,000 oz up to year 2017.

21. COST OF SALES

Assessment of this heading is given below:

<u>Description</u>	For the accumulated period from Jan 1 to Dec 31	
	<u>2015</u> US\$(000)	<u>2014</u> US\$(000)
Initial inventory of concentrates	24,789	30,299
Initial inventory of raw material (extracted ore)	31,466	32,022
Production cost:		
Labor	63,713	71,440
Services from third parties, energy and other	237,037	255,566
Supplies used	111,224	116,140
Purchase of ore	-	5,326
Depreciation and amortization	155,267	152,443
Exceptional	3,482	3,035
Purchase of concentrates	80,611	248,939
Employees' profit sharing	3,673	6,791
Less - final inventory of concentrates	(19,335)	(24,789)
Less - final inventory of raw material (extracted ore)	(28,725)	(31,466)
	-----	-----
	663,202	865,746
	=====	=====

22. ADMINISTRATIVE EXPENSES

A breakdown of this heading is given below:

	<u>2015</u> US\$(000)	<u>2014</u> US\$(000)
Personnel charges	23,142	24,653
Insurance	6,522	8,951
Professional fees	4,496	5,326
Employees' profit sharing	2,142	1,000
Compensations	1,240	3,879
Personnel services	1,385	2,062
Depreciation and amortization	2,230	1,496
Supplies	1,101	1,224
Leases	788	1,136
Communications and IT	1,451	1,115
Mail and telecommunication, and other minor expenses	2,568	3,716
	-----	-----
	47,065	54,558
	=====	=====

23. SELLING EXPENSES

A breakdown of this heading is given below:

	<u>2015</u> US\$(000)	<u>2014</u> US\$(000)
Freight	27,148	30,124
Shipping expenses	4,536	7,947
Services rendered by third parties	2,535	3,569
Personnel expenses	1,015	1,202
Samples, analysis and supervision	1,090	1,644
Services for sale of concentrates -	2,766	1,594
Leases	1,508	1,136
Various services	2,425	1,834
	-----	-----
	43,023	49,050
	=====	=====

24. OTHER OPERATING REVENUE (EXPENSES)

A breakdown of this heading is given below:

	<u>2015</u> US\$(000)	<u>2014</u> US\$(000)
<u>Revenue</u>		
Allowance for valuation of oxide and pyrite stockpiles (See Note 9 (a))	-	91,449
Revenue from sale of various supplies	18,224	34,641
Recovery of provision for contingencies	11,185	4,954
Revenue from sale of energy to third parties	10,791	10,842
Ore treatment and other services to third parties	4,183	4,991
Insurance indemnification	442	181
Disposal of fixed assets	1,890	1,074
Purchase in advantageous terms	2,201	-
Disposal of shares (Note 1 (b))	-	31,359
Other	7,331	6,509
	-----	-----
	56,247	186,000
	=====	=====

	2015 US\$(000)	2014 US\$(000)
<u>Expenses</u>		
Allowance for impairment of oxide and pyrite stockpiles (See Note 9 (a))	(69,291)	-
Cost of sales of various supplies	(15,855)	(34,098)
Cost of ore treatment and other services to third parties	(1,029)	(3,763)
Cost of energy sales	(6,317)	(5,673)
Provision for contingency	(190)	(3,777)
Disposal of fixed assets	(2,257)	(4,440)
Non-deductible various expenses	(10,767)	(2,460)
Net cost of disposal of shares (Note 1 (b))	-	(20,731)
Tax administrative penalties	(857)	(821)
Other	(8,852)	(2,461)
	-----	-----
	(115,415)	(78,224)
	=====	=====

25. IMPAIRMENT OF NON-FINANCIAL ASSETS

During year 2015, as a result of the reduction in prices and paralyzation of non-profitable mines, and according to International Financial Reporting Standards, the Company recognized loss on impairment of certain non-financial assets for US\$ 568,624 thousand (US\$ 85,385 thousand in year 2014), with a deferred income tax benefit for US\$ 159,215 thousand through profit or loss of the year of US\$ 409,409 thousand.

This impairment calculation was assessed based on the value in use and was calculated at each mining unit level. The discount rate used, before taxes, was 12.44 percent.

Loss on impairment was recognized in Volcan Compañía Minera S.A.A. for US\$ 100,103 thousand, Empresa Administradora Chungar S.A.A. for US\$ 54,412 thousand, Empresa Administradora Cerro de Pasco S.A.C. for US\$ 197,810 thousand (US\$ 85,535 thousand in year 2014), Compañía Minera Alpamarca S.A.C. for US\$ 188,876 thousand, and Empresa Explotadora de Vinchos Ltda. S.A.C. for US\$ 27,423 thousand.

In the Company Management's opinion, the balance of allowance for impairment of non-financial assets is enough to properly hedge the risks of impairment of the Company as of the date of the consolidated statement of financial position. Furthermore, Management considers that there will be not significant changes in the rate of discount that may increase the loss on impairment.

On the other hand, the Company Management considers that this allowance in profit or loss has no effect in the cash flows of the Company and may reverse in the future in case of a material improvement in the prices of metals.

26. FINANCIAL REVENUE (EXPENSES)

A breakdown of this heading is given below:

	<u>2015</u> US\$(000)	<u>2014</u> US\$(000)
<u>Revenue</u>		
Gain on exchange difference	65,715	18,765
Interests on time deposits	59	1,189
Interests on loans granted	4,155	4,687
Other financial revenue	3,323	2,503
Dividends received from Investments abroad	487	1,952
	-----	-----
	73,739	29,096
	=====	=====
<u>Expenses</u>		
Loss on exchange difference	(74,949)	(16,620)
Interests on issued bonds (Note 12)	(30,498)	(23,762)
Interests and expenses on bank loans	(2,647)	(4,777)
Financial leasing interests	(1,157)	(1,129)
Prepaid financial instruments	(2,439)	-
Interest on synthetic loan	(3,793)	-
Commissions and other expenses	(3,093)	(3,653)
	-----	-----
	(118,576)	(49,941)
	=====	=====

27. BASIC AND DILUTED (LOSS) EARNINGS PER SHARE

Computation of basic and diluted (loss) earnings per share in the years ended December 31, 2015 and 2014 (in thousand US Dollars, except for the information on common and investment shares) is given below:

	<u>2015</u> US\$(000)	<u>2014</u> US\$(000)
Net year (loss) profit US\$(000)	(453,912)	56,823
Common shares - thousand of units	3,858,733	3,865,936
Basic and diluted net (loss) earnings per share of the year - US\$	(0.118)	0.015

Basic and diluted (loss) 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.

28. 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 Management to assess operating segments profit or loss and distribute the resources of such segments. Management uses business and geographic segments of the Company to make operating decisions. A business segment is a distinguishable 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 distinguishable 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.

29. COMMITMENTS AND CONTINGENCIES

In the Company:

(a) Labor proceedings

As of December 31, 2015 there are labor claims amounting to S/ 13,652 thousand (equivalent to US\$ 4,000 thousand) for compensation of damages resulting from occupational disease, reimbursement of remuneration-related benefits, payment of profit sharing, reinstatement of employees and others on appeal and/or pending judgment.

There are also 2 proceedings (labor shares payable and production bonds 1998) for which it has not been possible to assess the claimed amounts, as they will be computed once the court orders judgment execution issued in case of an unlikely unfavorable decision.

(b) Tax proceedings

As of December 31, 2015, the Company maintains various administrative proceedings pending resolution by the National Superintendence of Tax Administration (SUNAT), for various resolutions assessing taxes, fines and interests, totaling an approximate of S/ 1,174,396 thousand (equivalent to US\$ 344,095 thousand).

Resolutions assessing taxes, fines and interests correspond, in SUNAT’s opinion, to failure to pay taxes and third-party withholdings, as well as for the application of different criteria in assessing the tax base for the settlement of third-class income tax and value added tax of years 1998 to 2008. As of this date, these proceedings have been administratively challenged with SUNAT and/or on appeal with the Tax Court, as well as in court with the Judiciary.

(c) Proceedings filed with Municipal Authorities

As of December 31, 2015, the Company maintains various administrative proceedings on tax issues pending resolution by the Province Municipality of Pasco for a Property Tax Assessment Resolution for S/ 618 thousand (equivalent to US\$ 181 thousand), which are currently on appeal. However, as of this date and despite the Tax Court requirements, the referred Municipality has failed to forward the case file.

(d) Administrative Sanctioning Proceedings and Administrative Litigation Actions

As of December 31, 2015 the Company maintains various proceedings on environmental and occupational health and safety issues pending resolution by the Regulatory Agencies. National Water Authority - Local Water Authorities, Ministry of Labor and Employment Promotion - National Superintendence of Labor Law Enforcement, Ministry of Energy and Mines, Ministry of Production, Supervisory Agency for Investment in Energy and Mining (OSINERGMIN), and Agency for Environmental Assessment and Control (OEFA) for alleged infringement of various environmental provisions and others contained in the Mining Health and Safety Regulations for S/ 27,304 thousand (equivalent to US\$ 8,000 thousand).

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

(e) The Company Management, based on the opinion of independent advisors, has made a review of all tax, labor, civil and administrative proceedings, among other, assessing a provision for probable contingencies for US\$ 4,800 thousand (US\$ 13,225 thousand in 2014).

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, 2015 there are labor claims amounting to S/ 478 thousand (equivalent to US\$ 140 thousand) for compensation of damages resulting from occupational disease, reimbursement of remuneration-related benefits, and others on appeal and/or pending judgment.

(b) Administrative Sanctioning Proceedings and Administrative Litigation Actions

As of December 31, 2015 the Company has various proceedings on environmental and occupational health and safety issues pending resolution by the Regulatory Agencies. National Water Authority - Local Water Authorities, Ministry of Labor and Employment Promotion - National Superintendence of Labor Law Enforcement, Ministry of Energy and Mines, Ministry of Production, Supervisory Agency for Investment in Energy and Mining (OSINERGMIN), and Agency for Environmental Assessment and Control (OEFA) for alleged infringement of various environmental provisions and others contained in the Mining Health and Safety Regulations for S/ 4,778 thousand (equivalent to US\$ 1,400 thousand).

(c) Tax proceedings

As of December 31, 2015, the subsidiary maintains various administrative proceedings pending resolution by the National Superintendence of Tax Administration (SUNAT), for resolutions assessing taxes, fines and interests totaling an approximate of S/ 218,320 thousand (equivalent to US\$ 63,967 thousand).

Resolutions assessing taxes, fines and interests correspond, in SUNAT's opinion, to failure to pay taxes and third-party withholdings, as well as for the application of different criteria in assessing the tax base for the settlement of third-class income tax and value added tax of years 2001 to 2005 and 2012. As of this date, these proceedings have been administratively challenged with SUNAT and/or on appeal with the Tax Court, as well as in court with the Judiciary.

(d) Proceedings filed with Municipal Authorities

As of December 31, 2015, the Subsidiary maintains an administrative proceeding on tax issues pending resolution by the District Municipality of Huayllay on the Property Tax Assessment of years 2006 to 2012 for S/ 478 thousand (equivalent to US\$ 140 thousand), which is currently on appeal.

Additionally, as of such date, it maintains an administrative proceeding pending resolution by the referred District Municipality against various administrative fines for S/ 571 thousand (equivalent to US\$ 167 thousand), which is in currently on appeal.

(e) The Subsidiary Management, based on the opinion of independent advisors, has made a review of all tax, labor, civil and administrative proceedings, among other, assessing a provision for probable contingencies for US\$ 400 thousand.

In the Subsidiary Management's opinion 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 Cerro S.A.C.:

(a) Labor proceedings

As of December 31, 2015 there are labor claims amounting to S/ 853 thousand (equivalent to US\$ 250 thousand) for compensation of damages resulting from occupational disease, reimbursement of remuneration-related benefits, reimbursement of profit sharing, payment of production bonds, and others on appeal and/or pending judgment.

(b) Tax proceedings

As of December 31, 2015, the subsidiary maintains an appeal pending resolution by the National Superintendence of Tax Administration (SUNAT), for resolutions assessing taxes, fines and interests totaling an approximate of S/ 7,129 thousand (equivalent to US\$ 2,089 thousand).

Resolutions assessing taxes, fines and interests correspond, in SUNAT's opinion, to failure to pay taxes, as well as for the application of different criteria in assessing the tax base for the settlement of third-class income tax of year 2012. As of this date, a claim has been filed with SUNAT challenging the administrative resolution.

(c) Administrative Sanctioning Proceedings and Administrative Litigation Actions

As of December 31, 2015 the Company has various proceedings on environmental and occupational health and safety issues pending resolution by the Regulatory Agencies. National Water Authority - Local Water Authorities, Ministry of Labor and Employment Promotion - National Superintendence of Labor Law Enforcement, Ministry of Energy and Mines, Ministry of Production, Supervisory Agency for Investment in Energy and Mining (OSINERGMIN), and Agency for Environmental Assessment and Control (OEFA) for alleged infringement of various environmental provisions and others contained in the Mining Health and Safety Regulations for S/ 611 thousand (equivalent to US\$ 179 thousand).

(d) Proceedings filed with Municipal Authorities

As of December 31, 2015, the Subsidiary keeps various administrative proceedings pending resolution by District Municipalities for various orders to pay and assessment resolutions on the Property Tax of years 2012 and 2013 for S/ 413 thousand (equivalent to US\$ 121 thousand), which are currently on appeal.

Additionally, two administrative proceedings are pending resolution by the District Municipality of Yanacancha for various orders to pay upon having determined an alleged omission in the payment of fees to obtain demolition licenses for S/ 583 thousand (equivalent to US\$ 171 thousand), which are currently on claim.

On the other hand, Province Municipality of Cerro de Pasco imposed a fine for S/ 3,927 thousand (equivalent to US\$ 1,151 thousand) for building fences without building permit, which has been challenged through Administrative Litigation Action filed with the Judiciary, which is as of this date pending resolution.

Finally, as of such date, it maintains a request for undue payment refund pending resolution by the Province Municipality of Pasco on Property Tax of year 2011 for S/ 386 thousand (equivalent to US\$ 113 thousand), which is currently on appeal.

- (e) The Subsidiary Management, based on the opinion of independent advisors, has made a review of all tax, labor, civil and administrative proceedings, among other, assessing a provision for probable contingencies for US\$ 300 thousand.

In the Subsidiary Management's opinion 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 Compañía Minera Alpacamarca S.A.C.

- (a) Administrative Sanctioning Proceedings and Administrative Litigation Actions

As of December 31, 2015 the Company maintains various proceedings on environmental and occupational health and safety issues pending resolution by the Regulatory Agencies. National Water Authority - Local Water Authorities, Ministry of Labor and Employment Promotion - National Superintendence of Labor Law Enforcement, Ministry of Energy and Mines, Ministry of Production, Supervisory Agency for Investment in Energy and Mining (OSINERGMIN), and Agency for Environmental Assessment and Control (OEFA) for alleged infringement of various environmental provisions and others contained in the Mining Health and Safety Regulations for S/ 7 thousand (equivalent to US\$ 2 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 Subsidiary Empresa Explotadora de Vinchos Ltda S.A.C.:

(a) Labor proceedings

As of December 31, 2015 there are labor claims rated as probable amounting to S/ 300 thousand (equivalent to US\$ 88 thousand) for compensation of damages resulting from occupational disease, reimbursement of remuneration-related benefits, and others on appeal and/or pending judgment.

(b) Administrative Sanctioning Proceedings and Administrative Litigation Actions

As of December 31, 2015 the Company maintains various proceedings on environmental and occupational health and safety issues pending resolution by the Regulatory Agencies. National Water Authority - Local Water Authorities, Ministry of Labor and Employment Promotion - National Superintendence of Labor Law Enforcement, Ministry of Energy and Mines, Ministry of Production, Supervisory Agency for Investment in Energy and Mining (OSINERGMIN), and Agency for Environmental Assessment and Control (OEFA) for alleged infringement of various environmental provisions and others contained in the Mining Health and Safety Regulations for S/ 1,375 thousand (equivalent to US\$ 403 thousand).

(c) The Subsidiary Management, based on the opinion of independent advisors, has made a review of all tax, labor, civil and administrative proceedings, among other, assessing a provision for probable contingencies for US\$ 90 thousand.

In the Subsidiary Management's opinion 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 Hidroeléctrica Huanchor S.A.C.:

(a) Proceedings filed with Municipal Authorities

As of December 31, 2015, the Subsidiary maintains an administrative proceeding on tax issues pending resolution by the District Municipality of San Mateo on charges for municipal services of years 2014 and 2011 for S/ 68 thousand (equivalent to US\$ 20 thousand), which is currently on appeal.

Additionally, as of such date, it maintains an administrative proceeding pending resolution with the referred District Municipality against various administrative fines for S/ 324 thousand (equivalent to US\$ 95 thousand), which is in currently on appeal.

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 advisors, there are no major lawsuits or complaints pending to be solved or other contingencies against them as of December 31, 2015.

30. 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 income, 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, 2015 and 2014, using the amounts of financial assets and liabilities held as of that dates.

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, 2015 and 2014. 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 (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 (Soles), which is used to cover its needs in such currency (taxes and remunerations).

As of December 31, 2015, the Company and Subsidiaries have recorded a net loss on exchange difference of US\$ 9,233 thousand (net gain on exchange difference of US\$ 2,145 thousand in year 2014).

A table showing a fair variation in foreign currency exchange rates through profit or loss maintaining all the other variables constant:

	Exchange rate increase (decrease)	Gain (loss) through <u>profit or loss</u> US\$(000)
2015		
Exchange Rate	10%	(43,377)
Exchange Rate	(10%)	53,016
2014		
Exchange Rate	10%	(31,726)
Exchange Rate	(10%)	38,776

(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, 2015, the fair value of embedded derivatives contained in commercial agreements amounts to US\$ 2,821 thousand (see Note 18 (d)). As of the closing of the month of January 2015, provisional settlements pending final invoice have not been closed.

As for future prices (copper, lead, and zinc) as of December 31, 2015 and 2014, 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:

	Through unrealized gain (loss) on hedging derivative financial <u>instruments, net</u> US\$(000)
<u>2015</u>	
Increase of 10 percent in future quotations	
Hedges with maturity in 2016	743
Hedges with maturity in 2017	6,951
Hedges with maturity in 2018	9,722

	17,416
	=====
Decrease of 10 percent in future quotations	
Hedges with maturity in 2016	(673)
Hedges with maturity in 2017	(7,126)
Hedges with maturity in 2018	(10,406)

	(18,205)
	=====
<u>2014</u>	
Increase of 10 percent in future quotations	
Hedges with maturity in 2015	5,102
Hedges with maturity in 2016	3,753

	8,855
	=====
Decrease of 10 percent in future quotations	
Hedges with maturity in 2015	(3,332)
Hedges with maturity in 2016	(4,302)
	(14)

	(7,648)
	=====

(a.3) Interest rate risk

The Company and Subsidiaries have significant assets, such as time deposits, which are placed in first-rank financial institutions, and accrue interests at market current rates; the Company and Subsidiaries operating revenue and cash flows are independent from changes in market interest rates. They also have liabilities at fixed rate, in which case no risk exists because they are not variable and there is cash flow available to meet their obligations.

(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 local and foreign customers. As of December 31, 2015, the 3 most important customers of the Company and Subsidiaries accounted for 41% of total sales (67% of total sales in year 2014). The Company Management makes an assessment on such debts which collection is estimated as changing in order to set up the required provision allowance 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:

<u>Description</u>	<u>2015</u>			<u>2014</u>		
	<u>Past due</u> US\$(000)	<u>To</u> become <u>due</u> US\$(000)	<u>Total</u> US\$(000)	<u>Past due</u> US\$(000)	<u>To</u> become <u>due</u> US\$(000)	<u>Total</u> US\$(000)
Trade accounts receivable	5,227	50,020	55,247	4,284	79,166	83,450
Other accounts receivable	20,462	362,944	383,406	95,611	306,233	401,844
Other financial assets	-	63,443	63,443	-	32,620	32,620
	-----	-----	-----	-----	-----	-----
	25,689	476,407	502,096	99,895	418,019	517,914
	=====	=====	=====	=====	=====	=====

(c) Liquidity risk

The prudent administration of the liquidity risk implies maintaining enough cash and cash equivalents 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 equivalents; 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:

	<u>Less than</u> <u>1 year</u> US\$(000)	<u>1 to 2</u> <u>years</u> US\$(000)	<u>2 to 10</u> <u>years</u> US\$(000)	<u>Total</u> US\$(000)
As of Dec 31, 2015				
Trade accounts payable	165,294	-	-	165,294
Other accounts payable	53,453	-	-	53,453
Other financial liabilities	104,480	65,510	78,439	248,429
Financial obligations	212,705	10,284	613,287	836,276
	-----	-----	-----	-----
Total	535,932	75,794	691,726	1,303,452
	=====	=====	=====	=====
As of Dec 31, 2014				
Trade accounts payable	228,847	-	-	228,847
Other accounts payable	65,044	-	-	65,044
Other financial liabilities	96,209	12,041	-	108,250
Financial obligations	217,825	14,924	605,346	838,095
	-----	-----	-----	-----
Total	607,925	26,965	605,346	1,240,236
	=====	=====	=====	=====

(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, 2015 and 2014.

31. 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:

	<u>2015</u> US\$(000)	<u>2014</u> US\$(000)
Financial assets and liabilities at fair value through profit or loss		
Cash	152,079	145,363
Time deposits	28,612	29,000
Embedded derivative	(2,821)	1,017
Other financial assets	58,941	28,705
	-----	-----
Total	236,811	204,085
	=====	=====
Investments available for sale		
Mutual funds	11,616	-
	=====	=====
Accounts receivable		
Accounts receivable, short and long term	289,065	324,934
	=====	=====
Financial liabilities at amortized cost		
Financial obligations	822,233	822,035
Trade accounts payable	165,294	228,847
Other accounts payable	53,453	65,044
Other financial liabilities	205,602	74,022
	-----	-----
Total	1,246,582	1,189,948
	=====	=====
Financial assets and liabilities at fair value through other comprehensive income		
Hedge of cash flow	(35,504)	(31,330)
	=====	=====

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, comparison is made between the carrying amounts 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.

	2015		2014	
	Carrying amount	Fair Value	Carrying amount	Fair Value
	US\$(000)	US\$(000)	US\$(000)	US\$(000)
Financial assets				
Cash and cash equivalents	192,307	192,307	174,363	174,363
Trade accounts receivable	55,247	55,247	83,450	83,450
Other accounts receivable	233,818	233,818	241,484	241,484
Other financial assets	60,092	60,092	31,623	31,623
	541,464	541,464	530,920	530,920
	=====	=====	=====	=====
Financial liabilities				
Trade accounts payable	165,294	165,294	228,847	228,847
Other accounts payable	53,453	53,453	65,044	65,044
Financial obligations	822,233	822,233	822,035	822,035
Other financial liabilities	209,574	209,574	75,923	75,923
	1,250,554	1,250,554	1,191,849	1,191,849
	=====	=====	=====	=====

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 carrying amount -

For financial assets and liabilities that are liquid or have short-term maturity (less than three months), such as cash and cash equivalents, accounts receivable, accounts payable and other current liabilities, it is considered that the carrying amount 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.

33. REMUNERATIONS OF KEY PERSONNEL

Remuneration of the Group key personnel (Managers) and Directors considers all of the payments they receive. The total for all that amounts to approximately US\$ 12.20 million and US\$ 16 million for the years 2015 and 2014, respectively, corresponding to salaries and other short-term benefits. During year 2015 no payments to key personnel have been made for post-employment benefits, other long-term benefits, benefits for termination, or share-based payments.

34. AMENDMENTS AND NEW IFRS ISSUED BUT NOT EFFECTIVE AS OF THE DATE OF THE FINANCIAL STATEMENTS

The main changes made effective January 01, 2015 include:

- IFRS 14 Regulatory Deferral Accounts
- Accounting for the Acquisition of an Interest in a Joint Operation (Amendments to IFRS 11)
- Clarification of Acceptable Methods of Depreciation and Amortization (Amendments to IAS 16 and IAS 38)
- Agriculture: Bearer Plants (Amendments to IAS 16 and IAS 41)
- Equity Method in Separate Financial Statements (Amendments to IAS 27)
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)
- Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)
- Disclosure Initiative (Amendments to IAS 1)

IFRS		Pronouncements
IFRS 14	Regulatory deferral accounts	The scope is limited to those first-time adopters that currently recognize regulatory deferral accounts in accordance with their previous GAAP. The standard allows in their first and subsequent IFRS financial statements such entities continue recognizing regulatory deferral accounts in accordance with their previous GAAP, but presenting them as separate line items.

IFRS		Pronouncements
IFRS 11	Accounting for the acquisition of an interest in a joint operation	Amendments add new guidance on accounting for the acquisition of an interest in a joint operation that constitutes a business.
IAS 16 and IAS 38	<i>Clarification of Acceptable Methods of Depreciation and Amortization (Amendments to IAS 16 and IAS 38)</i>	This amendment clarifies that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset
IAS 16 and IAS 41	<i>Agriculture: Bearer Plants (Amendments to IAS 16 and IAS 41)</i>	There is a subset of biological assets, known as bearer plants, which are used solely to grow produce over several periods. At the end of their productive lives they are usually scrapped. Plants, such as grape vines, rubber trees and oil palmstales will usually meet the definition of bearer plants. Bearer plants should be accounted for in the same way as property, plant and equipment in IAS 16 <i>Property, Plant and Equipment</i> , instead of IAS 41.
IAS 27	<i>Equity Method in Separate Financial Statements (Amendments to IAS 27)</i>	It will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements.

IFRS		Pronouncements
IFRS 10 and IAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)</i>	They address a conflict between the requirements of IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures when accounting for the sale of contribution of a subsidiary to a joint venture or associate (resulting in the loss of control of the subsidiary).
IFRS 10, IFRS 12 and IAS 28	<i>Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)</i>	Amendments clarify which subsidiaries of an investment entity should be consolidated instead of being measured at fair value. The exemption from presenting consolidated financial statements continues to apply to subsidiaries of an investment entity that are themselves parent entities. This is so even if that subsidiary is measured at fair value through profit or loss by the higher level investment parent entity.
IAS 1	<i>Disclosure Initiative (Amendments to IAS 1)</i>	It introduces five improvements of specific focus on disclosure requirements relating to materiality, order of the notes, subtotals, accounting policies and disaggregation.

Document Annual Improvements to IFRS - 2012 -2014 cycle

	Standard	Matter of Amendment
IFRS 5	<i>Non-Current Assets Held for Sale and Discontinued Operations</i>	Changes in methods of disposal
IFRS 7	<i>Financial Instruments: Disclosures</i>	Service Agreements Applicability of the amendments to IFRS 7 to condensed interim financial statements
IAS 19	<i>Employee Benefits</i>	Rate of Discount: regional market issue
IAS 34	<i>Interim Financial Statements</i>	Disclosure of information 'elsewhere in the interim financial report'.

35. SUBSEQUENT EVENTS

The General Shareholders' Meeting of Compañía Minera Alpamarca S.A.C. and Empresa Administradora Chungar S.A.C. held on December 16, 2015 approved the draft merger by which Compañía Minera Alpamarca S.A.C took over Empresa Administradora Chungar S.A.C., the latter became extinguished without liquidation. The effective date of the merger will be January 1, 2016.

The taken over equity block is made up as follows:

<u>Assets</u>	
Cash and cash equivalents	34,637
Trade accounts receivable, net	21,099
Accounts receivable from subsidiaries and affiliates	349,834
Other accounts receivable	34,719
Hedging derivative	1,560
Inventories, net	11,236
Other accounts receivable from lp	23,967
Investments in shares, net	41,317
Property, machinery and equipment	296,511
Mining rights and concessions, net	73,802
Deferred income tax assets	19,315

Total assets	907,997

<u>liabilities</u>	
Bank overdrafts	138
Trade accounts payable	50,548
Accounts payable to subsidiaries and affiliates	592,039
Other accounts payable	14,723
Hedging financial instruments	6,527
Financial obligations	4,461
Financial obligations to lp	1,633
Deferred income tax liabilities	22,675
Provision for contingencies	387
Provision for closure of mining units	4,663

Total liabilities	697,794

Net value of equity block taken over by Compañía Minera Alpamarca S.A.C.	210,203
	=====

This transaction was made formal through Public Deed registration on February 1, 2016.
