VOLCAN COMPAÑÍA MINERA S.A.A. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2016 AND 2015

TOGETHER WITH

THE INDEPENDENT AUDITOR'S REPORT

VOLCAN COMPAÑÍA MINERA S.A.A. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2016 AND 2015

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Members of the Board of Directors 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, 2016 and 2015, and the consolidated statements of income, of comprehensive income, of changes in net equity and of cash flows for the years then ended, and a summary of significant accounting policies and other accompanying explanatory notes, 1 through 34.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements according to International Financial Reporting Standards issued by the International Accounting Standards Board and for the internal control as Management determines is necessary to enable the preparation of financial statements 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 consolidated 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 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 Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the 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, 2016 and 2015, its financial performance, and its cash flows for the years then ended, in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board.

Lima, Peru
February 24, 2017

Pazos, López de Romaña, Rodríguez

Countersigned by

___________________________ (Partner)
Luis Gómez Montoya
CPA N° 01-19084

VOLCAN COMPAÑÍA MINERA S.A.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS OF DECEMBER 31, 2016 AND 2015
(In thousand US Dollars)

ASSETS

	Notes	2016	2015
CURRENT ASSETS			
Cash and cash equivalents	4	203,351	192,307
Trade accounts receivable, net	5	69,121	55,247
Other accounts receivable	6	350,479	352,356
Other financial assets	7	43,248	14,508
Inventories, net	8	90,553	106,968
Total current assets		756,752	721,386
NON-CURRENT ASSETS			
Other accounts receivable	6	30,213	31,050
Other financial assets	7	21,159	48,935
Investment in third parties		442	1,861
Property, plant and equipment, net	9	1,021,428	1,088,060
Mining titles and concessions, and exploration, development and stripping costs, net	10	579,738	391,538
Deferred income tax assets	15 (b)	274,811	248,719
Total non-current assets		1,927,791	1,810,163
Total assets		2,684,543	2,531,549

LIABILITIES AND EQUITY

	Notes	2016	2015
CURRENT LIABILITIES			
Bank overdrafts		30,256	14,043
Financial obligations	11	250,923	216,989
Trade accounts payable	12	211,244	165,294
Other accounts payable	13	111,161	48,775
Other financial liabilities	7	105,228	90,831
Total current liabilities		708,812	535,932
NON-CURRENT LIABILITIES			
Financial obligations	11	562,504	623,571
Other financial liabilities	7	24,570	143,949
Deferred income tax liabilities	15 (b)	162,050	122,703
Provision for contingencies	28	34,449	5,514
Provision for closure of mining units	14 (b)	70,528	72,381
Total non-current liabilities		854,101	968,118
Total liabilities		1,562,913	1,504,050
NET EQUITY	16		
Issued capital		1,253,181	1,531,743
Shares in treasury		(196,778)	(240,450)
Legal reserve		3,553	119,837
Capital reserve		20,298	20,296
Unrealized profit or loss		-	(25,563)
Retained earnings		41,376	(378,364)
Total net equity		1,121,630	1,027,499
Total liabilities and net equity		2,684,543	2,531,549

The accompanying notes to the consolidated 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, 2016 AND 2015
(In thousand US Dollars)

	Notes	2016	2015
NET SALES	19	821,548	794,514
COST OF SALES	20	(581,224)	(663,202)
Gross profit		240,324	131,312
OPERATING (EXPENSES) INCOME:			
Administrative expenses	21	(44,163)	(47,065)
Selling expenses	22	(34,068)	(43,023)
Other income	23	47,914	56,247
Other expenses	23	(92,499)	(115,415)
Reversion of impairment of non-financial assets	9, 10 & 24	51,400	-
Impairment of non-financial assets	9, 10 & 24	-	(568,624)
		(71,416)	(717,880)
Operation profit (loss)		168,908	(586,568)
FINANCIAL INCOME (EXPENSES):			
Income	25	89,216	73,739
Expenses	25	(124,674)	(118,576)
		(35,458)	(44,837)
Profit (loss) before income tax		133,450	(631,405)
INCOME TAX	15 (a)	(49,044)	177,493
Net profit (loss)		84,406	(453,912)
Weighted average of the number of issued and outstanding shares (in thousands)	26	3,858,520	3,858,676
Basic and diluted earnings (loss) per share	26	0.022	(0.118)

The accompanying notes to the consolidated 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, 2016 AND 2015
(In thousand US Dollars)

	Notes	2016	2015
Net profit (loss)		84,406	(453,912)
		----------	----------
OTHER COMPREHENSIVE INCOME:			
Items that may be subsequently reclassified to the year profit or loss:			
Unrealized variation for derivative financial instruments	17 (c)	35,505	(4,174)
Income tax	17 (c)	(9,942)	542
		----------	----------
Other comprehensive income, net of income tax		25,563	(3,632)
		----------	----------
Total comprehensive income		109,969	(457,544)
		=======	=======

The accompanying notes to the consolidated 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, 2016 AND 2015
(In thousand US Dollars)

	NOTE	NUMBER OF SHARES COMMON A	NUMBER OF SHARES COMMON B	ISSUED CAPITAL US$(000)	SHARES IN TREASURY US$(000)	LEGAL RESERVE US$(000)	CAPITAL RESERVE US$(000)	UNREALIZED GAIN PROFIT OR LOSS US$(000)	RETAINED EARNINGS US$(000)	TOTAL US$(000)
Balance as of Jan 01, 2015		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	17 (c)	-	-	-	-	-	-	(3,632)	-	(3,632)
Capitalization of profit		-	-	-	-	-	-	-	-	-
Appropriation		-	-	-	-	1,106	-	-	(1,106)	-
Distribution of dividends	16 (a)	-	-	-	-	-	-	-	(5,862)	(5,862)
Purchase of shares of the Company and Subsidiaries by a subsidiary		(318,347)	-	-	(108)	-	(33)	-	-	(141)
Adjustment for deferred income tax		-	-	-	-	-	-	-	-	-
Net profit		-	-	-	-	-	-	-	(453,912)	(453,912)
Balance as of Dec 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
Net variation of unrealized gain on derivative financial instruments	17 (c)	-	-	-	-	-	-	25,563	-	25,563
		-	-	-						
Application of accumulated loss		-	-	(278,562)	43,725	(116,516)	-	-	351,353	-
Distribution of dividends	16 (a)	-	-	-	-	-	-	-	(15,136)	(15,136)
Drawing on Legal Reserve		-	-	-	-	232	-	-	(232)	-
Retained earnings Empresa Administradora de Puertos S.A.C.		-	-	-	-	-	-	-	(4,418)	(4,418)
Purchase of shares of the Company and Subsidiaries by a subsidiary		(156,762)	-	-	(53)	-	2	-	-	(51)
Effect of conversion		-	-	-	-	-	-	-	3,767	3,767
Net profit		-	-	-	-	-	-	-	84,406	84,406
Balance as of Dec 31, 2016		1,427,596,896	2,430,922,721	1,253,181	(196,778)	3,553	20,298	-	41,376	1,121,630

The accompanying notes to the consolidated 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, 2016 AND 2015
(In thousand US Dollars)

	Notes	2016	2015
OPERATING ACTIVITIES:			
Collection from sales		904,156	982,220
Revenue from hedging transactions		-	25,373
Refund of credit balance subject matter of benefit		47,656	25,327
Payments to suppliers and third parties		(558,980)	(690,189)
Loss on hedging transactions		(44,557)	-
Payments to employees		(79,838)	(90,614)
Payments of income tax and other taxes		(9,548)	(8,163)
Other operating payments		(9,110)	(11,271)
CASH INCREASE FROM OPERATING ACTIVITIES		249,779	232,683
INVESTMENT ACTIVITIES:			
Acquisition of property, plant and equipment	9	(43,743)	(117,302)
Dividends received		304	-
Sale of shares issued and dividends received		-	7,938
Acquisition of investments in shares		(26,110)	-
Disbursements for Operating Leasing		(15,462)	(19,332)
Disbursement for acquisition of mining titles and concessions, and exploration, development and stripping costs	10	(69,883)	(44,943)
CASH DECREASE FROM INVESTMENT ACTIVITIES		(154,894)	(173,639)
FINANCING ACTIVITIES:			
Increase in financial obligations	11	279,775	253,193
Decrease in financial obligations		(311,392)	(241,289)
Purchase of shares in treasury		2	(141)
Payment of dividends		(15,136)	(16,684)
Payment of interests		(37,090)	(36,179)
CASH DECREASE FROM FINANCING ACTIVITIES		(83,841)	(41,100)
INCREASE IN CASH AND CASH EQUIVALENTS		11,044	17,944
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		192,307	174,363
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR (Note 4)		203,351	192,307

VOLCAN COMPAÑÍA MINERA S.A.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(In thousand US Dollars)

	Notes	2016	2015
RECONCILIATION OF NET PROFIT OR LOSS WITH CASH AND CASH EQUIVALENTS FROM OPERATING ACTIVITIES:			
Net profit (loss)		84,406	(453,912)
Plus (less) adjustments to net profit (loss):			
Depreciation and amortization	9 & 10	133,964	155,026
Allowance for impairment of fixed assets and intangibles	9 & 10	-	568,624
Reversion of allowance for impairment of fixed assets and intangibles	9 & 10	(51,399)	-
Disposal of property, plant and equipment	9	1,714	3,586
Impairment (valuation) of oxide and pyrite stockpiles	24	-	69,291
Net changes in assets and liabilities			
(Increase) decrease in operating assets -			
Accounts receivable, net		(11,160)	46,641
Inventories		16,415	(70,442)
(Decrease) increase in operating liabilities -			
Trade accounts payable		45,950	(63,553)
Other accounts payable		29,889	(22,578)
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INCREASE IN CASH AND CASH EQUIVALENTS FROM OPERATING ACTIVITIES		249,779	232,683
		=======	=======

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

VOLCAN COMPAÑÍA MINERA S.A.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

AS OF December 31, 2016 AND 2015

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. It is a legal entity under private law that is ruled by its bylaws and the General Business Act.

The registered office and administrative headquarters of the Company and its subsidiaries are located at Av. Manuel Olguín # 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.

The shares making up share capital of the Company and Subsidiaries are listed in the Lima Stock Exchange (see Note 16 (a)).

(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.

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

As of December 31, 2016 the subsidiaries given below have temporarily paralyzed their operations: Minera San Sebastián AMC S.R.Ltda., Minera Aurífera Toruna S.A.C., Empresa Minera Paragsha S.A.C., and Empresa Explotadora de Vinchos Ltda. S.A.C.

The Company has 100% investments in Compañía Minera Chungar S.A.C. (Compañía Minera Alpamarca S.A.C. in 2015), a mining company engaged in the exploitation of zinc, lead, and silver; in Empresa Minera Paragsha S.A.C., engaged in exploration activities within its mining concessions; in Empresa Explotadora de Vinchos Ltda. S.A.C., a company engaged in the exploitation of lead and silver; in Empresa Administradora Cerro S.A.C. engaged in exploration and exploitation activities within its mining concessions; in Minera San Sebastián AMC S.R.Ltda. engaged in exploration activities; in Óxidos de Pasco S.A.C., a mining company exploiting zinc, lead and silver; and in Hidroeléctrica Huanchor S.A.C., which is engaged in electric power generation activities.

Empresa Administradora de Puertos S.A.C. is a company engaged in advising and consulting services on port activities and operations.

There is also Minera Aurífera Toruna S.A.C., a company that is engaged in the exploitation of mining deposits, basically of gold-bearing ore and is a subsidiary of Empresa Minera Paragsha S.A.C.; Compañía Hidroeléctrica Tingo S.A., a company that owns electric power transmission projects and is a subsidiary of Compañía Minera Chungar S.A.C.; and Empresa de Generación Eléctrica Rio Baños S.A.C., a company that owns hydroelectric power plant Baños V and is a subsidiary of Hidroeléctrica Huanchor S.A.C.

Terminales Portuarios Chancay S.A. is a company engaged in port activities and maritime services, which main shareholder is Empresa Administradora de Puertos S.A.C., a company engaged in advising and consulting services on port activities and operations.

A summary of the separated or consolidated financial statements of the subsidiaries, as applicable, as of December 31, 2016 and 2015 is given below (in thousand US Dollars):

Subsidiaries 2016	Assets	Liabilities	Equity	Net (loss) profit
Compañía Minera Chungar S.A.C. (a)	1,182,938	914,457	268,481	24,810
Empresa Minera Paragsha S.A.C.	343,835	141,969	201,866	(3,863)
Empresa Explotadora de Vinchos Ltda. S.A.C.	42,468	29,902	12,566	(1,897)
Empresa Administradora Cerro S.A.C.	344,141	249,907	94,234	(15,519)
Minera San Sebastián AMC S.R.L.	7,421	2,284	5,137	-
Hidroeléctrica Huanchor S.A.C.	103,916	62,789	41,127	2,051
Empresa Administradora de Puertos S.A.C.	76,009	36,996	39,013	(1,757)
Óxidos de Pasco S.A.C. (b)	494,406	328,033	166,373	(20,260)
Empresa de Generación Eléctrica Río Baños S.A.C.	60,440	31,281	29,159	(1,088)
Minera Aurífera Toruna S.A.C.	23,821	23,781	40	(1)
Compañía Hidroeléctrica Tingo S.A.	16,334	1,574	14,760	-
Terminales Portuarios Chancay S.A.C.	26,372	1,797	24,575	(408)
	2,722,101	1,824,770	897,331	(17,932)

(a) Subsidiary Empresa Administradora Chungar S.A.C. (in 2015) was taken over by Compañía Minera Alpamarca S.A.C. and this process was formally executed through public deed registration dated February 1, 2016, but it became effective on January 1, 2016. The taking over company changed its name to Compañía Minera Chungar S.A.C., its current name.

(b) This subsidiary is created by the split of an equity block of subsidiary Empresa Administradora Cerro S.A.C., which was formally executed through public deed registration dated October 11, 2015.

Subsidiaries 2015	Assets US$ (000)	Liabilities US$ (000)	Equity US$ (000)	Net (loss) profit US$ (000)
Empresa Administradora Chungar S.A.C.	904,065	679,530	224,535	(14,103)
Compañía Minera Alpamarca S.A.C.	174,020	105,270	68,750	(143,521)
Empresa Minera Paragsha S.A.C.	342,088	137,042	205,046	(29,365)
Empresa Explotadora de Vinchos Ltda. S.A.C.	69,070	56,460	12,610	(19,580)
Empresa Administradora Cerro S.A.C.	405,986	306,414	99,572	(147,445)
Minera San Sebastián AMC S.R.L.	6,787	6,602	185	(17)
Hidroeléctrica Huanchor S.A.C.	93,709	54,614	39,095	2,231
Óxidos de Pasco S.A.C.	448,366	272,091	176,275	(43,852)
	2,444,091	1,618,023	826,068	(395,652)

La Company conducts activities with its subsidiaries and related parties involving the sale of supplies, management advising and personnel services, as well as borrowing and granting loans, which are accounted in the consolidated statement of financial position and consolidated statement of income.

(c) Approval of the consolidated financial statements

The consolidated financial statements as of December 31, 2015 were approved in General Shareholders' Meeting held on March 30, 2016. Those corresponding to December 31, 2016 have been approved by the Company Management on February 14, 2017 and will be submitted to the Board of Directors and to the Shareholders for approval within the terms required by Law.

In the opinion of Management of the Company and Subsidiaries, 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 2017.

(d) Ore price

In year 2016 the increase in the average price for zinc ore (US$ 2,090 in 2016 and US$ 1,932 in 2015 per MT), lead ore (US$ 1,871 in 2016 and US$ 1,786 in 2015 per MT), and silver ore (US$ 17.1 in 2016 and US$ 15.7 in 2015 per Oz) exploited by the Company and Subsidiaries has caused a significant increase in profit or loss. This is reflected in the net profit of year 2016 for US$ 84,406 thousand and the loss of year 2015 for US$ 453,912 thousand.

(e) The Subsidiaries included in the preparation these consolidated financial statements are given below:

Name of the Subsidiary	Percentage of direct and indirect interest in the capital	
	2016	2015
Compañía Minera Chungar S.A.C.	100.00	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 Alpamarca S.A.C. (*)	-	100.00
Minera Aurífera Toruna S.A.C. (*)	80.00	80.00
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 Rio Baños S.A.(**)	99.99	99.99
Compañía Hidroeléctrica Tingo S.A. (***)	99.99	99.99
Óxidos de Pasco S.A.C.	99.99	99.99
Empresa Administradora de Puertos S.A.C.	99.99	-

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

(**) Electric power generation companies acquired in 2012. 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 Compañía Minera Chungar S.A.C.

A brief description of each subsidiary is given below:

- Subsidiaries Empresa Administradora Chungar S.A.C. ("EAC") and Compañía Minera Alpamarca S.A.C. ("Alpamarca") agreed to merge in 2015. The merger was formally executed through public deed registration by Notary Public in and for Lima, Mr Mario Gino Benvenuto Murguía, Esq on February 1, 2016. On the other hand, as a result of the merger, which became effective on January 1, 2016, Alpamarca absorbed the entire equity of EAC, thus the latter extinguished without liquidation. Furthermore, Alpamarca resolved to change its name to Compañía Minera Chungar S.A.C.

- Compañía Minera Chungar S.A.C. has two mining units located in the department of Pasco. It is engaged in the exploration, development and exploitation of mining deposits, basically of 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.

- 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 of 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 of 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 of 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 Eléctrica 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 owns hydroelectric power plant Baños V. This project is in process 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 Compañía MineraChungar 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 owns 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 of zinc, lead, silver and copper-bearing ore.

- Empresa Administradora de Puertos S.A.C., is a company engaged in advising and consulting services on port activities and operations and is the main shareholder of Terminales Portuarios Chancay S.A., a company engaged in port activities and maritime services. On October 5, 2016, it capitalized credits maintained with Volcan Compañía Minera S.A.A. for 145,849 thousand.

- The merger between Terminales Portuarios Chancay S.A. and Chancay Port S.A. became effective on April 15, 2016, and as result of such merger, Terminales Portuarios Chancay S.A., absorbed the entire equity of Chancay Port S.A., which extinguished.

(f) Merger

The General Shareholders' Meetings of Empresa Administradora Chungar S.A.C. and Compañía Minera Alpamarca S.A.C., both 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. Furthermore, Compañía Minera Alpamarca S.A.C. resolved to change its name to Compañía Minera Chungar S.A.C. The effective date of the merger was January 1, 2016.

The equity block absorbed by Compañía Minera Alpamarca S.A.C. is made up as follows:

	US$ (000)
Assets	
Cash and cash equivalents	34,637
Trade accounts receivable, net	21,100
Accounts receivable from subsidiaries and affiliates	349,834
Other accounts receivable	58,685
Hedging derivative	1,560
Inventories, net	11,236
Investments in shares, net	41,317
Property, machinery and equipment, net	296,511
Mining rights and concessions, net	73,802
Total assets	888,682
Liabilities	
Trade accounts payable	50,546
Accounts payable to subsidiaries and affiliates	592,040
Other accounts payable	14,723
Other financial liabilities	6,527
Financial obligations	6,232
Deferred income tax liabilities	3,361
Provision for contingencies	387
Provision for closure of mining units	4,663
Total liabilities	678,479
Net value of equity block taken over by Compañía Minera Alpamarca S.A.C.	210,203

The General Shareholders' Meeting of Empresa Administradora Chungar S.A.C. held on August 31, 2015 approved the draft merger for Empresa Administradora Chungar S.A.C. to take 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 equity block absorbed by Compañía Minera Alpamarca S.A.C. is made up as follows:

	Compañía Minera El Pilar S.A.C. (*) US$ (000)	Compañía Minera Huascaran S.A.C. (**) US$ (000)	Compañía Minera Llacsacocha S.A.C. US$ (000)	Shalca Compañía Minera S.A.C. (**) US$ (000)	Recursos Troy S.A.C. US$ (000)
Assets					
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
Liabilities					
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
Deferred 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 formally executed 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.

	US$ (000)
Assets	
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
Liabilities	
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 formally executed 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 issue of obligations was approved 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 Regulations of the US Securities Act, for up to US$ 600,000,000 (Six Hundred Million US Dollars).

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 covenants of compliance has been established for this obligation. Interests have been paid off on time when due. Management estimates there will be no problem to continue paying off this obligation.

These funds were mainly used in projects for the growing of Empresa Administradora Cerro S.A.C. and Compañía Minera Alpamarca S.A.C., including the Silver Oxides Plant located at the Cerro de Pasco unit having invested in them, in camps, tailings deposits, concentrating plants and mine development.

(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 5, 2014 by and between "Interbank" (as the trustee) and Volcan Compañía Minera S.A.A. (as the trustor), and a second one on August 7, 2014 by and between Interbank (as the trustee) and Empresa Administradora Cerro S.A.C. (as the trustor). Under these agreements 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. These trust agreements are being fulfilled and allow ensuring cash flows to the obligations of the Company and Subsidiaries involved.

2. ACCOUNTING POLICIES FOLLOWED BY THE COMPANY AND SUBSIDIARIES

The main accounting policies adopted by the Company and Subsidiaries in preparing and presenting its adjoined consolidated financial statements are given below.

(a) Basis of preparation

(i) In preparing the accompanying consolidated financial statements, Management of the Company and Subsidiaries has complied with IFRS, issued by the International Accounting Standards Board (IASB) effective as of December 31, 2016.

(ii) The information contained in these consolidated financial statements is the responsibility of the Board of Directors of the Company and Subsidiaries, which expressly states having complied with full application of IFRS with no restrictions or reserves.

(iii) The consolidated financial statements have been prepared in historical cost terms, based on the accounting records kept by the Company and Subsidiaries, except for the following items:

- Derivative financial instruments at fair value through profit or loss, which have been measured at fair value
- Fixed assets shown at fair value

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

(b) New legally effective accounting standards

The standards that became effective for 2016 and are applicable for the Company and Subsidiaries are summarized below, but they had no material effect on the consolidated financial statements:

IFRS		Pronouncement
IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortization (Amendments to IAS 16 and IAS 38)	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 27	Equity Method in Separate Consolidated Financial Statements (Amendments to IAS 27)	It will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate consolidated financial statements.
IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)	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	Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)	Amendments clarify which subsidiaries of an investment entity should be consolidated instead of being measured at fair value through profit or loss. 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	Disclosure Initiative (Amendments to IAS 1)	It introduces five improvements of specific focus on disclosure requirements relating to materiality, order of the notes, subtotals, accounting policies and disaggregation.

Annual Improvements to IFRS for the 2012-2014 Cycle

	Standard
IFRS 5	Non-Current Assets Held for Sale and Discontinued Operations
IFRS 7	Financial Instruments: Disclosures
IAS 19	Employee benefits
IAS 34	Interim Financial Reporting

(c) Use of estimates and judgments

The consolidated financial statements preparation also requires that Management makes estimates and judgments to assess the balances of assets and liabilities, and of income and expenses, the amount of contingencies, and the exposure caused by significant events in the notes to the consolidated financial statements. The use of fair estimates is an essential part in consolidated financial statement preparation and does not harm their reliability. The Company and Subsidiaries estimates and judgments are continuously evaluated and are based on historical experience and any information considered relevant. Should such estimates and judgments vary in the future as a result of changes in the premises that supported them, the corresponding balances of the consolidated financial statements will be corrected on the date on which changes in estimates and judgments occur. Estimates having the risk of causing an adjustment in relation to the adjoined consolidated financial statements include:

- Allowance for bad debts
- Impairment of inventories
- Value and impairment of investments
- Useful life and recoverable value of property, plant and equipment, and intangibles
- Assessment of deferred income tax
- Value of goodwill
- Liabilities for mine closure
- Measurement at fair value of financial assets and liabilities

(d) Basis for the consolidation

The consolidated financial statements include all the Company accounts as of December 31, 2016 and 2015. Subsidiaries are consolidated as from the date of acquisition, as this is the date on which the Parent Company takes control. The consolidated financial statements of the Subsidiaries have the same closing date as the Parent Company and are prepared considering the same accounting policies on a coherent and consistent basis. All common balances and transactions between them have been fully eliminated, including unrealized loss and gain resulting from intragroup transactions and dividends. The net profit or loss of the Company and Subsidiaries is attributed to shareholders, even it means a debit balance.

A change in the percentage of interest in a subsidiary, which does not imply control loss, is shown as an equity transaction.

If the Parent Company loses control over a subsidiary, it:

- Derecognizes assets, including goodwill and liabilities of the subsidiary
- Derecognizes differences on conversion recorded under net equity
- Recognizes the fair value of the consideration received for the transaction

- Reclassifies to profit or loss the interest of the parent company in items previously recognized under other comprehensive income

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

(e) Transactions in foreign currency

- Functional and presentation currency

To express its consolidated financial statements, the Company and Subsidiaries have determined its functional currency, based on the primary business environment where it operates, which influences mainly the assessment of the prices of the goods it sells and the costs incurred to produce such goods. The consolidated financial statements are given in US Dollars, which is the functional currency, other than the recording currency, i.e. the Sol. All of the transactions are measured in the functional currency and, whereas, foreign currency is any currency other than the functional currency.

- Transactions and balances in foreign currency

Transactions in foreign currency are given in Soles at the effective exchange rate of the transaction date. Balances as of December 31, 2016 and 2015 are valued at the exchange rate of the year closing. Exchange differences between the exchange rate registered at the beginning of a transaction and the exchange rate at the transaction settlement or the exchange rate at the year closing, are under financial income (expenses) in the consolidated statement of income.

(f) Assessment of reserves and mineral resources

The Company and 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 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 profit or loss.

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 mining units, assessment of deferred assets recoverability, and period of amortization of mining concessions.

(g) Provision for closure of mining units (Note 14 (b))

The Company and Subsidiaries recognize a provision for closure of mining units, which correspond to their legal obligation to restore the environment at completion of its operations. On the date of initial recognition of the liabilities resulting from this obligation, measured at the estimated discounted future value at their amortized cost, the same amount is simultaneously charged to mining titles and concessions, exploration, development and stripping costs in the consolidated statement of financial position.

Subsequently, the liability increases in each period considering the initial discount measurement and, in addition, the capitalized cost is depreciated 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 and Subsidiaries. Changes in the estimated initial obligation and in the interest rates are recognized as an increase or decrease in the carrying amount of the obligation and related asset in accordance with IAS 16 “Property, plant and equipment”. Any reduction in this provision and, therefore, any reduction in the related asset that may exceed the carrying amount of such asset is immediately recognized in the consolidated statement of income.

If the review of the obligation estimate may result in the need to increase the provision and, consequently, also increase the carrying amount of the related asset, the Company and Subsidiaries take into consideration whether such increase corresponds to a sign of impairment of the asset as a whole, and in case it is, the tests of impairment required by IAS 36 “Impairment of Assets” are performed.

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.

h) Production unit method (Notes 9 and 10)

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 and Subsidiaries are accounted prospectively.

(i) Costs of mine exploration and development (Note 10)

Applying the policy of the Company and Subsidiaries for mine exploration and development costs requires Management's judgment to assess whether it is probable that economic benefits enter the Company and Subsidiaries 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 their 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 Management of the Company and Subsidiaries make 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 2016, as a consequence of the ore price situation and of the downsizing and reduction of investment and expenses in the operations of the Company and Subsidiaries, they have recognized an impairment of mine exploration and development costs.

(j) Impairment of non-financial assets (Notes 9 and 10)

The value of property, plant and equipment, intangibles investment in associates and third parties is periodically reviewed to determine if any impairment exists, when there are circumstances showing that the carrying amount may not be recoverable. In case of signs of impairment, the Company and Subsidiaries estimate the assets recoverable amount and recognize a loss on impairment in the consolidated statement of income.

The recoverable value of an asset is the higher of its fair value less selling expenses and its value in use. The value in use is the present value of estimated future cash flows that will result from the continuous use of an asset, as well as from its disposal at the end of its useful life. Recoverable amounts are estimated for each asset or, if that is not possible, for the smaller cash generating unit that had been identified. In case of a reduction of loss on impairment, assessed in prior years, an income is recorded in the consolidated statement of comprehensive income.

(k) Contingencies

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

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

Contingent assets are not recorded in the consolidated financial statements, but are disclosed in notes to the consolidated financial statements only when a potential obligation exists.

(l) Date of production begin

The Company and Subsidiaries assess the situation of each mine in development to determine when the production stage will begins. The criteria used to assess the date of begin are determined based on the nature of each mining project, the complexity of the respective facility and its location. The Company and 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.

(m) Recovery of deferred tax assets (Note 15)

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 likeliness that the Company and Subsidiaries generate taxable profit in future periods to use the deferred tax assets. Estimated future taxable income 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 income differ significantly from estimates, this may have an impact on the capacity of the Company and Subsidiaries to realize the net deferred tax assets recorded on the reporting date.

(n) Financial assets

Initial recognition and measurement

Four categories have been established for the classification of financial assets: Financial assets at fair value through profit or loss, loans and accounts receivable, investments held to maturity, and financial assets available for sale. The Company and 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.

All financial assets are 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 and Subsidiaries undertake to sell the asset.

Financial assets of the Company and 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 and Subsidiaries 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 at fair value and any changes in fair value are recognized as financial income or cost in the consolidated statement of income.

At the time of initial recognition, the Company and subsidiaries did not classify any financial asset at 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 and Subsidiaries have the following accounts under this category: Trade accounts receivable and other accounts receivable, which are stated at the transaction value, net of allowance for doubtful accounts when applicable.

All these instruments are 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 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 they are considered as bad debt.

If in a subsequent period the loss amount decreases, the Company and Subsidiaries reinvest it crediting it to the consolidated statement of income.

Impairment of financial assets -

The Company and Subsidiaries evaluate on the date of each statement of financial position whether there is evidence that a financial asset or group of financial assets are impaired. This impairment results from one or more events subsequent to the asset initial recognition and when its impact has an adverse effect on the estimated projected cash flows for the financial asset or group of financial assets and can be reliably estimated. The criterion used for the category of financial assets is as follows:

(i) Accounts receivable:

For accounts receivable that are registered at amortized cost, the Company and Subsidiaries first make an individual assessment on whether there is objective evidence of impairment for financial assets that are individually significant; while for those that are not individually significant, a collective assessment is made. If there is objective evidence that loss on impairment has been incurred, the amount of loss is quantified as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the original effective interest rate of the financial asset, if applicable. The Company and Subsidiaries consider as impaired all past due items, for which collection arrangements have been made with no results, and are not refinanced as of this date.

The carrying amount of accounts receivable is affected through an allowance account, and the loss amount is recognized in the consolidated statement of income. Accounts receivable, together with the associated allowance, are written off when there is no realistic prospect of future recovery. If in a subsequent year, the estimated amount of the loss on impairment increases or decreases due to an event occurring after impairment is recognized, the previously recognized loss on impairment is increased or reduced adjusting the allowance account. If a written-off asset is subsequently recovered, the recovery is credited to other income (recovery of written-off accounts receivable) in the consolidated statement of income.

(ñ) Financial liabilities

For financial liabilities, two categories have been established: at fair value through profit or loss and those recorded at amortized cost.

The Company and Subsidiaries determine the classification of their financial liabilities when they are initially recognized. All 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.

Subsequent measurement -

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

Financial assets 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 and Subsidiaries 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.

Financial liabilities at amortized cost

Financial liabilities at amortized cost include financial obligations, trade accounts payable, accounts payable to subsidiaries and related parties, bonds and other accounts payable; they are recognized at their cost plus transaction costs directly attributable to the purchase due to the fact that the Company and Subsidiaries are a party to the financial instrument contracting agreements. The effective interest rate method is used.

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.

(o) 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 title to receive cash flows from the asset has ceased; or (ii) the Company and Subsidiaries have transferred their title to receive cash flows from the asset, or have assumed an obligation to pay in full the cash flows immediately upon received, to a third party under a pass-through agreement, and (iii) the Company and Subsidiaries have transferred substantially all of the risks and benefits derived from the asset or, if not having transferred or withheld substantially all of the risks and benefits of the asset, they do have transferred their control on it.

In case the Company and 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 and Subsidiaries had withheld.

Financial liabilities -

A financial liability is derecognized when the obligation to pay is either discharged or cancelled or expires.

When an existing financial liability is replaced by another one of the same lender under significantly different conditions, or the conditions are materially modified, such replacement or modification is treated as a derecognition of the original liability, recognizing the new liability and showing the difference between them in the period profit or loss under financial income (expenses), as appropriate.

(p) Derivative financial instruments

The Company and Subsidiaries use derivative financial instruments to reduce the risk of variation in the international prices of the commodities traded by them.

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 -

During years 2016 and 2015, the Company and Subsidiaries 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, any gain or loss on the hedging instrument is recorded under “Net sales” in 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, 2016 and 2015, the Company and Subsidiaries only hold embedded derivatives related to their 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.

(q) Offsetting financial instruments

Financial assets and financial liabilities are offset when there is legal right to set them off and Management has the intention either to settle on a net basis or to realize the asset and settle the liability simultaneously.

(r) 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, 2016 and 2015. (See Note 30).

(s) Cash and cash equivalents

This account shown in the consolidated statement of financial position includes all cash balances and mutual funds.

On the other hand, for presentation purposes cash and mutual funds are included in the separate statement of cash flows.

(t) Inventories and allowance for impairment

Inventories are valued at the lesser of their cost or net realization value following the average cost method, except for inventories in transit, which are valued at their specific cost. The net realization value is the regular sales price less the cost incurred to have them ready for sale, including commercialization and distribution expenses. Allowance for impairment is charged to the year profit or loss and is determined comparing realization value and carrying amount.

The cost of concentrates and raw material 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.

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.

(u) Investment in third parties

Investments in third parties are recorded at cost (including the transaction costs being directly related to such purchase). Dividends received in cash or in shares are recognized as revenue in the year of the distribution or capitalization agreement, as applicable.

Allowance for securities fluctuation results from comparing their carrying amount with their equity value.

(v) Property, plant and equipment

They are presented at their cost of acquisition, less accumulated depreciation and the accumulated amount of loss on impairment. 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 borrowing cost 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:

	Years
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 proceeds 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 and Subsidiaries during an additional useful life period.

When the replaced part of the asset was not considered as a separate 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.

(w) Mining titles and concessions, and exploration, development and stripping costs

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 title that the Company and Subsidiaries have 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 and Subsidiaries. Mining concessions are capitalized in the consolidated statement of financial position and represent the title that the Company and Subsidiaries have 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 Management of the Company and Subsidiaries. In case the Company and Subsidiaries abandon such concessions, associated costs are written off in the consolidated statement of income.

At the year end, for each cash generating unit, the Company and Subsidiaries assess whether there is any sign of impairment of their mining titles. If such sign exists, an estimate of the recoverable amount of the asset is made.

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 Management of the Company and Subsidiaries.

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 subsequently 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. Stripping costs incurred in the period are deferred to the extent that the ratio 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.

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

Financial leasing

In financial leasing transactions the method used consists of showing under property, plant and equipment 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 start of the leasing. 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.

(y) Intangibles

Intangibles are accounted at their initial cost less accumulated amortization and later less any accumulated loss on impairment. In their initial recognition, it is assessed whether the useful life of intangibles is defined or undefined.

Intangibles with a defined useful life are amortized using the straight-line method based on their estimated useful life. The amortization period and method are reviewed at the end of every year. Intangibles with undefined useful life are not amortized, the existence of signs of impairment is rather assessed, whether individually or by cash generating unit.

The cost of acquiring new software is capitalized and classified as an intangible if such cost is not part of the related hardware. Software is amortized using the straight-line method in a period of 10 years.

(z) Provisions

A provision is recognized only when the Company and Subsidiaries have any (legal or implicit) present obligation resulting from a past fact, an outflow of resources will be likely required for its settlement, and a reliable estimate 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 separate statement of financial position. A provision related expense is shown in the consolidated statement of income. When significant, provisions are discounted at present value using a rate that reflects the specific risks related to the liability. When discount is made, the provision increase for the span of time is recognized as a financial expense.

(ab) Issued capital

Common shares are classified under equity. Incremental costs directly attributable to the issue of new shares or options are shown under equity as a deduction from the proceeds, net of taxes. When any subsidiary of the Company acquires shares of the Company (treasury shares), the payment made, including any cost directly attributable to the transaction (net of taxes) is deducted from equity attributable to the holders of the share capital of the Company and Subsidiaries until such shares are paid up, placed or sold. When such shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the holders of the equity of the Company and Subsidiaries.

(ac) Distribution of dividends

Distribution of dividends to the shareholders of the Company and Subsidiaries is recognized as a liability in the consolidated financial statements in the period in which dividends are approved by the shareholders.

(ad) Recognition of revenue

Revenue is recognized to the extent it is likely that economic benefits will flow to the Company and Subsidiaries. Revenue is measured at the fair value of the consideration received or receivable, 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 and Subsidiaries recognize the revenue from the 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 initially used selling price 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 in 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 -

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

Other revenue is recognized when accrued.

(ae) Recognition of costs and expenses

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

Interests are recognized proportionate to the elapsed time, so that they reflect the financial instrument effective cost.

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

Other expenses are recognized when accrued.

(af) Financing costs

Financing 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, any gain on the temporary investment is capitalized and deducted from the total borrowing cost. When the funds used to finance a project are part of the general borrowing, the capitalized amount is computed using the weighted average of the rates applicable to the general borrowing of the Company and Subsidiaries during the period. All other borrowing costs are recognized in the consolidated statement of income in the period in which they are incurred.

(ag) Income tax

Income tax includes a current and a deferred component.

Current -

Current income tax is considered as the amount payable to the tax authority. It is computed based on the tax base assessed for tax purposes.

Deferred -

Deferred income tax is computed following the balance sheet liability method, which consists of determining the temporary differences between financial and tax assets and liabilities, and applying to such differences the income tax rate.

Deferred assets are recognized for all deductible differences and tax loss carried forward, to the extent that it is likely that there will be a taxable profit, against which deductible temporary differences can be offset, and any carried forward tax loss can be used.

Deferred liabilities are recognized for all taxable temporary differences, except for such taxable temporary differences related to investments in subsidiaries, where the time for temporary difference reversions can be controlled and it is likely that temporary differences will not be reversed in a foreseeable future.

The carrying amount of deferred assets is reviewed on each date of the statement of financial position and is reduced to the extent it is unlikely that there will be enough taxable profit, against which all or part of the deferred assets can be set off. Unrecognized deferred assets are revalued on each date of the statement of financial position and recognized to the extent it is likely that future taxable profit allows the deferred assets recovery. Deferred assets and liabilities are recognized disregarding the time on which it is estimated that temporary differences are offset.

Deferred assets and liabilities are measured using the legal rates expected to be applicable in the year in which assets are realized or liabilities are settled, based on promulgated or substantially promulgated rates in 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 (income less expenses), rather than being computed based on produced quantity or percentage of income, after temporary differences adjustment.

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

(ah) Basic and diluted earnings per share

Basic earnings per share results from dividing the net result attributable to the shareholders by the weighted average number of common and investment shares outstanding in the period, including shares resulting from the restatement to constant currency.

Diluted earnings per share results from dividing net profit or loss attributable to the shareholders by the weighted average number of outstanding common and investment shares and potential shares that may have been issued in the period.

(ai) 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 27.

(aj) Employee benefits

The Company and Subsidiaries have 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 consolidated statement of income as they become due.

(ak) New accounting pronouncements

The Company and Subsidiaries have decided not to early adopt accounting standards and interpretations issued by IASB, which will become effective on or after January 1, 2017 (see Note 33).

3. TRANSACTION IN THOUSAND SOLES

Transactions in foreign currency (in thousand Soles) are made at the exchange rates published by the Superintendence of Banking, Insurance and Pension Fund Managers. As of December 31, 2016 the exchange rates issued by such institution were US$ 0.2983 for buying and US$ 0.2976 for selling transactions (US$ 0.2934 for buying and US$ 0.2930 for selling transactions as of December 31, 2015), which have been applied by the Company and Subsidiaries in assets and liabilities accounts, respectively.

As of December 31, 2016 and 2015, the Company and Subsidiaries had the following assets and liabilities in Soles:

	2016 S/ (000)	2015 S/ (000)
Assets		
Cash and cash equivalents	57,025	40,015
Trade accounts receivable, net	1,310	2,421
Other accounts receivable	330,222	720,498
	388,557	762,934
Liabilities		
Trade accounts payable	(119,176)	(113,332)
Other accounts payable	(48,542)	(145,223)
VAT deposits of trade accounts receivable	(60,970)	(46,823)
Financial obligations	(380,910)	(585,920)
	(609,598)	(891,298)
Net liabilities	(221,041)	(128,364)

4. CASH AND CASH EQUIVALENTS

A breakdown of this heading is given below:

	2016 US$(000)	2015 US$(000)
Cash and fixed fund	48	42
Bank checking accounts (a)	96,438	89,221
Time deposits (b)	37,261	28,612
Mutual funds	6,795	11,616
Funds subject to restriction	403	410
Investments abroad (c)	62,406	62,406
	203,351	192,307

(a) The Company and Subsidiaries maintain their checking accounts in local currency and in US Dollars in different local and foreign financial entities, and the funds kept in such accounts are freely disposable and accrue no interests.

(b) A breakdown of time deposits as of December 31, 2016 and 2015, which are maintain kept in first-rank financial entities, is given below.

Date	Nominal currency	Original terms	Annual interest rate %	US$(000)
Dec 31,2016	USD	1 to 3 months	0.36%	28,561
Apr 6, 2016	USD	9 months	0.70%	8,700
				37,261
Dec 31,2015	USD	1 to 3 months	0.36%	28,612

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

5. TRADE ACCOUNTS RECEIVABLE, NET

A breakdown of this heading is given below:

	2016 US$(000)	2015 US$(000)
Invoices	77,562	78,519
Allowance for doubtful accounts (a)	(17,601)	(17,601)
Adjustment of sales	9,160	(5,671)
	69,121	55,247

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 and Subsidiaries present a breakdown of accounts receivable by aging in Note 29 (b).

(a) As of December 31, 2016 and 2015, Management of the Company and Subsidiaries considers that, except for accounts receivable with an allowance as doubtful accounts, they have no bad debts. Their 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.

In the opinion of Management the Company and Subsidiaries, 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.

6. OTHER ACCOUNTS RECEIVABLE

A breakdown of this heading is given below:

Description	2016 US$(000)	2015 US$(000)
Tax credit favorable for the Company and Subsidiaries, Value Added Tax	123,950	115,947
Loan to related parties (a)	107,716	99,138
Loans to third parties (b)	51,671	54,084
Credit for Income Tax and temporary tax on net assets (c)	15,470	33,641
Sale of CEC shares (d)	20,000	21,000
Advance payments granted to contractors	16,793	10,456
Deferred costs and expenses	3,453	8,315
Accounts receivable from contractors	7,325	8,244
Taxes recoverable (e)	7,322	7,201
Public works for taxes, in process	4,546	4,421
Claims to SUNAT for seizures	4,379	4,307
Corporación Minera Castrovirreyna	2,853	2,853
Claims to the Agency for Environmental Assessment and Control (OEFA)	2,891	2,849
Commission for bond issuing	2,320	2,775
Certificate of Regional and Local Public Investment (f)	1,051	1,707
Prepaid insurance	6,207	1,300
Loans to personnel (g)	1,630	1,240
Accountable advances	453	293
Other minor	7,266	5,253
Allowance for doubtful accounts (h)	(6,604)	(1,618)
	380,692	383,406
Non-current part	30,213	31,050
Current part	350,479	352,356

(a) It corresponds to loans made to related party Compañía Minera Vichaycocha S.A.C. (no included in the consolidated financial statements) to be used as 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, which have been applied in year 2016.

(d) The balance of US$ 20 million corresponds to the balance receivable from the sale of Compañía Energética del Centro S.A.C. made in June 2014 by subsidiary Compañía Minera Chungar S.A.C. to Odebrecht Energía del Perú S.A. This balance will be collected between years 2017 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$ 2,433 thousand from December 2001 to March 2002 and Income Tax of year 2001 for US$ 2,055, and in Subsidiary Empresa Administradora Chungar S.A.C. they correspond to the exporter VAT credit balance for US$ 2,507 of April, June, July, August, September and December 2004. In the opinion of Management and legal advisors of the Company and Subsidiaries, the application will have a favorable result for them. This balance is considered of non-current maturity.

(f) It corresponds to the certificate for completed works pending application for taxes. The Company and Subsidiaries have continued participating in the execution of projects under the Works for Taxes regime provided in Law 29230. In 2016, the following projects were completed: “Expansion and Improvement of the Potable Water Supply and Sewerage System of the town of San Agustin – Huaychao, District of Huayllay – Pasco” was completed with an investment of S/ 8,060 thousand in consortium with Ferreyros and Unimaq; and “Improvement and Expansion of Potable Water, Sewerage and Waste Water Treatment services of the towns of Aguas Calientes, Santa Rosa, Bolognesi, Centro Yauli, Las Brisas, Manuel Montero, and San Juan Bautista de Pachachaca, Districto of Yauli, Department of Junin” with a total investment of S/ 9,540 thousand – in consortium with Ferreyros and Chinalco.

The following public investment project was drafted: “Early Education School “Nuestra Señora de la Asunción” in Huayllay, Pasco” (S/ 3,500 thousand). The purpose of this project is basically the comprehensive development of children in early education School “Nuestra Señora de la Asunción” in the district of Huayllay, Pasco ensuring them food, quality education and proper infrastructure.

(g) These loans accrue interests at an annual effective rate of 3 percent.

(h) In the opinion of Management the Company and Subsidiaries, 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. During year 2016 an allowance for US$ 4,986 thousand was recognized, related to advances granted.

The Company and Subsidiaries present a breakdown of other accounts receivable by aging in Note 29(b).

7. OTHER FINANCIAL ASSETS AND LIABILITIES

A breakdown of this heading is given below:

Receivable:

	2016 US$(000)	2015 US$(000)
Embedded derivatives	4,953	1,151
Derivative financial instruments:		
Settled	16,623	14,981
Provisions in the consolidated statement of Income	42,831	43,960
Provisions in Equity (Note 17 (a))	-	3,351
	59,454	62,292
	64,407	63,443
Less non-current part:		
Settled	(849)	(6,776)
Provisions in the consolidated statement of Income	(20,310)	(40,422)
Provisions in Equity (Note 17 (a))	-	(1,737)
Non-current part	(21,159)	(48,935)
Current part (a)	43,248	14,508

(a) As of December 31, 2016, the Company and Subsidiaries do not maintain any hedging derivative financial instruments. In 2015 it includes hedging transactions to become due in 2016 for US$ 1,614 thousand.

Hedging derivative financial instrument agreements have been basically traded with various international first-rank financial entities.The main ones include Bank of America Merril Lynch, J. Aron & Co., Societe Generale / New York, Morgan Stanley Capital Group, JP Morgan, Standard Bank Plc, BNP Paribas New York, Natixis, Cargill Incorporated, Macquarie Bank Limited, and The Bank of Nova Scotia.

Payable:

	2016 US$(000)	2015 US$(000)
Embedded derivatives	3,247	3,972
Derivative financial instruments:		
Settled	65,230	68,528
Provisions in the consolidated statement of income	14,821	30,425
Provisioned in equity (Note 17 (a))	-	38,855
Prepaid contracts	46,500	93,000
	126,551	230,808
	129,798	234,780
Less non-current part:		
Settled	(24,570)	(56,466)
Provision in profit or loss	-	(12,071)
Provisions in equity (Note 17 (a))	-	(28,912)
Prepaid contracts	-	(46,500)
Non-current part	(24,570)	(143,949)
Current part (b)	105,228	90,831

(b) In year 2016 it includes no hedging transactions to become due. In 2015 hedging transactions to become due in 2016 amounted to US$ 9,943 thousand.

8. INVENTORIES, NET

A breakdown of this heading is given below:

	As of December 31, 2016 US$(000)	As of December 31, 2015 US$(000)
Concentrates	8,046	19,335
Raw material (extracted ore)	27,079	28,726
Various supplies	55,972	54,618
Inventories in transit	464	1,025
Valuation of pyrite stockpiles	7,752	7,752
Allowance for obsolescence of spare parts and supplies	(8,760)	(4,488)
	90,553	106,968

Management estimates that the balances presented under inventories do not exceed their net realization values as of December 31, 2016 and 2015.

In the opinion of Management of the Company and Subsidiaries, according to the evaluation made with the participation of the operating areas, it is not necessary to record an allowance for obsolescence of spare parts and supplies, as they are expected to be used in the regular course of the Company operations.

9. PROPERTY, PLANT AND EQUIPMENT, NET

The movement and breakdown of this heading is given below:

YEAR 2016	BALANCES AS OF DECEMBER 31, 2015 US$(000)	ADDITIONS US$(000)	DISPOSALS US$(000)	TRANSFERS AND ADJUSTMENTS US$(000)	REVERSION OF ALLOWANCE FOR IMPAIRMENT US$(000)	BALANCES AS OF DECEMBER 31, 2016 US$(000)
COST						
Land	6,338	1,460	(46)	(1)	-	7,751
Buildings and other constructions	729,326	48,040	-	24,262	(14,379)	787,249
Infrastructure of environmental compliance program	22,846	28	-	-	-	22,874
Machinery and equipment	308,664	6,482	(11,167)	(760)	-	303,219
Transport units	12,169	485	(427)	(228)	-	11,999
Furniture and fixture and computer equipment	13,105	179	-	-	-	13,284
Various equipment	445,391	7,707	(149)	(626)	(21,501)	430,822
Units in transit	484	575	-	-	-	1,059
Works in progress (a)	199,391	36,367	-	(67,922)	-	167,836
	1,737,714	101,323	(11,789)	(45,275)	(35,880)	1,746,093
ACCUMULATED DEPRECIATION						
Buildings and other constructions	119,923	38,710	-	-	-	158,633
Infrastructure of environmental compliance program	21,807	269	-	-	-	22,076
Machinery and equipment	246,335	16,388	(9,623)	229	-	253,329
Transport units	10,806	528	(369)	(228)	-	10,737
Furniture and fixture and computer equipment	7,317	957	-	(1)	-	8,273
Various equipment	243,466	28,234	(83)	-	-	271,617
	649,654	85,086	(10,075)	-	-	724,665
Net cost	1,088,060					1,021,428

YEAR 2015	BALANCES AS OF DECEMBER 31, 2014 US$(000)	ADDITIONS US$(000)	DISPOSALS US$(000)	TRANSFERS AND ADJUSTMENTS US$(000)	IMPAIRMENT OF ASSETS US$(000)	BALANCES AS OF DECEMBER 31, 2015 US$(000)
COST						
Land	6,337	1	-	-	-	6,338
Buildings and other constructions	752,904	24,539	(352)	135,180	(182,945)	729,326
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
	1,821,534	117,302	(17,753)	193	(183,562)	1,737,714
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	1,246,775					1,088,060

(a) A breakdown of the projects under Works in progress as of December 31, 2016 and 2015 is given below:

Projects	2016 US$(000)	2015 US$(000)
Shaft, Andaychagua	19,867	13,503
Heightening, Rumichaca, elev. 4,218	12,401	12,058
Tailings deposit, Rumi	6,179	5,385
Tailings deposit, Chumpe	4,699	4,699
Enlargement of tailings deposit, Andaychagua	3,626	1,069
Enlargement of tailings deposit, Rumichaca	1,647	-
Pumping system, mine - installations	1,221	1,221
Victoria Plant 4700 MTPD	1,100	895
Enlargement of tailings deposit, Mahr Tunelº	1,064	993
Technological infrastructure system	827	827
Household waste water plant	818	770
Household waste water plant, Carahuacra	687	642
Arquimides project	609	609
Neutralization plant, Huacracocha zone	523	523
Pressure filter, Andaychagua	408	-
Pressure filter, Marh Tunel	299	-
Other projects	17,869	25,762
	---------	---------
	73,844	68,956
	======	======

In Subsidiary Compañía Minera Chungar S.A.C.

Projects	2016 US$ 000	2015 US$ 000
Enlargement of tailings deposit, Animón, 4614	34,318	34,144
1-stage pumping system	6,930	3,442
Acquisition of housing, expansion	5,732	5,732
Outer bypass road, Huayllay	5,384	5,318
Water pumping system, mine	4,073	1,561
Main substation - expansion	2,380	-
Tailings deposit, Naticocha	1,714	1,713
Expansion of substation Animon	1,154	-
Overflow channel, Baños V	1,058	1,058
Industrial water channeling system	997	-
Modernization of winch, Esperanza	979	979
Supporting of liabilities	888	-
Construction of settling Ponds	741	741
Construction of crowning channel	537	-
Transmisión line, 22 9 K	477	-
Plant expansion to lev 5570	462	-
Other projects, Alpamarca and Chungar	14,859	53,659
	---------	----------
	82,683	108,347
	======	=======

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

Projects	2016 US$ 000	2015 US$ 000
Channel of pipelines for tailings	1,188	1,188
Dismantling of Petroperu supply plant	1,069	1,069
Deposit of armor stone revetments, Ocroyoc	719	719
Construction of physical and ecological barriers	558	558
Plant expansion	470	470
New basic engineering plant in Paragsha	348	348
Copper cathode Plant, reopening	170	-
Safety industrial waste dump site	151	-
Other projects, Cerro	1,139	1,586
	5,812	5,938

As of December 31, 2016 and 2015, it includes other projects in subsidiaries for US$ 5,497 thousand and US$ 16,150 thousand, respectively.

According to estimates, the referred projects should be completed in 2017.

(b) Depreciation is computed following the straight-line method to assign its cost less its residual value during its estimated useful life, as follows.

	Useful life
Buildings and other constructions	Up to 33 years
Infrastructure of environmental compliance program	Up to 10 years
Machinery and equipment	Up to 10 years
Transport units	Up to 5 years
Furniture and fixture and computer equipment	Up to 10 years
Various equipment	Up to 10 years

(c) The annual charge for depreciation has been distributed as follows:

	2016 US$ 000	2015 US$ 000
Production costs	69,538	81,802
Selling expenses	5	4
Administrative expenses	1,478	1,455
Other expenses	14,065	5,801
Total	85,086	89,062

(d) The net cost of buildings and machinery and equipment under financial leasing amounts to US$ 18,013 thousand and US$ 16,557 thousand, respectively (US$ 18,622 thousand and US$ 2,745 thousand in 2015). The disbursement in year 2016 amounted to US$ 12,957 thousand (US$ 17,533 thousand in 2015). The amounts payable in 2017 amount to US$ 6,505 thousand and to US$ 6,904 thousand in years 2018 and 2019.

(e) In year 2016 a reversion of allowance for impairment of buildings and other constructions. See Note 24.

(f) The Company and Subsidiaries maintain insurance policies covering their main assets according to the policies established by Management.

10. MINING TITLES AND CONCESSIONS, AND EXPLORATION, DEVELOPMENT AND STRIPPING COSTS

The movement and breakdown of this heading is given below:

2016	Balance as of Dec 31, 2015 US$(000)	Additions US$(000)	Transfers and adjust-ments US$(000)	Reversion of allowance for impairment US$(000)	Balance as of Dec 31, 2016 US$(000)
Cost					
Mining titles and concessions (a)	257,282	20,279	7,650	-	285,211
Exploration costs (b)	198,714	13,000	(9,493)	24,934	227,155
Development costs (c)	436,243	49,813	166	62,346	548,568
Closure of mining units (d)	73,456	(1,485)	-	-	71,971
Other intangibles	15,393	67,490	34	-	82,917
	981,088	149,097	(1,643)	87,280	1,215,822
Accumulated amortization					
Mining titles and concessions (a)	166,400	5,679	(5)	-	172,074
Exploration costs (b)	79,162	5,358	(2,341)	-	82,179
Development costs (c)	313,236	31,955	2	-	345,193
Closure of mining units (d)	22,686	4,834	-	-	27,520
Other intangibles	8,066	1,052	-	-	9,118
	589,550	48,878	(2,344)	-	636,084
Net cost	391,538				579,738

2015	Balance as of Dec 31, 2014 US$(000)	Additions US$(000)	Transfers and adjustments / derecognitions US$(000)	Impairment of assets US$(000)	Balance as of Dec 31, 2015 US$(000)
Cost					
Mining titles and concessions (a)	292,747	3,521	(1,676)	(37,310)	257,282
Exploration costs (b)	307,401	8,647	3,477	(121,061)	198,464
Development costs (c)	667,684	52,014	(56,514)	(226,691)	436,493
Closure of mining units d)	64,676	8,780	-	-	73,456
Other intangibles	14,265	93	1,035	-	15,393
	1,346,773	73,055	(53,678)	(385,062)	981,088
Amortization					
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	766,673				391,538

In year 2016, due to an increase in the prices of ore in the international market, the Company and Subsidiaries have recognized a reversion of allowance for impairment for US$ 51,400 thousand, which partially reverts the allowance for impairment recognized in 2015.

In year 2015, as a result of the fall in prices and the paralyzation of Cash-Generating Units (CGU's), and applying IAS 36 “Impairment of Assets”, the Company and Subsidiaries have recognized a loss on allowance for impairment for US$ 568,624 thousand.

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 and Subsidiaries as of the date of the consolidated statement of financial position.

a) Mining titles and concessions

The movement and breakdown of this heading is given below:

Year 2016	Balances as of Dec 31, 2015 US$(000)	Additions US$(000)	Transfers US$(000)	Adjust-ments US$(000)	Allowance for impair-ment US$(000)	Balances as of Dec 31, 2016 US$(000)
Cost						
Yauli	137,330	-	-	-	-	137,330
Cerro de Pasco	55,031	-	-	-	-	55,031
Animón	45,348	-	-	-	-	45,348
Paragsha and subsidiaries	3,846	-	-	-	(41)	3,805
Vinchos	2,329	-	-	-	-	2,329
San Sebastián	2,347	-	-	-	-	2,347
Other concessions	11,051	20,279	-	-	7,691	39,021
	257,282	20,279	-	-	7,650	285,211
Accumulated amortization						
Yauli	(93,144)	(3,569)	-	-	-	(96,713)
Cerro de Pasco	(51,136)	(306)	-	-	-	(51,442)
Animón	(20,914)	-	(23)	-	-	(20,937)
Paragsha and subsidiaries	(4)	-	4	-	-	-
Vinchos	(1,007)	-	-	-	-	(1,007)
Other concessions	(195)	(1,804)	24	-	-	(1,975)
	(166,400)	(5,679)	5	-	-	(172,074)
Net cost	90,882					113,137

Year 2015						
Cost	292,747	3,521	-	(1,676)	(37,310)	257,282
Accumulated amortization	(158,874)	(7,525)	1	-	-	(166,400)
Net cost	133,873					90,882

(b) Exploration Costs

The movement and breakdown of this heading is given below:

Year 2016	Balances as of Dec 31, 2015 US$(000)	Additions US$(000)	Transfers US$(000)	Allowance of loss on impair-ment US$(000)	Balances as of Dec 31, 2016 US$(000)
Cost					
Yauli	108,247	6,463	(1)	-	114,709
Cerro de Pasco	3,685	(1,453)	-	-	2,232
Animón	39,424	422	-	24,934	64,780
Paragsha and subsidiaries	32,103	7,052	(9,493)	-	29,662
Vinchos	9,815	-	(1)	-	9,814
El Pilar	-	-	-	-	-
San Sebastian	5,440	516	2	-	5,958
	198,714	13,000	(9,493)	24,934	227,155
Accumulated amortization					
Yauli	(39,752)	(5,191)	-	-	(44,943)
Cerro de Pasco	(7,929)	-	1	-	(7,928)
Animón	(14,155)	(88)	(1)	-	(14,244)
Paragsha and subsidiaries	(7,512)	(79)	2,341	-	(5,250)
Vinchos	(9,814)	-	-	-	(9,814)
	(79,162)	(5,358)	2,341	-	(82,179)
Net cost	119,552				144,976
Year 2015					
Cost	307,401	8,647	3,727	(121,061)	198,714
Accumulated amortization	(70,414)	(8,748)	-	-	(79,162)
Net cost	236,987				119,552

In December 2015, Management of the Company and Subsidiaries 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:

Year 2016	Balances as of Dec 31, 2015 US$(000)	Additions US$(000)	Transfers US$(000)	Reversion of loss on impairment US$(000)	Balances as of Dec 31, 2016 US$(000)
Cost					
Yauli	246,693	32,280	-	46,079	325,052
Cerro de Pasco	83,671	-	-	-	83,671
Animón	92,960	-	-	16,267	109,227
Paragsha and subsidiaries	6,661	17,533	166	-	24,360
Vinchos	6,258	-	-	-	6,258
	436,243	49,813	166	62,346	548,568
Accumulated amortization					
Yauli	(159,525)	(24,693)	-	-	(184,218)
Cerro de Pasco	(74,788)	-	-	-	(74,788)
Animón	(65,796)	(7,262)	-	-	(73,058)
Paragsha and subsidiaries	(6,869)	-	(2)	-	(6,871)
Vinchos	(6,258)	-	-	-	(6,258)
	(313,236)	(31,955)	(2)	-	(345,193)
Net cost	123,007				203,375
Year 2015					
Cost	667,684	52,014	(56,764)	(226,691)	436,243
Accumulated amortization	(326,491)	(43,259)	56,514	-	(313,236)
Net cost	341,193				123,007

In December 2015, Management of the Company and Subsidiaries 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:

Year 2016	Balances as of Dec 31, 2015 US$(000)	Additions US$(000)	Balances as of Dec 31, 2016 US$(000)
Cost			
Closure of mining units	73,456	(1,485)	71,971
Accumulated amortization			
Closure of mining units	(22,686)	(4,834)	(27,520)
Net cost	50,770		44,451

Year 2015			
Cost	64,676	8,780	73,456
Accumulated amortization	(17,439)	(5,247)	(22,686)
Net cost	47,237		50,770

11. FINANCIAL OBLIGATIONS

(a) This heading includes the following debts:

	Contract	ORIGINAL AMOUNT S/	ORIGINAL AMOUNT US$(000)	GUARANTEE GRANTED	INTEREST RATE	MATURITY	Total 2016	Total 2015
Loans:								
Scotiabank	-	-	80,000	None	1.95 percent	Mar-17	80,000	-
Scotiabank	-	246,320	-	None	1.10 percent	Mar-16	-	80,000
BBVA Banco Continental	Various	339,600	-	None	4.50 & 4.85 percent	Mar-16	-	110,000
BBVA Banco Continental		70,100	-	None	5.90 percent	Mar-17	20,000	-
BBVA Banco Continental		172,250	-	None	5.70 percent	Mar-17	50,000	-
BBVA Banco Continental		138,560	-	None	5.70 percent	Mar-17	40,000	-
Itau Unibanco S.A.	-	-	27,500	None	3.15 percent + 3M libor rate	Jul-22	23,571	27,500
Itau Unibanco S.A.	-	-	10,000	None	1 percent + 2M libor rate	Feb-16	-	10,000
Atlas Copco Financial Solutions AB		-	1,469	None	4 percent	Feb-19	1,183	-
							214,754	227,500
Bonds:								
Traded bonds (1)	-		600,000		5.375 percent	Feb-22	535,264	587,000
							535,264	587,000
Commercial papers:								
Commercial papers (1)	-	-	50,000		2.72 percent	May-17	50,000	-
							50,000	-
Financial leasing:								
Interbank	Various		-	The leased goods themselves	Between 2.50 and 4.79 percent	Between Jan 17 and Jul 18	2,874	9,326
Scotiabank	Various		-	The leased goods themselves	Between 3.20 and 4.68 percent	Between Jan-17 and Dec-19	8,044	11,539
Banco de Crédito del Perú	32657AFB		2,005	The leased goods themselves	5.75 percent	Dec 17	370	719
BBVA Banco Continental	506075		1,039	The leased goods themselves	Between 3.20 and 3.90 percent	Between Jan 17 and Jul 18	2,121	4,476
							13,409	26,060
Total financial obligations							813,427	840,560
Non-current part							562,504	623,571
Current part							250,923	216,989

(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.

(b) The debt amortization schedule as of December 31, 2016 and 2015 is as follows:

Year	2016 US$(000)	2015 US$(000)
2016	-	216,989
2017	250,923 (a)	6,940
2018	4,170	3,344
2019	3,428	2,716
2022	554,906	610,571
	----------	----------
	813,427	840,560
	=======	=======

(a) Management of the Company and Subsidiaries considers that there will be no problem to pay this balance. See Note 29 (c).

12. TRADE ACCOUNTS PAYABLE

A breakdown of this heading is given below:

	2016 US$(000)	2015 US$(000)
Invoices	170,740	133,842
Drafts	2	2
Provisions for contractors’ services (a)	40,502	31,450
	----------	----------
	211,244	165,294
	=======	=======

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 policy to manage liquidity risk and aging of accounts payable maintained by the Company and Subsidiaries are shown in Note 29 (c).

(a) They correspond to services from contractors received in December, for which no invoices had been issued at the year closing.

13. OTHER ACCOUNTS PAYABLE

A breakdown of this heading is given below:

	2016 US$ 000	2015 US$ 000
Remunerations and employees' profit sharing (a)	26,883	17,877
Advances from customers	-	249
Dividends payable (b)	1,105	1,010
Interest payable on bonds (c)	11,988	13,438
Withholdings for VAT deposits payable	4,654	6,302
Royalties payable (Note 2.4 (r) and 16 (a) (i))	4,414	3,238
Interest payable on financial obligations	2,094	1,419
Mining retirement fund	53	67
Corporate Income Tax of the Company and Subsidiaries	14,339	133
Employees' supplementary occupational risk insurance premiums	957	423
Value Added Tax – Withholdings	378	68
Income tax withheld from personnel	691	671
Contributions to the Social Security Health Insurance agency (EsSalud)	1,274	722
Contributions to pension fund managers	402	382
Court-ordered withholdings	608	1,020
Contributions to the Public Pension System	185	189
Acquisition of Chancay Port S.A.C.	35,200	-
Other minor	5,936	1,567
	111,161	48,775

The policy to manage liquidity risk and aging of accounts payable maintained by the Company and Subsidiaries are shown in Note 29 (c).

(a) As of December 31, 2016 it includes mainly US$ 15,322 thousand for employees' profit sharing.

(b) In Meeting held on July 5, 2016, the Board of Directors approved the payment of dividends corresponding to Retained earnings of year 2014 for S/ 52,484 thousand (equivalent to US$ 15,620 thousand).

(c) It corresponds to accrued interests on bonds issued by the Company and Subsidiaries each year (See Note 11) corresponding to the August-December 2016 period.

14. 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, and prior 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 and Subsidiaries 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 no environmental liability pending remediation has been incorporated. 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 2016 the Company and Subsidiaries 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, 2016, the Company and Subsidiaries recognized liabilities amounting to US$ 70,528 thousand corresponding to all of their mining units (US$ 72,381 thousand as of December 31, 2015) related to their obligations for the their future closure:

Mining Unit	2016 Future Value US$(000)	2015 Future Value US$(000)
Carahuacra	20,175	22,078
San Cristóbal	10,503	11,181
Alpamarca	6,426	3,383
Andaychagua	6,908	7,181
Ticlio	5,137	4,245
Cerro de Pasco	8,327	12,778
Animon	4,662	4,663
Vinchos	8,390	6,872
	---------	---------
Total	70,528	72,381
	======	======

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

	US$(000)
Balance as of December 31, 2015	72,381
Decrease for provision present value update	(1,853)

Balance as of December 31, 2016	70,528
	======

The provision for closure of the mining units accounts for the present value of costs of closure expected to be incurred between years 2016 and 2030. The estimated costs for the closure of mining units is based on a study prepared by an independent expert in compliance with current environmental regulations. Provision for closure of mining units corresponds mainly to activities that have to be carried out for restoration of mining units 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 revised to take into account any significant change in the studies made. However, the costs for the closure of mining units 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, 2016, the future value of the provision for closure of mining units and environmental liabilities is US$ 167,491 thousand, which has been discounted using the risk free annual rate of 12.44 percent, resulting in an updated liability of US$ 70,528 thousand (US$ 159,488 thousand as of December 31, 2015 using the risk free annual rate of 12.44 percent, resulting in an updated liability of US$ 72,381 thousand). The Company and Subsidiaries consider that this liability is enough to comply with current environment protection as approved by the Ministry of Energy and Mines.

15. INCOME TAX

(a) Income tax expenses shown in the consolidated statement of income include:

	2016 US$(000)	2015 US$(000)
Income tax		
Current	(37,024)	(18,776)
Deferred	1,646	208,521
	(35,378)	189,745
Tax on mining royalties (i)	(13,011)	(11,935)
Contribution to the mining retirement fund (ii)	(655)	(317)
	(49,044)	177,493

(i) It corresponds to mining royalties that the Companies and Subsidiaries 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 and Subsidiaries recognize 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, 2016 US$(000)	As of Dec 31, 2015 US$(000)
Deferred assets through profit or loss		
Impairment of non-financial assets	152,581	159,215
Allowance for impairment of supplies	2,513	1,084
Provision for closure of mining units	24,730	19,558
Embedded derivative for sale of concentrates	-	793
Vacation pays accrued but not paid	2,583	1,968
Provision for contingencies	12,948	396
Adjustment of sales	-	1,589
Derivative financial instruments	4,529	-
Allowance for doubtful accounts	1,497	-
Tax loss of subsidiary	70,635	52,520
Other	1,253	-
Provision for mining royalties	1,542	861
Deferred assets through unrealized profit or loss		
Unrealized loss on derivative financial instruments	-	10,735
	----------	----------
Deferred assets	274,811	248,719
	=======	=======
Deferred liabilities through profit or loss		
Adjustment of sales	(3,680)	-
Embedded derivative for sale of concentrate	(211)	-
Amortization of mining titles and concessions, and exploration, development and stripping costs	(153,580)	(116,523)
Valuation of oxide and pyrite stockpiles	(2,310)	(1,901)
Estimated of securities disposal	(1,584)	(1,802)
Capitalization of expenses for issue of bonds	(685)	(611)
Gain on fair value of hedges and premiums	-	(1,766)
Other minor	-	(100)
	----------	----------
Deferred liabilities	(162,050)	(122,703)
	=======	=======

(c) Reconciliation of the effective income tax rate with the legal rate is given below:

	2016 US$(000)	%
Accounting profit before income tax	133,450	100
	----------	------
Theoretical income tax	(37,366)	(28)
Other minor deductions	(1,988)	(1)
	----------	------
Income tax expense	(35,378)	(29)
	=======	====

16. 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, and such right is not cumulative. From the total, 182,375,312 class "A" shares and 12,234,901 class "B" shares are held by subsidiary Empresa Minera Paragsha S.A.C., and 23,442,345 class "A" shares are held by subsidiary Compañía Minera Chungar S.A.C. All common shares are fully subscribed and paid and have a face value of 0.87 soles.

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, 2016, their quotation was S/ 1.41 and S/ 0.72 per share, respectively (S/ 1.09 and S. 0.190 per share, respectively, as of December 31, 2015). As of December 31, 2016, class "A" shares had a 60 percent frequency trading, while class "B" shares had a 100 percent frequency trading (20 percent for class "A" shares and 100 percent for class "B" shares as of December 31, 2015).

The shareholding structure as of December 31, 2016 and 2015 is as follows:

Percentage of individual interest in the share capital	Number of shareholders		Total interest percentage	
	2016	2015	2016	2015
Less than 0.20	570	543	1.88	0.47
0.20 to 1.00	6	29	4.00	5.41
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	21.49
	-----	-----	--------	--------
	592	588	100.00	100.00
	===	===	======	======

The Mandatory Annual Shareholders' Meeting held on March 31, 2016 resolved to reduce the Company's Share Capital by S/ 529,954,383, from S/ 4,076,572,175 to S/ 3,546,617,792 by reducing the face value of all Class “A” and Class “B” shares issued by the Company, which face value is thus reduced from S/ 1.00 Sol to S/ 0.87 cents of Sol.

In meeting of the board of directors held on July 5, 2016, it was resolved to distribute to its shareholders dividends in cash corresponding to 2014 profit for S/ 52,484,125.70 (equivalent to US$ 15,967,181). Such dividends were paid off on August 9, 2016.

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 thousand (equivalent to US$ 10,168 thousand). Such dividends were paid off in May 2015.

(b) Shares in treasury

It corresponds to own shares acquired by the subsidiaries.

(c) Legal reserve

In accordance with the General Business Act, a minimum 10 percent of the annual distributable profit has to be transferred to a legal reserve until it equals 20 percent of the paid-in capital. The legal reserve can be used only to offset losses, but must be replenished and cannot be distributed as dividends, except in case of liquidation. According to article 229 of the New Business Act, the Company and Subsidiaries 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 gain or loss

It corresponds to unrealized gain (loss) on derivative instruments to hedge cash flows (Note 17). This unrealized gain or loss originates because the commodities price was agreed at a value that was respectively higher or lower than their settlement value.

(f) Retained earnings

They may be capitalized or distributed as dividends, by resolution of the Shareholders’ Meeting. Dividends and any other form of distributed profit are subject to Income Tax (see Note 18) on the distributed amount to be borne by the shareholders or company members, which is only applicable to shareholders who are individuals, whether domiciled in Peru or not, or to legal entities not domiciled in Peru. According to the General Business Act, distribution of dividends is required to be proportionate to the shareholders contribution.

17. HEDGING DERIVATIVE FINANCIAL INSTRUMENTS

The Company and Subsidiaries use derivative instruments to reduce the market risks to which they are exposed. Risks are mainly referred to the effects of changes in the prices of metals they commercialize, which show constant fluctuations. Management's intention is to maintain derivative instruments to hedge any fluctuations in the prices of their metals, mainly zinc and silver.

(a) Ore quote hedging transactions

Hedging contracts: Swap Contracts -

During years 2016 and 2015, the Company and Subsidiaries entered price hedging 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 brokers so that they match the terms negotiated in the related commercial agreements.

Hedging contracts: zero-cost option collars -

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 and Subsidiaries 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 and Subsidiaries is activated generating a collection for the difference between both prices.

As of December 31, 2016, the Company and Subsidiaries do not maintain any positions in hedging financial derivative instruments.

As of December 31, 2015, the Company and Subsidiaries had the following current hedging transactions receivable:

Metal	Total volume FMT/OZ	Periods	Fair Value US$(000)
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 7)			(1,737)

Current part (Note 7)			1,614
			=====

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

Metal	Volumen Total volume FMT/OZ	Periods	Fair Value US$(000)
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” contracts			(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 7)			28,912

Current part (Note 7)			(9,943)
			======

In year 2015 the net fair value of hedging derivative instruments payable was US$ 35,504 thousand, which was presented under "hedging derivative financial instruments" in the statement of financial position.

(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 US$(000)	Income tax US$(000)	Unrealized (loss) gain on hedging derivative financial instruments, net US$(000)
Balances as of December 31, 2014	(31,331)	9,400	(21,931)
Total variation in hedging derivative financial instruments	(4,174)	542	(3,632)
Balances as of December 31, 2015	(35,505)	9,942	(25,563)
Total variation in hedging derivative financial instruments	35,505	(9,942)	25,563
Balances as of December 31, 2016	-	-	-

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

As of December 31, 2016 and 2015, temporary settlements in metric tons (MT) of zinc, lead, and copper; and ounces (OZ) of silver held as of that date, their final settlement periods, and the fair value of embedded derivatives include:

As of December 31, 2016:

Concentrate	Qty	Quotation period 2016	Fair Value
	DMT/OZ		US$(000)
In transit			
Zinc	75	Jan 2017 – Apr 2017	1,133
Lead	27	Jan 2017 – May 2017	3,820

			4,953
Payable -			
Copper	2	January 2017	(628)
Silver	13	Jan 2017 – Mar 2017	(1,002)
Zinc	96	Jan 2017 – Mar 2017	(671)
Lead	12	Jan 2017 – Feb 2017	(273)
Bulk	5	Jan 2017 – Mar 2017	(673)

			(3,247)

			1,706
			=====

As of December 31, 2015:

Concentrate	Qty	Quotation period 2016	Fair Value
	DMT/OZ		US$(000)
In transit			
Zinc	44,152	Jan 2016 – Feb 2016	903
Lead	11,127	Feb 2016 – Mar 2016	232
Silver	523	February 2016	16

			1,151
Payable -			
Copper	669	January 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, 2016 and 2015, the fair value of embedded derivatives generated gain of US$ 4,528 thousand and loss of US$ 8,696 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, 2016 and 2015 are expected to be settled are taken from London Metal Exchange publications.

(d) Fair value hierarchy

To increase coherence and comparability in its fair value measurements a fair value hierarchy has been established that classifies entries of valuation techniques used for fair value measurement in three levels:

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 and Subsidiaries use level-1 valuation techniques for the periods ended December 31, 2016 and 2015.

No transfers have occurred between fair value hierarchy levels during periods 2016 and 2015.

18. TAXATION

(a) Current tax framework

The Company and Subsidiaries are subject to the Peruvian tax regime. The Income Tax rate applicable to entities during year 2016 is 28%. If the Company fully or partially distributes dividends or any other form of profit distribution, an additional rate of 6.8% on the distributed amount shall apply, which is to be borne by each shareholder, provided that they are individuals or legal entities not domiciled in the country. However, for any amount or delivery in kind resulting third-class taxable income that may represent an indirect disposition not subject to subsequent tax control, including amounts charged to expenses and not declared income (alleged dividends), the Income Tax rate of 6.8% during year 2016 shall apply, which is to be borne by the entity.

As from year 2017, the Income Tax rate applicable to entities shall be 29.5%, while the rate applicable to the distribution of dividends or any other form of profit distribution, as well as the any alleged dividends shall be subject to the 5% rate, which shall be borne by each shareholder in the former case and by the company in the latter case.

The Income Tax rate applicable to shareholders for total or partial distribution of dividends or any other form of profit distribution shall be 5%. That same rate shall also be applicable to entities for any amount or delivery in kind resulting third-class taxable income that may represent an indirect disposition not subject to subsequent tax control, including amounts charged to expenses and not declared income.

In opinion of Management of the Company and Subsidiaries, there will be no major contingencies as of December 31, 2016 from the application of these regulations. In any case, any assessment on such regard by the tax authorities will be recognized in the year in which it occurs.

(b) Years open to fiscal review

The Tax Administration has the power to review and, as appropriate, correct the Income Tax assessed by the Company and Subsidiaries in the last four years counted as from January 1 of the year following the corresponding tax return filing (years open for an audit). IT tax returns corresponding to years 2012 through 2016 and VAT tax returns corresponding to the December 2011 through December 2016 periods are subject to audit by Tax Administration. Income tax corresponding to year 2011 is currently being audited by the Tax Administration.

Entity	Years open to review by tax authorities
Volcan Compañía Minera S.A.A.	2011, 2012, 2013, 2014, 2015, & 2016
Empresa Administradora Chungar S.A.C. (1)	2014 & 2015
Compañía Minera Chungar S.A.C. (1)	2016
Empresa Explotadora de Vinchos Ltda. S.A.C.	2014, 2015 & 2016
Empresa Minera Paragsha S.A.C.	2012, 2013, 2014, 2015 & 2016
Compañía Minera Alpamarca S.A.C. (1)	2012, 2013, 2014 & 2015
Empresa Administradora Cerro S.A.C.	2013, 2014, 2015 & 2016
Minera San Sebastian AMC S.R.L.	2012, 2013, 2014, 2015 & 2016
Compañía Minera Vichaycocha S.A.C.	2012, 2013, 2014, 2015 & 2016
Hidroeléctrica Huanchor S.A.C.	2012, 2013, 2014, 2015 & 2016
Empresa de Generación Eléctrica Rio Baños S.A.C.	2012, 2013, 2014, 2015 & 2016
Compañía Hidroeléctrica Tingo S.A.	2012, 2013, 2014, 2015 & 2016
Óxidos de Pasco S.A.C.	2015 & 2016

(1) on January 1, 2016, the merger became effective under which Compañía Minera Alpamarca S.A.C. absorbed the entire equity of Empresa Administradora Chungar S.A.C., and therefore the latter extinguished without liquidation. After the merger Compañía Minera Alpamarca S.A.C. changed its name to Compañía Minera Chungar S.A.C., which 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 and Subsidiaries, it is not possible to anticipate as of this date 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. Management of the Company and Subsidiaries estimate that no material liabilities will result from these possible reviews.

(c) Transfer prices –

Entities making transactions with related parties and/or from, to and through tax havens are subject to Transfer Price regulations and are required to have documents and information to support such transactions.

Through Legislative Decree 1312, as published on December 31, 2016, various changes have been made in Transfer Price regulations.

Thus, for transactions made during 2016 with related parties and/or from, to and through tax havens or territories of low or no taxation, which are to be reported during year 2017, the annual informative tax return named Local Report shall be filed. This Local Report shall be filed by taxpayers subject to Transfer Price regulations, whose income accrued in the tax year exceed 2,300 tax units for transactions generating taxed income and/or deductible costs or expenses for Income Tax assessment purposes. Through Superintendence Resolution, SUNAT may demand compliance of such obligation to taxpayers with transactions generating exempted income or income not subject to tax or non deductible expenses for income tax assessment purposes.

For transactions made as from year 2017, to be reported in year 2018, by taxpayers who are members of a Group, which income accrued in the taxable year exceed 20,000 tax units, the Master Report shall be filed, an annual informative tax return including organization structure, description of business or businesses and transfer price policies on the group intangibles and financing as well as its financial and fiscal position.

Furthermore, taxpayers belonging to a Multinational Group shall file for transactions made as from year 2017, to be reported in year 2018, subject to Income Tax Law Regulations, the Country-by-Country Report shall be filed, an annual informative tax return including information related to global income distribution, taxes paid and business activities of each of the entities belonging to the Multinational Group and conducting their business in a given country or territory.

The referred Legislative Decree has also made other amendments on the application of the Comparable Uncontrolled Price (CUP) method for export and import transactions of goods with known price quotation in the international market, local market or destination market or with prices set using price quotations in such markets as benchmark. Additionally, it includes the possibility to use other Price Transfer methods besides the six methods already known, as well as regulations on intra-group services and low value-added services.

19. NET SALES

(a) The Company and Subsidiaries revenue result basically from the sale of zinc, lead, silver, and copper concentrates. Detail of net sales per concentrate in years 2016 and 2015 is given below:

Description	2016 US$(000)	2015 US$(000)
Net sales per concentrate:		
Zinc	429,669	427,314
Lead	207,189	197,083
Copper	20,377	25,083
Silver	75,024	85,461
Bulk	21,710	2,314
Silver bars	73,448	61,525
Gold bars	748	-
	828,165	798,780
Gain (loss) on:		
Fair value on financial instruments	11,613	4,729
Execution of financial instruments (Note 17 c))	(37,589)	(4,430)
Embedded derivative (c) (Note 17 (d))	4,528	(8,696)
Adjustment of open temporary settlements	14,831	4,131
	821,548	794,514

(b) The net sales of concentrate to customers per geographic area (not including the effect of the embedded derivative valuation, and unrealized gains on hedging instruments):

	2016 US$(000)	2015 US$(000)
Peru	397,263	454,737
The Americas	97,007	84,834
Asia	210,197	216,587
Europe	113,963	42,622
Oceania	9,735	-
	----------	----------
	828,165	798,780
	=======	=======

(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, 2016 and 2015, the Company and Subsidiaries hold 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 2016, the three most important customers accounted for 61% of total sales (56% of total sales in year 2015). As of December 31, 2016, 44% of accounts receivable is related to these customers (39% as of December 31, 2015). The sales of concentrates by the Company and Subsidiaries are made to locally and internationally renowned companies.

(e) Commitments to sell

As of December 31, 2016, the Company and Subsidiaries maintain commitments with third parties for the sale of lead, zinc and copper concentrates for 340,463 WMT, 2,394,442 WMT, and 19,084 WMT, respectively until year 2017 (222,241 WMT, 1,341,732 WMT, and 35,730 WMT, respectively as of December 31, 2015). These sales will be made at the market price. As for dore bars, sales amount to 4,600,000 oz up to year 2017.

20. COST OF SALES

Assessment of this heading is given below:

Description	For the accumulated period from Jan 1 to Dec 31 2016 US$(000)	2015 US$(000)
Initial inventory of concentrates	19,335	24,789
Initial inventory of raw material (extracted ore)	28,726	31,466
Production cost:		
Labor	56,604	63,713
Services from third parties, energy and other	220,681	237,037
Supplies used	103,430	111,224
Depreciation	69,538	81,802
Amortization	47,202	73,465
Other minor	63,042	3,482
Purchase of concentrates	458	80,611
Employees' profit sharing	7,333	3,673
Less – final inventory of concentrates	(8,046)	(19,335)
Less - final inventory of raw material (extracted ore)	(27,079)	(28,725)
	581,224	663,202

21. ADMINISTRATIVE EXPENSES

A breakdown of this heading is given below:

	2016 US$(000)	2015 US$(000)
Personnel charges	21,139	23,142
Insurance	4,198	6,522
Professional fees	4,397	4,496
Employees' profit sharing	4,051	2,142
Compensations	407	1,240
Personnel services	1,392	1,385
Depreciation	1,478	1,455
Amortization	1,344	775
Supplies	837	1,101
Leases	731	788
Communications and IT	1,319	1,451
Mail and telecommunication, and other minor expenses	2,870	2,568
	44,163	47,065

22. SELLING EXPENSES

A breakdown of this heading is given below:

	2016 US$(000)	2015 US$(000)
Freight	20,920	27,148
Shipping expenses	4,215	4,536
Services rendered by third parties	968	2,535
Personnel expenses	1,075	1,015
Samples, analysis and supervision	1,112	1,090
Services for the sale of concentrates	3,440	2,766
Leases	809	1,508
Various services	1,524	2,421
Depreciation	5	4
	---------	---------
	34,068	43,023
	======	======

23. OTHER OPERATING INCOME (EXPENSES)

A breakdown of this heading is given below:

	2016 US$(000)	2015 US$(000)
Revenue		
Revenue from the sale of various supplies	11,231	18,224
Recovery of provision for contingencies	-	11,185
Revenue from the sale of energy to third parties	12,797	10,791
Ore treatment and other services to third parties	6,521	4,183
Insurance indemnification	49	442
Disposal of fixed assets	388	1,890
Purchase in advantageous terms	-	2,201
Redemption of bonds	14,003	4,220
Other	2,925	3,111
	---------	---------
	47,914	56,247
	======	======

	2016 US$(000)	2015 US$(000)
Expenses		
Allowance for impairment of oxide and pyrite stockpiles (See Note 9 (a))	-	(69,291)
Cost of sales of various supplies	(8,889)	(15,855)
Cost of ore treatment and other services to third parties	(3,055)	(1,029)
Cost of energy sales	(8,597)	(6,317)
Provision for contingency	(34,279)	(190)
Disposal of fixed assets	(1,163)	(2,257)
Various non-deductible expenses	(2,839)	(10,767)
Tax administrative penalties	(580)	(857)
Paralyzation of plant	(9,073)	-
Depreciation	(14,065)	(5,801)
Other	(9,959)	(3,051)
	(92,499)	(115,415)

24. IMPAIRMENT OF NON-FINANCIAL ASSETS

In 2016, the value of long-term assets was revalued resulting the reversion of allowance for estimated impairment in year 2015, which amounts to US$ 51,400 thousand, with a deferred income tax benefit for US$ 14,392 thousand through net profit or loss of the year of US$ 37,008 thousand.

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 and Subsidiaries recognized loss on impairment of certain non-financial assets for US$ 568,624 thousand (US$ 183,562 thousand of buildings and other constructions (See Note 9), and US$ 385,062 thousand of cost of development (See Note 10) with a deferred income tax benefit for US$ 159,215 thousand through net year profit or loss 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 opinion of the Company and Subsidiaries, the balance of allowance for impairment of noon-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, Management of the Company and Subsidiaries consider that this allowance in profit or loss has no effect in the cash flows and may reverse in the future in case of a material improvement in the prices of metals.

25. FINANCIAL INCOME (EXPENSES)

A breakdown of this heading is given below:

	2016 US$(000)	2015 US$(000)
Revenue		
Gain on exchange difference	80,240	65,715
Interests on loans granted	6,206	4,155
Other financial income	1,806	3,323
Interests on time deposits	111	59
Fair value of mine closure	515	-
Dividends received from Investments abroad	338	487
	89,216	73,739
Expenses		
Loss on exchange difference	(80,111)	(74,949)
Interests on issued bonds (Note 12)	(30,072)	(30,498)
Interests and expenses on bank loans	(4,844)	(2,647)
Prepaid financial instruments	(3,336)	(2,439)
Interest on synthetic loan	(1,632)	(3,793)
Interests on financial leasing	(650)	(1,157)
Commissions and other expenses	(4,029)	(3,093)
	(124,674)	(118,576)

26. BASIC AND DILUTED EARNINGS (LOSS) PER SHARE

Computation of basic and diluted earnings (loss) per share reported in the years ended December 31, 2016 and 2015 (in thousand US Dollars, except for the information on common and investment shares) is given below:

	2016 US$(000)	2015 US$(000)
Net year profit (loss) US$(000)	84,406	(453,912)
Common shares - thousand of units	3,858,520	3,858,676
Basic and diluted net (loss) earnings per share of the year - US$	0.022	(0.118)

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

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

27. DISCLOSURE OF INFORMATION BY SEGMENTS

IFRS 8 “Operating segments” require that companies present their financial information taking into account the reported information that is internally used by Management to assess operating segments profit or loss and distribute the resources of such segments. Management uses business and geographic segments of the Company and Subsidiaries 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.

28. COMMITMENTS AND CONTINGENCIES

In the Company:

(a) Labor proceedings

As of December 31, 2016 there are contingent labor claims amounting to approximately S/ 19,676 thousand or equivalent to US$ 5,856 thousand (S/ 13,652 thousand or US$ 4,00 thousand in 2015) 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, 2016, the Company maintains various administrative proceedings pending resolution by the National Superintendence of Tax Administration (SUNAT), for various resolutions assessing taxes, fines and interests, approximately totaling S/ 1,196,930 thousand or equivalent to US$ 352,038 thousand (S/ 1,174,396 thousand or equivalent to US$ 344,095 thousand in 2015).

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, 2016, 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 or equivalent to US$ 184 thousand (S/ 618 thousand or equivalent to US$ 181 thousand in 2015), 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. And the other one with the Municipality of Yauli for an assessment on the Property Tax of years 2013 through 2015, amounting to S/ 68 thousand or its equivalent to approximately US$ 20 thousand, which is currently on appeal.

(d) Administrative Sanctioning Proceedings and Administrative Litigation Actions

As of December 31, 2016 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 approximately S/ 31,056 thousand or equivalent to US$ 9,243 thousand (S/ 27,304 thousand or equivalent to a US$ 8,000 thousand in 2015)).

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) Other proceedings

The company Dumas Perú S.A.C. ("Dumas") started an arbitration proceeding against the Company on commitments undertaken under contracts for the construction of the Andaychagua mining unit for overhead expenses and damage caused by the Company. The arbitration award that resolved the dispute has ordered the Company to pay Dumas the approximate amount of S/ 4,334 thousand or equivalent to US$ 1,290 thousand.

(f) 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 S/ 20,444 thousand (equivalent to US$ 6,084 thousand).

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 Compañía Minera Chungar S.A.C.

The merger between Empresa Administradora Chungar S.A.C. and Compañía Minera Alpamarca S.A.C. became effective on January 1, 2016, and as result of such merger, Compañía Minera Alpamarca S.A.C. undertook the entire equity of Empresa Administradora Chungar S.A.C., which thus extinguished. After the merger, Compañía Minera Alpamarca S.A.C. changed its name to "Compañía Minera Chungar S.A.C."

(a) Labor proceedings

As of December 31, 2016 there are contingent labor claims amounting to approximately S/ 701 thousand or equivalent to US$ 208 thousand (S/ 478 thousand or equivalent to US$ 140 thousand in 2015) for the payment of compensation for damage and loss 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, 2016 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 approximately S/ 8,434 thousand or equivalent to US$ 2,510 thousand (S/ 4,785 thousand or equivalent to a US$ 1,402 thousand in 2015)).

(c) Tax proceedings

As of December 31, 2016, the subsidiary maintains various administrative proceedings pending resolution by the National Superintendence of Tax Administration (SUNAT), for various resolutions assessing taxes, fines and interests, approximately totaling S/ 216,684 thousand or equivalent to US$ 64,489 thousand (S/ 218,320 thousand or equivalent to US$ 63,967 thousand in 2015).

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, 2016, 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 through 2012 for S/ 478 thousand (equivalent to US$ 142 thousand), which is currently on appeal.

Additionally, as of this date, it maintains an administrative proceeding pending resolution by the referred District Municipality against various administrative fines for S/ 571 thousand (equivalent to US$ 170 thousand), which is in currently on appeal.

(e) Other proceedings

The Subsidiary has filed claims for US$ 5,470 thousand against the company COSAPI S.A. ("COSAPI") for delays in the works in the framework of a contract for civil engineering works and mechanical mounting entered by and between COSAPI and the subsidiary for the construction of the concentrating plant at the Alpamarca mining unit. As of this date, both companies are in the stage of mediation to resolve the dispute.

(f) The Subsidiary Management, based on the opinion of independent advisors, has made a review of all tax, labor, civil law and administrative proceedings, among other, assessing a provision for probable contingencies for S/ 2,628 thousand or equivalent to US$ 782 thousand (S/ 1,365 thousand or equivalent to US$ 400 thousand in 2015).

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, 2016 there are contingent labor claims amounting to S/ 1,199 thousand or equivalent to US$ 356 thousand (S/ 853 thousand or US$ 250 thousand in 2015) 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, 2016, the subsidiary maintains a remedy of claim pending resolution by the National Superintendence of Tax Administration (SUNAT), for various resolutions assessing taxes, fines and interests, approximately totaling S/ 7,129 thousand or equivalent to US$ 2,122 thousand (S/ 7,129 thousand or equivalent to US$ 2,089 thousand in 2015).

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 years 2012 and 2014. A refund request for S/ 2,380 thousand or equivalent to US$ 708 thousand is also pending resolution. 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, 2016 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/ 1,285 thousand or equivalent to US$ 382 thousand (S/ 611 thousand or equivalent to US$ 179 thousand in 2015).

(d) Proceedings filed with Municipal Authorities

As of December 31, 2016, the Subsidiary keeps two 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 or equivalent to US$ 123 thousand (S/ 413 thousand or equivalent to S/ 121 thousand in 2015),), 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 or equivalent to US$ 174 thousand (S/ 583 thousand or equivalent to US$ 171 thousand in 2015), which are currently on claim.

On the other hand, Province Municipality of Cerro de Pasco imposed a fine for S/ 3,927 thousand or equivalent to US$ 1,169 thousand (S/3,927 thousand or equivalent to US$ 1,151 thousand in 2015) 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 or equivalent to US$ 113 thousand (S/ 386 thousand or equivalent to US$ 113 thousand in 2015), 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 law and administrative proceedings, among other, assessing a provision for probable contingencies for S/ 1,199 thousand or equivalent to US$ 357 thousand (S/ 1,023 thousand or equivalent to US$ 300 thousand in 2015).

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 Explotadora de Vinchos Ltda. S.A.C.:

(a) Labor proceedings

As of December 31, 2016 there are contingent labor claims rated as probable amounting to approximately S/ 422 thousand or equivalent to US$ 125 thousand (S/ 300 thousand or equivalent to US$ 88 thousand in 2015) for the payment of compensation for damage and loss resulting from occupational disease, reimbursement of remuneration-related benefits, and others on appeal and/or pending judgment.

(b) Tax proceedings

As of December 31, 2016, the subsidiary keeps one administrative-litigation proceedings pending resolution by the Judiciary for S/ 482 thousand or equivalent to US$ 144 thousand.

Such court proceeding is currently pending resolution by the Chamber of Constitutional and Social Law of the Supreme Court, and was filed because SUNAT declared not to proceed the request of refund of temporary tax on net assets of year 2011 with a credit balance applicable to the Income Tax of year 2010.

(c) Administrative Sanctioning Proceedings and Administrative Litigation Actions

As of December 31, 2016 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/ 1,573 thousand or equivalent to US$ 468 thousand (S/ 1,375 thousand or equivalent to US$ 403 thousand in 2015).

(d) The Subsidiary Management, based on the opinion of independent advisors, has made a review of all tax, labor, civil law and administrative proceedings, among other, assessing a provision for probable contingencies for S/ 422 thousand or equivalent to US$ 126 thousand (S/ 307 thousand or equivalent to US$ 90 thousand in 2015).

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, 2016, 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 2015 for S/ 68 thousand or equivalent to US$ 20 thousand (S/ 68 thousand or US$ 20 thousand in 2015),), which is currently on claim.

Additionally, as of such date, the Subsidiary maintains an administrative proceeding pending resolution by the referred District Municipality against assessment resolution collecting the Municipal Tax on Real Property Sales for S/ 324 thousand or equivalent to US$ 96 thousand (S/324 thousand or equivalent to US$ 95 thousand in 2015), which is in currently on claim.

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

In 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, 2016.

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

Management of the Company and Subsidiaries is aware of the market conditions and based on its knowledge and experience it revises, agrees and controls the risks, following the policies approved by the Board of Directors.

A sensitivity analysis is included in the financial statements of the Company and Subsidiaries (accounts receivable, accounts payable, embedded derivatives, and hedging derivatives) to see their variability to market changes and show the impact in the consolidated statement of comprehensive income or equity, as applicable.

Sensitivity has been prepared for the years ended December 31, 2016 and 2015, with the balances of financial assets and liabilities held as of that dates. The Company and Subsidiaries do not maintain any derivative instruments for speculation purposes. Hedge transactions are made based on metal prices using instruments available in the market.

As outlined in Note 17 to the financial statements, Management of the Company and Subsidiaries enter hedging transactions on the price of metals 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 and Subsidiaries 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, 2016 and 2015. 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 Management of the Company and Subsidiaries 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). Management of the Company and Subsidiaries 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, 2016, the Company and Subsidiaries have recorded a gain on exchange difference of US$ 129 thousand (loss US$ 9,234 thousand in year 2015) (See Note 25).

The table below shows 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 profit or loss US$(000)
2016		
Exchange Rate	10%	(52,366)
Exchange Rate	(10%)	21,766
2015		
Exchange Rate	10%	(43,377)
Exchange Rate	(10%)	53,016

(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, Management of the Company and Subsidiaries entered derivative contracts qualifying as cash flow hedging, see Note 17 (a).

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

As of December 31, 2016 and 2015, the fair value of embedded derivatives contained in commercial agreements amounts to a gain of US$ 1,706 thousand and a loss of US$ 2,821 thousand, respectively (see Note 17 (d)).

(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 income and cash flows are independent from changes in market interest rates.

(b) Credit risk

The credit risk of the Company and Subsidiaries arises from the inability of debtors to meet the payment of their already accrued obligations. Therefore, Management of the Company and Subsidiaries 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, Management of the Company and Subsidiaries 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 sales of concentrates by the Company and Subsidiaries 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, 2016, the 3 most important customers accounted for 61 % of total sales (56% of total sales in year 2015). Management of the Company and Subsidiaries 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's financial assets rated by aging, considering the period from the date of maturity to the date of the consolidated statement of financial position:

	2016			2015		
Description	Past due US$(000)	To become due US$(000)	Total US$(000)	Past due US$(000)	To become due US$(000)	Total US$(000)
Trade accounts receivable	3,128	65,993	69,121	5,227	50,020	55,247
Other accounts receivable	510	221,834	222,344	20,462	194,480	214,942
Other financial assets	-	64,407	64,407	-	63,443	63,443
	3,638	352,234	355,872	25,689	307,943	333,632

(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. Management of the Company and Subsidiaries maintains adequate levels of cash and cash equivalents; furthermore, for having entities with economic support, it has enough credit capacity to access credit facilities from first-rank financial entities.

Management of the Company and Subsidiaries is permanently monitoring its liquidity reserves, based on cash flow projections.

An analysis of the Company and Subsidiaries' financial liabilities rated by aging, considering the period from the date of maturity to the date of the consolidated statement of financial position:

	Less than 1 year US$(000)	1 to 2 years US$(000)	2 to 10 years US$(000)	Total US$(000)
As of December 31, 2016				
Bank overdrafts	**30,256**	-	-	**30,256**
Trade accounts payable	211,244	-	-	211,244
Other accounts payable	56,323	-	-	56,323
Other financial liabilities	105,228	24,570	-	129,798
Financial obligations	250,923	7,598	554,906	813,427
Total	653,974	32,168	554,906	1,241,048
As of December 31, 2015				
Bank overdrafts	14,043	-	-	14,043
Trade accounts payable	165,294	-	-	165,294
Other accounts payable	17,683	-	-	17,683
Other financial liabilities	90,831	65,510	78,439	234,780
Financial obligations	216,989	10,284	613,287	840,560
Total	504,840	75,794	691,726	1,272,360

(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.

Management of the Company and Subsidiaries manages its capital structure and makes adjustments to face changes in the market economic conditions. The policy of Management of the Company and Subsidiaries is to finance all of its short and long-term projects with own operating resources. To maintain or adjust the capital structure, Management of the Company and Subsidiaries 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, 2016 and 2015.

30. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

	2016 US$(000)	2015 US$(000)
Financial assets and liabilities at fair value through profit or loss		
Cash	159,295	152,079
Time deposits	37,261	28,612
Embedded derivative	1,706	(2,821)
Other financial assets	59,454	58,941
Total	257,716	236,811
Investments available for sale		
Mutual funds	6,795	11,616
Accounts receivable		
Accounts receivable, short and long term	291,465	270,189
Financial liabilities at amortized cost		
Financial obligations	813,427	840,560
Trade accounts payable	211,244	165,294
Other accounts payable	56,323	17,683
Other financial liabilities	126,551	191,953
Total	1,207,545	1,215,490
Financial assets and liabilities at fair value through other comprehensive income		
Hedge of cash flow	-	(35,504)

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.

	2016		2015	
	Carrying amount	Fair Value	Carrying amount	Fair Value
	US$(000)	US$(000)	US$(000)	US$(000)
Financial assets				
Cash and cash equivalents	203,351	203,351	192,307	192,307
Trade accounts receivable	69,121	69,121	55,247	55,247
Other accounts receivable	222,344	222,344	214,942	214,942
Other financial assets	64,407	64,407	60,092	60,092
	559,223	559,223	522,588	522,588
Financial liabilities				
Trade accounts payable	211,244	211,244	165,294	165,294
Other accounts payable	56,323	56,323	17,683	17,683
Financial obligations	813,427	813,427	840,560	840,560
Other financial liabilities	129,798	129,798	195,925	195,925
	1,210,792	1,210,792	1,219,462	1,219,462

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 Management of the Company and Subsidiaries 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.

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

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

Financial instruments at fix and variable rates –

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

31. TRANSACTIONS THAT HAVE NOT GENERATED FUNDS TURNOVER

In year 2015, buildings and machinery were acquired under financial leasing and as of December 31, 2015 the amount of US$ 19,569 thousand is pending payment under financial obligations.

32. 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$ 8.6 million (US$ 12.2 million in 2015), corresponding to salaries and other short-term benefits. During year 2016 no payments to key personnel have been made for post-employment benefits, other long-term benefits, benefits for termination, or share-based payments.

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

Changes effective as from January 1, 2017 or subsequent date are given below:

IFRS 10, IFRS 12 and IAS 28 Amendments	Investment Entities (published December 2014 and effective 2017)	Clarifications on the consolidation exception for investment companies
IAS 7 Amendments	Disclosure Initiative (published January 2016 and effective 2017)	It introduces additional disclosure requirements in order to improve the information provided to the users.
IAS 12 Amendment	Recognition of Deferred Tax Assets for Unrealised Losses (published January 2016 and effective 2017)	Clarification on the principles established for recognition of deferred tax assets for unrealised losses.
IFRS 15	Revenue from Contracts with Customers (published May 2014) and clarifications (published April 2016) (effective 2018)	New standard on revenue recognition (replaces IAS 11, IAS 18, IFRIC 13, IFRIC 15, IFRIC 18 and SIC 31).
IFRS 9	Financial Instruments (final version published July 2014) (effective 2018)	It replaces the requirements for classification, measurement, recognition, and derecognition of financial assets and financial liabilities, hedging accounting and impairment of IAS 39.
IFRS 2	Classification and Measurement of Share-based Payment Transactions (published June 2016 and effective 2017)	Limited amendments that clarify specific issues such as the effects of accrual conditions in cash-settled share-based payment transactions, the classification of share-based payment transactions with net settlement provisions, and some aspects of amendment concerning the type of share-based payment transactions.

IFRS 16	Leases (published January 2016) (effective 2019)	It replaces IAS 17 and related interpretations. The main novelty is that the new standard proposes a single lessee accounting model, where all leases will be accounted for in the balance sheet (with some limited exceptions) with a similar impact to that of current financial leasings (there will be amortization of the right-of-use asset and a financial expense for the liability amortized cost).
IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (published September 2014 and effective 2017)	Clarification on the result of these transactions involving a business or assets.
IAS 40	Transfer to, or from, Investment Property	Classification in relation to the time the change of use occurs.
IFRIC 22	Transactions in Foreign Currency and Advance Consideration	Classifies the date of application when an advance is given for an asset, expense or income.

34. SUBSEQUENT EVENTS

No significant events have occurred since the date of closure of the consolidated financial statements as of December 31, 2016 until February 23, 2017.

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