Volcan Compañía Minera S.A.A. and Subsidiaries

Independent Auditors' Report

Consolidated Financial Statements

For the Years Ended
December 31, 2019 and 2018

(Free translation of a report originally issued in Spanish)

VOLCAN COMPAÑÍA MINERA S.A.A. AND SUBSIDIARIES

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INDEPENDENT AUDITORS' REPORT

To the Shareholders and Directors of
Volcan Compañía Minera S.A.A. and Subsidiaries

1. We have audited the accompanying consolidated financial statements of **Volcan Compañía Minera S.A.A. ("the Company") and Subsidiaries**, which comprise the consolidated statements of financial position as of December 31, 2019 and 2018, and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the years then ended, as well as a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the consolidated financial statements

2. Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board, and for such internal control as Management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

3. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with International Standards on Auditing approved by the Board of Deans of the Peruvian Professional Associations of Certified Public Accountants for their application in Peru. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatements.

4. 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 auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of the Company. 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 consolidated financial statements.

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

Opinion

6. In our opinion, the consolidated financial statements referred to above, present fairly, in all material respects, the consolidated financial position of **Volcan Compañía Minera S.A.A. and Subsidiaries** as of December 31, 2019 and 2018, their consolidated financial performance and cash flows for the years then ended, in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board.

Emphasis of matter

7. Without modifying our audit opinion, we draw attention to Note 37 to the accompanying consolidated financial statements, which indicates that, as a result of the decrease of the demand of minerals from the Chinese market and the adverse impact of COVID-19, the quotation of the price of minerals traded by the Company and Subsidiaries is declining significantly in international markets. At the date of this report, Management is monitoring this situation and evaluating the impact on its capital and financial position, its results of operations and future cash flows.

Other matter

8. The translation of this report into English has been made solely for the convenience of English-speaking readers.

Velásquez, Mazuelos y Asociados S. Civil de R.L.

Countersigned by:

_______________________ (Partner)
Karla Velásquez Alva
CPC Registration No. 21595

March 20, 2020

VOLCAN COMPAÑÍA MINERA S.A.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2019 AND 2018
(In thousands of U.S. dollars (US$000))

	Notes	2019 US$000	2018 US$000
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	**6**	33,828	62,950
Trade accounts receivable (net)	**8**	36,159	41,842
Other accounts receivable (net)	**9**	73,906	168,597
Other financial assets	**10**	5,416	640
Inventories (net)	**11**	36,709	64,640
		186,018	338,669
Assets classified as held for sale	**15**	301,986	-
Total current assets		488,004	338,669
NON-CURRENT ASSETS:			
Other accounts receivable	**9**	7,990	6,992
Financial investments	**7**	193,794	53,305
Inventories (net)	**11**	-	7,752
Property, plant and equipment (net)	**12**	676,790	978,205
Right-of-use assets	**13**	22,463	-
Mining concessions, exploration and development costs and other intangibles (net)	**14**	780,122	840,067
Total non-current assets		1,681,159	1,886,321
TOTAL		2,169,163	2,224,990

	Notes	2019 US$000	2018 US$000
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Bank overdrafts		8,448	34
Financial obligations	**16**	224,476	208,665
Trade accounts payable	**17**	178,175	202,544
Other accounts payable	**18**	64,044	96,969
Other financial liabilities	**10**	53,407	48,218
		528,550	556,430
Liabilities directly associated with assets classified as held for sale	**15**	171,484	-
Total current liabilities		700,034	556,430
NON-CURRENT LIABILITIES:			
Financial obligations	**16**	576,322	587,764
Provisions	**19**	179,089	233,086
Deferred income tax	**28 (a)**	142,989	199,557
Total non-current liabilities		898,400	1,020,407
Total liabilities		1,598,434	1,576,837
EQUITY:			
Issued capital stock	**20 (a)**	1,134,300	1,134,300
Treasury shares	**20 (b)**	(60,926)	(61,285)
Legal reserve	**20 (c)**	11,755	1,055
Share premium	**20 (d)**	(173,217)	(172,801)
Revaluation surplus	**20 (e)**	-	30,307
Unrealized earnings	**20 (f)**	(5,918)	1,121
Retained earnings		(335,265)	(284,544)
Total net equity		570,729	648,153
TOTAL		2,169,163	2,224,990

The accompanying notes are an integral part of these consolidated financial statements.

VOLCAN COMPAÑÍA MINERA S.A.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(In thousands of U.S. dollars (US$000))

	Notes	2019 US$000	2018 US$000
Net sales	21	743,578	775,102
Cost of sales	22	(596,403)	(546,383)
Gross profit		147,175	228,719
Administrative expenses	23	(58,275)	(61,877)
Selling expenses	24	(23,199)	(27,185)
Other income	25	66,840	56,297
Other expenses	25	(119,923)	(77,361)
Reversal of impairment of long-lived assets	26	35,600	109,972
Impairment loss of long-lived assets	26	(19,613)	(69,261)
Operating profit		28,605	159,304
Financial income	27	1,842	649
Financial expenses	27	(48,386)	(45,488)
(Loss) profit before income tax		(17,939)	114,465
Income tax expense	28	(52,389)	(85,090)
Net (loss) profit for the year		(70,328)	29,375
Weighted average of the number of outstanding shares (in thousands)	29	3,857,618	3,857,668
Basic and diluted (loss) earnings per share	29	(0.018)	0.008

The accompanying notes are an integral part of these consolidated financial statements.

VOLCAN COMPAÑÍA MINERA S.A.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME (LOSS)
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(In thousands of U.S. dollars (US$000))

	2019 US$000	2018 US$000
Net (loss) profit for the year	(70,328)	29,375
OTHER COMPREHENSIVE INCOME (LOSS):		
Items that can be subsequently reclassified to the statement of profit or loss:		
Unrealized (loss) gain on investments in equity instruments	(9,247)	950
Unrealized (loss) gain on derivative financial instruments	(738)	29,734
Deferred income tax	2,946	(9,052)
Total other comprehensive income (loss) that can be subsequently reclassified to the statement of profit or loss	(7,039)	21,632
Total comprehensive income (loss), net of income tax	(77,367)	51,007

The accompanying notes are an integral part of these consolidated financial statements.

VOLCAN COMPAÑÍA MINERA S.A.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(In thousands of U.S. dollars (US$000))

	Issued capital stock US$000 Note 20 (a)	Treasury shares US$000 Note 20 (b)	Legal reserve US$000 Note 20 (c)	Share premium US$000 Note 20 (d)	Revaluation surplus US$000 Note 20 (e)	Unrealized earnings US$000 Note 20 (f)	Retained earnings US$000	Total equity US$000
Balance as of January 1, 2018	1,134,300	(61,222)	1,055	(174,320)	30,307	(20,511)	(297,286)	612,323
Comprehensive income								
Net profit for the year	-	-	-	-	-	-	29,375	29,375
Other comprehensive income for the year	-	-	-	-	-	21,632	-	21,632
Total comprehensive income for the year	-	-	-	-	-	21,632	29,375	51,007
Distribution of dividends	-	-	-	-	-	-	(16,641)	(16,641)
Adjustments	-	(63)	-	1,519	-	-	8	1,464
Balance as of December 31, 2018	1,134,300	(61,285)	1,055	(172,801)	30,307	1,121	(284,544)	648,153
Comprehensive income								
Net loss for the year	-	-	-	-	-	-	(70,328)	(70,328)
Other comprehensive loss for the year	-	-	-	-	-	(7,039)	-	(7,039)
Total comprehensive loss for the year	-	-	-	-	-	(7,039)	(70,328)	(77,367)
Derecognition of Terminales Portuarios Chancay S.A. (now Cosco Shipping Ports Chancay Perú S.A.)	-	-	-	-	(30,307)	-	30,307	-
Legal reserve	-	-	10,700	-	-	-	(10,700)	-
Adjustments	-	359	-	(416)	-	-	-	(57)
Balance as of December 31, 2019	1,134,300	(60,926)	11,755	(173,217)	-	(5,918)	(335,265)	570,729

The accompanying notes are an integral part of these consolidated financial statements.

VOLCAN COMPAÑÍA MINERA S.A.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(In thousands of U.S. dollars (US$000))

	2019 US$000	2018 US$000
OPERATING ACTIVITIES:		
Collection from:		
Sales	831,377	909,295
Reimbursement of tax credit benefits	29,834	20,456
Payments to/for:		
Suppliers and third parties	(521,438)	(524,384)
Employees	(106,150)	(103,668)
Income tax	(10,538)	(32,604)
Royalties	(8,506)	(16,827)
Income (expense) from hedging transactions	2,060	(16,870)
Net cash and cash equivalents provided by operating activities	216,639	235,398
INVESTMENT ACTIVITIES:		
Collection from:		
Other investment activities	-	1,689
Payments for:		
Purchase of property, plant and equipment	(89,088)	(80,461)
Purchase of intangible assets	(82,043)	(114,522)
Net cash and cash equivalents used in investment activities	(171,131)	(193,294)
FINANCING ACTIVITIES:		
Collection from:		
Financial obligations	290,000	223,515
Other financial liabilities	37,840	-
Payments for:		
Financial obligations	(336,371)	(244,439)
Overdrafts and other financial liabilities	(24,177)	(9,606)
Interests	(39,479)	(35,545)
Dividends	(48)	(14,908)
Net cash and cash equivalents used in financing activities	(72,235)	(80,983)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(26,728)	(38,879)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	62,950	101,829
	36,222	62,950
CASH AND CASH EQUIVALENTS CLASSIFIED AS HELD FOR SALE	(2,394)	-
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	33,828	62,950

Transactions that do not result in cash flows as described in Note 35.

The accompanying notes are an integral part of these consolidated financial statements.

1. INCORPORATION, ECONOMIC ACTIVITY, APPROVAL OF FINANCIAL STATEMENTS, SUBSIDIARIES AND OTHER CONTRACTUAL MATTERS

(a) Incorporation and economic activity

Volcan Compañía Minera S.A.A. (hereinafter "the Company") is a subsidiary of Glencore AG, which is a subsidiary of Glencore Plc., a company domiciled in Switzerland, hereinafter the Parent, owner of 63% of common class A voting shares and an economic interest of 23%, excluding treasury shares.

The Company was incorporated on February 1, 1998 in Lima, Peru.

Total common class A voting shares and class B non-voting shares comprising the capital stock of the Company are listed in the Stock Exchange of Lima.

The Company is mainly engaged in the exploration and operation of mining concessions and the extraction, concentration, treatment and commercialization of polymetallic minerals. The economic activity of its Subsidiaries is explained in paragraph (c).

The Company and the Subsidiaries engaged in the mining sector, operate the mining units of Yauli, Animon, Alpamarca, Cerro and Oxidos in the departments of Cerro de Pasco, Junín and Lima. The Subsidiaries engaged in the electric power generation business have authorizations and electric power generation concessions for self-consumption in their mining operations of Animon and for selling to third parties through firm power or spot price agreements. Subsidiaries Huanchor and EGERBA engaged in the electric power generation business operate in the department of Lima and are connected to SEIN.

The Company's Management addresses and supervises all operations of the economic group.

The legal domicile, where the administrative offices of the Company are located, is Av. Manuel Olguin No. 375, Santiago de Surco, Lima.

(b) Approval of the consolidated financial statements

The consolidated financial statements as of December 31, 2019 have been approved by the Company's Management on March 20, 2020 and will be submitted to the Board of Directors and Shareholders for approval. Management believes that the accompanying consolidated financial statements will be approved by the Shareholders' Meeting as presented. The consolidated financial statements as of December 31, 2018 were approved by the Shareholders' Meeting held on April 16, 2019.

(c) Subsidiaries

The Subsidiaries, which are included in the accompanying consolidated financial statements, are presented below:

Consolidated Subsidiaries and economic activity	Direct and indirect interest in ownership As of 31.12.2019	 As of 31.12.2018	Country of domicile
	%	%	
Mining exploration and operation:			
Compañía Minera Chungar S.A.C.	100.00	100.00	Peru
Óxidos de Pasco S.A.C. (4)	100.00	100.00	Peru
Empresa Administradora de Cerro S.A.C. (4)	100.00	100.00	Peru
Empresa Explotadora de Vinchos Ltda. S.A.C.	100.00	100.00	Peru
Minera Aurífera Toruna S.A.C. (1)	80.00	80.00	Peru
Minera San Sebastián AMC S.R.L.	100.00	100.00	Peru
Compañía Minera Vichaycocha S.A.C.	100.00	100.00	Peru
Electric power generation:			
Hidroeléctrica Huanchor S.A.	100.00	100.00	Peru
Empresa de Generación Eléctrica Rio Baños S.A.C. (2)	100.00	100.00	Peru
Compañía Hidroeléctrica Tingo S.A. (3)	100.00	100.00	Peru
Public services from private investment:			
Terminales Portuarios Chancay S.A. (now Cosco Shipping Ports Chancay Perú S.A.) (5)	-	100.00	Peru
Investments in general:			
Roquel Global S.A.C.	100.00	100.00	Peru
Corporación Logística Chancay S.A.C.	100.00	100.00	Peru
Remediadora Ambiental S.A.C. (4)	100.00	100.00	Peru
Compañía Industrial Limitada de Huacho S.A.	96.41	96.41	Peru
Empresa Minera Paragsha S.A.C.	100.00	100.00	Peru

(1) Subsidiary of Empresa Minera Paragsha S.A.C. and indirect subsidiary of the Company.
(2) Subsidiary of Hidroeléctrica Huanchor S.A. and indirect subsidiary of the Company.
(3) Subsidiary of Compañía Minera Chungar S.A.C. and indirect subsidiary of the Company.
(4) Subsidiaries classified as assets held for sale (Note 15).
(5) Associate company, in which 40% of interest is held.

Compañía Minera Chungar S.A.C.

This Subsidiary has two mining units, Animon and Alpamarca, located in the department of Pasco and is engaged in the exploration, development and operation of mineral deposits, basically with contents of zinc, copper and lead. It has 226 mining concessions with an indefinite term. Relevant obligations and commitments related to the concession are mentioned in Note 33.

In addition, the Subsidiary has 10 hydroelectric power plants, from which 9 are located in Huaral and one in Cerro de Pasco. Six of these plants have a concession (4 indefinite and 2 definite) and four plants do not have a concession nor a permit since this plant has a production less than 500KW, as established in the Electrical Concessions Law.

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

This Subsidiary does not perform mining activities since 2015 because Management decided to redirect its activities in other Subsidiaries of the Company. As from 2019, Management decided to conduct explorations to reconsider the potential of its deposit to proceed with the development and operation provided it is viable and profitable; otherwise, it will enter into a simple reorganization process in the short term and will be absorbed by an operating subsidiary of the Company in order to search for synergies for the development of its projects. This subsidiary has 5 mining concessions with an indefinite term. Relevant obligations and commitments related to the concession are mentioned in Note 33.

Minera Aurífera Toruna S.A.C., Minera San Sebastián AMC S.R.L. and Compañía Minera Vichaycocha S.A.C.

These subsidiaries were incorporated for the exploration, development and operation of mineral deposits being their main activity, the exploration in their mining concessions through the financing of the Company and Subsidiaries. No activities have been conducted in 2019.

The Company's Management is reevaluating the potential of their projects or the option of a simple reorganization in order to search for synergies for the development of their projects.

Subsidiaries Toruna, Minera San Sebastián and Compañía Minera Vichaycocha have 7, 4 and 204 mining concessions, respectively, with an indefinite term. Relevant obligations and commitments related to the concession are mentioned in Note 33.

Hidroeléctrica Huanchor S.A.C.

It is mainly engaged in the sale of energy through the operation and maintenance of electric transmission system generation plants. For this purpose, it has the Huanchor hydroelectric power plant of 19.632 MW and mini hydroelectric power plant of Tamboraque of 1.2 MW, both located in the district of San Mateo, province of Huarochiri, Lima. This subsidiary has a definite electrical concession.

Empresa de Generación Energética Rio Baños S.A.C.

It is mainly engaged in the sale of energy through the operation and maintenance of Rucuy hydroelectric power plant of 20 MW, located in the district of Pacaraos, province of Huaral, department of Lima. This plant stopped its operations since March 2017 because of El Niño phenomenon, which caused damages in the penstock and the transmission line. The hydroelectric power plant of Rucuy resumed its operations in the first semester of 2019. This subsidiary has a definite electrical concession.

Compañía Hidroeléctrica Tingo S.A.

It is engaged in the operation and maintenance of generation plants and electrical energy transmission systems. It has the Tingo hydroelectric power plant of 1.25 MW and 82 km of transmission lines of 22.9 and 50 kv. This subsidiary has a definite electrical concession.

Roquel Global S.A.C.

It is engaged in the real estate business in order to perform port and logistics activities in relation to the Chancay Port. During 2019, it performed municipal procedures for the award of acquired land (sanitation stage). The financial statements of this subsidiary are presented consolidated with those of the Company since 2017.

Corporación Logística Chancay S.A.C.

Corporación Logística Chancay S.A.C. was incorporated as subsidiary since 2017. Its purpose is to engage in real estate business and port and logistics activities. This subsidiary is currently in the pre-operating stage.

Compañía Industrial Limitada de Huacho S.A.

It is mainly engaged in the real estate business. The financial statements of this subsidiary are presented consolidated with those of the Company since 2017.

Empresa Minera Paragsha S.A.C.

It was incorporated for exploration, operation, assignment and mining usufruct; however, currently, its main activity is the purchase and sale of investments in equity instruments. This subsidiary holds shares of the Company and Cementos Polpaico S.A. (Note 7) and has 47 mining concessions with an indefinite term.

Óxidos de Pasco S.A.C.

This subsidiary is currently engaged in the treatment of oxidized minerals at a leach pad. This subsidiary has one grant of benefits with an indefinite term.

Empresa Administradora de Cerro S.A.C.

This subsidiary is engaged in the exploration, development and operation of mineral deposits, basically with contents of zinc and lead. Now, the Subsidiary processes stockpiles since its mining operations have stopped. It develops its activities in its mining unit Cerro and has 35 mining concessions with an indefinite term. Relevant obligations and commitments related to the concession are mentioned in Note 33

Remediadora Ambiental S.A.C.

This Subsidiary is engaged in environmental consulting services, environmental studies and acquisition of properties. The financial statements of this subsidiary are presented consolidated with those of the Company since 2018.

Unconsolidated entities

The Company prepares its consolidated financial statements incorporating the balances and transactions of those entities over which it has control, regardless of the level of equity interest, except for those Subsidiaries, which are undergoing a liquidation process. Management believes that the financial statements of unconsolidated entities do not represent relevant balances for the consolidated financial statements that could affect the economic decisions of users.

Financial information of Subsidiaries

The financial statements of direct and indirect Subsidiaries (unaudited) as of December 31, 2019 are summarized below:

	Assets	Liabilities	Equity	Net profit (loss)
	US$000	US$000	US$000	US$000
Compañía Minera Chungar S.A.C.	853,459	552,578	300,881	(7,820)
Empresa Explotadora de Vinchos Ltda. S.A.C.	2,193	19,168	(16,975)	(7,048)
Empresa Minera Paragsha S.A.C.	270,589	85,662	184,927	(10,999)
Minera Aurífera Toruna S.A.C. (1)	29	1,262	(1,233)	(3,188)
Minera San Sebastián AMC S.R.L.	127	493	(366)	(1,488)
Compañía Minera Vichaycocha S.A.C.	190	6,638	(6,448)	(18,027)
Hidroeléctrica Huanchor S.A.C.	78,792	46,343	32,449	(1,914)
Empresa de Generación Eléctrica Río Baños S.A.C. (2)	52,078	52,559	(481)	(23,223)
Compañía Hidroeléctrica Tingo S.A. (3)	18,961	2,852	16,109	890
Roquel Global S.A.C.	27,163	5,236	21,927	(25)
Corporación Logística Chancay S.A.C.	685	723	(38)	(31)
Compañía Industrial Limitada De Huacho S.A.	7,575	2,419	5,156	(575)
Unconsolidated entities	101	-	101	-
	1,311,942	775,933	536,009	(73,448)

Held for sale	Assets	Liabilities	Equity	Net loss
	US$000	US$000	US$000	US$000
Óxidos de Pasco S.A.C.	260,620	96,093	164,527	(10,289)
Empresa Administradora Cerro S.A.C.	78,807	156,316	(77,509)	(50,993)
Remediadora Ambiental S.A.C.	4,167	15,729	(11,562)	(11,664)
	343,594	268,138	75,456	(72,946)

(1) Subsidiary of Empresa Minera Paragsha S.A.C. and indirect subsidiary of the Company.
(2) Subsidiary of Hidroeléctrica Huanchor S.A. and indirect subsidiary of the Company.
(3) Subsidiary of Compañía Minera Chungar S.A.C. and indirect subsidiary of the Company.

The financial statements of direct and indirect Subsidiaries (unaudited) as of December 31, 2018 are summarized below:

	Assets	Liabilities	Equity	Net profit (loss)
	US$000	US$000	US$000	US$000
Compañía Minera Chungar S.A.C.	808,356	499,936	308,420	85,797
Óxidos de Pasco S.A.C.	281,746	170,653	111,093	10,334
Empresa Administradora Cerro S.A.C.	122,154	175,128	(52,974)	(38,954)
Empresa Explotadora de Vinchos Ltda. S.A.C.	9,210	19,497	(10,287)	(1,760)
Empresa Minera Paragsha S.A.C.	279,173	78,388	200,785	(30,721)
Minera Aurífera Toruna S.A.C. (1)	3,198	1,243	1,955	(704)
Minera San Sebastián AMC S.R.L.	1,121	628	493	(458)
Compañía Minera Vichaycocha S.A.C.	11,793	7,467	4,326	(4,157)
Hidroeléctrica Huanchor S.A.C.	79,395	45,032	34,363	709
Empresa de Generación Eléctrica Río Baños S.A.C. (2)	71,711	48,968	22,743	(3,053)
Compañía Hidroeléctrica Tingo S.A. (3)	17,359	2,139	15,220	309
Terminales Portuarios Chancay S.A. (now Cosco Shipping Ports Chancay Perú S.A.)	183,373	51,662	131,712	(649)
Roquel Global S.A.C.	23,929	1,977	21,952	10
Corporación Logística Chancay S.A.C.	216	223	(7)	(6)
Compañía Industrial Limitada De Huacho S.A.	9,346	3,615	5,731	(3,398)
Remediadora Ambiental S.A.C.	14,009	13,906	103	-
Unconsolidated entities	528	-	528	-
	1,916,617	1,120,462	796,156	13,299

(1) Subsidiary of Empresa Minera Paragsha S.A.C. and indirect subsidiary of the Company.
(2) Subsidiary of Hidroeléctrica Huanchor S.A. and indirect subsidiary of the Company.
(3) Subsidiary of Compañía Minera Chungar S.A.C. and indirect subsidiary of the Company.

(d) Subscription and Investment Agreement between Volcan Compañía Minera S.A.A. and Cosco Shipping Ports Limited

On January 23, 2019, the Company entered into with Cosco Shipping Ports Limited (CSPL), a company incorporated in the Republic of China, and its subsidiary Cosco Shipping (Chancay) Ports Limited (CSPL SPV), with the participation of Terminales Portuarios Chancay S.A. (now Cosco Shipping Ports Chancay Perú S.A.) (TPCH), subsidiary of the Company until May 13, 2019, a subscription and investment agreement and a shareholders' agreement, under which CSPL, through its subsidiary CSPL SPV, became the shareholder of TPCH with 60% of shares of the capital stock for a value of US$225,000, at the closing date. This is subject to the verification of the compliance with the Antitrust Law, provided by the international authorities of Ukraine and China.

The definite completion of the transaction is subject to the approval of the modification of the Environmental Impact Assessment (MEIA), which, according to Management, will be obtained in June 2020. If such approval is not obtained, CSPL may terminate the agreement, in which case the Company should partially compensate the amount invested and financed by CSPL at that date or extend it for a year. The agreement also includes certain restrictions and preferred options regarding the interest of both parties in the capital stock of TPCH.

On May 13, 2019, the strategic partner was incorporated with an interest of 60% of shares of TPCH though a capital increase. The Company holds and owns the remaining 40% of shares of the capital stock of Cosco Shipping Ports Chancay Perú S.A., thus, it became an associate since that date. See Note 7.

The infrastructure project is located 50 km. on the northern area of the Callao Port. This project consists in a multi-purpose port terminal that will have two specialized terminals: (i) a terminal for containers that will include 11 docks for this type of cargo; and (ii) a terminal for loading bulk, general and rolling cargoes that will have four docks. At the first stage, an area of 141 hectares will be developed with an investment of US$1,300,000.

The project represents a major infrastructure work and an important opportunity for the economic development of the country, since it will be part of China's new connectivity network with the rest of the world, comprised by sea and land lanes.

The following table shows the financial statements as of April 30, 2019 of Cosco Shipping Ports Chancay Perú S.A., closing date next to the loss of control date of CSPL (May 13, 2019) as Management considers that there were no significant transactions between both dates:

	As of 30.04.2019
	US$000
Assets	
Cash and cash equivalents	1,024
Other accounts receivable	61
Other long-term accounts receivable	2,455
Property, plant and equipment (net)	102,462
Mining concessions, exploration and development costs and other intangibles (net)	80,295
Total assets	186,297
Liabilities	
Trade accounts payable	201
Accounts payable to subsidiaries and affiliates	11,888
Other accounts payable	474
Deferred income tax	42,135
Total liabilities	54,698
Equity	
Issued capital stock	83,971
Revaluation surplus	30,307
Retained earnings	17,433
Profit or loss for the year	(112)
Total equity	131,599
Total liabilities and equity	186,297
Profit or loss for the year	
Administrative expenses	(169)
Exchange difference	20
Income tax expense	37
	(112)

(e) Bond issuance

At the Shareholders' Meeting held on November 4, 2011, a bond issuance was approved for up to US$1,100,000 or its equivalent amount in soles, to be placed in the international and/or local market, with a first tranche of up to US$600,000 in order to fund mining and energy projects in the next five years.

At the Board of Directors' meeting of the Company held on January 16, 2012, the issuance of bonds was approved under Rule 144A and Regulation S of the U.S. Securities Act of the United States of America, for up to US$600,000.

On February 2, 2012, bonds known as "Senior Notes Due 2022" were issued and placed in its entirety in the international market for US$600,000, at an annual rate of 5.375%, maturing in 10 years. Interests will be paid in semiannual installments from August 2, 2012 to February 2, 2022. Financial compliance covenants were not established for this obligation. Those funds were mainly destined to expansion projects of its Subsidiaries: i) Oxidos de Pasco S.A.C., for the development of the silver oxide plant and ii) Compañía Minera Alpamarca S.A.C. (now Compañía Minera Chungar S.A.C.), for the development of the Alpamarca mining unit – Pallanga River; having invested in camps, tailings facilities, concentrator plant and mine development. In addition, funds were used in the acquisition of the hydroelectric power plant Huanchor.

As of December 31, 2019 and 2018, total bond issuance amounted to US$535,264 since bonds were repurchased for US$64,736 in 2016. The Company's Management and its legal advisors believe that the Company does not have any noncompliance event derived from the bond issuance agreement.

(f) Guarantee and Administration Trust Agreement entered into with Banco Internacional del Perú S.A.A., hereinafter Interbank

Interbank (trustee) and Volcan Compañía Minera S.A.A. (trustor) entered into this agreement on August 5, 2013. Pursuant to this agreement, a guarantee and administration trust fund was established, under which the Company transfers the administration of all the cash flows credited in its collection accounts to Interbank under this trust. Commitments derived from this trust agreement are being met and allow ensuring cash flows to address the obligations of the Company and involved Subsidiaries.

(g) Purchase agreement of shares of Empresa Administradora Cerro S.A.C., Óxidos de Pasco S.A.C. and Remediadora Ambiental S.A.C. entered into Volcan Compañía Minera S.A.A. and Cerro de Pasco Resources Inc.

In November 2019, the Company entered into a purchase agreement with the Canadian company Cerro de Pasco Resources Inc. for the sale of its shares in its Subsidiaries Empresa Administradora Cerro S.A.C., Óxidos de Pasco S.A.C. and Remediadora Ambiental S.A.C. The transaction is subject to the compliance with certain previous conditions that should occur in 2020.

Cerro de Pasco Resources Inc. is a company listed in the Canadian Securities Exchange with presence in Cerro de Pasco for several years and is the owner of the concession "El Metalurgista" at this place. The transaction establishes a fixed payment of US$30 million for Óxidos de Pasco S.A.C., a net smelter return (NSR) of 2% over the concessions of Empresa Administradora Cerro S.A.C. and a percentage of future gold (Au) and silver (Ag) sales from the oxide plant during all its operation, among others. In addition, Cerro de Pasco Resources Inc. has the obligation to sell to the Company all its concentrates operated in the concessions of Empresa Administradora Cerro S.A.C.

Finally, the agreement ensures the continuity of health, safety, environmental and social outreach programs that the Company is developing at that place.

Management expects that the transaction can be completed in 2020 unless the previous conditions, which are outside the control of the Company, cannot be met.

The Company has evaluated that these subsidiaries qualify as assets classified as held for sale. See Note 15.

(h) Explanation added for translation into the English language of the original consolidated financial statements issued in Spanish

The accompanying financial statements are originally issued in Spanish and have been translated into English for the convenience of English-speaking readers. In the event of any discrepancy, the Spanish language version prevails.

2. SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies used by the Company and Subsidiaries for the preparation of the consolidated financial statements are summarized below:

(a) Statement of compliance and basis of preparation and presentation

The accompanying consolidated financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB), effective as of December 31, 2019 and 2018, as applicable, including International Financial Reporting Standards (IFRS), International Accounting

Standards (IAS), and Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), or by the former Standing Interpretations Committee (SIC), adopted by the IASB. Historical cost basis was applied for these purposes, except those items measured at fair value, as further explained in the section of significant accounting policies (letter (d)).

Fair value is the price that would be received when selling an asset, or paid when transferring a liability in an organized transaction between market participants at a measurement date, regardless of the fact that such price is directly observable or estimable through another valuation technique. When estimating the fair value of an asset or liability, the Company considers the characteristics of such asset or liability in the event that market participants would want to consider them when setting a price at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined over such basis, except share-based payment transactions (which are within the scope of IFRS 2), lease transactions (within the scope of IFRS 16), and measurements somehow similar to fair value, but are not fair value, such as net realizable value in IAS 2, or value in use in IAS 36.

Additionally, for financial reporting purposes, fair value measurements are categorized in three levels: 1, 2 or 3; depending on the degree in which the information for fair value measurements are observable, and their significance to fair value measurement in its entirety, as described below:

Level 1: Input is quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company may access to at the measurement date.

Level 2: Input is different from quoted prices included in Level 1, which are observable for the asset or liability, whether directly or indirectly.

Level 3: Input is not observable for the asset or liability. Non-observable input data will be used to measure fair value provided such relevant observable input data are not available, considering situations where there is low market activity, if any, for the asset or liability at the measurement date.

The Company's Management is responsible for the information contained in these consolidated financial statements, which expressly confirms that all principles and criteria established in IFRS issued by the IASB, effective at each year-end, have been applied in their preparation.

(b) Consolidation principles

The accompanying consolidated financial statements include the accounts of the Company and of those entities controlled by the Company (Subsidiaries). The Company considers that control of an entity is achieved when the Company has the power to govern its financial and operating policies in order to obtain benefits from its activities.

All significant intercompany transactions have been eliminated in consolidation. When necessary, adjustments are made to the financial statements of certain Subsidiaries to ensure conformity with the group´s accounting policies.

Profit and loss resulting from subsidiaries acquired or disposed during the year are included in the consolidated statement of profit or loss as from the effective date of acquisition or up to the effective date of sale, as applicable. Total comprehensive income of those subsidiaries is attributed to the Company's shareholders and to the non-controlling owners of these subsidiaries even in cases when these interests result in a deficit balance.

Changes in the interest in subsidiaries that do not correspond to a loss of control over them are accounted for as equity transactions. The carrying amounts of interest of the shareholders of the Company and the non-controlling owners of these subsidiaries are adjusted to reflect the changes in their interest. Any difference between these amounts and the fair value of the consideration paid or received is directly attributed to equity.

As of December 31, 2019 and 2018, the consolidated financial statements include the consolidated accounts of Volcan Compañía Minera S.A.A. and Subsidiaries disclosed in Note 1(c).

(c) Functional and presentation currency

The Company prepares and presents its consolidated financial statements in U.S. dollars, its functional currency. The functional currency is the currency of the main economic environment in which an entity operates, which influences selling prices of traded goods and services, among other factors.

Translation to U.S. dollars

The Company prepares its consolidated financial statements in U.S. dollars based on its accounting records carried in soles. Those consolidated financial statements are translated into U.S. dollars (functional currency) following the methodology explained below:

As of December 31, 2019 and 2018, the monetary assets and liabilities of the Company, whose original currency is the sol, have been translated into U.S. dollars using the average closing exchange rate effective at those dates of US$0.302 and US$0.296 per S/1.00, respectively. The monetary assets and liabilities in U.S. dollars are maintained at their original value in such currency.

Non-monetary assets and liabilities and equity accounts in soles have been translated into U.S. dollars using the exchange rate in force at the original date of the transaction. The consumption of supplies, accumulated depreciation of property, plant and equipment, and the amortization of mining concessions, exploration and development costs and other mining assets were calculated based on the amounts translated into U.S. dollars of related assets. Non-monetary assets and liabilities in U.S. dollars are held at their original value in such currency.

Profit or loss items denominated in U.S. dollars are presented in their original currency, and other transactions are translated from soles to U.S. dollars using the effective exchange rate at the original date of the transaction, except items that result from non-monetary assets, which are determined as indicated in the paragraph above.

Exchange differences, are presented in the consolidated statement of profit or loss and amount to a net profit of US$1,113 and a net loss of US$4,116 in 2019 and 2018, respectively (Note 27).

(d) Financial instruments

Financial instruments are contracts that simultaneously give rise to a financial asset in a company and a financial liability or equity instrument in another company. Financial assets and liabilities are recognized when the Company and Subsidiaries become part of the contractual agreements of the corresponding instrument.

Financial assets and liabilities are initially measured at fair value plus transaction costs directly attributable to their acquisition or issuance, except for those classified at fair value through profit or loss, which are initially recognized at fair value and whose transaction costs directly attributable to their acquisition or issuance, are recognized immediately in profit or loss for the year.

Financial assets

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis and require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognized financial assets are measured subsequently in their entirety at either amortized cost or fair value, depending on the classification of the financial assets.

Classification of financial assets

Debt instruments that meet the following conditions are measured subsequently at amortized cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that meet the following conditions are measured subsequently at fair value through other comprehensive income:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

By default, all other financial assets are measured subsequently at fair value through profit or loss.

<u>Amortized cost and effective interest method</u>

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period.

For financial assets other than purchased or originated credit-impaired financial assets, the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortized cost of the debt instrument on initial recognition.

The amortized cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss provision. On the other hand, the gross carrying amount of a financial asset is the amortized cost of a financial asset before adjusting for any loss provision.

Interest income is recognized using the effective interest method for debt instruments measured subsequently at amortized cost and at fair value through other comprehensive income. For financial assets other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired.

For financial assets that have subsequently become credit-impaired, interest income is recognized by applying the effective interest rate to the amortized cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognized by applying the effective interest rate to the gross carrying amount of the financial asset.

For purchased or originated credit-impaired financial assets, the Company and Subsidiaries recognize interest income by applying the credit-adjusted effective interest rate to the amortized cost of the financial asset from initial recognition. The calculation does not revert to the gross basis even if the credit r isk of the financial asset subsequently improves so that the financial asset is no longer credit-impaired. Interest income is recognized in the consolidated statement of profit or loss.

<u>Impairment of financial assets</u>

The Company and Subsidiaries recognize a provision for expected credit losses of financial assets that are measured at amortized cost or at fair value through other comprehensive income. An impairment loss for investments in equity instruments is not recognized. The amount of expected credit losses is updated at each reporting date in order to reflect the changes in credit risk since the initial recognition of the pertinent financial instrument.

The Company and Subsidiaries recognize lifetime expected credit losses for trade accounts receivable and other accounts receivable. The expected credit losses on these financial assets are estimated using a provision matrix based on the Company and Subsidiaries' historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the presentation date, including time value of money where appropriate.

For all other financial instruments, the Company and Subsidiaries recognize lifetime expected credit losses when there has been a significant increase in credit risk since initial recognition. The evaluation of whether the expected credit losses should be recognized during the life of the credit is based on significant increases in the probability or the risk that a noncompliance may occur since initial recognition instead of the evidence that the credit of a financial asset is impaired at the presentation date of the report or an actual noncompliance has occurred.

The duration of expected credit losses during the life of the credit represents the expected credit losses that will result from all possible default events over the expected useful life of a financial instrument. In contrast, 12-month expected credit losses during the life of the credit represents the portion of the useful life of expected credit losses during the life of the credit that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

Financial liabilities

Financial liabilities are classified at fair value through profit or loss or at amortized cost using the effective interest method. The Company and Subsidiaries determine the classification of financial liabilities upon initial recognition.

<u>Financial liabilities at fair value through profit or loss</u>

Financial liabilities are classified as at fair value through profit or loss when the financial liability is held for trading or it is designated as at fair value through profit or loss.

A financial liability is classified as held for trading if:

(i) it has been acquired principally for the purpose of repurchasing it in the near term; or

(ii) on initial recognition it is part of a portfolio of identified financial instruments that the Company and Subsidiaries manage and have a recent actual pattern of short-term profit-taking; or

(iii) it is a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

A financial liability other than a financial liability held for trading may be designated as a financial liability at fair value through profit or loss upon initial recognition if:

(i) such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

(ii) the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company and Subsidiaries' documented risk management or investment strategy, and information about the Company and Subsidiaries is provided internally on that basis; or

(iii) it forms part of a contract containing one or more embedded derivatives, and IFRS 9 permits the entire combined contract to be designated as at fair value through profit or loss.

Financial liabilities at fair value through profit or loss are measured at fair value, with any profit or losses arising on the new measurement recognized in profit or loss. The net profit or loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in the "other profit and losses" line item.

However, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognized in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. The remaining amount of change in the fair value of liability is recognized in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognized in other comprehensive income are not subsequently reclassified to profit or loss; instead, they are transferred to retained earnings upon derecognition of the financial liability.

Profit or losses on financial guarantee contracts and loan commitments issued by the Company and Subsidiaries that are designated as at fair value through other profit or loss are recognized in profit or loss.

Financial liabilities measured subsequently at amortized cost

Other financial liabilities, including loans, trade accounts payable and others, are measured subsequently at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts cash flows receivable or payable (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) estimated through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortized cost of a financial liability.

Derecognition of financial liabilities

The Company and Subsidiaries derecognize financial liabilities when, and only when, the Company and Subsidiaries' obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

Derivative financial instruments

The Company and Subsidiaries enter into a variety of derivative financial instruments to manage its exposure to foreign exchange rate risks, rates and prices of commodities.

Derivatives are recognized initially at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The profit or loss in changes of fair value of these assets is recognized in profit or loss for the year they are incurred unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

A derivative with a positive fair value is recognized as a financial asset whereas a derivative with a negative fair value is recognized as a financial liability. Derivatives are not offset in the consolidated financial statements unless the Company and Subsidiaries have both a legally enforceable right and intention to offset. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not due to be realized or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

Embedded derivatives

An embedded derivative is a component of a hybrid contract that also includes a non-derivative host, with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative.

Derivatives embedded in hybrid contracts with a financial asset host within the scope of IFRS 9 are not separated. The entire hybrid contract is classified and subsequently measured as either amortized cost or fair value as appropriate.

Derivatives embedded in hybrid contracts with hosts that are not financial assets within the scope of IFRS 9 (e.g. financial liabilities) are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value through profit or loss.

If the hybrid contract is a quoted financial liability, instead of separating the embedded derivative, the Company generally designates the whole hybrid contract at fair value through profit or loss.

An embedded derivative is presented as a non-current asset or non-current liability if the remaining maturity of the hybrid instrument to which the embedded derivative relates is more than 12 months and is not expected to be realized or settled within 12 months.

Hedge accounting

The Company and Subsidiaries designate certain derivatives as hedging instruments in respect of foreign currency risk and interest rate risk in fair value hedges, cash flow hedges, or hedges of net investments in foreign operations. As of December 31, 2019 and 2018, the Company and Subsidiaries hold hedge operations of interest rates (swaps) in order to ensure future flows of payment of loan interests, which are accounted for as cash flow hedges.

At the inception of the hedge relationship, the Company and Subsidiaries document the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Company and Subsidiaries document whether the hedging instrument is effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk, which is when the hedging relationship meets all of the following hedge effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not dominate the value changes that result from that economic relationship; and
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Company and Subsidiaries actually hedge and the quantity of the hedging instrument that the Company actually uses to hedge that quantity of hedged item.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the Company and Subsidiaries adjust the hedge ratio of the hedging relationship (i.e. rebalance the hedge) so that it meets the qualifying criteria again.

The Company and Subsidiaries designate the full change in the fair value of a forward contract (i.e. including the forward elements) as the hedging instrument for all of its hedging relationships involving forward contracts.

The Company and Subsidiaries designate only the intrinsic value of option contracts as a hedged item, i.e. excluding the time value of the option. The changes in the fair value of the aligned time value of the option are recognized in other comprehensive income and accumulated in the cost of hedging reserve. If the hedged item is transaction-related, the time value is reclassified to profit or loss when the hedged item affects profit or loss. If the hedged item is time period related, then the amount accumulated in the cost of hedging reserve is reclassified to profit or loss on a rational basis; the Company and Subsidiaries apply straight-line amortization. Those reclassified amounts are recognized in profit or loss in the same line as the hedged item. If the hedged item is a non-financial item, then the amount accumulated in the cost of hedging reserve is removed directly from equity and included in the initial carrying amount of the recognized non-financial item. Furthermore, if the Company and Subsidiaries expect that some or all of the loss accumulated in cost of hedging reserve will not be recovered in the future, that amount is immediately reclassified to profit or loss.

Note 5(e) sets out details of the fair values of the derivative instruments used for hedging purposes.

Movements in the hedging reserve in equity are detailed in Note 20(f).

Cash flow hedges

The effective portion of changes in the fair value of derivatives and other qualifying hedging instruments that are designated and qualify as cash flow hedges is recognized in other comprehensive income and accumulated under the heading of cash flow hedging reserve, limited to the cumulative change in fair value of the hedged item from inception of the hedge. The profit or loss relating to the ineffective portion is recognized immediately in profit or loss.

Amounts previously recognized in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line as the recognized hedged item. However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the profit and losses previously recognized in other comprehensive income and accumulated in equity are removed from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability. This transfer does not affect other comprehensive income. Furthermore, if the Company and Subsidiaries expect that some or all of the loss accumulated in the cash flow hedging reserve will not be recovered in the future, that amount is immediately reclassified to profit or loss.

The Company and Subsidiaries discontinue hedge accounting only when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria (after rebalancing, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised. The discontinuation is accounted for prospectively. Any profit or loss recognized in other comprehensive income and accumulated in cash flow hedge reserve at that time remains in equity and is reclassified to profit or loss when the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the profit or loss accumulated in the cash flow hedge reserve is reclassified immediately to profit or loss.

(e) Cash and cash equivalents

Cash comprises cash on hand and freely available deposits. Cash equivalents comprise short-term financial investments with maturities of three months or less counted from their acquisition date, which are readily convertible into known amounts of cash and are not subject to an insignificant risk of changes in value.

(f) Inventories and obsolescence estimate

Inventories are valued at the lower of acquisition or production cost or net realizable value. The cost of concentrates includes the cost of direct materials, direct labor costs and manufacturing overheads, including the cost of transferring inventories to their current location and conditions. The cost of concentrates and supplies is determined by applying the weighted average cost method, and the cost of inventories in transit is determined by applying the specific cost method. Net realizable value is the sales price estimated in the normal course of business, less the estimated costs to place inventories in sale conditions and perform their sale. Due to the reductions of the carrying amount of inventories to their net realizable value, an estimate for inventory obsolescence is established and charged to profit or loss of the period when those reductions occur.

(g) Property, plant and equipment (net)

Property, plant and equipment are presented at acquisition cost, less accumulated depreciation and the accumulated amount of impairment losses, except land with port preparation, which is presented under the revaluation model before its transfer (Note 1(d)).

Initial disbursements, as well as those subsequently incurred, related to goods whose cost can be estimated reliably, and it is probable that future economic benefits will be obtained from them, are recognized as property, plant and equipment. Disbursements for maintenance and repairs are recognized as expenses during the period when incurred. Main components of major equipment are recorded independently and are depreciated according to their useful life. Profit or loss arising from the sale or disposal of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset, which is recognized in profit or loss for the period when the sale is considered performed.

Property, plant and equipment under construction or acquisition are presented at cost, less any determined impairment loss. The cost of these assets in process includes professional fees and, for qualifying assets, borrowing costs. Those assets are subsequently classified to their category of property, plant and equipment when the construction or acquisition process has been completed and they are ready for intended use. These assets are depreciated from that moment, similarly to the rest of categories of property, plant and equipment.

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

Depreciation

Units-of-production method

The depreciation of buildings and other mining constructions is calculated by units of production based on economically recoverable reserves and a portion of resources from the pertinent mining unit.

The units of production are measured in recoverable metric tons of lead, copper and zinc. The depreciation ratio per units of production is determined according to the production of the year over economically recoverable reserves and resources.

Straight-line method

The depreciation of other mining and hydroelectric assets is calculated by applying the straight-line method based on the lower of the estimated useful life of assets or the remaining useful life of the mining unit for mining assets. The useful lives used by the Company are as follows:

	Years
Buildings and other construction	Up to 33 years
Environmental management program infrastructure	Up to 10 years
Machinery and equipment	Up to 10 years
Vehicles	Up to 5 years
Furniture and fixtures, and computer equipment	Up to 10 years
Sundry equipment	Up to 10 years

(h) Mining concessions, exploration and development costs and other intangibles

Mining rights and concessions

Mining rights represent the ownership of the Company and Subsidiaries over mining properties that contain the acquired mineral reserves. Mining rights that are related to mineral reserves are amortized following the units-of-production method, using as a basis, the proven and probable reserves and a portion of inferred resources.

Mining concessions are capitalized in the consolidated statement of financial position and represent the ownership of the Company and Subsidiaries of mining properties with a geological interest. Mining concessions are amortized as from the production stage based on the units-of-production method, using proven and probable reserves and a portion of inferred resources. In case the Company and Subsidiaries abandon those concessions, associated costs are written off in the consolidated statement of profit or loss and other comprehensive income.

At every year-end, the Company and Subsidiaries evaluate for each cash-generating unit if there is any indication that the value of their mining rights may be impaired. If any indication exists, the Company and Subsidiaries establish an estimate of the recoverable amount of the asset.

Evaluation and exploration costs

Exploration costs are only capitalized provided that they are estimated to be economically recoverable through a successful operation in the future or when the activities are in process in the area of interest and it has not reached a stage that allows evaluating reasonably the existence of economically recoverable reserves. These costs mainly include used materials and fuel, land survey costs, drilling costs and payments made to contractors. For this purpose, economically recoverable benefits of exploration projects can be evaluated properly when any of the following conditions are met: i) the Board of Directors authorizes Management to conduct a feasibility study for the project, and ii) the purpose of the exploration is to convert resources into reserves or to confirm resources.

Exploration costs are amortized just as development costs.

All capitalized evaluation and exploration costs are monitored to identify impairment indications. When a possible impairment is identified, each area of interest or cash-generating unit (CGU) is evaluated. If capitalized costs are not expected to be recovered, they are charged to the consolidated statement of profit or loss.

Development costs

Costs associated with the mine development stage are capitalized. Development costs required to keep production going are charged to profit or loss of the period when incurred.

Development costs are amortized from the beginning of production using the units-of-production method. Development costs are amortized based on proven and probable reserves and a portion of inferred resources to which they are related.

Intangibles

Intangible assets with finite useful lives separately acquired are reported at cost less accumulated amortization and any recognized accumulated impairment loss. Amortization is calculated using the straight-line method based on useful lives estimated by the Company and Subsidiaries. Estimates on useful lives and depreciation methods are reviewed at the end of each reporting period to evaluate possible material changes in previous expectations or the expected consumption pattern of future economic benefits inherent to those assets, prospectively incorporating the effects of any change in these estimates against net profit or loss in the period they are made.

Intangible assets with indefinite useful lives are not amortized and are reviewed every year in order to identify whether there is any impairment indication according to item (i) below.

(i) Review of impairment of long-term assets

The Company and Subsidiaries regularly review the carrying amounts of their tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). If it is not possible to estimate the recoverable amount of an individual asset, the Company and Subsidiaries estimate the recoverable amount of the cash-generating unit to which the asset belongs. If a reasonable and consistent distribution basis can be identified, corporate assets are also distributed to individual cash-generating units, or otherwise, to the smallest group of cash-generating units for which a reasonable and consistent distribution basis is identified.

The recoverable amount is the higher of fair value less the cost to sell and value in use. Value in use is determined based on future estimated cash flows discounted to their present value, using a discount rate before taxes that reflects current market valuations related to the time value of money and the specific risks of the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is immediately recognized as expense, unless the corresponding asset is held at revalued amounts, in which case the impairment loss is recognized primarily as a reduction of the revaluation surplus.

An impairment loss can be subsequently reversed and recognized as revenue in profit for the year, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognized for the asset (cash-generating unit) in previous years.

In the determination of values in use of their assets, the Company and Subsidiaries review their projections of future revenue streams that consider the following variables: discount rate, projection of prices, resources and reserves, production, costs and expenses.

(j) Assets classified as held for sale

Long-term assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Long-term assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Company is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Company will retain a non-controlling interest in its former subsidiary after the sale.

When the Company is committed to a sale plan involving disposal of an investment in an associate or, a portion of an investment in an associate or joint venture, the investment, or the portion of the investment, that will be disposed of is classified as held for sale when the criteria described above are met. The Company then ceases to apply the equity method in relation to the portion that is classified as held for sale. Any retained portion of an investment in an associate or joint venture that has not been classified as held for sale continues to be accounted for using the equity method.

(k) Investment in associates

An associate is an entity over which the Company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment, or a portion of such investment, is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 Non-current assets held for sale and discontinued operations.

Under the equity method, an investment in an associate is recognized initially in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Company’s share of the profit or loss and other comprehensive income of the associate. When the Company’s share of losses of an associate exceeds the Company’s interest in that associate (which includes any long-term interests that, in substance, form part of the Company’s net investment in the associate), the Company discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the associate.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Company’s share of the net fair value of the identifiable assets and liabilities of the investee is recognized as goodwill, which is included within the carrying amount of the investment. Any excess of the Company’s share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognized immediately in profit or loss in the period in which the investment is acquired.

When the Company reduces its ownership interest in an associate but the Company continues to use the equity method, the Company reclassifies to profit or loss the proportion of the profit or loss that had previously been recognized in other comprehensive income relating to that reduction in ownership interest if that profit or loss would be reclassified to the consolidated statement of profit or loss on the disposal of the related assets or liabilities.

When the Company conducts transactions with an associate, profits and losses resulting from the transactions with the associate or joint venture are recognized in the Company's consolidated financial statements only to the extent of interests in the associate that are not related to the Company.

(l) Leases

The Company and Subsidiaries as lessees:

The Company and Subsidiaries recognize right-of-use assets at the commencement date of the lease (that is, the date when the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment loss, and are adjusted for any new measurement of lease liabilities. The cost of right-of-use assets includes lease liabilities recognized, initial direct costs incurred and lease payments made before the commencement date of the lease less any lease incentive received. Unless the Company and Subsidiaries are reasonably certain that they will obtain the ownership of the leased asset at the end of the lease term, assets recognized for right of use are amortized on a straight-line basis over the lease term. Right-of-use assets are subject to impairment.

At the commencement date of the lease, the Company and Subsidiaries recognize lease liabilities at the present value of payments that will be made over the lease term. Lease payments include fixed payments less any lease incentive receivable, variable lease payments that depend on an index or rate, and the amounts expected to be paid as residual value guarantees.

When calculating the present value of lease payments, the Company and Subsidiaries use the incremental borrowing rate at the commencement date of the lease if the interest rate implicit in the lease cannot be readily determined.

After the commencement date, the amount of lease liabilities increases to reflect the accrual of interests and is reduced for lease payments made. In addition, the carrying amount of lease liabilities is remeasured whether there is a modification, change in the lease term or change in generally fixed payments.

The Company and Subsidiaries apply the recognition exemption on properties at a short term (that is, those properties with a lease term of 12 months or less from the commencement date of the lease and that do not contain a lease option). The Company and Subsidiaries also apply the recognition exemption on low-value assets in the lease of office equipment. Payments for short-term leases and low-value assets are recognized as expenses on a straight-line basis over the lease term.

(m) Provisions

Provisions are recognized when the Company and Subsidiaries have a present obligation (legal or constructive) as a result of a past event, it is probable that the Company and Subsidiaries will have to dispose of resources that provide economic benefits in order to settle the obligation, and a reliable estimate of the obligation amount can be made.

The amount recognized as provision corresponds to the best estimate of the necessary disbursement to settle the present obligation at the date of the consolidated statement of financial position, considering the risks and uncertainties surrounding most of the events and circumstances concurrent to its valuation. If the provision amount is measured using estimated cash flows to settle the obligation, the carrying amount is the present value of corresponding disbursements.

In case it is expected that a part or the total disbursement necessary to settle the provision may be reimbursed by a third party, the portion receivable is recognized as an asset when its recovery is virtually certain, and the amount of such portion can be determined reliably.

(n) Provision for closure of mining units

The asset and liability for closure of mining units is recognized when: (i) the Company and Subsidiaries have a present obligation related to the dismantling and removal of assets, as well as the restoration of areas where its mining units are located, and (ii) the amount of those obligations can be estimated reliably.

The initial amount of the recognized asset and liability is the present value of future estimated disbursements to meet those obligations.

Subsequently: (i) the liability is adjusted each following period to update the initially recognized present value; such increase of the liability is recognized as a financial expense; (ii) the asset is depreciated based on proven and probable reserves by applying the units-of-production method. Related depreciation is recognized as expense.

(o) Financing costs

Financing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalized and added to the cost of the project until those assets are considered to be substantially ready for their intended use, that is, when such assets are able to generate commercial production. If a loan is requested for a specific use in the project, the capitalized amount represents actual costs incurred to obtain such loan.

If short-term excess funds derived from the specific loan are available, earnings provided by temporary investment are also capitalized and deducted from the total debt cost. If funds used to finance a project are part of the general debt, the capitalized amount is calculated by applying the weighted average rate of the general debt of the Company and Subsidiaries during the period. All other debt costs are recognized in the consolidated statement of comprehensive income in the period when incurred.

(p) Revenue recognition

Revenue is measured by using the fair value of the consideration received or receivable, derived therefrom. This revenue is reduced by estimates such as refunds from customers, discounts and other similar items.

Revenue is recognized as follows:

(i) Revenue associated with the sale of concentrates, Dore bars and others, when the control of the sold asset is transferred to the customer. Indicators of the transfer of control include an unconditional obligation payable, legal title, physical ownership, transfer of risks and benefits, and acceptance from the customer. It generally occurs when concentrates are delivered at the loading port, warehouse or vessel, pursuant to the agreement entered into with the buyer. The buyer controls the concentrates at that place. If the Company and Subsidiaries are responsible of delivery costs and other services after the date when control of goods is transferred to the customer, such other services are considered as independent performance obligations; therefore, a portion of revenue obtained from the agreement are allocated and recognized when these performance obligations are met.

    Sale agreements of concentrates, Dore bars and others generally provide a temporary payment based on provisional assays and prices of quoted metals. The final liquidation is based on the results of final assays and prices of metals applicable in specific quotation periods, which tend to range between a month after the shipment and up to three months after the shipment arrives to the agree-upon place, and is based on the average prices of metals in the market. For this purpose, the transaction price can be measured reliably for those products, such as zinc, lead, copper and silver, for which there is a free and active market, such as the London Stock Exchange.

    Since these agreements will be settled in the future based on international quotations of contents payable to be finally agreed upon, these agreements are treated as embedded derivatives, and as of the closing of the year, are adjusted for significant changes in international quotations to reflect them at their fair value. Changes in fair value are recognized as adjustments to revenue. Definite adjustments that result from final liquidations are recorded in the period when issued, generally when the seller and buyer exchange weights and contents payable, and establish the quotation term, according to conditions previously agreed upon in the pertinent sale agreements.

IFRS 15 requires that the variable consideration should be recognized only when it is highly probable that a significant reversal does not occur in the amount of recognized revenue. The Company and Subsidiaries concluded that the adjustments related to final liquidations for the quantity and quality of sold concentrates are not significant and do not restrict revenue recognition.

(ii) Revenue from interests is recognized based on the effective yield in proportion to the time elapsed.

(iii) Other revenue is recognized when earned.

(q) Recognition of costs and expenses

The cost of sales of ore concentrates is recognized in the period when shipment or delivery is performed based on contractual terms and conditions, against profit or loss of the period when corresponding operating income is recognized. Expenses are recognized when there has been a decrease in future economic benefits related to a decrease in assets or increase in liabilities and, additionally, when expenses can be measured reliably, regardless of the payment date.

(r) Employee benefits

Benefits to employees include, among others, short-term benefits, such as wages, salaries and social security contributions, annual paid leaves, paid sick leaves, profit-sharing and incentives, if paid within twelve months following the end of the period. These benefits are recognized against profit or loss for the period when the employee has provided the services that entitle them to receive those benefits. Corresponding obligations payable are presented as part of other liabilities.

(s) Operating profit

Operating profit is understood as total net sales less total cost of sales, administrative expenses, selling expenses, other income and expenses and revenue from the impairment reversal of non-financial assets and impairment loss of non-financial assets (net), excluding financial income and expenses.

(t) Income tax

Income tax expense for the period comprises current and deferred income tax and special mining tax.

Current income tax

Current income tax corresponds to the tax payable by applying a rate of 29.5% on estimated taxable income, after deducting the profit sharing of employees, and is recorded in profit or loss for the year.

Current income tax payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company and Subsidiaries' current income tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

A provision is recognized for those matters for which the tax determination is uncertain but it is considered probable that there will be a future outflow of funds to a tax authority. The provisions are measured at the best estimate of the amount expected to become payable. The assessment is based on the judgement of tax professionals within the Company and Subsidiaries supported by previous experience in respect of such activities and in certain cases based on specialist independent tax advice.

Deferred income tax

Deferred income tax is recognized on temporary differences between the carrying amount of assets and liabilities included in the consolidated financial statements and corresponding tax bases used to determine the taxable income, the pertinent rate of these differences, and in this case, the benefits of tax losses to amortize and some tax credits are included. Deferred tax assets or liabilities are generally recognized for all taxable temporary differences. A deferred tax income asset will be recognized for all deductible temporary differences to the extent that it is probable that the Company and Subsidiaries will have future tax profit against which to apply those deductible temporary differences. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Company and Subsidiaries are able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize those temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized based on rates (and tax laws) that have been enacted or substantively enacted at the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company and Subsidiaries expect, at the end of the reporting period, to recover or settle the carrying amount of their assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Current and deferred income tax

Current and deferred income taxes are recognized in profit or loss, except when they relate to items that are not recognized in profit or loss, either in other comprehensive income or directly in equity, respectively. Where current or deferred income tax arises from the initial recognition of a business combination, the tax effect is included in the recognition of the business combination.

(u) Contingent assets and liabilities

Contingent liabilities are recorded in the consolidated financial statements when it is probable that they will be confirmed in time and can be quantified reasonably; otherwise, they are disclosed in a note to the consolidated financial statements.

Contingent assets are not recorded in the consolidated financial statements, but are disclosed in a note when their contingency level is probable.

Items previously treated as contingent liabilities will be recognized in the consolidated financial statements in the period when a change in probabilities occurs, that is, when it is determined that an outflow of resources is probable to occur to cover such liability. Items previously treated as contingent assets will be recognized in the consolidated financial statements in the period when it is determined that an inflow of resources is virtually certain to occur.

(v) Basic and diluted earning per share

Basic earning per share is calculated by dividing net profit or loss attributable to shareholders by the weighted average number of outstanding common shares during the period, including shares for the restatement into constant currency.

Since there are no diluted potential common shares, that is, financial instruments or other contracts that allow obtaining common shares, basic and diluted earning per share is the same.

(w) Segments

The Company and Subsidiaries report financial and descriptive information about their reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity for which separate financial information is available and is evaluated regularly by the chief operating decision maker (CODM) in deciding how to allocate resources and in assessing performance. Generally, financial information is required to be reported on the same basis as it is used internally for evaluating operating segment performance and deciding how to allocate resources to segments.

3. CRITICAL ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The Company's Management is responsible for the information contained in these consolidated financial statements. To prepare them, certain estimates have been made to quantify some assets, liabilities, revenue, expenses and commitments recorded therein, based on experience and other relevant factors. Final results may differ from those estimates.

These estimates are reviewed on an ongoing basis. Changes in accounting estimates are prospectively recognized by recording the effects of changes in the corresponding profit or loss accounts for the period when corresponding reviews are conducted.

The most important estimates considered for the preparation of the consolidated financial statements of the Company and Subsidiaries refer to:

- Determination of functional currency and record of foreign currency transactions.
- Fair value of financial instruments.
- Valuation of inventories
- Useful life assigned to mining rights, development costs, property, plant and equipment, and intangible assets.
- Determination of mineral reserves and resources.
- Impairment loss of long-term assets.
- Liability for the disposal of assets and mine closure.
- Provisions and estimate for contingencies.
- Revenue recognition.
- Current and deferred income tax and mining taxes.
- Uncertain tax positions.
- Measurement of assets held for sale.

Key sources of uncertainty in estimates

We present the following basic assumptions regarding the future and other key sources of uncertainty in estimates, at the end of the reporting period, which may imply a significant risk of material adjustments in the carrying amounts of assets and liabilities during the next financial periods.

<u>Determination of reserves and mineral resources</u>

The Company and Subsidiaries calculate its mineral reserves and resources based on the guidelines provided by the Australian Standard – JORC Code (Joint Ore Reserves Committee), which establish technical and economic standards and recommendations. The Company has internationally certified employees who, together with specialists from the Parent, are in charge of the preparation and review of reserves annually.

Proven and probable reserves and a percentage of inferred resources are used in the calculation of the depreciation and amortization of non-financial assets, which are depreciated by applying the units-of-production method (Note 2(g) and 2(h)), as well as for the determination of the closure period of mining units and the impairment analysis of non-financial assets.

Provision for the disposal of assets and mine closure

The Company and Subsidiaries determine an estimate for the obligations of disposal of assets and closure of their mining units using the discounted cash flow model. In order to develop this model, Management makes certain estimates about the scope and costs for disposal and closure activities, changes in technology and regulations, and other macroeconomic variables considered in the estimate, such as inflation rates and others considered to determine the discount rate. In addition, Management considers the best-estimated terms when these disbursements will be made.

The Company and Subsidiaries regularly review future estimated disbursements, disbursement terms and used discount rates, as indicated in Note 33. The values of the asset and liability are corrected prospectively, if necessary.

Review of carrying amounts and impairment evaluation

The Company annually reviews whether a permanent asset requires an impairment estimate according to the accounting policy indicated in Note 2(i). This determination requires the use of professional judgment by the Company's Management in order to analyze impairment indicators as well as in the determination of value in use. In this last case, the application of judgment is required for the preparation of future cash flows, including projected future level of operations of the Company, forecast of economic factors that affect its income and costs, and the determination of the discount rate to be applied to such flow.

Useful life of property, plant and equipment

As described in Note 2(g), the Company and Subsidiaries review the estimated useful life of property, plant and equipment annually. Internal specialists of the operations and maintenance areas are involved in these evaluations in order to determine if the useful life is appropriate for the expected use of its assets. The determination of useful lives requires estimates regarding the expected commercial and technological evolution and different uses of assets. The hypothesis related to the technological environment and its future development imply a significant judgment degree, since the timing and nature of those future technological changes are difficult to predict.

Contingencies

The Company and Subsidiaries are subject to transactions or contingent events over which professional judgment is used for estimating the probability of occurrence of future events. The legal situation at the estimate date and the opinion of legal advisors are considered for that purpose (Note 32).

Taxes

The determination of tax obligations and expenses requires interpretations of applicable tax regulations. The Company and Subsidiaries seek professional tax advice before making any decision on tax matters. Even though Management considers that its estimates are prudent and appropriate, interpretation differences may arise with the tax administration that may affect tax charges in the future.

Recovery of deferred tax assets: An evaluation is required to determine whether deferred tax assets should be recognized in the consolidated statement of financial position. Deferred tax assets require Management to evaluate the probability that the Company and Subsidiaries generate taxable profit in future periods to use deferred tax assets. The estimates of future taxable income are based on forecasts of operating cash flows and the application of tax laws of each jurisdiction. Provided future cash flows and taxable income are significantly different from the estimates, it could affect the capacity of the Company and Subsidiaries to realize net deferred tax assets recorded at the reporting date.

Uncertain tax positions

The Company and Subsidiaries apply a significant judgment when identifying uncertainties over income tax treatments. In this regard, the Company and Subsidiaries have reviewed the following situations:

- Contentious proceedings
- Implemented tax plans
- Performed corporate reorganizations
- Other situations identified by Management

In the evaluation, Management has considered the following sources to identify potential uncertain tax situations:

- Criteria applied by the tax administration in its reviews
- Opinions of the tax administration in reports or official letters
- Case law of courts in all instances
- Tax administration guidelines
- Usual practice in the market

Since the year of initial of IFRIC 23 application was 2019, the evaluation has been conducted for all unexpired tax periods, considering the provisions of the tax code.

As a result of the examination of each one of the situations mentioned above, Management has identified uncertain tax situations that may affect the determination of income tax under IFRIC 23, mainly those related to the amortization of development costs, which do not have a significant implication on the consolidated financial statements due to their temporary nature.

It is important to mention that all estimates made for the year end must be remeasured when there is a change in a circumstance, such as the knowledge of actions followed by the tax administration, formally adopted situations, the tax opinion of the tax court or when the term of limitation is expired.

Measurement of assets classified as held for sale

The Company measures its assets classified as held for sale at the lower of carrying amount and fair value less costs to sell.

When it is expected that the sale may be performed in more than a year, the entity will measure the costs to sell at its present value. Any increase in the present value of those costs to sell, arising from the passing of time, will be presented in the consolidate statement of profit or loss as a financial cost.

The fair value estimate includes fixed and variable amounts. The fixed portion is based on contractual agreements, and the variable portion is calculated based on the net smelter return in respect with the concessions, and a percentage of future sales of the production during the whole operation.

4. NEW STANDARDS AND INTERPRETATIONS INTERNATIONALLY ISSUED

(a) New IFRSs, interpretations and amendments to current standards that did not significantly affect reported amounts and their disclosures in current and previous years

The following standards, interpretations and amendments to current standards were published with mandatory application for accounting periods beginning on or after January 1, 2019, which were not relevant for the operations of the Company, except for IFRS 16 and IFRIC 23:

- ***IFRS 16 Leases***

  The Company and Subsidiaries implemented IFRS 16 (issued by the IASB in January 2016), which establishes new or modified requirements for the accounting treatment of leases. This standard introduces significant changes to the lessor accounting, deleting the distinction between an operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at the commencement date of all leases, except those considered as short-term or low-value assets. The initial impact of the adoption of IFRS 16 in the consolidated financial statements of the Company and Subsidiaries is described below:

The date of initial application of IFRS 16 for the Company and Subsidiaries was January 1, 2019.

The Company and Subsidiaries have applied IFRS 16 using the modified retrospective approach, without restating the comparative information.

Impact of the new definition of lease

The Company and Subsidiaries have determined to apply the available practical expedient for the transition to IFRS 16 for not reassessing whether a contract is or contains a lease. Therefore, the definition of lease under IAS 17 and IFRIC 4 is still applied to contracts entered into or modified before January 1, 2019.

The change in the definition of lease is mainly related to the concept of control. IFRS 16 determines if a contract contains a lease based on whether the customer has the right to control the use of an asset identified for a period of time in exchange of a consideration. This is opposed to the "risks and benefits" approach of IAS 17 and IFRIC 4.

The Company and Subsidiaries apply the definition of a lease and the relevant guidance outlined in IFRS 16 to all contracts entered into or modified on or since January 1, 2019. For the initial adoption of IFRS 16, the Company and Subsidiaries performed an implemented project, which showed that the new definition of lease under IFRS 16 does not substantially change the scope of contracts that meet the definition of lease for the Company and Subsidiaries.

Impact of the accounting as lessee

(i) Previous operating leases

IFRS 16 changes how the Company and Subsidiaries account for leases previously classified as operating leases under IAS 17, which were not included in the statement of financial position.

By applying IFRS 16, for all leases (except those mentioned above), the Company:

- Recognizes right-of-use assets and lease liabilities in the consolidated statement of financial position, which are initially measured at the present value of future lease payments.

- Recognizes the depreciation of right-of-use assets and the interest accrued by lease liabilities in the consolidated statement of profit or loss.

- Separate the total cash amount paid to capital (presented in financing activities) and interests (presented in operating activities) in the consolidated statement of cash flows.

Lease incentives (e.g., periods free of rental) are recognized at initial measurement as part of right-of-use assets and lease liabilities, when they generated the recognition of a lease incentive under IAS 17, which is amortized as a reduction of lease expenses, generally on a straight-line basis.

Under IFRS 16, right-of-use assets are tested for impairment according to IAS 36.

(ii) Previous finance leases

The main differences between IFRS 16 and IAS 17 regarding contracts classified as finance leases is the measurement of the residual value of guarantees provided by lessor to the lessee. IFRS 16 requires the Company and Subsidiaries to recognize, as part of lease liabilities, only the expected amount to be paid under a residual value guarantee, in contrast to the maximum amount of the guarantee required by IAS 17. This change did not cause any material impact on the consolidated financial statements of the Company.

Impact due to the adoption of IFRS 16

Amounts recognized in the statement of financial situation

	US$000
Right-of-use assets	41,293
Lease liabilities	(41,293)
*** Net effect on balance accounts as of January 1, 2019**	-
Right-of-use assets	41,293
Increase in right-of-use assets	418
Depreciation charge	(18,824)
Lease liabilities	(41,710)
Payments of lease liabilities	19,928
Reclassification to assets held for sale	460
Interests on lease liabilities	(1,924)
*** Net effect on balance accounts as of December 31, 2019**	(359)

Amounts recognized in the statement of profit or loss

Depreciation expense of right-of-use assets	(18,824)
FInancial expenses of lease liabilities	(1,924)
*** Net effect on profit or loss as of December 31, 2019**	(20,748)

The application of IFRS 16 to leases previously classified as operating leases under IAS 17 resulted in the recognition of right-of-use assets and lease liabilities for US$41,293. It also resulted in the decrease of lease expenses for US$20,046, the increase of depreciation for US$18,824 and the increase of interest expenses for US$1,924. The movement of the lease liability was as follows:

Lease liabilities

	US$000
Balance as of January 1, 2019	41,293
Adjustments	417
Payments	(19,928)
Interests	1,924
Assets held for sale	(460)
Balance as of December 31, 2019	23,246

- ***IFRIC 23 Uncertainty over Income Tax Treatments***

  IFRIC 23 establishes how to determine the accounting tax position when there is uncertainty over income tax treatments. It considers specifically:

  - Whether tax treatments should be considered separately or collectively; and

  - Whether it is probable that the tax authority will accept an uncertain tax treatment that it used or is planned to be used by an entity in its income tax filing.

    - In a positive case, the entity has to determine the accounting tax position consistently with the tax treatment included in its income tax filings.

- In a negative case, the effect of the uncertainty should be reflected on the determination of the accounting tax position using the most likely amount or the expected value method.

The Company and Subsidiaries apply a significant judgment when identifying uncertainties over income tax treatments. They also evaluated if the interpretation had an impact on the consolidated financial statements. After the adoption of the interpretation, the Company and Subsidiaries determined that they have uncertain tax positions and concluded that their tax treatments may probably be accepted by tax authorities, even though the effect is not material for the consolidated financial statements.

- ***Amendments to IFRS 9 Prepayment Features with Negative Compensation***

  The Company and Subsidiaries adopted the amendments to IFRS 9 for the first time in the current year. The amendments to IFRS 9 clarify that, in order to assess whether a prepayment meets the solely payment of principal and interest condition (SPPI), the party that exercises the option can pay or receive a reasonable compensation for the prepayment, regardless of the reason of the advance payment. In other words, financial assets with prepayment features with negative compensation do not necessarily fail the SPPI test.

  Management considers that these amendments are not applicable to the Company and Subsidiaries since they do not perform this type of operations.

- ***Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures***

  The Company and Subsidiaries adopted the amendments to IAS 28 for the first time in the current year. The amendments clarify that IFRS 9, including its impairment requirements, is applicable to other financial instruments in an associate or joint venture, to which the equity method is not applicable.

  It includes long-term interests that substantially form part of the net investment in an associate or joint venture. The Company and Subsidiaries apply IFRS 9 to those long-term interests on which IAS 28 was previously applied. When applying IFRS 9, the Company and Subsidiaries do not consider any adjustment of the carrying amount of long-term interests required by IAS 28 (e.g., adjustments of the carrying amount of long-term interests derived from the allocation of losses of the investee or the evaluation of impairment under IAS 28).

  Management considers that these amendments are not applicable to the Company and Subsidiaries since they do not perform this type of operations.

- ***Amendments to IAS 19 Employee Benefit Plan Amendment, Curtailment or Settlement***

  These amendments clarify that the past service cost (or profit or loss on settlement) is calculated by measuring the defined benefit liability or asset using current assumptions and comparing offered benefits and plan assets before and after the amendment (curtailment or settlement) of the plan, but disregarding the effect of the asset ceiling (that may arise when the defined benefit plan is in a surplus position). IAS 19 now clarifies that the change to the effect of the asset ceiling that may result from the amendment (curtailment or settlement) of the plan is determined by a second step and is usually recognized in other comprehensive income.

  Regarding the paragraphs related to the measurement of the current service cost and net interest on the defined benefit liability (asset), now, the Company and Subsidiaries will be required to use updated remeasurement assumptions to determine the current service cost and net interest after the amendment (curtailment or settlement) of the plan and for the remaining reporting period. In case of net interest, the amendments clarify that for the period subsequent to the amendment (curtailment or settlement) of the plan, net interest is calculated by multiplying the defined benefit liability (asset) revalued under IAS 19:99 with the discount rate used in the new remeasurement (considering the effect of contributions and benefit payments in the net defined benefit liability (asset)).

Management considers that these amendments are not applicable to the Company and Subsidiaries since they do not perform this type of operations.

- ***Annual Improvements to IFRSs 2015 – 2017 Cycle***

  Amendments to IAS 12 Income tax, IAS 23 Borrowing costs, NIIF 3 Business combinations and IFRS 11 Joint arrangements

  The Company and Subsidiaries have adopted the amendments included in the Annual Improvements to IFRSs 2015 – 2017 Cycle for the first time in the current year. Annual improvements include amendments to four standards.

  IAS 12 *Income tax*

  The amendments clarify that the entity should recognize the income tax consequences of dividends in the statement of profit or loss, in other comprehensive income or in capital where the transactions that generated distributable profits were originally recognized. It is applicable regardless of whether different tax rates are applied to distributed and undistributed profits.

  IAS 23 *Borrowing costs*

  The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalization rate on general borrowings.

  IFRS 3 *Business combinations*

  The amendments clarify that when an entity obtains control of a business that is a joint operation, the requirements for a business combination in stages apply, including the reassessment of its previously held interest in the joint operation at fair value. The previously held interest subject to re-measurement includes the unrecognized assets, liabilities and goodwill related to the joint operation.

  IFRS 11 *Joint arrangements*

  The amendments clarify that when an entity that participates in a joint operation did not have joint control and obtains joint control, the previously held interests in that business should not be reassessed.

  Management considers that these amendments are not applicable to the Company and Subsidiaries since they do not perform this type of operations.

(b) New IFRSs and amendments that are not effective yet

At the authorization date of these consolidated financial statements, the Company and Subsidiaries have not applied the following new IFRSs and amendments that have been issued, but are not effective yet:

IFRS 17	Insurance contracts
IFRS 10 and IAS 18 (amendments)	Sale or contribution of assets between an investor and its associate or joint venture
Amendments to IFRS 3	Definition of a business
Amendments to IAS 1 and IAS 8	Definition of material
Conceptual Framework	Conceptual Framework of IFRS Standards

Management does not expect that the adoption of the standards mentioned above will have a material impact on the consolidated financial statements of the Company and Subsidiaries in future periods as follows:

- ***IFRS 17 Insurance contracts***

  IFRS 17 establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts and replaces IFRS 4 *Insurance contracts*.

IFRS 17 describes a general model, which is modified for insurance contracts with direct participation features and is described as the variable fee approach. The general model is simplified if certain criteria are met when measuring the liability of remaining coverage under the premium allocation approach.

The general model will use the current assumptions to estimate the amount, timing and uncertainty of future cash flows and will explicitly measure the cost of such uncertainty, considering the interest rates of the market and the impact of options and guarantees of insured parties.

This standard is effective for annual periods beginning on or after January 1, 2021, with early application permitted. It is applied retrospectively unless it is not feasible, in which case the modified retrospective approach or the fair value method is used. A draft of changes on IFRS 17 addresses the concerns and difficulties of implementation that were identified after the publication of IFRS 17. One of the main proposed changes was the deferral of the initial application date of IFRS 17 for a year, on reporting periods beginning on or after January 1, 2022.

- ***Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture***

  The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, these amendments state that profits or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method are recognized in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, profits and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognized in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

  The IASB has not determined the effective date of the amendments yet; however, their early application is permitted. The Company and Subsidiaries' Management anticipates that the application of these amendments may have an impact on the consolidated financial statements of the Company and Subsidiaries in future periods if those transactions are performed.

- ***Amendments to IFRS 3 Definition of a business***

  These amendments clarify that, as businesses usually have outputs, an output is not required for a series of integrated activities and assets to qualify as a business. To be considered a business, a series of acquired activities and assets should include at least an input and a substantive process that together significantly contribute to the ability to create outputs.

  An additional guidance is provided to help determining whether a substantive process has been acquired.

  These amendments introduce an optional test to identify the concentration of fair value, which allows a simplified assessment of whether a series of acquired activities and assets is not a business if all the fair value of gross assets acquired is substantially concentrated in a single identifiable asset or a group of similar assets.

  These amendments are applied prospectively to all business combinations and acquisitions of assets, whose acquisition date is on or after the first reporting period beginning on or after January 1, 2020, with early application permitted.

- ***Amendments to IAS 1 and IAS 8 Definition of material***

  The purpose of these amendments is to simplify the definition of materiality contained in IAS 1, facilitating its understanding, and not to modify the underlying concept of materiality in IFRSs. The concept to obscure material information with immaterial information has been included in the new definition.
  The limitation for influential materiality for users has been changed from “could influence” to “could be reasonably expected to influence”.

  The definition of materiality in IAS 8 has been replaced by a reference to the definition of materiality in IAS 1. Additionally, the IASB modified other standards and the Conceptual Framework that contained a definition of materiality or reference to the term materiality to guarantee the consistency.

  These amendments will be applied prospectively for reporting periods beginning on or after January 1, 2020, with early application permitted.

- ***Conceptual Framework of IFRS Standards***

  Together with the revised Conceptual Framework, published on March 29, 2018, the IASB also issued amendments to references to the Conceptual Framework in IFRS Standards. The document contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22 and SIC 32.

  However, not all amendments update those pronouncements regarding the references and quotes of the framework to refer to the revised Conceptual Framework. Some pronouncements are updated only to indicate to what version the frameworks makes reference to (the IASC framework adopted by the IASB in 2001, the IASB framework in 2010 or the new framework reviewed in 2018) or to indicate that the definitions in the standard have not been updated with the new definitions developed in the revised Conceptual Framework.

  The amendments, which are actually updates, are effective for annual periods beginning on or after January 1, 2020, with early adoption permitted.

5. FINANCIAL INSTRUMENTS AND RISKS

(a) Categories of financial instruments

The financial assets and liabilities of the Company and Subsidiaries comprise following:

	2019 US$000	2018 US$000
Financial assets:		
Amortized cost		
Cash and cash equivalents	33,828	62,950
Other accounts receivable (net)	8,065	29,265
	41,893	92,215
Fair value through profit or loss		
Trade accounts receivable (net)	36,159	41,842
Financial investments	150,284	548
Derivatives designated as hedging instruments	3,915	-
Derivatives that are not designated as hedging instruments	1,501	-
	191,859	42,390
Fair value through other comprehensive income		
Financial investments	43,510	52,757
Derivatives designated as hedging instruments	-	640
	43,510	53,397
Total	277,262	188,002
Financial liabilities:		
Amortized cost		
Trade accounts payable	178,175	202,544
Other accounts payable	2,944	3,440
Bank overdrafts	8,448	34
Bonds	535,264	535,264
Financial obligations	265,534	261,165
	990,365	1,002,447
Fair value through profit or loss		
Derivatives that are not designated as hedging instruments	53,308	48,218
Fair value through other comprehensive income		
Derivatives designated as hedging instruments	99	-
Total	1,043,772	1,050,665

(b) Financial risks

During the normal course of operations, the Company and Subsidiaries are exposed to several financial risks. The risk management program of the Company and Subsidiaries is mainly focused on financial markets and seeks to minimize potential adverse effects on the financial performance of the Company and Subsidiaries. Financial Management is in charge of risk management, which identifies, evaluates and covers financial risks.

(i) Market risk

Exchange rate risk

The Company and Subsidiaries perform their sales in U.S. dollars, which allow them to meet their obligations in such currency. The exchange rate risk arises from balances held in soles. In order to mitigate this risk, the Company and Subsidiaries use derivative contracts that are not designated as hedging instruments to cover their exposure to exchange rate risk.

As of December 31, 2019 and 2018, the balances of financial assets and liabilities denominated in foreign currency correspond to balances in Peruvian soles and are expressed in U.S. dollars at the closing exchange rates of US$0.302 and US$0.296 per S/1.00, respectively, and are summarized below:

	2019	2018
	S/000	S/000
Assets		
Cash and cash equivalents	49,728	32,142
Trade accounts receivable (net)	1,329	630
Other accounts receivable (net)	8,576	1,491
Total assets	59,633	34,263
Liabilities		
Bank overdrafts	(136)	(113)
Financial obligations	(368,885)	(557,180)
Trade accounts payable	(104,709)	(111,239)
Other accounts payable	(7,063)	(8,181)
	(480,793)	(676,713)
Financial obligations with exchange rate derivatives	368,885	557,180
Total liabilities	(111,908)	(119,533)
Net liability	(52,275)	(85,270)

Financial obligations with exchange rate derivatives correspond to synthetic loans, whose exchange rate risk is fully mitigated.

The Company and Subsidiaries recorded a net exchange profit for US$1,113 in 2019 (net loss for US$4,116 in 2018) (Note 27).

Management considers a sensitivity rate of 5% as reasonable in the assessment of exchange rate risk. A sensitivity analysis assuming the devaluation and revaluation of the Peruvian sol (S/), equivalent at the aforementioned rate, exclusively on balances of assets and liabilities reflected above, considering other constant variables in the consolidated statement of profit or loss before income tax, is presented in the following table:

	Changes in exchange rate	Effect on profit or loss before taxes (Debit) credit	
		2019	2018
		US$000	US$000
Revaluation	5%	752	1,202
Devaluation	-5%	(831)	(1,329)

Price risk

The Company and Subsidiaries are exposed to commercial risks arising from changes in mineral market prices. In order to cover the risk arising from the decrease of prices of metals to trade, in 2019, Management entered into derivative contracts that qualify as cash flow hedges at fair value through profit or loss, which were liquidated in 2019 and will still be liquidated in 2020 (Note 30).

As of December 31, 2019 and 2018, if the average sales prices of main metals payable, contained in ore concentrates, increase (or decrease) by 10% and all other variables are held constant, profit or loss before taxes of the Company and Subsidiaries would change, as shown below:

	Effect on profit before income tax (Debit) Credit
	US$000
Zinc concentrate	
2019:	
Increase in the international price of zinc	42,125
Decrease in the international price of zinc	(42,125)
2018:	
Increase in the international price of zinc	47,844
Decrease in the international price of zinc	(47,844)

	Effect on profit before income tax (Debit) Credit
	US$000
Lead concentrate	
2019:	
Increase in the international price of lead	16,563
Decrease in the international price of lead	(16,563)
2018:	
Increase in the international price of lead	18,640
Decrease in the international price of lead	(18,640)

	Effect on profit before income tax (Debit) Credit
	US$000
Copper concentrate	
2019:	
Increase in the international price of copper	3,673
Decrease in the international price of copper	(3,673)
2018:	
Increase in the international price of copper	3,427
Decrease in the international price of copper	(3,427)

	Effect on profit before income tax (Debit) Credit
	US$000
Silver concentrate	
2019:	
Increase in the international price of silver	3,928
Decrease in the international price of silver	(3,928)
2018:	
Increase in the international price of silver	4,164
Decrease in the international price of silver	(4,164)

For the control and follow-up of hedges, Management approved the "Policy for Hedging Metal Prices", which is executed and monitored together with the Policy for Financial Risk Management. In addition, Management has a Hedging Committee, whose objective is to mitigate the risks associated with the variations and volatility of prices of metals it produces.

As of December 31, 2019 and 2018, the fair value of embedded derivatives contained in commercial agreements amounts to a loss of US$4,204 and US$3,045, respectively.

Interest rate risk

The Company and Subsidiaries have significant assets, which are held in well-known financial entities and accrue interests at current rates in the market. Operating income and cash flows of the Company and Subsidiaries are independent from changes in interest rates in the market.

The interest rate risk is addressed by Management of the Company and Subsidiaries through a policy that establishes obtaining loans at fixed and variable interest rates.

For the loan held at a variable interest rate as of December 31, 2019 and 2018, Management decided to acquire an interest rate hedging derivative (Note 30(b)).

In addition, Management considers that the risk of fluctuations in the fair value of interest rates is not significant since the interest rates of its financing agreements are not significantly different from the market interest rates for similar financial instruments.

(ii) Credit risk

The credit risk of the Company and Subsidiaries arises from the inability of debtors to meet their obligations. For this reason, Management establishes conservative credit policies and constantly evaluates the conditions of the market where their debtors operate, for which Management uses risk rating reports for commercial and credit operations.

The table below presents an analysis of financial assets (excluding cash and cash equivalents and financial investments) of the Company and Subsidiaries classified according to their maturity:

	2019			2018		
	Overdue	**To be due**	**Total**	**Overdue**	**To be due**	**Total**
	US$000	**US$000**	**US$000**	**US$000**	**US$000**	**US$000**
Trade accounts receivable (net)	479	35,680	36,159	122	41,720	41,842
Other accounts receivable (net)	-	8,065	8,065	-	29,265	29,265
Other financial assets	-	5,416	5,416	-	640	640
	479	49,161	49,640	122	71,625	71,747

Trade accounts receivable are denominated in U.S. dollars and expire when the payment receipt is issued and are effective in the following days of maturity. The sales of the Company and Subsidiaries are performed to local and foreign customers. As of December 31, 2019, the Company has a portfolio of 27 customers (28 customers as of December 31, 2018). The three most important customers of the Company and Subsidiaries represented 53% of total sales (71% of total sales in 2018). The Company's Management evaluates the amounts that they estimate are not recoverable to determine the required provision for doubtful accounts.

(iii) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents and having the possibility to be engaged and/or have engaged certain financing operations through adequate credit sources.

As of December 31, 2019 and 2018, the Company and Subsidiaries present a negative working capital for US$212,030 and US$217,761, respectively. In this regard, Management has a credit capacity that allows having access to credit lines in first-class financial entities to meet their obligations. Consequently, they permanently monitor their liquidity reserves, based on cash flow projections. In addition, Management has considered the potential sale of its investments in electrical generation companies, as well as the possibility that its subsidiary Empresa Minera Paragsha S.A.C. sells the shares it holds in Cementos Polpaico S.A., which are listed on the Chile Stock Exchange. Management considers that these measures will allow the Company to have available cash flows in the short term if it does not have access to additional credit lines from financial entities.

The table below presents an analysis of the financial liabilities of the Company and Subsidiaries classified according to their maturity (including interests to be paid at those maturities) at the date of the consolidated statement of financial position:

	Less than 1 year	Between 1 and 2 years	Between 2 and 10 years	Total
	US$000	US$000	US$000	US$000
As of December 31, 2019:				
Bank overdrafts	8,448	-	-	8,448
Financial obligations	260,368	61,608	561,334	883,310
Trade accounts payable	178,175	-	-	178,175
Other accounts payable	2,944	-	-	2,944
Other financial liabilities	53,407	-	-	53,407
Total	503,342	61,608	561,334	1,126,284
As of December 31, 2018:				
Bank overdrafts	34	-	-	34
Financial obligations	242,674	54,086	599,107	895,867
Trade accounts payable	202,544	-	-	202,544
Other accounts payable	3,440	-	-	5,685
Other financial liabilities	48,218	-	-	48,218
Total	499,155	54,086	599,107	1,152,348

(iv) Capital risk management

The objective is to safeguard the ability of the Company and Subsidiaries to continue as going concern in order to generate returns to shareholders and benefits to other interest groups, as well as maintaining an optimal capital structure to reduce capital cost.

Management handles its capital structure and makes adjustments to deal with changes in the economic conditions of the market. In order to maintain or adjust the capital structure, the Company can adjust the payment of dividends to its shareholders, return capital to its shareholders or issue new shares. No changes were made to the objectives, policies or procedures in 2019 and 2018.

The leverage ratio was as follows:

	2019	2018
	US$000	US$000
Financial obligations	800,798	796,429
Cash and cash equivalents	(33,828)	(62,950)
Total net debt	766,970	733,479
Total equity	570,729	648,153
Net debt ratio	1.34	1.13

(c) Fair value of financial instruments

For purposes of the consolidated financial statements, fair value measurements are categorized in three levels: 1, 2 or 3; depending on the degree in which the information for fair value measurements are observable, and their significance to fair value measurement in its entirety, as described below:

- Level 1: Input is quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company may access to at the measurement date.

- Level 2: Input is different from quoted prices included in Level 1, which are observable for the asset or liability, whether directly or indirectly.

- Level 3: Input is not observable for the asset or liability.

<u>Fair value of financial assets and liabilities of the Company that are not measured at fair value (but fair value disclosures are required)</u>

Except for the balances shown in the table below, Management considers that the carrying amounts of financial assets and liabilities recognized in the consolidated financial statements are similar to their fair value due to the short-term maturity:

	2019		2018	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
	US$	**US$**	**US$**	**US$**
Financial liabilities:				
Financial liabilities at amortized cost	800,798	826,709	796,429	797,184
Total	800,798	826,709	796,429	797,184

The measurement of fair value of financial liabilities at amortized cost includes bonds issued in the international market (Note 16(a)), whose fair value is classified as Level 1 since quoted prices are available.

<u>Fair value of financial assets and liabilities of the Company that are measured at fair value on a constant basis</u>

As of December 31, 2019 and 2018, financial instruments measured at fair value after initial recognition refer to trade accounts receivable, financial investments and derivative financial instruments.

The following table shows the financial instruments measured at fair value on a constant basis, classified per level:

	2019	2018
	US$000	**US$000**
Financial assets		
Level 1		
Investments in equity instruments (a)	193,794	53,305
Level 2		
Trade accounts receivable (b)	36,159	41,842
Derivates that are not designated as hedging instruments	1,501	-
Derivates designated as hedging instruments	3,915	640
	41,575	42,482
Financial liabilities		
Level 2		
Derivates that are not designated as hedging instruments	53,308	48,218
Derivates designated as hedging instruments	99	-
	53,407	48,218

(a) Financial investments (Note 7) mainly include the investment in Cementos Polpaico S.A., which is listed on the Chile Stock Exchange; for this reason, it has been classified as Level 1.

(b) Trade accounts receivable, designated at fair value through profit or loss, comprise the changes in the value of provisional liquidations, which are adjusted at market value based on future estimates of metal prices at the date of the financial statements. Fair value measurement is classified as Level 2 since these measurements derive from international quotation prices in force included in Level 1.

6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise the following:

	2019	2018
	US$000	US$000
Petty cash and cash in banks (a)	33,017	62,501
Other funds	811	449
	33,828	62,950

(a) Petty cash and cash in banks mainly comprise checking accounts denominated in soles and U.S. dollars, which are held in local banks, are freely available and accrue interests at market rates.

(b) The Company presents amounts for US$9,856 and US$7,477 as of December 31, 2019 and 2019 as part of cash and cash equivalents, which correspond to cash deposited in Banco de la Nación for the payment of taxes; therefore, they are not freely available for the Company. In addition, amounts withheld by the Tax Administration are presented in this item for US$4,171 as of December 31, 2019 (US$2,209 as of December 31, 2018).

7. FINANCIAL INVESTMENTS

Financial investments comprise the following:

Company	Class	Number of shares	Interest in net equity As of December 31, 2019 %	Interest in net equity As of December 31, 2018 %	Face value		Carrying amount As of December 31, 2019 US$000	Carrying amount As of December 31, 2018 US$000
Associate:								
Cosco Shipping Ports Chancay Perú S.A.	Common	279,408,127	40.0	100	1	sol	150,000	-
Other investments:								
Cemento Polpaico S.A. (a)	Common	4,056,643	22.7	22.7	8,040	Chilean pesos	43,510	52,757
Other companies	Common	-	-	-	-	-	284	548
							193,794	53,305

(a) Cosco Shipping Ports Chancay Perú S.A. is engaged in port activities and its objective is the development, construction, implementation, commissioning and operation of a multi-purpose port at the Chancay bay, located in the northern area of Lima. It is estimated to commence operations in 2022.

As explained in Note 1(d) to the accompanying consolidated financial statements, in May 2019, as a result of the subscription and investment agreement entered into between the Company and Cosco Shipping Ports Limited, the Company derecognized its investment in the subsidiary at the date in which control was lost and recognized the fair value of its interest of 40% in the capital stock of such entity (US$150,000). The impact on profit or loss amounted to US$18,288. See Note 25.

(b) Cementos Polpaico S.A. is engaged in the production and commercialization of cement and lime. As of December 31, 2019, the quotation amounted to 8,040 Chilean pesos per share, equivalent to US$10.726 (9,000 Chilean pesos per share, equivalent to US$13.005 as of December 31, 2018). Those shares are listed on the Chile Stock Exchange.

8. TRADE ACCOUNTS RECEIVABLE (NET)

Trade accounts receivable (net) comprise the following:

	2019	2018
	US$000	US$000
From third parties		
Invoices	41,960	46,522
Impairment estimate for accounts receivable (a)	(17,601)	(19,837)
Embedded derivatives	(533)	(996)
Sales adjustments	(1,360)	(326)
	22,466	25,363
From related entities		
Invoices	18,312	19,431
Embedded derivatives	(3,671)	(2,049)
Sales adjustments	(948)	(903)
	13,693	16,479
Total	36,159	41,842

Accounts receivable have current maturity, do not accrue interests and do not have specific guarantees. Overdue and to be due accounts are expected to be collected in the first quarter of the following year. An analysis of accounts receivable classified according to their maturity is shown in Note 5(b)(ii).

The main customers of the Company and Subsidiaries are well-known in the international market, have good credit history and do not have financial issues at year-end.

As of December 31, 2019, the Company and Subsidiaries performed sales to the following related entities: Glencore Perú S.A.C., Glencore Lima Trading S.A.C. and Glencore International AG for US$283,105, US$61,395 and US$66, respectively (Glencore Perú S.A.C., Glencore Lima Trading S.A.C. and Glencore International AG for US$290,813, US$68,709 and US$1,028 as of December 31, 2018, respectively).

(a) An impairment estimate for accounts receivable for US$43 was recorded in 2019.

Pursuant to the commercial agreement entered into with Cerro de Pasco Resources Inc., the balances of subsidiary Óxidos de Pasco S.A.C. were reclassified to assets classified as held for sale, which included an impairment provision for US$2,279 (Note 15).

Management of the Company and Subsidiaries believe that the estimate for doubtful accounts is sufficient to cover the non-compliance risk at the date of the consolidated statement of financial position.

9. OTHER ACCOUNTS RECEIVABLE (NET)

Other accounts receivable (net) comprise the following:

	2019 US$000	2018 US$000
Value added tax credit (a)	40,352	83,729
Credit balance for income tax and temporary tax on net assets (b)	36,249	40,514
Loans granted to third parties (d)	13,974	13,735
Other tax credits	7,378	4,235
Accounts receivable from contractors	5,263	7,194
Deferred costs and expenses	6,196	5,887
Insurance compensation	3,866	3,866
Advances granted to contractors	3,143	2,544
Public works for taxes, in process (e)	2,565	6,210
Loans granted to employees	1,483	1,376
Sale of shares CEC (c)	-	19,193
Other minor items	2,677	5,588
	123,146	194,071
Impairment estimate for other accounts receivable (f)	(41,250)	(18,482)
Total	81,896	175,589
Non-current portion	7,990	6,992
Current portion	73,906	168,597

(a) As of December 31, 2019, this item includes an amount of US$24,133, which corresponds to tax credit derived from subsidiaries that do not operate and that is not expected to be recovered; therefore, an impairment estimate was recorded.

(b) As of December 31, 2019, this item corresponds to advance payments of income tax for US$25,387, tax credit for US$9,554 and payments for the temporary tax on net assets for US$1,308, which will be requested as from 2020.

(c) As of December 31, 2018, this item corresponds to the balance receivable from the sale of shares held in Compañía Energética del Centro S.A.C., made by subsidiary Compañía Minera Chungar S.A.C. to Odebrecht Energía del Perú S.A. in June 2014. An amount of US$19,193 was collected on April 25, 2019.

(d) Loans granted to third parties accrue interests at market rates and are considered to have a current maturity. The Company and Subsidiaries have considered recording an amount of US$11,821 as doubtful account according to the assessment of uncollectibility risk.

(e) In 2019, the Company executed the Project "Improvement and extension of commercialization services of the municipal supply market of the district of Chancay – Huaral - Lima", with code SNIP No. 108499, pursuant to Law 29230 - Works for Taxes, whose approximate financing amount is US$21,990. Also, the financial closure of potable water projects was concluded in Yauli-Junin and a road interchange in Trujillo with the recovery of CIPRLs of settlement of both projects.

(f) As of December 31, 2019, this item mainly corresponds to the impairment provision for value-added tax credit for US$24,133 and loans receivable for US$11,821. As of December 31, 2018, this item mainly corresponds to the impairment provision for loans receivable for US$11,821.

Management of the Company and Subsidiaries believes that the impairment estimate for other accounts receivable is sufficient to cover the non-compliance risk at the date of the consolidated statement of financial position.

10. OTHER FINANCIAL ASSETS AND LIABILITIES

Other financial assets and liabilities comprise the following:

Financial assets:

	2019	2018
	US$000	US$000
Derivative financial instruments:		
Derivative that are not designated as hedging instruments	1,501	-
Derivative designated as hedging instruments (Note 30 (a) and (b))	3,915	640
	5,416	640

Financial liabilities:

	2019	2018
	US$000	US$000
Derivative financial instruments:		
Derivative that are not designated as hedging instruments (a)	53,308	48,218
Derivative designated as hedging instruments (Note 30(b))	99	-
	53,407	48,218

(a) The Company has entered into prepaid swaps agreements for commodities, which represent an advance payment by a financial entity, equivalent to the price of the quantity agreed upon in those agreements. These agreements have current spot prices at each liquidation date.

Agreements with derivative financial instruments were negotiated with several international financial entities, such as J. Aron & Co., Societe Generale / New York, JP Morgan and Natixis.

11. INVENTORIES (NET)

Inventories (net) comprise the following:

	2019	2018
	US$000	US$000
Concentrates (a)	6,461	15,347
Mineral (a)	5,730	11,814
Pyrite stockpiles	-	7,752
Sundry supplies	31,455	43,964
Inventories in transit	68	104
	43,714	78,981
Impairment estimate (b)	(7,005)	(6,589)
Total	36,709	72,392
Non-current portion	-	7,752
Current portion	36,709	64,640

Pursuant to the commercial agreement entered into with Cerro de Pasco Resources Inc., the following amounts held by subsidiaries Empresa Administradora Cerro S.A.C. and Óxidos de Pasco S.A.C. were reclassified to assets classified as held for sale:

(a) Inventory of concentrates and minerals for US$4,753 and US$5,589, respectively.

(b) The net increase of the impairment estimate for spare parts and supplies includes the estimate for the year for US$4,476 and a decrease of US$4,060 for the reclassification of assets classified as held for sale (Note 25).

    In 2018, the impairment estimate was adjusted mainly for the write-off of inventories for US$10,179 and the destruction of obsolete supplies (impairment) for US$6,559.

Management of the Company and Subsidiaries believes that the impairment estimate for spare parts and supplies is sufficient to cover the risk of loss at the date of the consolidated statement of financial position.

12. PROPERTY, PLANT AND EQUIPMENT (NET)

The movement in the cost and accumulated depreciation of property, plant and equipment, net, was as follows:

	Balance as of January 1, 2019	Additions	Sales and/or disposals	Transfers	Corporate derecognition	Impairment estimate	Assets held for sale	Balance as of December 31, 2019
	US$000	US$000	US$000	US$000	US$000	US$000	US$000	US$000
Cost of:								
Land	97,750	2,163	-	33,199	(101,759)	-	-	31,353
Buildings and other constructions	926,968	7,794	-	48,955	(618)	(19,613)	(216,316)	747,170
Environmental management program infrastructure	22,293	-	(12)	-	-	-	(10,508)	11,773
Machinery and equipment	279,381	7,593	(14,267)	2,078	(20)	-	(107,084)	167,681
Vehicles	11,174	189	(44)	-	(151)	-	(6,945)	4,223
Furniture and fixtures and computer equipment	14,401	434	-	-	(130)	-	(1,925)	12,780
Other equipment	450,131	16,964	(79)	(1,078)	(21)	-	(110,101)	355,816
Units in transit	312	4,000	-	(573)	-	-	(15)	3,724
Works in progress (a)	59,408	38,721	(2,528)	(35,614)	-	-	(6,326)	53,661
	1,861,818	77,858	(16,930)	46,967	(102,699)	(19,613)	(459,220)	1,388,181
Accumulated depreciation of:								
Buildings and other constructions	276,541	80,764	-	-	(35)	-	(67,581)	289,689
Environmental management program infrastructure	22,277	4	-	-	-	-	(10,508)	11,773
Machinery and equipment	245,470	8,130	(11,213)	-	(6)	-	(104,966)	137,415
Vehicles	10,391	254	(10)	-	(103)	-	(6,945)	3,587
Furniture and fixtures and computer equipment	10,018	951	-	-	(85)	-	(1,798)	9,086
Other equipment	318,916	23,353	(61)	-	(7)	-	(82,360)	259,841
	883,613	113,456	(11,284)	-	(236)	-	(274,158)	711,391
Net value	978,205							676,790

	Balance as of January 1, 2018	Additions	Sales and/or disposals	Transfers	Incorporation of Subsidiary	Impairment recovery	Impairment estimate	Balance as of December 31, 2018
	US$000	US$000	US$000	US$000	US$000	US$000	US$000	US$000
					(d)	(Note 26)	(Note 26)	
Cost of:								
Land	78,942	1,828	(170)	3,402	13,868	-	(120)	97,750
Buildings and other constructions	778,919	8,716	(1,118)	69,553	-	78,350	(7,452)	926,968
Environmental management program infrastructure	22,292	1	-	-	-	-	-	22,293
Machinery and equipment	285,322	595	(11,644)	4,234	-	1,012	(138)	279,381
Vehicles	11,703	119	(641)	-	-	-	(7)	11,174
Furniture and fixtures and computer equipment	13,488	923	(7)	-	-	-	(3)	14,401
Sundry equipment	421,254	15,009	-	6,165	-	13,645	(5,942)	450,131
Units in transit	4,280	101	-	(4,069)	-	-	-	312
Works in progress (a)	94,791	47,408	(255)	(79,282)	-	-	(3,254)	59,408
	1,710,991	74,700	(13,835)	3	13,868	93,007	(16,916)	1,861,818
Accumulated depreciation of:								
Buildings and other constructions	202,316	74,562	(337)	-	-	-	-	276,541
Environmental management program infrastructure	22,250	27	-	-	-	-	-	22,277
Machinery and equipment	247,551	8,234	(10,315)	-	-	-	-	245,470
Vehicles	10,649	328	(586)	-	-	-	-	10,391
Furniture and fixtures and computer equipment	9,149	876	(7)	-	-	-	-	10,018
Sundry equipment	297,036	21,880	-	-	-	-	-	318,916
	788,951	105,907	(11,245)	-	-	-	-	883,613
Net value	922,040							978,205

(a) As of December 31, 2019, the projects included as works in progress mainly belong to the Company for US$37,077 and Subsidiary Compañía Minera Chungar S.A.C. for US$15,276 (US$27,047 and US$20,648 as of December 31, 2018, respectively), as detailed below:

Volcan Compañía Minera S.A.A.

	2019	2018
	US$000	US$000
Growth of tailings facility Rumichaca (Level 4227)	5,391	-
Ore Pass and ventilation shaft (Victoria tunnel)	2,827	967
Pumping system Rp 616 (Level 1220 to 1120)	2,318	1,680
Growth of tailings facility Rumichaca 4224	2,125	1,707
Growth of tailings facility Andaychagua (Level 4410)	2,100	-
Extension of tailings facility 6 Mahr Tunel	2,002	1,958
Pumping system (Level 1120 to 1020)	1,929	1,836
Growth of tailings facility Rumichaca (Level 4270)	1,313	443
Drainage line 12 Km from Huacracocha to Huacracocha	1,171	500
Growth of tailings facility Andaychagua (Level 4402 - 4408)	-	2,556
New Ssee Carahuacra 48/4.16Kv/10Mva	-	815
Other minor projects	15,901	14,584
	37,077	27,047

Subsidiary Compañía Minera Chungar S.A.C.

	2019	2018
	US$000	US$000
New tailings facility Animon - Quimacocha	2,631	-
Growth of tailings facility Alpamarca (Level 4684)	2,453	-
Romina Project - general infrastructure	1,040	-
Pumping system Islay mine (Level 210)	1,002	-
Construction of 2-level dressing room Esperanza-Animon	593	-
Pumping system Islay - chamber 6	530	372
Tailing facility Alpamarca Third stage (Level 4680)	-	3,754
Tailing facility Naticocha	-	2,482
Conduction system of industrial water (Animon)	-	2,318
Construction of pumping chamber N° 17 (Animon)	-	1,116
Growth of tailings facility Animon (Level 4621 Stage IV)	-	976
Other minor projects	7,027	9,630
	15,276	20,648

As of December 31, 2019 and 2018, other Subsidiaries have projects in progress for US$1,308 and US$11,713, respectively.

The projects mentioned above are estimated to be completed between 2020 and 2021.

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

Distribución de depreciacion de PPE

	2019	2018
	US$000	US$000
Cost of sales (Note 22)	105,200	100,590
Administrative expenses (Note 23)	1,193	1,556
Selling expenses (Note 24)	44	17
Other expenses (Note 25)	7,019	3,744
Total	113,456	105,907

(c) As of December 31, 2019, buildings, machinery and equipment include assets under finance leases with a carrying amount of US$16,186 and US$10,416, respectively (US$16,795 and US$5,548 as of December 31, 2018).

(d) Since 2018, the Company consolidates its financial statements with those of its Subsidiary Remediadora Ambiental S.A.C., which is mainly engaged in the acquisition of properties that are of economic interest for the Company and Subsidiaries for the development of their mining activities. This Subsidiary has been classified as held for sale according to Note 1(g).

(e) In 2019, assets held for sale correspond to the transfer of the assets of subsidiaries Empresa Administradora Cerro S.A.C., Óxidos de Pasco S.A.C. and Remediadora Ambiental S.A. to this item.

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

(g) In the assessment of cash-generating units (CGU) of Egerba and Huanchor, the Company and Subsidiaries determined an estimated impairment loss in constructions and buildings for US$14,505 and US$5,108, respectively.

13. RIGHT-OF-USE ASSETS

(a) Right-of-use assets correspond to the following:

	Balance as of January 1, 2019	Additions	Assets held for sale	Balance as of December 31, 2019
	US$000	US$000	US$000	US$000
Cost of:				
Operating machinery	36,065	-	-	36,065
Vehicles	5,228	337	(654)	4,911
Properties	-	81	-	81
	41,293	418	(654)	41,057
Depreciation of:				
Operating machinery	-	16,195	-	16,195
Vehicles	-	2,612	(230)	2,382
Properties	-	17	-	17
	-	18,824	(230)	18,594
Net value	41,293			22,463

The annual charge for depreciation of right-of-use assets has been distributed as follows:

	2019	2018
	US$000	US$000
Cost of sales (Note 22)	66,534	59,717
Administrative expenses (Note 23)	622	1,251
Other expenses (Note 25)	1,904	1,139
Total	69,060	62,107

14. MINING CONCESSIONS, EXPLORATION AND DEVELOPMENT COSTS AND OTHER INTANGIBLES (NET)

The movement in the cost and accumulated amortization of mining concessions, exploration and development costs, closure of mining units and other intangibles, net, was as follows:

	Balance as of January 1, 2019	Additions	and/or reclassifications	Corporate derecognition	Value adjustment	Impairment recovery	Assets held for sale	Balance as of December 31, 2019
	US$000	US$000	US$000	US$000	US$000 (Note 26)	US$000 (Note 26)	US$000	US$000
Cost of:								
Mining concessions	268,688	3,314	-	-	-	-	(51,867)	220,135
Exploration costs	247,997	28,472	-	-	-	-	(7,998)	268,471
Development costs (a)	708,302	73,984	(17,911)	-	-	35,600	(75,128)	724,847
Closure of mining units	140,083	-	-	-	(7,701)	-	(5,343)	127,039
Community rights	-	-	17,911	-	579	-	-	18,490
Other intangibles	140,954	4,345	(46,968)	(80,295)	-	-	(568)	17,468
	1,506,024	110,115	(46,968)	(80,295)	(7,122)	35,600	(140,904)	1,376,450
Amortization of:								
Mining concessions	190,769	5,547	-	-	-	-	(51,867)	144,449
Exploration costs	104,385	12,153	-	-	-	-	(7,934)	108,604
Development costs (a)	319,561	37,259	-	-	-	-	(75,128)	281,692
Closure of mining units	40,055	11,596	-	-	-	-	(3,267)	48,384
Community rights	-	1,451	-	-	-	-	-	1,451
Other intangibles	11,187	1,054	-	-	-	-	(493)	11,748
	665,957	69,060	-	-	-	-	(138,689)	596,328
Net cost	840,067							780,122

	Balance as of January 1, 2018	Additions	Sales and/or disposals	and/or reclassifications	Impairment recovery	Impairment estimate	Balance as of December 31, 2018
	US$000	US$000	US$000	US$000	US$000 (Note 26)	US$000 (Note 26)	US$000
Cost of:							
Mining concessions	268,690	-	-	-	-	(2)	268,688
Exploration costs	213,390	27,264	(33)	8,045	-	(669)	247,997
Development costs (a)	636,215	100,506	-	(8,055)	16,941	(37,305)	708,302
Closure of mining units	104,986	49,423	-	-	24	(14,350)	140,083
Other intangibles	133,358	7,623	(15)	7	-	(19)	140,954
	1,356,639	184,816	(48)	(3)	16,965	(52,345)	1,506,024
Amortization of:							
Mining concessions	181,619	9,150	-	-	-	-	190,769
Exploration costs	92,728	11,657	-	-	-	-	104,385
Development costs (a)	287,247	32,314	-	-	-	-	319,561
Closure of mining units	32,057	7,998	-	-	-	-	40,055
Other intangibles	10,200	988	(1)	-	-	-	11,187
	603,851	62,107	(1)	-	-	-	665,957
Net cost	752,788						840,067

(a) Development costs:

The movement and structure of this item is presented below:

	Balance as of January 1, 2019	Additions	Transfers	Impairment recovery	Assets held for sale	Balance as of December 31, 2019
	US$000	US$000	US$000	US$000 (Note 26)	US$000 (Note 15)	US$000
Cost of:						
Yauli	404,325	48,179	-	35,600	-	488,104
Cerro de Pasco	75,128	-	-	-	(75,128)	-
Animon	204,680	25,805	-	-	-	230,485
Paragsha and Subsidiaries	-	-	-	-	-	-
Vinchos	6,258	-	-	-	-	6,258
Rights granted by communities	17,911	-	(17,911)	-	-	-
	708,302	73,984	(17,911)	35,600	(75,128)	724,847
Accumulated amortization of:						
Yauli	157,834	26,417	-	-	-	184,251
Cerro de Pasco	75,128	-	-	-	(75,128)	-
Animon	80,341	10,842	-	-	-	91,183
Paragsha and Subsidiaries	-	-	-	-	-	-
Vinchos	6,258	-	-	-	-	6,258
	319,561	37,259	-	-	(75,128)	281,692
Net cost	388,741					443,155

	Balance as of January 1, 2018	Additions	Transfers	Impairment recovery	Impairment estimate	Balance as of December 31, 2018
	US$000	US$000	US$000	US$000 (Note 26)	US$000 (Note 26)	US$000
Cost of:						
Yauli	389,944	47,810	-	-	(33,429)	404,325
Cerro de Pasco	75,156	-	-	-	(28)	75,128
Animon	164,857	30,878	(7,996)	16,941	-	204,680
Paragsha and Subsidiaries	-	-	-	-	-	-
Vinchos	6,258	-	(59)	-	59	6,258
Rights granted by communities	-	21,818	-	-	(3,907)	17,911
	636,215	100,506	(8,055)	16,941	(37,305)	708,302
Accumulated amortization of:						
Yauli	133,402	24,432	-	-	-	157,834
Cerro de Pasco	74,839	289	-	-	-	75,128
Animon	72,747	7,594	-	-	-	80,341
Paragsha and Subsidiaries	1	(1)	-	-	-	-
Vinchos	6,258	-	-	-	-	6,258
	287,247	32,314	-	-	-	319,561
Net cost	348,968					388,741

(b) The annual charge for amortization has been distributed as follows:

	2019	2018
	US$000	US$000
Cost of sales (Note 22)	66,534	59,717
Administrative expenses (Note 23)	622	1,251
Other expenses (Note 25)	1,904	1,139
Total	69,060	62,107

15. ASSETS AND LIABILITIES HELD FOR SALE

The Company has concluded that the value of certain investments in Subsidiaries will be recovered though their sale, rather than the benefits arising from their operation. In addition, the Company has evaluated that it has the ability of transferring the assets to a potential buyer in current conditions. According to this, in November 2019, the Company entered into an agreement with Canadian company Cerro de Pasco Resources Inc. for the sale of its shares in its Subsidiaries Empresa Administradora Cerro S.A.C., Óxidos de Pasco S.A.C. and Remediadora Ambiental S.A.C. (Note 1(g)).

Due to this transaction, the assets and liabilities related to these Subsidiaries are presented as assets and liabilities held for sale. The Company has estimated that the fair value less the costs to sell of these Subsidiaries is US$130,502. Such value represents the fair value that has been determined according to the consideration established in the share purchase agreement (Note 1(g)).

The assets and liabilities that comprise the operations classified as held for sale as of December 31, 2019 are the following:

	2019
	US$000
Cash and cash equivalents	2,394
Trade accounts receivable (net)	4,268
Other accounts receivable (net)	48,714
Inventory (net)	29,829
Other accounts receivable	715
Property, plant and equipment (net)	185,486
Mining concessions, explorations and development costs and other intangibles (net)	2,215
Deferred income tax (net)	28,365
Total assets classified as held for sale	301,986
Bank overdrafts	1,628
Trade accounts payable	28,136
Other accounts payable	6,116
Financial obligations	459
Deferred income tax (net)	83,628
Provision for contingencies	7,161
Provision for mine closure and communities	44,356
Total liabilities related to assets classified as held for sale	171,484

16. FINANCIAL OBLIGATIONS

The movement and structure of this item is presented below:

	Original amount		Interest rate (%)	Maturity	Total	
	S/	US$000			2019	2018
					US$000	US$000
Loans:						
Atlas Copco Financial Solutions AB	-	1,469	4.00	Feb-19	-	81
Scotiabank Perú S.A.A.	-	10,000	2.85	Nov-22	6,168	8,111
Banco Internacional del Perú S.A.	-	10,000	2.85	Dic-22	6,168	8,111
Citibank N.A. New York	-	70,000	3.84	Ene-22	39,375	56,875
BBVA Banco Continental	196,140	-	1.60	Mar-19	-	60,000
Scotiabank Perú S.A.A.	194,340	-	1.50	Mar-19	-	60,000
Scotiabank Perú S.A.A.	166,700	-	2.8	Abr-19	-	50,000
Scotiabank Perú S.A.A.	368,885	-	1.65	Oct-20	110,000	-
Banco de Credito del Perú	-	60,000	1.60	Oct-20	60,000	-
					221,711	243,178
Bonds:						
Traded bonds (a)	-	600,000	5.375	Feb-22	535,264	535,264
					535,264	535,264
Leases under IFRS 16:						
Lease liabilities	-	-	-	-	23,246	-
					23,246	-
Finance leases:						
Banco Internacional del Perú S.A.	-	-	Between 3.67 and 3.83	Between May-17 and Dec-22	1,339	256
Scotiabank Perú S.A.A.	-	-	Between 3.45 and 4.10	Between Apr-19 and Nov-22	5,435	2,752
					6,774	3,008
Interests payable					13,803	14,979
Total financial obligations					800,798	796,429
Non-current portion					576,322	587,764
Current portion					224,476	208,665

(a) Traded bonds known as "Senior Notes Due 2022" were issued on February 2, 2012 and were totally placed in the international market for US$600,000, at an annual rate of 5.375%, maturing in 10 years. Interests are being paid in semiannual installments from August 2, 2012 to February 2, 2022.

The debt amortization schedule as of December 31, 2019 and 2018 is as follows:

Year	**2019**	**2018**
	US$000	**US$000**
2019	-	208,665
2020	224,476	22,286
2021	30,260	21,611
2022	546,062	543,867
Total	800,798	796,429

As of December 31, 2019 and 2018, the reconciliation of cash flows to financial obligations are shown below:

	2019	**2018**
	US$000	**US$000**
Movements related to cash flows		
Increase for obtaining bank loans	290,000	223,515
Payment of short-term loans from banks	(311,468)	(190,910)
Payment of commercial papers	-	(50,000)
Payment of finance leases	(4,975)	(3,603)
Payment of interests on loans	(39,479)	(36,286)
Payment of lease liabilities (IFRS 16)	(19,928)	-
Total	(85,850)	(57,284)
Movements not related to cash flows		
Increase for obtaining finance leases	8,742	75
Interests on loans	36,379	36,788
Lease liabilities (IFRS 16) - Rebilling	1,924	-
Lease liabilities (IFRS 16)	43,174	-
Increase/decrease of financial obligations during the year	4,369	(20,421)
Financial obligations at the beginning of the year	796,429	816,850
Financial obligations at the end of the year	800,798	796,429

Financial covenants

The Company and Subsidiaries have financial covenants in compliance with medium-term loan agreements entered into with Citibank, Interbank and Scotiabank. For this reason, the Company and Subsidiaries should submit a communication of the calculation of the following ratios to each one of the financial entities in a quarterly basis:

- Leverage (financial debt / EBITDA): the ratio should be less than 3.75.
- Interest hedge (EBITDA / financial expenses): the ratio should be higher than 5.00.

As of December 31, 2019, the result of the leverage ratio is 3.13 and the result of the interest hedge ratio is 5.80.

Management believes that, as of December 31, 2019 and 2018, no default event has occurred regarding the compliance with financial covenants as in the report of events required to be reported or other obligations derived from the agreement.

Guarantees

The Company has the following guarantees received from its Subsidiary Compañía Minera Chungar S.A.C. in order to secure the full compliance with its pertinent obligations:

- For the credit agreement entered into with Citibank for US$70,000.
- For the issuance of bonds in the international market under Rule 144A and Regulation S of the United States Securities Act of 1933.

17. TRADE ACCOUNTS PAYABLE

Trade accounts payable comprise the following:

	2019 US$000	2018 US$000
Invoices payable (a)	111,564	124,326
Invoices receivable (b)	53,489	58,965
Guarantee funds	13,122	19,253
Total	178,175	202,544

(a) Trade accounts payable mainly arise from the acquisition of materials and supplies for the execution of mining activities of the Company and Subsidiaries and are mainly denominated in U.S. dollars and soles, have current maturity, do not accrue interests and no guarantees have been granted for these obligations. As of December 31, 2019 and 2018, balances payable are effective and within the payment terms established by the Company, which range between 30 and 60 days.

(b) Invoices receivable correspond to the estimated record of consumption of goods and services of December, for which, at the date of the consolidated financial statements, the payment receipts issued by their pertinent suppliers have not been received.

(c) As of December 31, 2019, the Company and Subsidiaries hold obligations for US$21,606, which are related to invoices that the suppliers have granted to financial entities. Those obligations do not accrue interests and have the original maturity that was agreed upon with suppliers.

18. OTHER ACCOUNTS PAYABLE

Other accounts payable comprise the following:

	2019	2018
	US$000	US$000
To third parties		
Contribution to OEFA	19,267	19,523
Salaries and bonuses - Board of Directors	2,407	2,905
Salaries and profit-sharing - employees (a)	11,330	19,562
Income tax	8,877	33,612
Value added tax deductions	4,487	4,681
Mining taxes	1,877	1,556
Other accounts payable - IFRIC 23	1,696	-
Dividends	1,091	1,071
Income tax withheld from employees	982	815
Purchase of properties - "El Corral" land	752	920
Contributions to EsSalud	450	487
Legal withholdings	434	401
Contributions to pension fund administrators	425	461
Contributions to the National Pension Fund	193	219
Mining retirement fund	142	574
Value-added tax - Withholdings	58	277
Provision for income tax - IFRIC 23	52	-
Other minor items	1,949	3,694
	56,469	90,758
To related entities		
Salaries and bonuses of the Board of Directors	7,159	6,210
Sundry items	416	1
	7,575	6,211
Total	64,044	96,969

(a) As of December 31, 2019 and 2018, this item mainly includes vacations and profit-sharing of employees for US$5,816 and US$2,539, respectively (US$5,463 and US$10,820 for vacations and profit-sharing of employees in 2018, respectively).

19. PROVISIONS

Provisions comprise the following:

	2019	2018
	US$000	US$000
Contingencies (a)	20,273	21,888
Mine closure (Note 33)	133,564	183,697
Agreements with communities (b)	18,760	21,818
Other provisions	6,492	5,683
Total	179,089	233,086

(a) The movement of provisions for contingencies is presented below:

	US$000
Balance as of January 1, 2018	21,034
Provision for the year (Note 25)	4,322
Reversal (Note 25)	(3,468)
Balance as of December 31, 2018	21,888
Provision for the year (Note 25)	5,627
Reversal (Note 25)	(80)
Transfer to liabilities directly associated with assets classified as held for sale	(7,162)
Balance as of December 31, 2019	20,273

(b) As of December 31, 2019, the nominal value of the provision for obligations with communities is US$21,886 (US$24,026 as of December 31, 2018), which has been discounted using the annual risk-free rate of 1.8% (2% in 2018), resulting in a net value of US$18,760 (US$21,818 as of December 31, 2018).

20. EQUITY

(a) Issued capital stock

The issued capital stock of the Company is represented by 1,633,414,553 class A voting shares, and 2,443,157,622 class B non-voting shares with a right of preferred dividend allocation, which is not cumulative. All common shares are duly subscribed and paid and have a face value of S/0.87 per share.

The preferred right to participate in the allocation of dividends in cash consists in receiving an additional payment for dividends of 5% per share, only on the amount of each dividend in cash paid to each common class A share. This right is not cumulative if the Shareholders' Meeting does not declare nor pay dividends in cash in any period.

Both common class A and B shares, listed on the Lima Stock Exchange, are actively traded in the stock market. As of December 31, 2019, their quotation was S/3.49 and S/0.445 per share, respectively (S/3.50 and S/0.71 per share, respectively, as of December 31, 2018). As of December 31, 2019, the negotiation frequency of class A shares was 3.57% and 100% for class B shares (9.96% for class A shares and 100% for class B shares as of December 31, 2018).

The equity interest structure as of December 31, 2019 and 2018 is as follows:

Individual interest percentage in issued capital stock	**Number of shareholders**		**Total interest percentage**	
	2019	**2018**	**2019**	**2018**
			%	**%**
Less than 0.20	8,008	8,203	17.29	17.47
From 0.20 to 1.00	24	22	10.57	10.41
From 1.01 to 5.00	12	13	38.52	38.68
From 5.01 to 10.00	3	3	16.83	16.65
From 10.01 to 20.00	1	1	16.79	16.79
	8,048	8,242	100	100

At the Board of Directors' Meeting held on July 24, 2018, it was agreed to allocate advance dividends in cash on account of freely available profit as of June 30, 2018 for S/54,583 (equivalent to US$16,641) and of future profit or loss. Those dividends were paid on August 22, 2018.

(b) Treasury shares

This item corresponds to shares of the Company acquired by Subsidiaries. From total shares, 182,970,350 common class A shares and 12,234,901 class B shares are owned by subsidiary Empresa Minera Paragsha S.A.C., 23,442,345 common class A shares are owned by subsidiary Compañía Minera Chungar S.A.C., and 306,283 common class A shares are owned by subsidiary Compañía Industrial Limitada de Huacho S.A.

(c) Legal reserve

Pursuant to the General Law of Corporations, the legal reserve is established by transferring a minimum of 10% of net profit from each period, after deducting accumulated losses, until it achieves an amount equivalent to the fifth part of capital. In the absence of undistributed profit or freely available reserves, the legal reserve shall be applied to offset losses, and must be replaced. The legal reserve can be capitalized but shall also be replaced.

As of December 31, 2019, the transfer of 10% of net profit from 2019 to the legal reserve has not been approved yet.

(d) Share premium

This item corresponds to the result obtained from the purchase and ownership of treasury shares, which are credited or debited in this account.

(e) Revaluation surplus

As of December 31, 2018, this item corresponds to the resulting surplus of revaluating land of Cosco Shipping Ports Chancay Perú S.A. (Terminales Portuarios Chancay S.A.) at market value. As of December 31, 2019, such company became from subsidiary to associate. See Note 1(d).

(f) Unrealized earnings

This item corresponds to unrealized profit (loss) from derivative financial instruments designated as hedging instruments (Note 10). This unrealized profit or loss derives from the fact that the price of commodities was agreed upon at a value higher or lower than their liquidation value, as applicable, and the profit or loss resulting from the effect of the fair value of the investment in equity instruments (Note 7).

21. NET SALES

During 2019 and 2018, revenue mainly includes sales of zinc, lead, silver and copper concentrates, as follows:

	2019	2018
	US$000	**US$000**
Net sales per concentrate:		
Zinc	421,247	478,436
Lead	165,626	186,399
Silver bars	75,520	56,162
Silver	39,277	41,639
Copper	36,732	34,271
Silver scrap	56	52
Bulk	-	61
	738,458	797,020
(Loss) profit in:		
Financial instruments	7,476	(13,924)
Embedded derivatives (Note 30(c))	(1,068)	(7,441)
Adjustments of open provisional liquidations	(1,288)	(553)
Total	743,578	775,102

Net sales of concentrates to customers per geographical area are presented below (without including the valuation effect of the embedded derivative and unrealized profit of hedging instruments):

	2019	2018
	US$000	US$000
Peru	534,069	551,126
Asia	126,412	102,878
Europe	63,535	115,884
America	14,442	26,049
Oceania	-	1,083
	738,458	797,020

(a) Sales concentration

In 2019, the three most important customers represented 80% of total sales (71% of total sales in 2018). As of December 31, 2019, 53% of the accounts receivable balance corresponds to these customers (61% as of December 31, 2018). Concentrates sales are made to well-known companies in the country and abroad.

(b) Sales commitments

As of December 31, 2019, the Company and Subsidiaries hold commitments with related entities and third parties for sales of zinc, lead and copper concentrates for 1,002,268 WMT, 47,552 WMT and 14,070 WMT until 2024, for an approximate amount of US$728,448, US$79,359 and US$50,095 (1,302,226 WMT, 58,746 WMT and 5,762 WMT as of December 31, 2018, for an approximate amount of US$1,078,243, US$94,581 and US$21,204).

In addition, as of December 31, 2019, the Company and Subsidiaries held commitments for the sale of Dore bars for 3,428,442 oz. for US$69,597. As of December 31, 2020 and from that date on, there are no commitments for the sale of Dore bars.

22. COST OF SALES

For the years ended December 31, cost of sales comprises the following:

	2019	2018
	US$000	US$000
Beginning balance of concentrates (Note 11)	15,347	10,734
Beginning balance of minerals (Note 11)	11,814	16,395
Services provided by third parties, energy and others	216,623	210,832
Consumption of supplies	111,185	102,301
Depreciation (Note 12 (b))	105,200	100,590
Depreciation of right-of-use assets (Note 13)	18,302	-
Labor	70,576	69,943
Amortization (Note 14 (b))	66,534	59,717
Purchase of minerals and concentrates	1,016	1,630
Others	2,339	1,402
Ending balance of concentrates (Note 11)	(11,214)	(15,347)
Ending balance of minerals (Note 11)	(11,319)	(11,814)
Total	596,403	546,383

23. ADMINISTRATIVE EXPENSES

For the years ended December 31, administrative expenses comprise the following:

	2019	2018
	US$000	US$000
Personnel expenses	19,291	27,877
Mails, telecommunications and other minor items	7,401	6,153
Services provided by contractors	7,328	6,570
Professional fees	6,835	6,086
Insurance	3,383	3,031
Leases	2,618	2,067
Personnel services	1,999	1,613
Mining fees and penalties for concessions rights	1,930	-
Indemnities	1,649	495
Samples, assays and supervision	1,378	528
Communication and information technology	1,265	991
Depreciation (Note 12 (b))	1,193	1,556
Salaries and bonuses - Board of Directors	861	3,659
Amortization (Note 14 (b))	622	1,251
Depreciation of right-of-use assets (Note 13)	522	-
Total	58,275	61,877

24. SELLING EXPENSES

For the years ended December 31, selling expenses comprise the following:

	2019	2018
	US$000	US$000
Freight	14,047	15,707
Services for the sale of concentrates	3,442	2,909
Sundry services	1,855	1,439
Services provided by contractors	1,171	798
Personnel expenses	904	1,132
Samples, assays and supervision	789	1,066
Shipment expenses	419	423
Services provided by third parties	283	1,034
Leases	202	424
Depreciation (Note 12(b))	44	17
Impairment estimate for accounts receivable (Note 8)	43	2,236
Total	23,199	27,185

25. OTHER INCOME AND EXPENSES

For the years ended December 31, other income comprises the following:

	2019 US$000	2018 US$000
Other income:		
Profit from fair value adjustment of investment in Cosco Shipping Ports Chancay Perú S.A.	18,288	-
Income from the sale of sundry supplies	11,130	9,686
Income from the sale of energy to third parties	10,701	6,461
Income from treatment services of minerals and others	10,417	4,760
Interests from returns	4,736	2,316
Disposal of fixed assets	1,371	478
Insurance compensation	785	1,634
Income from mine closure and communities	630	-
Reversal of provision for contingencies (Note 19)	80	3,468
Income from reversal of impairment of accounts receivable	-	10,000
Income from changes in estimates	-	4,976
Credit application EPS/SCTR	-	2,742
Others	8,702	9,776
Total	66,840	56,297

For the years ended December 31, other expenses comprise the following:

	2019 US$000	2018 US$000
Other expenses:		
Impairment of other accounts receivable (a)	(26,270)	(3,272)
Plant shutdown (b)	(19,130)	(18,626)
Cost of sales of sundry supplies	(10,405)	(8,921)
Sundry non-deductible expenses	(8,843)	(8,266)
Depreciation (Note 12(b))	(7,019)	(3,744)
Cost of sales of energy	(6,396)	(4,163)
Cost of disposal of fixed assets	(5,635)	(2,465)
Provision for contingencies (Note 19)	(5,627)	(4,322)
Consulting services for the sale of TPCH (Cosco Shipping Ports Chancay Perú S.A.)	(4,903)	-
Obsolescence of supplies	(4,476)	(252)
Contribution to OEFA and OSINERMING	(3,935)	(1,928)
Adjustment of mine closure and communities	(2,484)	-
Cost of treatment service of minerals and others	(2,461)	(3,033)
Amortization (Note 14 (b))	(1,904)	(1,139)
Mining fees and penalties for concession rights	(1,520)	(220)
Shortfall of supplies	(1,366)	-
Tax administrative penalties	(1,344)	(4,745)
Net realizable value	(25)	-
Provision for insurance coverage	-	(5,096)
Others	(6,180)	(7,169)
Total	(119,923)	(77,361)

(a) This item mainly corresponds to the impairment of Value added tax credit of non-operating companies.

(b) In 2019, the shutdown expense mainly corresponded to the plants of the mining units Cerro, Animon and Mahr Tunel (Cerro and Islay in 2018) in order to comply with the safety standards of the Company and Subsidiaries.

26. IMPAIRMENT OF NON-FINANCIAL ASSETS

The Company and Subsidiaries updated their assessment of the recoverable value of long-term assets following the International Accounting Standard 36 Impairment of non-financial assets.

In 2019, as a consequence of an adjustment to the discount rate of Volcan, Management determined a reversal of the impairment estimate for US$35,600 with an impact on deferred tax for US$10,502. On the other hand, as a result of the assessment of other cash-generating units (CGU), Management determined a loss for the impairment estimate in constructions and buildings of Egerba and Huanchor for US$14,505 and US$5,108, respectively, with an impact on deferred income tax for US$4,279 and US$1,507, respectively.

In 2018, as a consequence of the increase of mineral resources and the mine plan of mining units Chungar and Oxidos, respectively, Management determined a reversal of the impairment estimate for US$109,972. On the other hand, due to the decrease of mineral resources in Volcan and Cerro, Management determined an impairment loss estimate for US$69,261. The net effect on non-financial assets balances is a recovery for the impairment estimate of US$40,711.

	2019			2018		
	Impairment recovery	Impairment estimate	Total	Impairment recovery	Impairment estimate	Total
	US$000	US$000	US$000	US$000	US$000	US$000
Cash-generating units:						
Volcan	35,600	-	35,600	-	(33,429)	(33,429)
Chungar	-	-	-	88,616	-	88,616
Cerro	-	-	-	-	(32,675)	(32,675)
Óxidos	-	-	-	21,332	-	21,332
Vinchos	-	-	-	24	(555)	(531)
Vichaycocha	-	-	-	-	(2,602)	(2,602)
Huanchor	-	(5,108)	(5,108)	-	-	-
Egerba	-	(14,505)	(14,505)	-	-	-
Total	35,600	(19,613)	15,987	109,972	(69,261)	40,711
Recorded in:						
Property, plant and equipment (net) (Note 12)	-	(19,613)	(19,613)	93,007	(16,916)	76,091
Mining concessions, exploration and development costs and other intangibles (net) (Note 14)	35,600	-	35,600	16,965	(52,345)	(35,380)
Total	35,600	(19,613)	15,987	109,972	(69,261)	40,711

The impairment estimate was determined by the Company and Subsidiaries considering the value in use of each cash-generating unit (CGU). For the calculation of the value in use, flows were projected during the life of mine of each CGU. The nominal discount rate used, before taxes, was 6.4%. Volcan's mining units are aligned to the life of the mine, which is until 2035.

Management of the Company and Subsidiaries believes that the balance of the impairment estimate for non-financial assets is sufficient to cover the impairment risk appropriately at the date of the consolidated statement of financial position. In addition, Management considers that no significant changes will be made on the discount rate that may increase the impairment loss.

27. FINANCIAL INCOME AND EXPENSES

For the years ended December 31, financial income and expenses comprise the following:

	2019 US$000	2018 US$000
Financial income		
Exchange difference gain	1,113	-
Interests on loans granted	607	421
Other financial income	122	228
Total	1,842	649
Financial expenses		
Exchange difference loss	-	(4,116)
Interests on issued bonds (Note 16)	(30,206)	(30,230)
Interests and expenses of financial obligations (a)	(8,562)	(7,654)
Effect for the update of the present value of mine closure (Note 33)	(3,598)	(2,701)
Interests on lease liabilities	(1,924)	-
Effect for the update of the present value of communities	(404)	-
Commissions and other expenses	(3,692)	(787)
Total	(48,386)	(45,488)

(a) As of December 31, 2019, this item includes swaps prepaid expenses for US$1,691 (US$1,096 in 2018).

28. INCOME TAX

Income tax expenses shown in the consolidated statement of profit or loss comprise the following:

	2019 US$000	2018 US$000
Income tax		
Current	187	(33,557)
Deferred (a)	(43,812)	(37,692)
	(43,625)	(71,249)
Special mining tax (b)	(6,926)	(5,538)
Tax on mining royalties (b)	(1,709)	(7,742)
Contribution to the mining retirement fund (c)	(129)	(561)
Total	(52,389)	(85,090)

(a) The Company and Subsidiaries recognize the effects of temporary differences between the accounting basis and the tax basis. Regarding the deferred asset resulting from assets held for sale (Notes 1(g) and 15), Management has considered to not recognize it since the precedent conditions that are outside the control of the Company could not be met. Income tax is presented in the following table, according to the items that generated it.

		Additions (deductions)				Additions (deductions)				
	Balance as of January 1, 2018	**Statement of profit or loss**	**Statement of changes in equity**	**Other adjustments**	**Balance as of December 31, 2018**	**Statement of profit or loss**	**Statement of changes in equity**	**Transfer Assets/Liabilities held for sale**	**Disposal of Cosco Shipping Ports Chancay Perú S.A.**	**Balance as of December 31, 2019**
	US$000	**US$000**	**US$000**	**US$000**	**US$000**	**US$000**	**US$000**	**US$000**	**US$000**	**US$000**
Deferred asset										
Depreciation expense of property, plant and equipment (net)	56,885	-	-	-	44,064	3,410	-	(22,845)	-	24,629
Amortization expense of mining rights and concessions, exploration, development and stripping costs	62	(12,826)	-	-	57	(3)	-	-	-	54
Provision for mines closure	40,029	13,394	-	-	53,423	(16,706)	-	(679)	-	36,038
Operating lease liability	-	-	-	-	-	6,903	-	(53)	-	6,850
Fair value of derivative financial instruments	19,771	(8,638)	(8,772)	-	2,361	(2,123)	218	-	-	456
Provision for contingencies	9,018	(1,237)	-	-	7,781	(251)	-	(162)	-	7,368
Obsolescence estimate for inventories	6,824	(4,880)	-	-	1,944	336	-	(356)	-	1,924
Recoverable tax loss carryforward	4,692	3,480	-	-	8,172	(7,199)	-	-	(973)	-
Embedded derivatives and sales adjustments	-	-	-	-	-	1,858	-	-	-	1,858
Effect for translation of tax benefits into U.S. dollars	-	2,581	-	-	2,581	1,625	-	(4,206)	-	-
Fair value of shares of Cementos Polpaico S.A.	3,127	-	(280)	-	2,847	-	2,727	-	-	5,574
Provision for community agreements	-	6,436	-	-	6,436	(1,427)	-	-	-	5,009
Vacations payable	2,010	(398)	-	-	1,612	10	-	(50)	-	1,572
Provision for doubtful accounts	1,364	(114)	-	-	1,250	(1,158)	-	-	-	92
Others	3,025	(403)	-	-	2,622	(1,682)	-	(14)	-	926
Total	146,807	(2,605)	(9,052)	-	135,150	(16,407)	2,945	(28,365)	(973)	92,350
Deferred liability										
Amortization benefits of mining rights and concessions, exploration, development and stripping costs	(196,034)	(33,545)	-	-	(227,455)	(20,299)	-	60,449	-	(187,305)
Depreciation benefitis of property, plant and equipment (net)	(10,299)	-	-	-	(12,423)	(355)	-	10,095	794	(1,889)
Effect for translation of tax benefits into U.S. dollars	(32,806)	(14,145)	-	-	(46,951)	10,844	-	10,850	-	(25,257)
Fair value of derivative financial instruments	(9,316)	8,720	-	-	(596)	(1,317)	-	-	-	(1,913)
Valuation of stockpiles	(2,287)	-	-	-	(2,287)	91	-	2,196	-	-
Fair value adjustments of investment in associate	-	-	-	-	-	(5,395)	-	-	-	(5,395)
IFRIC 23						-	-	-	-	-
Insurance compensation	(1,583)	(442)	-	-	(2,025)	-	-	-	-	(2,025)
Embedded derivatives	(1,273)	1,273	-	-	-	(38)	-	38	-	-
Revaluation surplus and profit in beneficial terms for business combination TPCH (now Cosco Shipping Ports Chancay Perú S.A.)	(42,351)	-	-	-	(42,351)	-	-	-	42,351	-
Sales adjustments	-	(113)	-	-	(113)	113	-	-	-	-
Capitalization of expenses for bond issuance	-	(416)	-	-	(416)	134	-	-	-	(282)
Others	(3,804)	3,581	-	133	(90)	(11,183)	-	-	-	(11,273)
Total	(299,753)	(35,087)	-	133	(334,707)	(27,405)	-	83,628	43,145	(235,339)
Net asset (liability)	(152,946)	(37,692)	(9,052)	133	(199,557)	(43,812)	2,945	55,263	42,172	(142,989)

(b) Mining royalties and special mining tax

On September 28, 2011, pursuant to Law No. 29788, the Law of the Mining Royalty (Law No. 28258) was modified and established that all companies that do not have an established regime will take the operating profit as a basis for the calculation of mining royalties. Tax rates range between 1% and 12%, depending on the operating margin. In no case, royalties shall be less than 1% of quarterly sales. The amount paid is classified as an accepted deduction for the calculation of income tax. Mining companies are required to submit a quarterly tax return and make payments in local currency in the last 12 working days of the second month after the month when the quarter ends.

In addition, the Special Mining Tax is created pursuant to Law No. 29789. The tax is imposed on the operating profit and is not applicable to companies that have entered into a tax stability agreement with the Peruvian government.

(c) Contribution to the mining retirement fund

This item corresponds to the contribution of 0.5% of annual income of mining, metallurgical, and iron and steel companies, before taxes, to provide a complementary payment, in addition to retirement, disability and survival pensions of mining, metallurgical and iron and steel employees, pursuant to Law No. 29741, which is applicable since 2012.

The resources of the Complementary Mining, Metallurgical and Iron and Steel Fund (FCJMMS for its Spanish acronym) will be managed by the Consolidated Fund of Social Security Reserves (FCR for its Spanish acronym), created by Legislative Decree No. 817, Social Security Regime Law under the responsibility of the Peruvian government.

SUNAT manages the contributions to FCJMMS, which will be transferred to the FCR to be part of the FCJMMS. The requesting parties collect these contributions at the Service Center of the Social Security Administration (ONP, for its Spanish acronym).

Tax situation

(i) Current tax framework

The Company and Subsidiaries are subject to the Peruvian tax regime. The income tax rate applicable to companies for 2019 is 29.5%.

The last paragraph of article 52-A of the Income Tax Law (hereinafter ITL) establishes that the companies that distribute to domiciled natural persons dividends and any other form of profit distribution referred to in paragraph i) of article 24° of the ITL are imposed with a rate of 5%.

Article 54° establishes that natural persons that are not domiciled in the country will be subject to the withholding of 5% of their income from Peruvian source, such as dividends and other forms of profit distribution, except those indicated in paragraph f) of article 10° of the ITL.

Paragraph e) of article 56° establishes that the tax on legal entities that are not domiciled in the country will be determined by applying a rate of 5% when dividends are distributed and other forms of profit distribution received from legal entities.

However, any amount or payment in kind resulting from the third-category income tax that represents an indirect disposal of income that is not susceptible to subsequent tax control, including amounts charged to undeclared expenses and income (alleged dividends), is subject to the income tax rate of 5% assumed by the entity in 2019.

Management of the Company and Subsidiaries believes that, as a result of the application of these standards, no significant contingencies will arise for the Company and Subsidiaries as of December 31, 2019.

(ii) Open years to tax review

The Tax Administration is authorized to review, and if applicable, correct the income tax determined by the Company and Subsidiaries in the last four years, counted from January 1 of the year following the year when the pertinent income tax return was submitted (open years to tax review). Income tax returns from 2015 to 2019 and value-added tax for the periods from December 2015 to December 2019 will be reviewed by the Tax Administration.

Entity	Years open to tax review by the Tax Administration - VAT
Volcan Compañía Minera S.A.A.	2015 - 2019
Empresa Administradora Chungar S.A.C. (1)	2015
Compañía Minera Chungar S.A.C. (1)	2016 - 2019
Empresa Explotadora de Vinchos Ltda. S.A.C.	2015 - 2018
Empresa Minera Paragsha S.A.C.	2015 - 2019
Compañía Minera Alpamarca S.A.C. (1)	2015
Empresa Administradora Cerro S.A.C.	2015 - 2019
Minera San Sebastián AMC S.R.L.	2015 - 2019
Compañía Minera Vichaycocha S.A.C.	2015 - 2019
Hidroeléctrica Huanchor S.A.C.	2015 - 2019
Empresa de Generación Eléctrica Río Baños S.A.C.	2015 - 2019
Compañía Hidroeléctrica Tingo S.A.	2015 - 2019
Óxidos de Pasco S.A.C.	2015 - 2019
Roquel Global S.A.C.	2017 - 2019
Cía. Industrial Ltda. Huacho S.A.	2015 - 2019
Corporación Logística Chancay S.A.C.	2017 - 2019

Entidad	Years open to tax review by the Tax Administration - Income tax
Volcan Compañía Minera S.A.A.	2015 - 2019
Empresa Administradora Chungar S.A.C. (1)	2015
Compañía Minera Chungar S.A.C. (1)	2016 - 2019
Empresa Explotadora de Vinchos Ltda. S.A.C.	2015 - 2019
Empresa Minera Paragsha S.A.C.	2015, 2016, 2018, 2019
Compañía Minera Alpamarca S.A.C. (1)	2015
Empresa Administradora Cerro S.A.C.	2016, 2018, 2019
Minera San Sebastián AMC S.R.L.	2015 - 2019
Compañía Minera Vichaycocha S.A.C.	2015 - 2019
Hidroeléctrica Huanchor S.A.C.	2015, 2016, 2018, 2019
Empresa de Generación Eléctrica Río Baños S.A.C	2015 - 2019
Compañía Hidroeléctrica Tingo S.A.	2015 - 2019
Óxidos de Pasco S.A.C	2015, 2016, 2018, 2019
Roquel Global S.A.C.	2017 - 2019
Cía. Industrial Ltda. Huacho S.A.	2014 - 2018
Corporación Logística Chancay S.A.C.	2017 - 2019

(1) The merger under which Compañía Minera Alpamarca S.A.C. absorbed all the equity of Empresa Administradora Chungar S.A.C., which extinguished without liquidation, became effective on January 1, 2016. After the merger, Compañía Minera Alpamarca S.A.C. changed its corporate name to Compañía Minera Chungar S.A.C., which became the sole owner of the rights and obligations that may arise from the review of tax authorities.

Certain differences may arise from the interpretation that the Tax Administration has on regulations applicable to the Company and Subsidiaries; therefore, it is not possible to determine to date whether additional tax liabilities will arise or not from the reviews to be conducted. Any additional tax, charge and interest, if incurred, will be recognized in profit or loss for the year when such criteria differences with the Tax Administration are resolved. However, Management of the Company and Subsidiaries believes that no material liabilities will arise as a result of potential reviews.

(iii) Transfer pricing

The following new standards have been established:

- Comparable uncontrolled price (CUP) for commodities: It is confirmed that, for import or export of commodities, the market value will be provided by quotation (it was established before for operations with intermediaries or from, through or to tax havens). The detail of this standard is included in the regulations.

- New formal obligations: The Transfer Pricing Technical Study is no longer be submitted and new tax returns are included:

Tax return	Minimum annual income	Assumption	Details	Effective from
Local report	S/9,890,000 (US$2,997,000)	Operations with related entities	Transactions that give rise to taxable income or deductible expense	2018
Master report	S/86,000,000 (US$26,000,000)	Taxpayers that are part of a Group	Organizational structure, description of the business, transfer pricing policies, financial and tax position	2018
Report per country	Not applicable	Taxpayers that are part of a Multinational Group	Global revenue distribution, paid taxes and activities of each entity of the multinational group	2019

The Company and Subsidiaries have submitted the local report, master report and report per country for 2018 to the Tax Administration and are now preparing the pertinent reports for 2019.

Based on the analysis of operations of the Company and Subsidiaries, Management and its legal advisors consider that no significant liabilities will arise for the consolidated financial statements as of December 31, 2019 and 2018, in relation to transfer pricing.

(iv) Reconciliation of effective income tax rate with tax rate

During 2019 and 2018, the effective income tax rate is different from the tax rate. The nature of this difference is due to certain items related to taxable profit, whose effects are summarized below:

	2019		2018	
	Amount	**Percentage**	**Amount**	**Percentage**
	US$000	**%**	**US$000**	**%**
Profit (loss) before income tax	**(17,939)**	**100.00**	**114,465**	**100.00**
Income tax as per tax rate	(5,292)	29.50	33,767	29.50
Unrecognized deferred tax for tax losses	8,507	(47.42)	6,544	5.72
Adjustment of income tax from previous years	26,112	(145.56)	-	-
Impairment of non-recoverable non-financial assets	18,776	(104.67)	10,563	9.23
Translation effect of non-financial assets	(12,469)	69.51	14,145	12.36
Tax effects on non-deductible expenses and other minor items	7,991	(44.55)	6,230	5.44
Mining taxes as income tax	8,764	(48.85)	13,841	12.09
Income tax expense and tax rate applicable to profit as per records	52,389	(292.04)	85,090	74.34

(v) Income tax payable

The Company and Subsidiaries have a credit balance with the Tax Administration for US$8,877 as of December 31, 2019 (US$33,612 as of December 31, 2018) (Note 18).

(vi) Significant amendments to the income tax regime in Peru

After December 31, 2019, no significant changes have been made to the income tax regime in Peru, which may affect these consolidated financial statements. The standards and interpretations effective as of December 31, 2019 have been considered by Management when preparing these consolidated financial statements.

The amendments that will be applicable as from 2020 are detailed below:

Deductibility of interests

Pursuant to Legislative Decree No. 1424, until 2020, the deductibility of interests for loans with third parties, related or not, should comply with an additional requirement, which establishes that interests will only be deductible for the portion of the loan that is not higher than 3 times the net equity of the Peruvian entity at the closing of the previous year (undercapitalization). This limit will be replaced by 30% of EBITDA as from 2021.

Extension of the exemption of capital gain for the transfer of securities in the Stock Market

Pursuant to Emergency Decree No. 005-2019, the exemption of capital gain provided by the transfer of certain securities in the Stock Market has been extended until December 31, 2022.

Amendments to the Single Revised Text of the General Mining Law

Pursuant to Emergency Decree No. 021-2019, from December 6, 2019, article 84 of the Single Revised Text of the General Mining Law was amended in order to comply with the requirements established therein in relation to foreign currency accounting, standards of comprehensive adjustments for inflation and applicable exchange rate, in case of tax stability agreements for a term of fifteen years regarding mining projects with an initial capacity no less than 15,000 MT/day or for extensions intended to reach a capacity no less than 20,000 MT/day about one or more concessions, or one or more Administrative Economic Units.

Vehicle expenses

Supreme Decree No. 181-2019-EF has established, from 2020, the non-deductibility of vehicle expenses with an acquisition cost or equity entry value, depending on whether they are free acquisitions or for a valuable consideration, higher than 26 UIT (it was 30 UIT before) purchased as from June 16, 2019.

Automatic tax information exchange

Supreme Decree No. 369-2019-EF establishes the financial information to be submitted to SUNAT so it can automatically exchange such information in accordance with international treaties and the decisions of the Andean Community Commission, so that SUNAT can automatically exchange the financial information using a standard electronic form. Thus, this entity is authorized to determine the concepts that reporting financial institutions should include in the pertinent return pursuant to a superintendence resolution.

29. BASIC AND DILUTED EARNINGS PER SHARE

Earnings per share are calculated dividing consolidated net profit attributable to common shareholders by the weighted-average of number of common shares outstanding at the date of the consolidated statement of financial position.

As of December 31, 2019 and 2018, diluted earnings per common share have not been calculated since there are no diluting common or investment shares, such as financial instruments and other contracts that give the right to obtain common or investment shares, so it is the same as basic earnings per share.

	2019	**2018**
	US$000	**US$000**
Net (loss) profit	(70,328)	29,375
Average common shares - thousands of units	3,857,618	3,857,668
Net (loss) profit for the year for basic and diluted earnings per share	(0.018)	0.008

30. DERIVATIVE FINANCIAL INSTRUMENTS FOR HEDGING

The Company and Subsidiaries use derivative instruments to reduce market risks to which they are exposed. Risks mainly refer to the effects of changes in the prices of traded metals, which vary constantly.

(a) Hedging operations of mineral prices

In 2019, the Company and Subsidiaries entered into price swaps to ensure future flows provided by its sales, as well as treatment expenses that are subject to situations that increase them in upward price scenarios. Critical terms of hedging operations have been negotiated with agents so they match the terms negotiated in the related commercial agreements.

As of December 31, 2019, the Company had the following hedging operations receivable in force (Note 10):

Metal	Total volume FMT/OZ	Period	Fair value US$000
Zinc	18,437	January 2020 - March 2020	3,915
Total			3,915

As of December 31, 2018, the Company did not have derivative financial instruments designated as hedging for prices of minerals.

(b) Hedging operations of interest rates

In 2017, the Company and Subsidiaries entered into an interest rate swap to ensure future flows of payment of interests for loans, whose amounts and maturity match the terms negotiated in the related loan.

As of December 31, 2019, the Company had the following hedging operations payable in force (Note 10):

Detail	Amount	Period	Fair value US$000
Loan - Citibank N.A. New York	70,000	January 2017 – January 2022	(99)
Total			(99)

Cash flow and fair value hedges in force as of December 31, 2019 were evaluated by the Company's Management as highly effective. Effectiveness has been measured by the flow compensation method since the Company's Management considers that this method best reflects the objective of risk management in relation to hedging.

(c) Embedded derivative for the variation of quotations in concentrate sale agreements

As of December 31, 2019 and 2018, provisional liquidations in metric tons (MT) of zinc, lead and copper, and ounces (Oz.) of silver held at those dates, their final liquidation periods and the fair value of embedded derivatives are shown below:

As of December 31, 2019:

Concentrate	Quantity DMT/OZ	Quotation period	Fair value US$000
Receivable			
Zinc	101,262	January 2020	183
Lead	102,505	January - March 2020	381
Copper	9,509	January 2020	158
Silver	24,522	January - March 2020	17
Total			739
Payable			
Zinc	233,355	January - May 2020	(4,943)
Total (net)			(4,204)

As of December 31, 2018:

Concentrate	Quantity DMT/OZ	Quotation period	Fair value US$000
Receivable			
Zinc	2,160	January 2019	60
Lead	9,250	January 2019 - March 2019	908
Copper	99	February 2019	19
Silver	1,281	January 2019 and March 2019	86
Total			1,073
Payable			
Copper	2,733	January 2019	(57)
Zinc	119,500	January 2019 - May 2019	(4,061)
Total			(4,118)
Total (net)			(3,045)

As of December 31, 2019 and 2018, fair values of embedded derivatives caused a loss of US$1,068 and US$7,441, respectively, and are shown in item “Net sales” of the consolidated statement of profit or loss (Note 21). Future quotations of the dates when open positions as of December 31, 2019 and 2018 are expected to be liquidated are obtained from the publications of the London Metal Exchange.

31. INFORMATION PER BUSINESS SEGMENT

The Company organizes its activities in six business segments: Volcan, Chungar, Cerro, Oxidos, investments, energy and other non-reportable segments.

The contributions of each business segment mainly derive from the net margin of production and sale of zinc, lead, copper or bulk concentrates, the production and sale of Dore bars, revenue from dividends received from investments in equity instruments, revenue from the lease of properties, and the sale of energy and power.

- Volcan: production and sale of concentrates produced in mining unit of Yauli, which comprises mines San Cristobal, Carahuacra, Andaychagua and Ticlio, Carahuacra Norte open pit and Victoria, Andaychagua and Mahr Tunel concentration plants.

- Chungar: production and sale of concentrates produced in mining units of Chungar and Alpamarca. Chungar comprises mines Animon and Islay and the Animon concentration plant. Alpamarca comprises Alpamarca open pit, mine Rio Pallanga and Alpamarca plant.

- Cerro: production and sale of concentrates produced in mining unit of Cerro, which comprises polymetallic stockpiles and San Expedito and Paragsha concentration plants.

- Oxidos: treatment of oxidized minerals in mining unit of Oxidos, which comprises oxide stockpiles, oxides in site, pyrite stockpiles and the Oxidos leach pad.

- Investments: include operations of its Subsidiary Empresa Minera Paragsha S.A.C.
- Energy: includes operations in hydroelectric power plants: Huanchor, Tingo and Rucuy.
- Others: include operations of port, non-operating and other subsidiaries.

Data of interest per business segment as of December 31, 2019 and 2018 is presented in the tables below:

As of December 31, 2019:

	Volcan US$000	Chungar US$000	Cerro US$000	Óxidos US$000	Investment US$000	Energy US$000	Others US$000	Deletions US$000	Total US$000
Total assets	2,261,543	853,459	78,807	260,620	270,589	149,304	42,658	(1,747,817)	2,169,163
Total liabilities	1,227,337	552,578	156,316	96,093	85,662	111,151	52,197	(682,900)	1,598,434
Sales	390,379	260,462	50,890	75,576	-	11,393	-	(45,122)	743,578
Gross profit	64,816	57,140	10,268	11,927	-	4,197	(0)	(1,173)	147,175
Operating expenses	(283,346)	(52,141)	(57,317)	(25,255)	(5,948)	(24,371)	(43,975)	271,343	(221,010)
Other operating income	129,220	10,178	12,935	2,490	10	3,785	1,587	(57,765)	102,440
Operating profit (loss)	89,310	(15,177)	34,114	10,838	5,938	(17,505)	76,283	(155,196)	28,605
Net (loss) profit for the year	(138,111)	(7,820)	(50,993)	(10,289)	(10,999)	(34,173)	(42,047)	224,104	(70,328)
Detail of sales									
Local sales	329,828	202,492	35,566	-	-	11,393	-	(45,209)	534,070
International sales	56,895	56,384	15,534	75,576	-	-	-	-	204,389
Embedded derivative, adjustment of open temporary liquidations and execution of financial instruments	3,656	1,586	(210)	-	-	-	-	87	5,119
	390,379	260,462	50,890	75,576	-	11,393	-	(45,122)	743,578

As of December 31, 2018:

	Volcan US$000	Chungar US$000	Cerro US$000	Óxidos US$000	Investment US$000	Energy US$000	Others US$000	Deletions US$000	Total US$000
Total assets	2,357,630	775,408	104,277	268,201	279,133	160,529	252,456	(1,972,644)	2,224,990
Total liabilities	1,184,794	466,988	157,251	157,108	78,348	88,203	96,477	(652,332)	1,576,837
Sales	411,746	279,312	28,785	56,201	-	6,807	-	(7,749)	775,102
Gross profit	127,584	89,047	2,016	7,824	-	2,276	0	(28)	228,719
Operating expenses	(170,078)	(60,553)	(68,685)	(6,886)	(39,110)	(5,294)	(10,540)	125,462	(235,684)
Other operating income	96,746	113,971	37,176	23,035	-	3,746	825	(109,230)	166,269
Operating profit (loss)	54,252	142,464	(29,493)	23,974	(39,126)	1	(8,988)	16,220	159,304
Net profit (loss) for the year	9,856	85,797	(38,954)	10,334	(30,721)	(2,035)	(11,122)	6,220	29,375
Detail of sales									
Local sales	312,685	225,633	13,666	-	-	6,807	-	(7,749)	551,042
International sales	113,235	61,086	15,456	56,201	-	-	-	-	245,978
Embedded derivative, adjustment of open temporary liquidations and execution of financial instruments	(14,174)	(7,407)	(337)	-	-	-	-	-	(21,918)
	411,746	279,312	28,785	56,201	-	6,807	-	(7,749)	775,102

32. COMMITMENTS AND CONTINGENCIES

(a) Contingencies

(a.1) Volcan Compañía Minera S.A.A.

Based on the opinion of its external and internal legal advisors, the Company's Management has reviewed all tax, labor, civil, administrative and other proceedings, and has determined and established a provision for probable contingencies for US$15,683, which is presented in item "Provisions" of the consolidated statement of financial position as of December 31, 2019 (US$14,245 as of December 31, 2018). The Company's Management and its legal advisors believe that this provision adequately covers probable contingencies.

In relation to possible contingencies, external and internal legal advisors of the Company determined an amount of US$31,399 (US$52,492 as of December 31, 2018), which corresponds to several proceedings addressed by the Company.

Civil and labor proceedings

As of December 31, 2019, certain labors lawsuits have been filed against the Company for US$7,391 (US$6,753 as of December 31, 2018), which have been classified as probable and are presented in item "Provisions" of the consolidated statement of financial position. Contingencies classified as possible amount to US$16,600 (US$23,820 as of December 31, 2018) for compensations for occupational disease, refund of social benefits, payment of profit sharing, replacement of employees and others.

Tax proceedings

As of December 31, 2019 and 2018, the Company has not yet resolved some administrative proceedings with the National Superintendence of Tax Administration (SUNAT) and the Tax Court for certain tax determination resolutions, fine and interest resolutions.

Tax determination resolutions, fine and interest resolutions correspond to criteria differences in the determination of tax bases for the settlement of third-category income tax and value-added tax from 1998 to 2014, and according to the National Superintendence of Tax Administration (SUNAT), to the omitted payment of taxes.

The Company's Management considers that these proceedings represent a probable contingency of US$4,440, which is presented in item "Provisions" of the consolidated statement of financial position as of December 31, 2019 (US$4,487 as of December 31, 2018).

In addition, other tax proceedings were classified as possible, which include expenses disallowed by the National Superintendence of Tax Administration (SUNAT) for not complying with the causality principle or for not having the pertinent support, among other related concepts. These possible contingencies amount to US$14,599 as of December 31, 2019 (US$25,902 as of December 31, 2018).

Sanctioning administrative proceedings and contentious-administrative actions

The Company has not yet resolved certain environmental, safety, occupational health and labor safety proceedings with the following regulatory entities: National Water Authority - Local Water Authorities, Employment and Work Promotion Ministry (National Superintendence of Labor Supervision), Ministry of Energy and Mines, Ministry of Production, Supervisory Entity of Investment in Energy and Mining (OSINERGMIN) and the Environmental Supervision and Evaluation Entity (OEFA) for alleged breach of several environmental standards and the provisions of the Safety and Occupational Health Regulations.As of December 31, 2019, contingencies classified as probable are presented in item "Provisions" of the consolidated statement of financial position for US$3,852 and possible contingencies amount to US$200 (US$3,004 and US$2,770 as of December 31, 2018, respectively).

Based on a legal and factual basis, the Company's Management and its legal advisors believe that no additional significant liabilities will arise for the Company from the final resolution of all these proceedings.

(a.2) Compañía Minera Chungar S.A.C. (Chungar)

Based on the opinion of its external and internal legal advisors, Management has reviewed all tax, labor, civil, administrative and other proceedings, and has determined and established a provision for probable contingencies for US$3,802, which is presented in item "Provisions" of the consolidated statement of financial position as of December 31, 2019 (US$2,973 as of December 31, 2018). Management and its legal advisors believe that this provision covers probable contingencies sufficiently.

In relation to possible contingencies, external legal advisors determined an amount of US$3,506 as of December 31, 2019 (US$7,025 as of December 31, 2018), which corresponds to several proceedings addressed by the Subsidiary.

Civil and labor proceedings

As of December 31, 2019, certain labors lawsuits have been filed against Chungar for US$759 (US$320 as of December 31, 2019), which have been classified as probable and are presented in item "Provisions" of the consolidated statement of financial position. There are no contingencies classified as possible as of December 31, 2019 (US$39 as of December 31, 2018 for payment of compensations for damages for occupational disease, refund of social benefits, and others under appeal and/or judgment process).

Tax proceedings

As of December 31, 2019 and 2018, Chungar has not yet resolved some administrative proceedings with the National Superintendence of Tax Administration (SUNAT) and the Tax Court for certain tax determination resolutions, fine and interest resolutions.

Tax determination resolutions, fine and interest resolutions mainly correspond to criteria differences in the determination of tax bases for the settlement of third-category income tax and value-added tax from 2001 to 2005 and from 2012 to 2015, and according to the National Superintendence of Tax Administration (SUNAT), to the omitted payment of taxes. To this date, these proceedings have been responded at an administrative level as a claim to the National Superintendence of Tax Administration (SUNAT) and an appeal to the Tax Court, as well at a legal level before the Judiciary.

In addition, the Subsidiary has some tax administrative proceedings that were classified as probable contingencies and are presented in item "Provisions" of the consolidated statement of financial position for US$509 as of December 31, 2019 (US$508 as of December 31, 2018).

Finally, there are other contingencies that have derived from concept discrepancies with the Tax Administration and have been classified as possible for US$3,506 as of December 31, 2019 (US$2,558 as of December 31, 2018).

Sanctioning administrative proceedings and contentious-administrative actions

The Subsidiary has not yet resolved certain environmental, safety, occupational health and labor safety proceedings with the following regulatory entities: National Water Authority - Local Water Authorities, Employment and Work Promotion Ministry (National Superintendence of Labor Supervision), Ministry of Energy and Mines, Ministry of Production, OSINERGMIN and OEFA for alleged breach of several environmental standards and safety and occupational health regulations. As of December 31, 2019 contingencies classified as probable for US$2,534, are presented in item "Provisions" of the consolidated statement of financial position (US$2,145 as of December 31, 2018).

Finally, there are no contingencies classified as possible as of December 31, 2019 (US$4,428 as of December 31, 2018).

(a.3) Empresa Administradora Cerro S.A.C.

Based on the opinion of its external and internal legal advisors, Management has reviewed all tax, labor, civil, administrative and other proceedings, and has determined and established a provision for probable contingencies for US$6,615, which is presented in item "Provisions" of the consolidated statement of financial position as of December 31, 2019 (US$4,226 as of December 31, 2018). Management and its legal advisors believe that this provision adequately covers probable contingencies.

In relation to possible contingencies, external legal advisors determined an amount of US$4,052 (US$7,978 as of December 31, 2018), which corresponds to several proceedings addressed by the Subsidiary.

Labor proceedings

As of December 31, 2019, certain labors lawsuits have been filed against the Subsidiary for US$3,397 (US$3,036 as of December 31, 2018), which have been classified as probable and are presented in item "Provisions" of the consolidated statement of financial position. Contingencies classified as possible amount to US$3,600 (US$5,395 as of December 31, 2018) for payment of compensations for damages for occupational disease, refund of social benefits, payment of production bonus, and others under appeal and/or judgment process.

Tax proceedings

As of December 31, 2019 and 2018, the Subsidiary has not yet resolved some administrative proceedings with the National Superintendence of Tax Administration (SUNAT) and the Tax Court for certain tax determination resolutions, fine and interest resolutions.

Tax determination resolutions, fine and interest resolutions correspond to the omitted payment of taxes according to the National Superintendence of Tax Administration (SUNAT), as well as criteria differences in the determination of tax bases for the settlement of third-category income tax. To this date, these proceedings have been responded at an administrative level.

In addition, the Subsidiary has some tax administrative proceedings that were classified as probable contingencies and are presented in item "Provisions" of the consolidated statement of financial position for US$1,109 as of December 31, 2019 (US$1,109 as of December 31, 2018).

As of December 31, 2019, there are no contingencies classified as possible that have derived from concept discrepancies with the Tax Administration (US$2,583 as of December 31, 2018).

Sanctioning administrative proceedings and contentious-administrative actions

The Subsidiary has not yet resolved certain environmental, safety, occupational health and labor safety proceedings with the following regulatory entities: National Water Authority - Local Water Authorities, Employment and Work Promotion Ministry (National Superintendence of Labor Supervision), Ministry of Energy and Mines, Ministry of Production, OSINERGMIN and OEFA for alleged breach of several environmental standards and the provisions of the Safety and Occupational Health Regulations. As of December 31, 2019, contingencies classified as probable for US$2,108 are presented in item "Provisions" of the consolidated statement of financial position (US$81 as of December 31, 2018) and contingencies classified as possible amount to US$452 (there were no possible contingencies as of December 31, 2018).

Pursuant to the commercial agreement entered into with Cerro de Pasco Resources Inc. and in compliance with IFRS 5 Non-current assets held for sale and discontinued operations, provision for contingencies have been reclassified as liabilities directly associated with assets classified as held for sale (Note 15).

(a.4) Empresa Explotadora de Vinchos Ltda. S.A.C.

Based on the opinion of its external and internal legal advisors, Management has reviewed all tax, labor, civil, administrative and other proceedings, and has determined and established a provision for probable contingencies for US$626, which is presented in item "Provisions" of the consolidated statement of financial position as of December 31, 2019 (US$326 as of December 31, 2018). Management and its legal advisors believe that this provision adequately covers probable contingencies.

Tax proceedings

As of December 31, 2019, some tax proceedings have been filed against the Company, which include expenses disallowed by the National Superintendence of Tax Administration (SUNAT), classified as possible for US$738. No contingencies were classified as possible as of December 31, 2018.

(a.5) Hidroeléctrica Huanchor S.A.C.

Based on the opinion of its external and internal legal advisors, Management has reviewed all tax, labor, civil, administrative and other proceedings, and has determined and established a provision for probable contingencies for US$122, which is presented in item "Provisions" of the consolidated statement of financial position as of December 31, 2019 (US$118 as of December 31, 2018). Management and its legal advisors believe that this provision adequately covers probable contingencies.

(b) Guarantees

The Company and Subsidiaries have letters of guarantee with financial entities in favor of:

- General Mining Board of the MEM that guarantees the compliance with the applicable Mine Closure Plans of the Company and Subsidiaries for US$86,256 (US$81,988 in 2018).

- National Superintendence of Tax Administration (SUNAT) for US$34,498 to guarantee debts and obligations held with the Tax Administration, maturing in 2020 (US$4,510 in 2018).

- Third parties that guarantee compliance with payments for the provision of services for US$1,081 (US$536 in 2018).

33. ENVIRONMENTAL OBLIGATIONS

Provision for the closure of mining units

The Congress of the Republic of Peru issued Law 28090 on October 14, 2003. The purpose of this Law is to regulate the obligations and procedures to be followed by mining owners for the preparation, presentation and implementation of Mine Closure Plans, as well as the constitution of pertinent environmental guarantees, which ensure the compliance with investments, according to environmental protection, preservation and restoration principles. The Regulations of Law 28090 were published on August 16, 2005.

In 2019 and 2018, the Company and Subsidiaries submitted the updates of the Mine Closure Plan of their main mining units to the Ministry of Energy and Mines.

As of December 31, 2019, the Company and Subsidiaries recognized a liability of US$133,564 for all their mining units (US$183,697 as of December 31, 2018), in relation to their obligations for future closure:

	2019 US$000	2018 US$000
Mining unit		
Cerro de Pasco	-	40,847
Óxidos	-	1,778
Chungar	35,559	40,469
Carahuacra	29,963	31,844
San Cristóbal	27,187	28,926
Andaychagua	15,428	16,101
Alpamarca	10,269	9,368
Vinchos	7,523	7,960
Ticlio	3,756	3,801
Vichaycocha	3,503	2,603
Toruna	35	-
San Sebastian	341	-
Total (Note 19)	133,564	183,697

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

	US$000
Balance as of January 1, 2018	134,890
Changes in estimates	49,423
Increase for update of present value of provision (Note 27)	2,701
Payments	(3,317)
Balance as of December 31, 2018	183,697
Changes in estimates	(7,701)
Changes in estimates - Cerro - Óxidos	(3,760)
Increase for update of present value of provision (Note 27)	3,598
Payments	(5,013)
Transfer of assets/liabilities held for sale (IFRS 5) (Note 15)	(37,257)
Balance as of December 31, 2019	133,564

The provision for the closure of mining units represents the present value of closure costs that are expected to be incurred between 2020 and 2036. For 2019, the discount rate used for the calculation of the present value is 1.8% (2.0% in 2018). Changes in estimates consider the change in the rate, the inclusion of new units to the closure plan, the modification of budgets and the deletion of contingent costs. The estimate of costs for the closure of mining units is based on the study prepared by an independent advisor, which complies with current environmental regulations. The provision for the closure of mining units mainly corresponds to activities that should be performed for the restoration of the mining unit and areas affected by mining activities. Main works to be performed are earthmoving works, revegetation works and disassembly of plants. Closure budgets are regularly reviewed to take into account any significant change in conducted studies. However, closure costs of the mining unit will depend on market prices of required closure works that will reflect future economic conditions.

In addition, the time when disbursements will be made will depend on the useful life of the mine, which will be based on the reserves and resources of the mining units.

As of December 31, 2019, the nominal value of the provision for the closure of mining units is US$146,948, which has been discounted using the annual risk-free rate of 1.8%, resulting in a net present value of US$133,564 (nominal value of US$203,321 as of December 31, 2018, using an annual risk-free rate of 2%, resulting in a net present value of US$183,697). The Company and Subsidiaries consider that this liability is sufficient to comply with environmental protection laws in force approved by the Ministry of Energy and Mines.

34. REMUNERATIONS PAID TO KEY PERSONNEL

The remuneration of the key personnel of the Company and Subsidiaries for the years ended December 31, 2019 and 2018 amounted to US$11,646 and US$10,059, respectively, and corresponds to salaries, benefits and social charges, bonuses and extraordinary allowances.

35. NON-MONETARY TRANSACTIONS AND STATEMENT OF CASH FLOWS

Transactions that have not resulted in cash flows were the following:

2019

- Adjustment of the present value of the provision for the closure of mining units for US$7,701.
- Adjustment of the present value of the liability with communities for US$18,758.
- Derecognition of Cosco Shipping Ports Chancay Perú S.A. for US$131,599.

- Assets acquired under finance leases for US$8,742.
- Acquisition of property, plant and equipment, which have not been paid yet, for US$30,481.
- Acquisition of mining concessions, exploration and development costs and other intangibles, which have not been paid yet, for US$28,071.

2018

- Adjustment of the present value of the provision for the closure of mining units for US$49,423.
- Adjustment of the present value of the liability with communities for US$21,818.
- Assets acquired under finance leases for US$76.
- Acquisition of property, plant and equipment, which have not been paid yet, for US$21,765.
- Acquisition of mining concessions, exploration and development costs and other intangibles, which have not been paid yet, for US$9,892.

36. LEASES

The Company as lessee

Operating leases are related to leases of minor machinery and equipment for up to 3 years. The Company and Subsidiaries do not have operating lease agreements that contain clauses for the review of market rentals. The Company and Subsidiaries do not have the option to buy leased assets at the expiry date of lease terms.

Payments recognized for this concept were US$30,595 and US$46,206 in 2019 and 2018, respectively. The commitments for operating leases are shown below:

	2019	**2018**
	US$000	**US$000**
1 year or less	15,022	20,112
More than 1 to 3 years	6,719	23,012
	21,741	43,124

The carrying amount of right-of-use assets and liabilities recognized and the movements generated in the year are presented in Note 13 and Note 16, respectively.

In addition, the analysis of lease liabilities below is presented in Note 16:

	2019 US$000
Year 2020	17,590
Year 2021	6,204
Year 2022	790
Year 2023	11
	24,595
Less: Unaccrued interests	(1,348)
	23,247
Maturity:	
Long term	6,734
Short term	16,513
	23,247

37. SUBSEQUENT EVENTS

As a result of the continuous decline of demand of minerals from the Chinese market generated by the slowdown of its economy and the adverse impact of COVID-19 (Coronavirus), the quotation of the price of minerals traded by the Company and Subsidiaries is decreasing in international markets. The impact of this situation cannot be measured reliably to date.

The Board of Directors and Management of the Company and Subsidiaries are monitoring this situation, as well as the measures established by the Peruvian government, and are evaluating the impact that these events could have on the Company's financial position, their results and future cash flows, as those changes and modifications envolve.

In addition to the situation described above, no other significant events have occurred since the closing date of these consolidated financial statements as of December 31, 2019 until March 20, 2020, which may significantly affect them.