



# Sustainable Growth in the Americas

**Hochschild Mining plc**

Annual Report & Accounts 2017



# Our future is looking bright.

We are positioned to deliver additional ounces at a competitive cost through organic expansion and there is still plenty more to come.

## 2017 highlights

### Adjusted EBITDA

**\$301m**

(2016: \$329m)

### EPS of

**\$0.08**

(2016: \$0.11)

### Final dividend of

**1.965** ¢/share

(2016: 1.38¢/share)

### AISC

**\$12.3**/oz Ag Eq

(2016: \$11.2/oz Ag Eq)

### Cash balance of

**\$257m**

(31 Dec 2016: \$140m)

### Net debt of

**\$103m**

(31 Dec 2016: \$187m)

### Gold production (attrib.) up 4%

**254,930** oz

(2016: 246,080oz)

### Silver production (attrib.) up 11%

**19.1** m oz

(2016: 17.3m oz)



## Sustainability

# Our success brings responsibility

2017 was a year of strong performance in terms of community engagement and the environment, and one of a reinforced commitment to safety.

**81%**

**Workforce trained**  
(2016: 89%)

**\$5.6m**

**Amount spent supporting social and community welfare activities**  
(2016: \$4.4m)







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

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

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

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

- a safe and healthy workplace;
- managing and minimising the environmental impact of our operations; and
- encouraging sustainability by respecting the communities of the localities in which we operate;

all in compliance with applicable laws, regulation and the Company's own standards.

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

#### Management of sustainability

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

As Chairman of the CSR Committee, Graham Birch has Board level responsibility for sustainability issues to whom the Vice President of Operations and the Vice President of Legal and Corporate Affairs report for sustainability issues.

#### The CSR Committee's work in 2017

During the year, the CSR Committee:

- considered the investigations into the fatal accidents during the year and monitored the implementation of corrective actions;
- approved the 2016 Sustainability Report for inclusion in the 2016 Annual Report;
- monitored the execution of the yearly plan in each of the four key areas of focus including progress updates;
- considered the priorities of the environmental team and their work plan;
- considered the status of the Group's community initiatives; and
- reviewed the environmental and community relations related risks and related work plans.

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

#### Reporting of targets and indicators

As part of the Company's ongoing strategy to make more information available online, detailed sustainability related performance indicators as well as targets for 2018 are available on the Company's website.

## Sustainability continued



“

**I am pleased to be able to introduce Hochschild's Sustainability Report following my appointment as Chairman of the CSR Committee in May 2017.”**

### Dear Shareholder

2017 was a successful year from an operational perspective as well as with regards to the sheer number of environmental and community initiatives that we were able to pursue. However, it is with great regret that the accident that we announced early last year was followed, in July, by a second accident at Arcata, which claimed the lives of two drill workers. These incidences brought to an end three consecutive years without any fatalities.

The Company Chairman, in his statement earlier in this Report, conveyed the Board's condolences to the families of those involved which I wish to reiterate. The Board, and indeed, the CSR Committee are wholly committed to doing all we can to ensure that safety comes first. For this reason, we wholeheartedly support management in the implementation of the Safety Culture Transformation Plan. This is a multi-faceted

strategy to meet our Zero Accident target. Further details on the accidents are provided in the Safety section of this report.

#### Our communities

In 2017, we continued to promote community projects that fall within our chosen areas of focus; Education, Health and Socio-Economic Development. These include smaller versions of the Digital Centre that was established in our flagship Chalhuanca Project, which are being installed, jointly with other commercial partners, in rural locations. We also supported schools, by not only facilitating innovative teaching methods but also by supplying lunch kits. This ensured that children benefited from a healthy meal and learnt the benefits of a balanced and nutritious diet. Further details on these initiatives, as well as those of our Argentinian operation, can be found in this report and on our website.

#### Our environment

With regards to our environmental performance, I am delighted to report on the success of the inaugural year of the use of the Environmental

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

I hope you will find this report informative. If you should have any questions or comments, please do not hesitate to contact me at [sustainability@hocplc.com](mailto:sustainability@hocplc.com)

Graham Birch  
**Chairman, Corporate Social Responsibility Committee**

## Safety

Given the inherently high risk profile of mining, safety is our highest priority.

### 2017 highlights

- Launch of the Safety Culture Transformation Plan following the fatal accidents during the year (see below for further details)
- Development of the internally-developed safety software tool, 'Safety HOC' (see opposite)

### The Hochschild approach to safety

Mining has an inherently high risk profile and safety is our highest priority. Ensuring the safety of the Group's employees is considered crucial in measuring the successful implementation of corporate strategy to which the Board and management are committed.

### Safety HOC

The Hochschild Safety team has developed a tool which compiles all safety findings in a database designed to aid risk management and generate management reports.

The tool has three modules with the planned addition of the Accident Investigations and Management Inspections modules. A version for installation as an app on a smartphone is in the process of being developed.



### Our achievements in 2017

- Decisive steps taken in response to the fatal accidents during the year (see below)
- Restructuring of the emergency response teams; resulting in operating efficiencies
- All operating units secured Level 6 certification of the rating system issued by Det Norske Veritas GL ('DNV') (7th edition)

### Accidents in 2017

After three consecutive years without any fatalities, it is with regret that there were two fatal accidents over the course of 2017 which resulted in four fatalities. In this section of the report, we have summarised the details of each incident and the remedial actions taken.

### January 2017: Inmaculada

Overview: After the blasting of a stope, contractors were instructed to apply shotcrete to support the area. Inspections of the area were carried out some days after the blasting and support work commenced. During this process, the ceiling collapsed, as a result of which two contractors sustained fatal injuries.

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

- reiterating compliance with the Company's protocols on stope expansion and geotechnical support within prescribed timescales;
- engagement of consultants for an immediate audit of stopes, and ongoing monitoring; and
- more frequent mine planning sessions with the participation of all technical departments.

### July 2017: Arcata

Overview: Two drill workers were overcome by carbon monoxide fumes in the process of inspecting and clearing a stope.

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

- reiterating compliance with the Company's safety protocols including the need to carry back-up emergency equipment at all times;
- restructuring the emergency response teams by converting the nature of the positions from voluntary to full-time positions;
- enhancing the provision of detection equipment; and
- reinforcing various protocols including the mandatory use of air injection paths for access.

## Response to 2017 Accidents

In light of the findings into the causes of the two serious accidents during the year, a programme comprising short-term actions and longer-term actions, to be implemented over three years, was put in place.

### Immediate Action Plan

- Messaging from senior management on the non-negotiable zero tolerance to accidents
- Safety top management leadership meetings
- World-renowned consultancy, DuPont, were engaged to conduct a safety culture assessment with the participation of 750 employees. Concluded that HOC had the potential to achieve industry-leading status

- Increased safety supervision implemented
- Clinical psychologists recruited at all sites
- Re-allocation of work between employees on the basis that 'expert workers are safer workers'

## Long-term Action Plan:

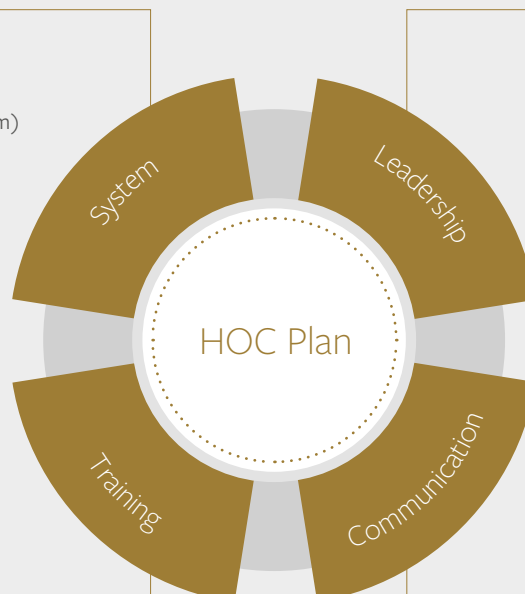
### The Safety Culture Transformation Plan

#### Risk Management System (RMS)

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

#### Mines' Annual Training Programme

- Redesigned structure and content of weekly training sessions. Training sessions for mine workers comprise 3 modules of c. 5 hours per week in the areas of practical safe working, use of technology and safety leadership



#### Leadership Programme

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

#### Safety Plan communications support

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

**Sustainability** continued

## Health & Hygiene

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

**2017 highlights**

- Participation in the design of the Safety Cultural Transformation Plan
- Liaison with mining peers and governmental authorities on new laws affecting health and safety at work
- Holding of the inaugural family welfare event in Arequipa
- Doubling the number of occupational psychologists to cater for the provision of counselling

**The Hochschild approach to health and hygiene**

Underlining the importance we place on our people and their wellbeing, the Group's Health & Hygiene department is tasked with providing an integrated approach to employee welfare. Whilst the Health team is focused on ensuring that employees have access to the relevant services and infrastructure to ensure that treatment can be provided, the Hygiene team looks to reinforce the importance of the quality of life at work through the prevention of occupational illness.

**Family welfare event**

The Health & Hygiene team held the inaugural family welfare event in Arequipa aimed at providing mineworkers' families with support and advice.

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



Given the nature of the work and the two-week shift patterns which result in frequent periods of absence from families, the Group recognises the importance of ensuring the mental wellbeing of its employees. For this reason, the Group's Health & Hygiene teams are also trained in occupational psychology.

Our Health & Hygiene teams undertake their work in line with the following guiding principles:

- Prevention comes first
- Maximising quality of life
- Adopting measures for the long-term benefit of our people
- Proactively identifying and controlling hazards at source
- Contributing to the continuous improvement in the Group's Health & Safety culture

**Our achievements in 2017**

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

During the year:

- senior members of the team participated in discussions with respect to new legal requirements and provided training to team members;
- a comprehensive programme aimed at minimising, if not eradicating, exposure to harmful levels of noise was implemented during the year. This involved:
  - the procurement of specialist monitoring equipment to gauge the level of exposure;
  - the medical examination of workers at all operations; and
  - the preparation of informational material highlighting the risks and encouraging the use of protective equipment which is readily available.

# Our people

Hochschild Mining's success relies on its people.

## 2017 highlights

- Workforce trained: 81% (2016: 89%)
- Workforce from local communities: 21% (2016: 20%)

## The Hochschild approach to our people

### Training and development

The quality of our people is key to the success of the business in achieving its strategic objectives and our ongoing objective is therefore to attract and retain high quality personnel. The Company's Human Resource team seeks to achieve this by providing competitive remuneration, a positive working environment through the promotion of social and recreational activities, and ongoing professional development.

### Group values, labour relations and human rights

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

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

The importance placed by the Company on human rights is reflected in the Group's training programme which seeks to ensure that all employees are aware of their rights and the Company's commitments.

## People indicators

Gender diversity statistics <sup>1</sup>	2017	2016	2015	2014
Number of employees				
Male	3,849	3,859	3,492	3,468
Female	235	222	237	229
Number of senior managers <sup>2</sup>				
Male	36	35	34	31
Female	1	1	2	2
Number of Board members				
Male	7	8	8	8
Female	1	1	0	0

<sup>1</sup> As at 31 December.

<sup>2</sup> Defined as those who qualify under the UK statutory definition of 'senior manager' as at 31 December.

## Activities in 2017

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

### Developing our people

In light of the limited budgetary resources, training and development programmes were targeted on key technical areas. In Peru, managers from across the mining units participated in various technical and leadership based courses.

### Managing our talent

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

### Creating a better place to work and Enhancing the Working Environment

The Group continues to make use of an Organisational Climate Survey which has been widely acknowledged as a key tool to measure levels of satisfaction amongst employees and to identify opportunities for further development. At the end of the year, the Company initiated the 2017 Climate Survey. Its results will be used to improve conditions in our mining units and administrative offices. Results will be reported on in the 2018 Annual Report.

The Group continually reviews its offering of non-financial benefits which currently comprise flexible working hours for Head Office staff over the summer period and the holding of regular social events.



**Sustainability** continued

## Working with our communities

**2017 highlights**

- Reviewed and updated strategies for Community Relations and social support
- Using the Chalhuanca Project as a blueprint, implemented smaller urban digital centres
- Continued support of causes located close to the Group's Argentinian joint venture

**Our view of working with our communities**

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

**Our achievements in 2017**

Further details of some of the high impact initiatives pursued during the year are provided below.

**Education****Elementary education**

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

In 2017, we decided to support extra-curricular activities which combined the teaching of academic subjects with play. This was complemented by the delivery of lunch kits that will not only improve the provision of school lunches but will also facilitate concentration during school hours and also teach children the importance of a well-balanced, nutritious diet. This year almost 300 students and over 60 teachers were supported across 11 schools.

**Secondary education**

Hochschild has continued to support programmes that promote personal development and basic economic/business awareness to equip those in secondary education for their early adult years.

Over the course of 2017, we have collaborated with over 500 secondary students and almost 100 teachers across seven educational establishments.

**Digital centres**

After the success of the Group's flagship Chalhuanca Project, Hochschild has worked with TECSUP, IDAT and CISCO, to establish digital centres to promote online literacy. A training programme is being implemented in 2018 to ensure that full advantage can be taken of the equipment provided.

**Health****Medico de Cabecera****(the Travelling Doctor programme)**

This programme enables the Group to bring a mobile health service to those living in the most remote locations. Valued by the young and the old, the Travelling Doctor programme brings coverage that local state health services cannot provide. In 2017 a total of 8,000 medical attendances were facilitated.

**Socio-economic development****Business networks**

This successful programme has seen over 250 agricultural and livestock producers flourish in their trade. Having been established in 2013, with only 25 beneficiaries, there has been an impressive level of take-up of the support provided by the Group. The project was originally set up with community members living close to the Inmaculada mine and, today, they are suppliers to the mine's catering contractors.

**Argentina**

The Group has also promoted, in conjunction with its joint venture partner, a number of initiatives at its San Jose operation in Argentina. These have included:

- scholarship opportunities;
- the training of students from the town of Perito Moreno, located close to the mine, in the areas of drilling and explosives handling and who were subsequently employed by the Group; and
- supporting local cultural causes, including funding a local museum and its showcasing of the cave paintings from the Cueva de los Manos.

For further information on the projects supported by the Group, please visit:  
[http://www.hochschildmining.com/en/sustainability/case\\_studies](http://www.hochschildmining.com/en/sustainability/case_studies)



# Managing our environmental impact

We are committed to becoming a leader in sourcing minerals with the least environmental footprint possible.

## 2017 highlights

- Exceeding target for our in-house designed corporate objective (see below)
- Continued focus on water management and treatment across all operations

## The Hochschild approach to environmental management

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

Hochschild recognises that environmental and social responsibility extends beyond the life of our operations and as a result, mine closure plans are in place to restore areas where mining activity has ceased and the Company operates a policy of progressively closing historic mine components. During the year, a review of a number of these plans was undertaken with the support of internationally recognised consultants.

## Our achievements in 2017

- Year-on-year reductions in the number of findings by the Peruvian environmental regulator falling steadily from 50 in 2014 to 7 in 2017
- 2017 ECO score of 4.75, exceeding the most stretching environmental performance target set by the Board for 2017 of 3.5 (see box below on what this score reflects)
- Launched integrated waste management service in collaboration with a specialist contractor which will incorporate the following:
  - » Integrated waste management plans across all operations
  - » Waste minimisation
  - » On-site waste collection
  - » Disposal of hazardous waste and sale of marketable waste
  - » Management of on-site waste facilities
- Overhaul of water treatment plants across all Peruvian operations

## Mission of the Environmental Team

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

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

## Greenhouse gas emissions data<sup>1</sup> (tonnes of CO<sub>2</sub>e)

	2017 <sup>2</sup>	2016 <sup>2</sup>	2015	2014
Emissions from combustion of fuel and operation of facilities (tCO <sub>2</sub> e)	47,305	45,909	46,790	73,244
Emissions from purchased electricity (tCO <sub>2</sub> e)	94,249	88,646	78,163	69,933
Emissions intensity, per thousand ounces of total silver equivalent produced (CO <sub>2</sub> e/k oz) <sup>3</sup>	4.036	4,140	5,531	5,533

1 Method used based on ISO 14064-1 Standard and GHG Protocol Corporate Accounting and Reporting Standard.

2 Includes data for the whole year for Ares, Arcata, Selene, Pallancata, Immaculada, San Jose and office locations.

3 Total production includes 100% of all production, including that attributable to the joint venture partner at San Jose.

## Environmental Corporate Objective ('ECO' score)

The ECO score was developed in order to align all employees with one common environmental mission, thereby making everyone accountable for their actions.

The ECO score is used in the annual bonus scorecard for all eligible employees and is based on measurable and transparent environmental metrics. The scorecard was trialled in 2016 to create a baseline, and therefore 2017 was the first year that a target ECO score has been implemented.

The ECO score is calculated by monitoring performance across all operations and reflects each of the following:

- Zero tolerance to non-compliance with discharge limits and environmental incidents, such as spillages
- The number of observations received from the environmental regulator in Peru

– Good environmental management measured on the basis of:

- » Water consumption per worker
- » Amount of non-recyclable waste generated per worker
- » Proportion of recyclable/industrial waste that is commercialised
- » Corporate Performance Indicator which tracks the number of compliance inspections that are passed with over 95%

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

**Hochschild Mining plc**

17 Cavendish Square  
London W1G 0PH  
United Kingdom

+44 (0) 203 709 3260  
info@hocplc.com

**[www.hochschildmining.com](http://www.hochschildmining.com)**