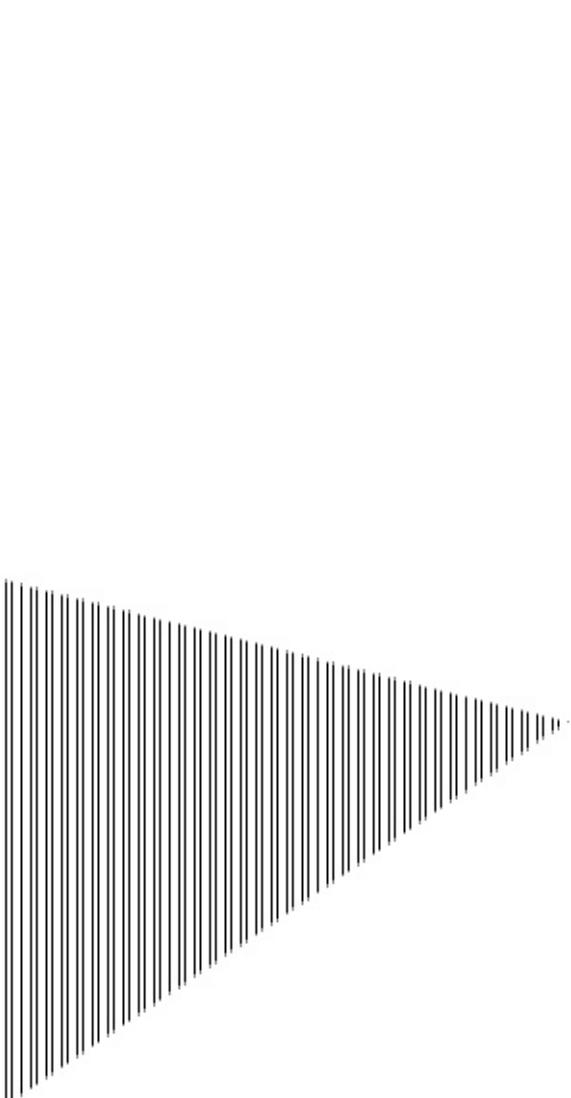


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Sociedad Minera El Brocal S.A.A.

Financial Statements as of December 31, 2008 and
2007 together with the Report of Independent Auditors

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Sociedad Minera El Brocal S.A.A.

**Financial Statements as of December 31, 2008 and 2007
together with the Report of Independent Auditors**

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Report of Independent Auditors

To the Shareholders of Sociedad Minera El Brocal S.A.A.

We have audited the accompanying financial statements of Sociedad Minera El Brocal S.A.A. (a Peruvian corporation, subsidiary of Inversiones Colquijirca S.A.), which comprise the balance sheets as of December 31, 2008 and 2007, and the statements of income, changes in shareholders' equity and cash flows for the years then ended, as well as the summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with generally accepted accounting principles in Peru. This responsibility includes: designing, implementing and maintaining relevant internal control for the preparation and fair presentation of financial statements, in order to be free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making reasonable accounting estimates according to the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in conformity with generally accepted auditing standards in Peru. Those standards require that we comply with ethical requirements and that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making this risk assessment, the auditor considers the relevant internal control of the Company in the preparation and fair presentation of the financial statement, in order to design audit procedures according to the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes the evaluation of the



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Report of Independent Auditors (continue)

appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as the evaluation of the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Sociedad Minera El Brocal S.A.A. as of December 31, 2008 and 2007, and the results of its operations and its cash flows for the years then ended, in conformity with generally accepted accounting principles in Peru.

Medina, Zaldívar, Paudel & Asociados

Lima, Peru,
January 30, 2009

Countersigned by,

Marco Antonio Zaldívar
C.P.C. Register 12477

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Sociedad Minera El Brocal S.A.A.

Balance Sheet

As of December 31, 2008 and 2007

	Note	2008 US\$(000)	2007 US\$(000)
Assets			
Current assets			
Cash, banks and time deposits	4	193,080	182,037
Trade accounts receivable, net	5	17,184	52,742
Other accounts receivable, net	14(a)	12,507	1,500
Current portion of derivate financial instruments	14(a)	52,873	2,929
Inventories, net	6(a)	6,051	10,156
Prepaid income tax		6,274	-
Value added tax credit and others		2,942	526
Total current assets		<u>290,911</u>	<u>249,890</u>
Derivate financial instruments	14(a)	21,464	5,035
Property, plant and equipment, net	7	39,081	35,717
Expansion project of operations	8	21,611	515
Deferred income tax and workers' profit sharing assets	12(b)	10,832	9,317
Total assets		<u>383,899</u>	<u>300,474</u>
Liabilities and shareholders' equity			
Current liabilities			
Trade accounts payable	9	8,687	8,618
Other current liabilities	10	10,913	19,927
Income tax payable		-	9,858
Embedded derivative on sale of concentrates	14(b)	8,299	5,760
Current portion of provision for mine closing and environmental liabilities	11(c)	-	8,710
Current portion of long-term debt		4	119
Total current liabilities		<u>27,903</u>	<u>52,992</u>
Provision for mine closure and environmental liabilities	11(c)	21,031	11,336
Deferred income tax and workers' profit sharing liability	12(b)	31,315	2,000
Total liabilities		<u>80,249</u>	<u>66,328</u>
Shareholders' equity	13		
Capital stock		30,281	30,281
Investment shares		1,810	1,810
Legal reserve		6,418	6,418
Unrealized gain on valuation of derivative financial Instruments, net		47,873	5,129
Retained earnings		217,268	190,508
Total shareholders' equity		<u>303,650</u>	<u>234,146</u>
Total liabilities and shareholders' equity		<u>383,899</u>	<u>300,474</u>

The accompanying notes are an integral part of this statement.

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Sociedad Minera El Brocal S.A.A.

Statement of Income

For the years ended December 31, 2008 and 2007

	Note	2008 US\$(000)	2007 US\$(000)
Net sales	16	197,227	265,271
Cost of sales	17	(65,260)	(49,807)
Gross income		<u>131,967</u>	<u>215,464</u>
Operating expenses			
Exploration in non-operating areas	18	(13,584)	(13,366)
Selling	19	(9,997)	(7,567)
General and administrative	20	(5,951)	(4,857)
Royalties to the Peruvian State		<u>(3,162)</u>	<u>(6,097)</u>
Total operating expenses		<u>(32,694)</u>	<u>(31,887)</u>
Operating income		<u>99,273</u>	<u>183,577</u>
Other revenues (expenses)			
Financial income		10,139	7,581
Gain (loss) from exchange difference, net		(9,097)	7,182
Accretion expenses	11(c)	(1,198)	(1,117)
Support to neighboring communities		<u>(945)</u>	<u>(1,140)</u>
Voluntary and temporary contribution to the Peruvian State	21	(828)	(1,505)
Rehabilitation due to sinister		<u>(203)</u>	<u>(2,696)</u>
Financial expenses		<u>(21)</u>	<u>(35)</u>
Other, net		<u>(583)</u>	<u>(589)</u>
Total other revenues (expenses), net		<u>(2,736)</u>	<u>7,681</u>
Income before workers' profit sharing and income tax		96,537	191,258
Workers' profit sharing	12(a)	(7,763)	(14,817)
Income tax	12(a)	<u>(26,782)</u>	<u>(51,120)</u>
Net income		<u>61,992</u>	<u>125,321</u>
Net income per share, basic and diluted, stated in U.S. dollars	22	<u>0.5630</u>	<u>1.1382</u>

The accompanying notes are an integral part of this statement.

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Sociedad Minera El Brocal S.A.A.

Statement of Changes in Shareholders' Equity

For the years ended December 31, 2008 and 2007

	Number of shares				Unrealized gain on derivative financial instruments, net				Total US\$(000)
	Common	Investment	Capital stock US\$(000)	Investment shares US\$(000)	Legal reserve US\$(000)	Retained earnings US\$(000)			
Balance as of January 1, 2007	103,893,888	6,211,348	30,281	1,810	6,418	-	89,410	127,919	
Dividend distributions, note 13(d)	-	-	-	-	-	-	(24,223)	(24,223)	
Unrealized gain on derivative financial instruments, net of income tax and worker's profit sharing, note 14(a)	-	-	-	-	-	5,129	-	5,129	
Net income	-	-	-	-	-	-	125,321	125,321	
Balance as of December 31, 2007	103,893,888	6,211,348	30,281	1,810	6,418	5,129	190,508	234,146	
Dividend distributions, note 13(d)	-	-	-	-	-	-	(35,232)	(35,232)	
Unrealized gain on derivative financial instruments, net of income tax and worker's profit sharing, note 14(a)	-	-	-	-	-	42,744	-	42,744	
Net income	-	-	-	-	-	-	61,992	61,992	
Balance as of December 31, 2008	103,893,888	6,211,348	30,281	1,810	6,418	47,873	217,268	303,650	

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Sociedad Minera El Brocal S.A.A.

Statement of Cash Flows

For the years ended December 31, 2008 and 2007

	2008 US\$(000)	2007 US\$(000)
Operating activities		
Collection from customers	235,324	271,028
Collection on interest	10,139	6,461
Income tax payments	(33,406)	(71,285)
Payments to suppliers	(81,008)	(62,284)
Payments to workers and third parties	(38,505)	(25,425)
Payments of royalties to the Peruvian State	(4,370)	(5,865)
Interest payments	(23)	(35)
Other collections, net	-	789
Net cash and cash equivalents provided by operating activities	88,151	113,384
Investing activities		
Decrease (increase) in time deposits	46,952	(34,173)
Disbursements for project for the expansion of operations	(21,096)	(515)
Purchase of property, plant and equipment	(11,612)	(6,577)
Proceeds from sale of property, plant and equipment	73	114
Net cash and cash equivalents provided by (used in) investing activities	14,317	(41,151)
Financing activities		
Payment of dividends	(35,261)	(24,223)
Payments of long-term debt	(115)	(487)
Net cash and cash equivalents used in financing activities	(35,376)	(24,710)
Net cash and cash equivalents increase during the year	67,092	47,523
Cash and cash equivalents at beginning of year	103,623	56,100
Cash and cash equivalents at year-end, note 4	170,715	103,623

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Statement of Cash Flows (continued)

	2008 US\$(000)	2007 US\$(000)
Reconciliation of net income to cash and cash equivalents provided by operating activities		
Net income	61,992	125,321
Add (less) - Items that do not affect operating cash flows		
Depreciation	8,190	8,505
Embedded derivative on sale of concentrates	8,299	5,760
Accretions expense due to mine closure accrual	1,198	1,117
Deferred income tax and employee profit sharing expense (income)	4,171	(4,166)
Gain (loss) on sale of machinery and equipment	(15)	46
Provision for obsolescence of spare part and supplies	35	44
Changes of net operating assets and liabilities		
Decrease (increase) in operating assets -		
Trade accounts receivable	35,558	88
Other accounts receivable	(11,007)	(1,202)
inventory	4,105	(5,591)
Prepaid income tax	(6,274)	-
Value added tax credit and others	(2,416)	(30)
Increase (decrease) in operating liabilities -		
Trade accounts payable	69	3,325
Other accounts liabilities	(5,896)	(2,898)
Income tax payable	(9,858)	(16,935)
Net cash and cash equivalents provided by operating activities	<u>88,151</u>	<u>113,384</u>

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Sociedad Minera El Brocal S.A.A.

Notes to the Financial Statements

As of December 31, 2008 and 2007

1. Identification and business activity of the Company

(a) Identification -

Sociedad Minera El Brocal S.A.A. (hereafter, "the Company") was incorporated in Peru in 1956. The Company is a subsidiary of Inversiones Colquijirca S.A. (hereinafter, "the Principal"), which owns 51.06 percent of its common shares. Compañía de Minas Buenaventura S.A.A. owns direct and indirectly the 61.42 percent of Inversiones Colquijirca S.A.'s common shares. The Company's legal address is Av. Javier Prado Oeste 2173, San Isidro, Lima, Peru.

(b) Economic activity

The Company is engaged in the extraction, concentration and commercialization of polymetallic ores, mainly zinc, silver and lead, and carries out its operations at the Colquijirca mining unit (which comprises the Colquijirca mine and the Huarauca plant) located in the district of Tinyahuarco, province of Cerro de Pasco, department of Pasco, Peru.

(c) Financial statement approval

The 2008 financial statements have been approved by Management and will be presented for the approval of the Directors and Shareholders at the times established by Law. In Management's opinion, the accompanying financial statements will be approved without modifications in the Board of Directors' and Shareholders' meeting to be held during the first quarter of 2009. Financial statements as of December 31, 2007 were approved in the shareholders meeting held on March 26, 2008.

2. Significant accounting principles and policies

The significant accounting principles and practices applied in the preparation of the financial statement are summarized below:

(a) Basis of presentation -

The financial statements of the Company have been prepared in accordance with accounting principles generally accepted in Peru which comprise the International Financial Reporting Standards - IFRS made official through resolutions issued by the Peruvian Accounting Standards Board, and are consistent with the ones used in the previous year, except for the following IFRICs adopted starting January 1, 2008:

IFRIC 1 "Changes in Existing Decommissioning, Restoration and Similar Liabilities"

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IFRIC 2 "Members' Shares in Cooperative Entities and Similar Instruments"

IFRIC 4 "Determining whether an Arrangement contains a Lease"

IFRIC 5 "Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds"

IFRIC 6 "Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment"

IFRIC 7 "Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies"

IFRIC 8 "Scope of IFRS 2"

IFRIC 9 "Reassessment of Embedded Derivatives"

IFRIC 10 "Interim Financial Reporting and Impairment"

IFRIC 11 "IFRS 2: Group and Treasury Share Transactions"

IFRIC 12 "Service Concession Arrangements"

Base on that, during the years 2008 and 2007, no significant changes have been made with regards to the measurement of the liability for closure of mining units and environmental liabilities and that there has not been a reassessment on whether any embedded derivatives contained in the contract are required to be separate from the host contract, the interpretations 1 and 9 did not result in significant changes in the accounting policies of the Company or in modifications of the financial statements of previous years. Other interpretations correspond to transactions that are not performed by the Company. As a result they also had not affected the accounting policies of the Company.

To the date of these financial statements, the Peruvian Accounting Standards Board (CNC) has made official the application of IFRS 1 to 6, IAS 1 to 41 and Standards interpretations Committee (SIC) pronouncements 7 to 32, as well as International Financial Reporting Interpretations Committee (IFRIC) interpretations 1 to 12.

The accompanying financial statements are presented in U.S. dollars, the Company's functional and presentation currency. See (n).

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(b) Use of estimates and assumptions -

The preparation of financial statements in conformity with generally accepted accounting principles in Peru requires Management to make certain estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses for the years ended December 31, 2008 and 2007. Actual results could differ from those estimates.

The most significant estimates considered in the preparation of the accompanying financial statements are zinc, copper and lead concentrates provisional sales prices which are initially recorded according to terms of the sales contracts which are before to the shipping date, the useful life and the recoverable amount of property, plant and equipment, the determination of ore reserves, the recoverable amount of the deferred income tax and workers' profit sharing asset, the fair value of derivative instruments, the provision for mine closure costs and environmental liabilities and contingency provision. Any difference between the estimated and actual amounts is recorded in the result of the year of occurrence.

(c) Cash, banks and time deposits -

Cash, banks caption include all cash on hand and deposited in banks. For purposes of preparing the statement of cash flows, the cash balance includes the cash in hand, and the highly liquid deposits with original maturity of three months or less.

(d) Trade accounts receivable -

Trade accounts receivable are initially recognized at their fair value and subsequently measured at the amortized cost using the effective interest method, less the provision for impairment. A provision for impairment is made when there is objective evidence that the Company will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. The amount of the loss is recognized in the statement of income.

(e) Inventories -

Inventories are stated at the lower of cost or net realizable value. Cost is determined using the average cost method. Net realizable value is defined as the estimated sales price obtainable in the ordinary course of business, less estimated costs of completion and estimated selling and distribution expenses.

The accrual for obsolescence is based on an item-by-item analysis completed by the Company's management, and the related amounts are charged to expense in the period in which the obsolescence is deemed to have occurred.

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(f) Property, plant and equipment -

Property, plant and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses. The cost comprises its purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, and the initial estimation of the costs of dismantling and removing the item and restoring the site on which it is located.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. Repair and maintenance costs are charged to the cost of production during the period in which they are incurred

Depreciation is calculated under the straight-line method of accounting considering the lower of estimated useful lives of the asset or estimated reserves of the mining unit. The useful lives are the following (expressed in years):

	Years
Buildings and other constructions	6
Machinery and equipment	Between 5 and 6
Transportation units	5
Furniture and fixtures	6
Other equipment	Between 5 and 6
Computing equipment	4

The useful lives assigned and the depreciation are reviewed periodically to ensure that are consistent with the economic benefit and life expectations for use of property, plant and equipment items.

When the assets are sold or retired, their cost and accumulated depreciation are eliminated and any profit or loss resulting from their disposal is reported in the statements of income.

(g) Exploration and mine development costs -

Exploration costs are charged to expense as incurred. When it is determined that a mineral property can be economically developed, the costs incurred to develop it, including the costs to further delineate the ore body and remove overburden to initially expose the ore body, are capitalized. In addition, expenditures that increase significantly the economic reserves in the mining units under exploitation are capitalized. Mine development costs are amortized using the units-of-production method, based on proven and probable reserves. On-going development expenditures to maintain production are charged to operations as incurred.

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Deferred stripping cost -

The costs to remove overburden and other waste material to gain access the ore body (stripping cost) incurred by the Company before the operation of a mining project, are capitalized as part of the mine development cost, and subsequently will be amortized on units-of-production basis, using proven and probable reserves. The stripping costs for development of the Tajo Norte-La Llave mine are shown in the "Expansion Project of operation" caption in the balance sheet.

(h) Determination of mineral reserves and resources -

Annually, the Company computes its reserves using methods generally applied by the mining industry in accordance with international guidelines. All reserves computed, which are audited by an independent third party, represent the estimated amounts of proved and probable ore that can be processed economically under the present conditions.

The process for estimating the amount of reserves is complex and requires making subjective decisions at the time of assessing all the geologic, geophysical, engineering and economic data that is available. Revisions could be made of the current estimates of ore reserves due to, among other factors: revisions of the geologic data or assumptions; changes in estimated prices; and the results of exploration activities.

Changes in the amount of ore reserves could mainly affect the depreciation of fixed assets directly related to the mining activity and the period for amortization of development costs.

Currently, Management hires firms specialized at the global level (AMEC) for the inventory reserve audit of its mining unit.

(i) Impairment of assets -

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognized on the statement of Income at the same category of expenses related to the function of the impaired asset.

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was

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recognized. The revised valuation cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statements of income.

(j) Provisions -

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed periodically and are adjusted to reflect the best estimate available as of the date of the balance sheet. The expense relating to any provision is presented in the statement of income. Provisions are discounted using a current rate that reflects, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognized as a financial expense. The accounting treatment of the provision for closure of mining units is described in (k) below.

(k) Provision for closure of mining units -

The Company records a provision for mine closure when a legally enforceable obligation arises, independently of the full depletion of the reserves. Once such obligation has been appropriately measured, which is presented at fair value, it is recorded by creating a liability equal to the amount of the obligation and recording a corresponding increase to the carrying amount of the related long-lived assets (mine development costs and property, plant and equipment). Subsequently, this liability is increased in each period to reflect the interest cost considered in the initial fair-value estimate and, in addition, the capitalized cost is depreciated and/ or amortized based on the useful life of the related asset. When settling the liability, the Company will record any gain or loss that is generated. Changes in the obligation's fair value or in the useful life of the related asset that arise from revision of those initially estimated are recognized as an increase or decrease in the book value of the obligation and the related asset.

(l) Derivative financial instruments -

The Company uses derivative instruments to manage its exposure to changes in metals prices. In order to manage special risks, the Company applies hedge accounting for those transactions that meet the specific criteria applicable.

At the beginning of the hedge relation, the Company formally documents the relationship between the item hedged and the hedging instrument, including the nature of the risk, the objective and the strategy to be taken to carry out the hedging, and the method to be used to estimate the effectiveness of the hedge relation.

Also, a formal assessment is made upon beginning the hedge relation, to assure that the hedging instrument is highly effective in offsetting the risk designated in the item hedged. Hedges are formally assessed every half. A hedge is considered as highly effective if it is expected that the

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changes in cash flow attributed to the risk hedged during the period for which the hedge is designated are offset within a range from 80 to 125 percent.

As of December 31, 2008, the Company holds only derivative instruments on mineral prices that qualify as hedging instruments, classified as cash flow hedges. The effective portion of these derivatives' changes in fair value is recognized in shareholders' equity and results, respectively, and the gain or loss related to the ineffective portion is recognized immediately in the statement of income. The amounts accumulated in shareholders' equity for cash flow are transferred to the consolidated statement of income for the periods in which the item hedged affects gains and losses.

For those cash flow hedges that qualify as such, any gain or loss from the effective portion of the hedging instrument is initially recognized in shareholders' equity, in the *Unrealized gain in value of derivative financial instruments* caption. Any gain or loss from the ineffective portion of the hedging instrument is initially recognized in the consolidated statement of income in the *Financial expense* caption. When the cash flow hedged affects the consolidated statement of income, any gain or loss from the hedging instrument is posted in the *Net sales* caption of the consolidated statement of income.

(m) **Recognition of revenues -**

Revenue is recognized to the extend that it is probable that the economic benefit will flow to the Company. The amount of revenue is measured at fair value of the consideration received excluding any discount. The following recognition criteria must also be met before revenue is recognized.

Sales of ore

Income from sales of concentrates are recognized when the significant risks and benefits of ownership are transferred to the customer, which happens on delivery of the merchandise.

As far as the measurement of income from concentrate sales is concerned, concentrates sales are assigned a provisional value as the operation is subject to a final adjustment at the end of a period established in the contract, which is normally between 30 and 180 days after delivery of the concentrate to the client; the final adjustment is based on the market prices set forth in the commercial contract. Exposure to change in the price of the metals is considered an implicit derivative which should be separated from the commercial contract. At the close of each period, the provisional sale value is adjusted in accordance with the forward price for the period of quotation stipulated in the contract. The sale price for the quotation period can be measured accurately as these metals (lead, zinc and copper) are sold in international markets. The adjustment to the provisional sale value is recorded as an adjustment to net sales.

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Earnings from interest

The revenue is recognized when the interest is earned.

(n) Foreign currency transactions -

Functional and reporting currency

The Company has defined the U.S. dollar as its functional and reporting currency

Transactions and balances

Transactions in foreign currency (Nuevos Soles) are initially translated to the functional currency (U.S dollars) using the exchange rates in force at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. Non monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as of the dates of the initial transactions. Exchange differences resulting from the settlement of the transactions in foreign currencies and from the translation of the monetary assets and liabilities at the exchange rates at year-end, are recognized in the statement of income.

(o) Income Tax and workers' profit sharing -

Current portion of the Income Tax and workers' profit sharing

Income Tax and employee profit sharing for the current period are measured at the amount expected to be paid to the taxation authorities and workers, respectively. The rates and laws used to compute the amount are those in force as of the date of the balance sheet date.

Deferred portion of income tax and workers' profit sharing

Deferred income tax and employee profit sharing are provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities.

Deferred income tax and workers' profit sharing liabilities are recognized for all taxable temporary differences, except for taxable temporary differences associated with investments in subsidiaries and associates where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will reverse in the foreseeable future.

All deductible temporary differences and loss carry forwards generate the recognition of deferred assets to the extent that it is probable that they can be used in calculating taxable income in future years. Deferred income tax and employee profit sharing liabilities are recognized for all deductible temporary differences and tax loss carry-forwards, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and unused tax losses can be utilized. The carrying amount of the deferred income tax and employee profit sharing assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred asset to be utilized. Unrecognized deferred assets are reassessed at each balance sheet date.

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Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

(p) Contingencies -

Contingencies liabilities are recorded in the financial statements when it is probable their occurrence and they can be fairly determined. In other case, they are only disclosed in notes to the financial statements.

Contingent assets are not recognized in the financial statements; however, they are disclosed in notes to the financial statements if it is probable that such contingent assets will be realized.

(q) Basic and diluted earnings per share -

Basic and diluted earnings per share have been calculated based on the weighted average number of common and investment shares outstanding at the date of the balance sheets.

(r) Comparative financial statements -

There were no material reclassifications with respect to the balances as of December 31, 2007 in order to make them comparable with those of the year 2006.

(s) New accounting pronouncements -

As of December 31, 2008, there are several IFRS and IFRIC issued internationally and approved by the local Accounting Standards Board (CNC) to be applied in Peru starting from January 1, 2009. The principle standards are the following: IAS 32 "Financial Instruments - Presentation" (revised 2006), IFRS 7 "Financial Instruments - Disclosures", IFRS 8 "Operating Segments", IFRIC 13 "Customer Loyalty Programmes", IFRIC 14 IAS 19 - "The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction".

The previously indicated standards modify some accounting treatments, except for the IFRS 8 "Operating Segments" and the IFRS 7 "Financial Instruments - Disclosures", which do not affect the accounting records and whose objective is to provide additional information in the financial statements. Under these terms, the IFRS 7 includes disclosures that permit the users to evaluate the importance of the financial instruments in the financial position and performance of the entity, through the understanding of the nature and scope of the financial instruments the entity is exposed to, as well as the methods used to manage the risks derived from the mentioned instruments.

Management has analyzed the impact of the application of the standards previously indicated in the operations of the Company and does not expect them to have a material effect on the Company's net assets and results.

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Similarly, the following IFRS have been issued internationally as of December 31, 2008, but have not yet been approved by the CNC:

- Revisions of the IFRS 1 "First-time Adoption of the International Financial Reporting Standards", IAS 27 "Consolidated and Separate Financial Statements", IAS 23 "Borrowing Costs" (revised), IFRS 2 "Share-based Payments" (revised), IAS 1 "Presentation of Financial Statements" (revised in 2007), IAS 32 "Financial Instruments: Presentation" and IAS 1 "Presentation of Financial Statements", IAS 39 "Financial instruments: Recognition and Measurement (revised 2008)" and IFRIC 15 "Agreements for the Construction of Real Estate"; all in effect internationally for the periods that begin on or after January 1, 2009.
- IFRS 3 "Business Combinations" and IAS 27 "Consolidated and Separate Financial Statements" (review), effective internationally for periods that begin on or after July 1, 2009.
- IFRIC 16 "Hedges of a Net Investment in a Foreign Operation", effective internationally for periods that begin on or after October 1, 2008.
- IFRIC 17 "Distributions of Non-cash Assets to Owners", effective internationally for periods that begin on or after July 1, 2009.
- "Improvements to the IFRS" - Within the scope of the project to modify the IFRS, in May 2008 the IASB published and approved modifications to 35 different international standards, covering a large number of accounting matters. These changes are divided into two categories: 1) changes related to presentation, recognition and measurement that have accounting implications, and 2) changes related to the terms and reduction of the international standards, which are expected to have a minimal effect, if any, on the accounting aspects.

Most of these changes will be applicable internationally for periods that begin on or after January 1, 2009 with the possibility of being adopted beforehand, subject to the conditions provided for each modification and the transitory provisions related to the first-time adoption of the IFRS.

As of this date, the Company's management is analyzing the impact that those standards not yet approved by the CNC will have on its operations when such standards are approved for application in Peru.

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3. Foreign currency transactions

Translations to foreign currency (Nuevos Soles) are completed using exchange rates published by the Superintendencia de Banca y Seguros y AFP. As of December 31, 2008, the exchange rates published by this Institution were US\$0.3188 for buying and US\$0.3183 for selling U.S. dollars (US\$0.3339 for buying and US\$0.3337 for selling as of December 31, 2007) and have been applied for the assets and liabilities accounts, respectively.

As of December 31, 2008 and 2007, the Company had the following assets and liabilities denominated in foreign currency:

	2008 S/(000)	2007 S/(000)
Assets		
Cash, banks and time deposits	123,133	257,003
Trade accounts receivable, net	1,423	2,424
Prepaid income tax	19,713	-
	<u>144,269</u>	<u>259,427</u>
Liabilities		
Trade accounts payable	1,883	1,839
Other current liabilities	21,290	53,944
Tax income payable	-	29,545
	<u>23,173</u>	<u>85,328</u>
Net asset position	<u>121,096</u>	<u>174,099</u>

As of December 31, 2008 and 2007, Management has decided to assume the currency risk set by this position. As a result, no hedging operations with derivatives to cover the currency risk have been taken.

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4. Cash, banks and time deposit

(a) This item is made up as follows:

	2008 US\$(000)	2007 US\$(000)
Cash	21	23
Bank accounts (b)	3,467	14,896
Time deposits(c)	<u>167,227</u>	<u>88,704</u>
Cash balances included in the statement of cash flows	170,715	103,623
Time deposits with original maturity greater than 90 days (d)	<u>22,365</u>	<u>78,414</u>
	<u>193,080</u>	<u>182,037</u>

- (b) As of December 31, 2008 and 2007, the Company maintains its demand deposit accounts mainly in foreign currency. These funds are unrestricted, are deposited in domestic and foreign banks and earn interest at prevailing market rates.
- (c) As of December 31, 2008, the Company holds deposits in U.S. dollars of US\$135,400,000, which accrue interest rates calculated with annual rates that fluctuate between 1.15% and 4.5% and have original maturities between 45 and 77 days. Similarly, the Company holds time deposits in Nuevos Soles of S/100,000,000 (equivalent to US\$31,827,000), which accrue interest rates calculated with annual rates that fluctuate between 6.75% and 7.20%. As of December 31, 2007, it corresponded to deposits in U.S. dollars of US\$51,500,000 and in Nuevos Soles of S/111,500,000 (equivalent to US\$37,204,000), which accrue interest rates that fluctuated between 5.05% and 5.61% and had original maturities between 60 and 90 days.
- (d) As of December 31, 2008, the Company holds time deposits in Nuevos Soles of S/20,000,000 (equivalent to US\$6,365,000) and in U.S. dollars of US\$16,000,000, which accrue interest rates at an annual average rate of 6.30% and have original maturities not exceeding 96 days. As of December 31, 2007, it corresponded to deposits in U.S. dollars of US\$30,700,000 and in Nuevos Soles of S/143,000,000 (equivalent to US\$47,714,000), which generated interest rates calculated with annual rates that fluctuated between 5.00% and 5.55% and had original maturities between 91 and 271 days.

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5. Trade accounts receivable, net

(a) This item is made up as follows:

	2008 US\$(000)	2007 US\$(000)
Consorcio Minero S.A. - CORMIN	8,422	16,021
Votorantim Metais Cajamarquilla	4,090	5,189
Doe Run Perú	1,792	2,656
Glencore International AG	972	1,752
Trafigura	221	19,506
AYS S.A.	218	5,361
Other	1,764	2,257
	<hr/>	<hr/>
	17,479	52,742
Provision for doubtful accounts	(295)	-
	<hr/>	<hr/>
	17,184	52,742

Trade accounts receivable are denominated in U.S. dollars, have current maturities and earn no interest.

(b) The movement of the allowance for doubtful trade accounts receivable for the years ended December 31, 2008 and 2007 was the following:

	2008 US\$(000)	2007 US\$(000)
Opening balance	-	-
Additions, note 20	295	-
Deductions	-	-
	<hr/>	<hr/>
Closing balance	295	-
	<hr/>	<hr/>

In Management's opinion, the allowance for doubtful accounts as of December 31, 2008 and 2007 adequately covers the credit risk of these parties to those dates.

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6. Inventories, net

(a) This item is made up as follows:

	2008 US\$(000)	2007 US\$(000)
Supplies and spare parts	3,326	1,895
Mineral	2,514	6,387
Concentrates	245	1,863
Inventory in transit	1	55
	<hr/> 6,086	<hr/> 10,200
Provision for supplies and spare parts obsolescence	(35)	(44)
	<hr/> 6,051	<hr/> 10,156

(b) Accrual for spare parts and supplies obsolescence had the following movements during 2008 and 2007:

	2008 US\$(000)	2007 US \$(000)
Beginning balance	44	98
Allowance for the year	35	44
Write-off	(44)	(98)
Ending balance	<hr/> 35	<hr/> 44

In Management's opinion, the reserve above created is sufficient to cover the risks of obsolescence as of December 31, 2008 and 2007.

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7. **Property, plant and equipment, net**

(a) The movement with the cost and accumulated depreciation accounts is show below:

	Beginning balance US\$(000)	Additions US\$(000)	Transfers US\$(000)	Retires US\$(000)	Ending balance US\$(000)
Cost					
Land	265	-	31	-	296
Building and other constructions	24,665	-	5,721	(148)	30,238
Machinery and equipment	21,231	-	2,757	(346)	23,642
Transportation units	1,449	-	92	-	1,541
Furniture and mixtures	371	-	33	-	404
Other equipment	1,484	-	3,983	(31)	5,436
Units in transit	68	748	(805)	-	11
Work in progress (e)	9,554	10,864	(11,812)	-	8,606
Mine closure costs	11,719	-	-	-	11,719
	<u>70,806</u>	<u>11,612</u>	<u>-</u>	<u>(525)</u>	<u>81,893</u>
Accumulated depreciation					
Buildings and other constructions	14,035	3,763	-	(111)	17,687
Machinery and equipment	15,093	2,356	-	(325)	17,124
Transportation units	1,363	38	-	-	1,401
Furniture and fixture	230	52	-	-	282
Other equipment	1,406	224	-	(31)	1,599
Mine closure costs	2,962	1,757	-	-	4,719
	<u>35,089</u>	<u>8,190</u>	<u>-</u>	<u>(467)</u>	<u>42,812</u>
Net cost	<u>35,717</u>				<u>39,081</u>

(b) Fully depreciated assets as of December 31, 2008 amount to US\$17,177,000 (US\$13,920,000 as of December 31, 2007) approximately. These assets are being used by the Company.

(c) In the year 1993, as a result of the analysis and physical inventory of fixed asset of the Company, the Management decided to assign fair values to certain assets based on a work of inventory valuation made by an independent expert. Since that date, these values have been considered as the new cost base for these assets. As of December 31, 2008, the net cost assigned to these assets amounts to US\$1,633,000 (US\$2,406,000 as of December 31, 2007).

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(d) The distribution of the annual depreciation expenses for 2008 and 2007 is as follow:

	2008 US\$(000)	2007 US\$(000)
Cost of sales, note 17	7,844	8,183
General and administrative, note 20	324	301
Exploration costs in non-operational mining sites	22	21
	<hr/>	<hr/>
	8,190	8,505
	<hr/>	<hr/>

(e) The table below presents the composition of the works in progress:

	US\$(000)
Optimization of the Pumping system of the Lead and Zinc processing plant	2,268
Expansion of tailings fields Nos. 6 and 7	1,540
Mine development costs of the Colquijirca mining unit	1,427
Implementation of the Lead - copper separation circuit	1,376
Optimization of the Río Blanco - Jupayagra Hydroelectric Power Station	1,140
Other minor activities	855
	<hr/>
	8,606
	<hr/>

Management expects that the works in progress will be completed during the year 2009.

(f) As of December 31, 2008, under the application of the IAS 36 "Impairment of Assets," the Company's Management performed an evaluation of the value of its fixed assets through the present value of the future cash flows in U.S. dollars expected to arise from these assets. In Management's opinion, during 2008 there have not been indicators of impairment of the Company's fixed assets. As a result, Management has concluded that it is not required to record a loss due to impairment of long term assets.

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8. Project for the expansion of operations

On August 15, 2008, the Board of Directors of the Company approved a project to expand its operations in order to reach a treatment level of 18,000 MT/day of ore from its Tajo Norte and Marcapunta mines. The project involves setting up the open pit, expanding the level of operations, modernizing the Huarauaca concentrator plant and adapting those services required to support the new production capacity.

As of December 2008 and 2007, the Company executed the following work related to the project:

	2008 US\$(000)	2007 US\$(000)
Mine development	14,988	-
Concentrador plant	4,395	-
Feasibility study	1,321	515
Construction of Huachuacaja tailings area	635	-
Other minor activities	272	-
	<hr/>	<hr/>
	21,611	515
	<hr/>	<hr/>

9. Trade accounts payable

This item is made up as follows:

	2008 US\$(000)	2007 US\$(000)
Domestic suppliers	8,619	7,106
Foreign suppliers	68	1,512
	<hr/>	<hr/>
	8,687	8,618
	<hr/>	<hr/>

These trade accounts payable are mainly denominated in U.S. dollars, have current maturities and accrue no interest.

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10. Other current liabilities

The table below presents the composition of the caption:

	2008 US\$(000)	2007 US\$(000)
Worker's profit sharing and other remunerations	7,452	12,949
Voluntary and temporal contribution to Peruvian State, note 21	828	1,505
Board members' remuneration payable	750	750
Value added tax and other taxes	705	2,199
Provision for labor contingencies	412	452
Dividends payable	279	308
Mining royalty payable	222	1,430
Other	265	334
	<hr/>	<hr/>
	10,913	19,927
	<hr/>	<hr/>

11. Environmental liabilities

(a) Provision for mine closing- In order to comply with the in force environmental legislation related to the current operation mine closing, in August 2006 the Company hired an independent firm authorized by the Peruvian State to elaborate the mine closing plan for its mining unit of Colquijirca. The objectives of the study were:

- Guarantee the adequate environmental protection around the area that surrounds the mining units through the execution of measures and works, applying technologies aimed at risk control, land stabilization and the retention of physical and chemical discharges, with pollution prevention being the primary consideration.
- To achieve sustainability of the economic and social environment in the zone and enabling the land to be used profitably once closure has been completed.
- Fulfill with current environmental protection regulations adopting international parameters about environmental protection.
- Estimating the useful life of the mine, in order to regulate the obligations and procedures that mine owners must comply with, and making the respective annual environmental guarantee provisions to cover the estimated cost of the closure plan and ensure that no environmental liabilities are left to affect the surroundings or the socioeconomic component.

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Base of this study the Company estimates that the provision for closure of the mining unit (currently operating) amounts to approximately US\$16,051,000 as of December 31, 2008.

On August 15, 2006, the closure plan of the Colquijirca production unit was presented to the Ministry of Energy and Mines (MEM) for its revision and approval. To date, the MEM has performed some formal observations to the closure plan presented by the Company, which have been answered by the Company's Management. Nevertheless, as a result of the project for the expansion of operations, described in note 8, Management is obliged to present to MEM an environmental impact study that will include an update of the Colquijirca production mine site closing plans. As a consequence, the budget and the schedule of execution will be updated. To date, the study has been delegated to a specialized firm, and is expected to be completed during the first quarter of the year 2009, in which, as mentioned, the provision for closure of mining units recorded to date will be updated. Taking into account that Management expects the schedule of execution of activities related to the mine site closure to be done starting 2010, it has decided that all the provision for closure of the Colquijirca mining unit, amounting to US\$16,051,000, must be disclosed as a non-current provision.

(b) Mining environmental liability-

In compliance with existing legislation governing the restoration of areas affected by environmental liabilities, in October 2006 the Company hired a specialist company authorized by the Peruvian state to draw up a closure plan for the Santa Barbara mine environmental liabilities.

The Santa Barbara mine has not been operative since the 1970s, so there is no environmental impact study (EIS) or Environment Program (PAMA). Thus it is deemed necessary to draw up a "Santa Barbara Mine Environmental Liabilities Closure Plan", a technical document that will determine not only the strategies, criteria and most viable measures for remedying the environmental liabilities; but will also determine the exact investment that these activities will require. The Santa Barbara mine environmental liabilities involve the physical and chemical stabilization of open pits, tailings ponds, spoil dumps, mine entrances, camps, etc., as well as the recovery of soils and replanting. The estimated value of this liability amounts to US\$4,980,000 as at December 31, 2008.

On December 11, 2006 the closure plan for Santa Barbara mine environmental liabilities was submitted to the Ministry of Energy and Mines (MEM) for review and approval. The MEM has not yet approved the environmental liabilities closure plan and the budget included in the document. Management expects to start in 2010 with the execution of the mining environmental liability. As a result, Management has decided that all the provision for the environmental liability, amounting US\$4,980,000, must be disclosed as a non-current liability.

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(c) The movement of the provision for mine closing and environmental liabilities is as follow:

	US\$(000)
Balance as of January 1, 2007	18,962
Accretion expense	1,117
Payments	(33)
Balance as of December 31, 2007, note 24(a)	20,046
Accretion expense	1,198
Payments	(213)
Balance as of December 31, 2008, note 24(a)	21,031

The break down of the provision for mine closure and environmental liabilities is as follows:

	2008 US\$(000)	2007 US\$(000)
Current portion	-	8,710
Non - current portion	<u>21,031</u>	<u>11,336</u>
	<u>21,031</u>	<u>20,046</u>

(d) As of December 31, 2008, the future value of the provision for closure of mining units amounts US\$20,204,000, which has been discounted using the adjusted annual risk-free rate of 8 percent, resulting in an updated liability of US\$16,051,000. The Company believes that this liability is sufficient to comply with the environmental protection laws in effect approved by the Ministry of Energy and Mines.

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12. Deferred income tax and workers' profit sharing

(a) The deferred income tax and workers' profit sharing liability movement is made up as follows for the years 2008 and 2007:

	2008 US\$(000)	2007 US\$(000)
Workers' profit sharing		
Current	(6,826)	(15,753)
Deferred	(937)	936
	<u>(7,763)</u>	<u>(14,817)</u>
Income tax		
Current	(23,548)	(54,350)
Deferred	(3,234)	3,230
	<u>(26,782)</u>	<u>(51,120)</u>
	<u>(34,545)</u>	<u>(65,937)</u>

(b) The deferred income tax and workers' profit sharing asset and liability movement is made up as follows:

	Balance as of January 1 ^o , 2007 US\$(000)	Credit (debit) to the statement of income US\$(000)	Debit to the statement of changes in shareholders' equity US\$(000)	Balance as of December 31, 2007 US\$(000)	Credit (debit) to the statement of income US\$(000)	Debit to the statement of changes in shareholders' equity US\$(000)	Balance as of December 31, 2008 US\$(000)
Deferred asset							
Embedded derivative for selling of concentrates	-	2,051	-	2,051	904	-	2,955
Environmental liability of the mining unit Santa Bárbara	1,773	-	-	1,773	-	-	1,773
Difference in depreciation rates	1,519	1,042	-	2,561	203	-	2,764
Provision for mine closure	1,225	1,011	-	2,236	976	-	3,212
Mining royalties	426	82	-	508	(429)	-	79
Others	249	(61)	-	188	(139)	-	49
	<u>5,192</u>	<u>4,125</u>	<u>-</u>	<u>9,317</u>	<u>1,515</u>	<u>-</u>	<u>10,832</u>
Deferred liability							
Amortization of mine development costs	1,503	(171)	-	1,332	(5,849)	-	(4,517)
Market value allocation of fixed assets, note 7(c)	(709)	212	-	(497)	163	-	(334)
Unrealized gain on derivative financial instruments	-	-	(2,835)	(2,835)	-	(23,629)	(26,464)
	<u>794</u>	<u>41</u>	<u>(2,835)</u>	<u>(2,000)</u>	<u>(5,686)</u>	<u>(23,629)</u>	<u>(31,315)</u>

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(c) The reconciliation of the legal combined rate with the effective rate of workers' profit sharing and income tax for the years 2008 and 2007 is shown below:

	2008 US\$(000)	%	2007 US\$(000)	%
Income before workers' profit				
sharing and income tax	<u>96,537</u>	<u>100</u>	<u>191,258</u>	<u>100</u>
Expected income tax and workers' profit sharing according to the legal combined rate	(34,367)	(35.6)	(68,088)	(35.6)
Tax exempt financial income	3,609	3.7	2,699	1.4
Loss (gain) on currency exchange				
difference not deductible	(3,239)	(3.4)	802	1.0
Other minor activities	<u>(548)</u>	<u>(0.5)</u>	<u>(1,350)</u>	<u>(1.28)</u>
Income tax and workers' profit				
sharing expense	<u>(34,545)</u>	<u>(35.8)</u>	<u>(65,937)</u>	<u>(34.48)</u>

13. Shareholders' equity, net

(a) Capital stock -

As of December 31, 2008 and 2007, the Company's capital stock is represented by 103,893,888 fully subscribed and paid common shares, with a nominal value of one Peruvian Nuevo Sol each.

The capital stock structure as of December 31, 2008 and 2007 is shown below:

	Number of shareholders		Participation	
	2008	2007	2008	2007
Percentage				
Less than 0.20%	3,568	3,862	6.05	7.33
From 0.20 to 1.00%	13	15	5.82	6.05
From 1.01 to 5.00%	9	9	28.75	27.24
From 5.01 to 10.00%	1	1	8.32	8.32
From 10.01 to 100.00%	1	1	51.06	51.06
Total	3,592	3,888	100.00	100.00

The market value of the common shares is S/14.10 as of December 31, 2008 (S/37.48 as of December 31, 2007), and presents a negotiation frequency rate of 90 percent (99.60 percent as of December 31, 2007).

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(b) Investment shares -

As of December 31, 2008 and 2007, this caption corresponds to 6,211,348 investment shares, with a nominal value of one Peruvian Nuevo Sol each.

The market value of the common shares is S/10.40 as of December 31, 2008 (S/28.84 as of December 31, 2007), and presents a negotiation rate of 40.00 percent (88.80 percent as of December 31, 2007).

The owners of investment shares have rights to the dividend distribution according to the by-laws of the Company and Law 27028, Law that replaces the work shares by investment shares.

(c) Legal reserve -

According to the *Ley General de Sociedades* (General Corporations Law), a minimum of 10 percent of distributable income in each year, after deducting income tax, shall be transferred to a legal reserve, until such reserve is equal to 20 percent of capital stock. This legal reserve may be used to offset losses or may be capitalized; however, if used to offset losses or if capitalized, the reserve must be replenished with future profits.

(d) Dividend distribution -

The General Shareholders' Meeting held on March 28, 2007 approved the payment of dividends in cash of US\$14,314,000, corresponding to the retained earnings as of December 31, 2007. The Board of Director's Meeting held on October 17, 2007 agreed the payment of dividends corresponding to the earnings of the year 2007 for US\$9,909,000.

The General Shareholders' Meeting held on March 26, 2008 approved the payment of dividends in cash of US\$28,626,000, corresponding to the retained earnings as of December 31, 2007. The Board of Director's Meeting held on October 22, 2008 agreed the payment of dividends corresponding to the earnings of the year 2008 for US\$6,606,000.

14. Financial derivatives

(a) Mineral price hedging operations -

The Company's policy is to carry out metal price hedging operations using any of the derivatives instruments existing in the financial market, for a period of up to 3 years and a total not more than 25% of the estimated metal production each year. In the session held on February 23, 2007, the Company's Board of Directors appointed a Hedging Committee to be responsible for approving all hedging operations before contracting and/or executing. To carry out its price hedging operations, the Company has credit lines with the brokers in the London Metals Exchange (LME) and New York's Comex in order to guarantee the initial margins and variation required for operations of this type.

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During 2008 the Company entered into metal price hedging contracts to cover future cash flows from its sales. The critical terms of these hedge operations have been negotiated with brokers so that they coincide with the negotiated terms of the commercial contracts to which they are related. Price hedge operations for cash flow from the next few years' sales have been evaluated by the Management and found to be 100% effective. The effectiveness of hedging operations was measured using the cash flow compensation method, a method that the Company's management considers best reflects the risk management aim relating to the hedging operations.

In the years 2008 and 2007, the Company recorded a credit of US\$66,373,000 and US\$7,964,000 in the equity caption "Unrealized gain on derivative financial instrument" resulting from changes in fair value occurring during that year. This credit is net of income tax and deferred employee profit sharing, which amount to US\$23,629,000 and US\$2,835,000, respectively. A debit entry for the same value is shown in the caption derivative financial instruments in the balance sheet.

In the years 2008 and 2007, the Company recognized gains of US\$21,403,000 and a loss of US\$454,000, respectively, relating to hedging operations settled in those years. These amounts are included in the net sales caption in the income statement. As of December 31, 2008, the Company maintains US\$11,314,000 in accounts receivable with brokers of the London Metals Exchange (LME) for transactions already settled, which is presented in *Miscellaneous accounts receivable* caption of the balance sheet. US\$4,167,000 of this amount was collected in January 2009.

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The hedging operations in effect as of December 31, 2008 and 2007 are the following:

Metal	Quantity	Volume total	Fixed price US\$	Period	Fair value	
					2008 US\$(000)	2007 US\$(000)
Zinc	675 TM	4,050	2,853	January 2009 - June 2009	5,815	2,031
Zinc	675 TM	4,050	2,679	July 2009 - December 2009	5,710	896
Zinc	675 TM	4,050	2,621	January 2010 - June 2010	5,305	733
Zinc	425 TM	2,550	2,481	July 2010 - December 2010	2,856	-
Zinc	500 TM	3,000	3,050	July 2008 - December 2008	-	2,018
Lead	675 TM	3,750	2,653	January 2009 - June 2009	5,372	562
Lead	675 TM	3,750	2,618	July 2009 - December 2009	6,118	383
Lead	675 TM	3,750	2,562	January 2010 - June 2010	5,824	425
Lead	675 TM	3,750	2,568	July 2010 - December 2010	5,550	-
Lead	300 TM	1,800	2,145	January 2011 - June 2011	1,929	-
Lead	250TM	1,500	2,835	January 2008 - June 2008	-	428
Lead	250TM	1,500	2,835	July 2008 - December 2008	-	488
Copper	350 TM	2,100	7,514	January 2009 - June 2009	7,165	-
Copper	875 TM	4,500	8,245	July 2009 - December 2009	22,693	-
Total					74,337	7,964
Less - current portion					52,873	2,929
					21,464	5,035

(b) Embedded derivates originated by the sales of concentrates variation in commercial contract prices -

As indicated in note 2(m), exposure to risk arising from variations in the prices of zinc, lead and copper is considered an embedded derivative and is separate from the commercial contract.

Translation of a report and financial statements originally issued in Spanish - See note 28

As of December 31, 2008 and 2007, the provisional settlements (in metric tons of zinc, lead and copper) maintained on that date, their final liquidation periods of final settlement and the fair value of the embedded derivatives are as follows:

As of December 31, 2008

Metal	Quantity	Maturity	Prices		Fair Value US\$(000)
			2009	Provisional US\$	
Zinc	55,150 TMS	January	Between 1,101 to 1,895	Between 1,101 and 1,852	(850)
Lead	20,759 TMS	January - February	Between 963 to 1,926	Between 963 and 1,480	(2,890)
Copper	22,540 TMS	January - March	Between 2,917 to 8,669	Between 3,072 and 3,717	(4,559)
					<u>(8,299)</u>

As of December 31, 2007:

Metal	Quantity	Maturity	Prices		Fair value US\$(000)
			2008	Provisional US\$	
Zinc	85,784 TMS	January- April	Between 2,241 to 3,830	Between 2,353 to 2,975	(6,655)
Lead	35,030 TMS	January - April	Between 1,915 to 3,729	Between 2,549 to 3,720	959
Copper	2,586 TMS	January - May	Between 6,715 to 8,008	Between 6,588 to 6,685	(64)
					<u>(5,760)</u>

As of December 31, 2008 and 2007, the fair value of the embedded derivative is a loss of US\$8,299,000 and US\$5,760,000, respectively and is shown in the "Net Sales" caption of the income statement. Forward prices on the dates on which it is expected to settle the open positions as of December 31, 2008 are taken from publications of the London Metals Exchange.

Translation of a report and financial statements originally issued in Spanish – See note 28

15. Taxation

(a) The Company is subject to Peruvian Tax Law. As of December 31, 2008, the statutory income tax rate in Peru was 30 percent.

Non - domiciled companies in Peru and individuals must pay an additional tax of 4.1 percent over received dividends.

(b) The tax authorities are legally entitled to review and, if necessary, adjust the income tax calculated by the Company during the four years subsequent to the year of the related tax return filing. During 2006, the tax authorities reviewed the income tax for 2003 and determined additions to the book income by S/2,292,018 (equivalent to US\$729,477) by omission of sales (undue deductions of freights and insurances when exporting concentrates), resulting in a reduction of the tax loss carry forward of that year. The tax assessment of S/714,352 (equivalent to US\$227,356, including interest as of December 31, 2008) has not been accepted by the Company and is under claim. The Company's income tax return of 2005, 2006, 2007 and 2008, and value added tax returns of 2005 to 2008 are still subject to review by the tax authorities.

Due to various possible interpretations of current legislation, it is not possible to determine whether or not future reviews will result in tax liabilities for the Company. In the event that additional taxes payable, interest and surcharges result from tax authority reviews, they will be charged to expense in the period assessed and paid. However, in Management's and legal advisors' opinion, any additional tax assessment would not be significant to the financial statements as of December 31, 2008 and 2007.

(c) With the purpose of determining the income tax and the value added tax, the transfer prices among related parties and for transactions with companies domiciled in countries considered tax havens, prices should be supported by documentation containing information about the valuation methods applied and criteria used in its determination. Based on an analysis of the Company's operations, Management and its legal advisors do not believe that the new regulations will result in significant contingencies for the Company as of December 31, 2008 and 2007.

Translation of a report and financial statements originally issued in Spanish - See note 28

16. Net sales by geographic region

(a) The Company's revenues primarily result from the sale of zinc, lead and copper concentrates. The following table shows net sales by geographical region:

	2008 US\$(000)	2007 US\$(000)
Peru	136,852	151,405
Asia	41,198	66,540
Africa	14,080	-
America	5,097	12,588
Europe	-	34,738
	<hr/>	<hr/>
	197,227	265,271

(b) The following table shows net sales by concentrates:

	2008 US\$(000)	2007 US\$(000)
Zinc	88,331	161,403
Lead	65,323	111,438
Copper	30,327	2,518
Others	142	(3,874)
	<hr/>	<hr/>
	184,123	271,485
Embedded derivative on sale of concentrates, note 14(b)	(8,299)	(5,760)
Hedging, note 14(a)	21,403	(454)
	<hr/>	<hr/>
	197,227	265,271

(c) In 2008, the Company's three largest customers accounted for 32%, 17% and 12%, respectively, of total sales (25%, 14% and 13% of total sales in 2007). As of December 31, 2008, 83% of the trade accounts receivable is related to these customers (44% as of December 31, 2007).

Translation of a report and financial statements originally issued in Spanish - See note 28

17. Cost of sales

This item is made up as follows:

	2008 US\$(000)	2007 US\$(000)
Beginning balance of concentrates, note 6(a)	1,863	1,088
Beginning balance of ore in tailing field, note 6(a)	6,387	1,952
Consumption of materials and supplies	11,771	7,857
Direct labor	5,156	4,633
Services provided by third parties	23,665	26,803
Other manufacturing expenses	11,333	7,541
Depreciation, note 7(d)	7,844	8,183
Less - Final balance of concentrates, note 6(a)	(245)	(1,863)
Less - Final balance of ore in tailing field, note 6(a)	(2,514)	(6,387)
	<hr/>	<hr/>
	65,260	49,807

18. Exploration in non-operating areas

This item is made up as follow:

	2008 US\$(000)	2007 US\$(000)
Marcapunta Oeste	7,118	5,899
Marcapunta Norte	3,549	3,982
La Llave	2,591	2,558
Others	<hr/> 326	<hr/> 927
	<hr/>	<hr/>
	13,584	13,366

As indicated in note 8, as part of the project to expand operations approved in August 2008, the Company is executing the setting up of the opened pit Tajo Norte - La Llave. The exploration activities performed mainly during the first half of the year 2008, correspond to the program of diamond drilling work and are focus to increase the level of reserves identified in these areas.

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19. Selling expenses

This item is made up as follows:

	2008 US\$(000)	2007 US\$(000)
Transport and freight concentrates	8,339	6,406
Loading and discharge of concentrate	534	414
Custom duties	170	339
Storage of concentrates	293	251
Supervision and assays	203	148
Service fees	209	-
Personnel expense	120	-
Others	129	9
	<hr/>	<hr/>
	9,997	7,567
	<hr/>	<hr/>

20. General and administrative expenses

(a) This item is made up as follows:

	2008 US\$(000)	2007 US\$(000)
Personnel expenses	2,961	1,721
Board members' remuneration (b)	750	750
Various expenses	651	585
Services provided by third parties	589	1,046
Taxes	381	449
Depreciation, note 7(d)	324	301
Allowance for doubtful accounts	295	5
	<hr/>	<hr/>
	5,951	4,857
	<hr/>	<hr/>

(b) According to the policies on the Board member's remuneration approved during the Board of Directors' Meeting held on July 12, 2007, since 2007, Board member's remuneration will amount to the lesser of 4 percent of annual net income less the statutory reserve, or the equivalent to US\$50,000 for each director.

Translation of a report and financial statements originally issued in Spanish - See note 28

21. Voluntary and temporary contribution to Peruvian State

On January 16, 2007 the Company signed an agreement entitled "Mining Program Involving the People" with the Peruvian State, assuming a commitment to create private funds from extraordinary and temporary voluntary economic contributions to promote welfare and social development and to help to improve the living conditions of the population and communities located principally in the areas of influence of mining projects, through works, projects and/or projects.

In year 2008, the economic contribution amounted to US\$828,000 (US\$1,505,000 as of December 31, 2007)

On April 4, 2008 the Company handed over to "Asociación Civil sin Fines de Lucro Don Eulogio Fernandini" a voluntary contribution corresponding to fiscal year 2007, US\$301,000 (equivalent to S/906,239) for the creation of a Local Mining Fund and US\$1,204,000 (equivalent to S/3,624,957) for the creation of a Regional Mining Fund. Details of the voluntary, temporary economic contribution to the mining fund are given below:

	2008 US\$(000)	2007 US\$(000)
Voluntary and temporary contribution to "Programa Minero de Solidaridad con el Pueblo"		
Local Mining Fund	166	301
Regional Mining Fund	662	1,204
	<hr/> 828	<hr/> 1,505

22. Basic and diluted earnings per share

The computation of basic and diluted earnings per share for the years ended December 31, 2008 and 2007 is presented below (in thousands of U.S. dollars, except for the number of shares):

	2008	2007
Net income	61,992	125,321
Common and investment shares	110,105,236	110,105,236
Basic and diluted earnings per share	0.5630	1.1382

Translation of a report and financial statements originally issued in Spanish - See note 28

23. Transactions with related parties

(a) During 2008 and 2007, the Company contracted a storage service of supplies to Compañía de Minas Buenaventura S.A.A for approximately US\$27,000 per year. Similarly, during 2008, the Company contracted the services of supervision of the "Project for the expansion of operations" to Buenaventura Ingenieros S.A. for approximately US\$27,000 per year. Similarly, during 2008, the Company contracted the services of supervision of the "Project for the expansion of operations" to Buenaventura Ingenieros S.A. for approximately US\$465,000.

The Company does not maintain accounts receivable or liabilities with related parties as of December 31, 2008.

(b) The Board members' remuneration and Management's remuneration were approximately US\$2,571,410 during 2008 (approximately US\$2,050,624 in 2007), and include current benefits, labor benefits and others.

24. Commitments and contingencies

(a) Environmental matters -

The Company's mining and exploration activities are subject to environmental protection standards. In order to comply with these standards, the Company has presented the preliminary studies covering Environmental Assessment (EVAP) and the Environmental Adjustment and Management Program (PAMA) for Colquijirca Mining Unit. In 1996, the Ministry of Energy and Mines approved the PAMA submitted by the Company, as required by the Supreme Decree No. 016-93-PM and Supreme Decree No. 059-93-EM (Regulations for Environmental Protection in the Mining-Metallurgical Industry). The activities as defined in the PAMA were completed as of December 31, 2003.

On October 14, 2003, the Congress issued the Law 28090 which regulates the procedures and commitments that the mining activities must follow in order to elaborate, file and implement a mining site closing plan, as well as establishes the constitution of a guarantee to assure the compliance of the committed plan in connection with protection, conservation and recovery of the environment. On August 15, 2005 the corresponding ruling was approved.

In relation with the environmental monitoring procedures, the Company continues with the development of permanent activities of environmental adjustment and management program - PAMA executing proactive activities over the areas affected by environmental liabilities and the treatment of acid water.

As of December 31, 2008, the Company has recognized liabilities of US\$21,031,000 (US\$20,046,000 as of December 31, 2007) in connection with its future obligations for the closing of the mining unit, see note 11(c).

Translation of a report and financial statements originally issued in Spanish - See note 28

(b) Legal proceedings -

As of December 31, 2008 and 2007, the Company has diverse labor demands and civil, constitutional and tax proceedings which are management by the legal advisors of the Company. Management of the Company has recorded, based on the available information, accruals for the labor demands, which are considered sufficient to cover the related risks as of December 31, 2008 and 2007. See note 10.

25. Risks concentration

The Company's activities expose it to a variety of financial risks, including the effects of changes in foreign currency exchange rates, interest rates and liquidity. The Company's Management seeks to minimize the potential adverse effects on its financial performance.

Management is aware of conditions in each market where the Company has operations and on the basis of its experience and expertise, controls its currency, interest rate, credit and liquidity risks following the Board of Director's policies. The most important features of these risks' management are:

(a) Currency risks -

The Company has assets and liabilities in a currency different of US\$, as time deposits and the liability relate to tax income the management considers that the future fluctuations in the foreign currency exchange rate will not affect significantly the results of the future operations of the Company. The Company does not use derivative instruments to cover this risk.

(b) Credit risk -

The risk that a debtor will be unable to pay in full its obligations to the Company at its maturity date and the non-fulfillment of counterparty in effective transactions are limited to deposits in banks and accounts receivable as the date of the balance sheet. The Company deposits its funds in first-level banks, establishes conservative credit's policies and constantly evaluates the market conditions and performs the hedge operations with brokers from the London Metals Exchange (LME). Consequently, the Company does not expect to incur in significant losses for credit risk.

Credit risk concentrations arise when there are significant changes in the economy, industry or geography that affects similarly the related counterparts, whose exposure to the credit risk is significant in connection with the total exposure of the Company. The sales of concentrates are carried out to companies with national and international prestige and credit solvency, mitigating any significant concentration of credit risk.

(c) Liquidity risk -

The risk originated by the inability to obtain the funds needed to meet all the Company's commitments related with the financial instruments includes the inability to sell quickly a financial asset to a price close to its fair value. The company's shareholders are entities with economic support that make possible to have credit lines in first-level banks at reasonable conditions.

Translation of a report and financial statements originally issued in Spanish - See note 28

(d) Price Risk -

The Company is exposed to the risk of changes in the market prices of minerals. With the intention of covering the risk of reduce of metal prices sales by the Company, has subscribed derivative instruments contracts which were qualified as hedged cash flow, see note 14.

26. Fair value of financial instruments

Fair value is defined as the amount for which the financial instruments could be traded in a regular transaction with a third party, in a free transaction more than a forced one.

In Management's opinion, the fair value of financial instruments is not significantly different from their book value, therefore the disclosure of that information do not have effect on the financial statements as of December 31, 2008 and 2007.

27. Statistical data (not audited)

Statistical data related to the volume sold and the net average sales prices of ore reserves of the Company for the years ended December 31, 2008 and 2007 are shown below:

(a) The metal volumes sold were:

	2008	2007
Silver	3,608,735 Oz	5,815,251 Oz
Zinc	70,038 TM	71,919 TM
Lead	23,962 TM	31,260 TM
Copper	7,793 TM	473 TM
Gold	2,749 Oz	161 Oz

(b) The net average prices of the sales were:

	2008	2007
Silver	15.19 US\$/Oz	13.43 US\$/Oz
Zinc	1,884.83 US\$/TM	3,071.32 US\$/TM
Lead	1,929.36 US\$/TM	2,701.17 US\$/TM
Copper	6,684.74 US\$/TM	7,320.63 US\$/TM
Gold	874.00 US\$/Oz	814.45 US\$/Oz

28. Explanation added for English language translation

The accompanying financial statements are presented on the basis of generally accepted accounting principles in Peru. Certain accounting practices applied by the Company that conform with generally accepted accounting principles in Peru may differ, in certain respects, to generally accepted accounting principles in other countries.

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