

Minsur S.A. and Subsidiaries

Notes to the interim consolidated financial statements

For the six-month periods ended June 30, 2014 (unaudited)

1. Corporate information

(a) Identification -

Minsur S.A. (hereinafter "the Company") was incorporated in Peru in October 1977. The activities of the Company are regulated by the Peruvian General Mining Law. The Company is a subsidiary of Inversiones Breca S.A. domiciled in Peru, which holds 99.99% of the Company's common shares. The Company's registered address is Las Begonias Street N°441, Office No.338, San Isidro, Lima, Peru.

(b) Business activity -

The main activity of the Company is the production and selling of metallic tin and gold. Metallic tin is obtained from the mineral exploited in the San Rafael Mine, located in the region of Puno. After the tin concentrate is obtained, it is subject to smelting and refinery processes in the Company's plant located in Pisco. In January 2013, the Company started its production activities at the Pucamarca mining unit (located in the region of Tacna), which contains reserves of gold and silver.

Through its subsidiary Minera Latinoamericana S.A.C., the Company maintains investments in Mineração Taboca S.A. and its subsidiary (which operate the tin mine and a smelting plant located in Brazil), in Inversiones Cordillera del Sur Ltda. and its subsidiaries (group mainly dedicated to the production and selling of cement in Chile) and in Minera Andes del Sur S.P.A. (located in Chile and engaged in mining exploration activities). Also, through Cumbres Andinas S.A., the Company has investments in Minera Sillustani S.A., Compañía Minera Barbastro S.A.C. and Marcobre S.A.C., subsidiaries which are at the exploration stage.

2. Basis of preparation, presentation and changes in the accounting policies

2.1 Basis of preparation -

The interim consolidated financial statements of the Company and its subsidiaries (together, the Group) have been prepared in accordance with IAS 34 Interim Financial Reporting.

The interim financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Company's audited financial statements as of December 31, 2013.

2.2. Standards and accounting policies -

The accounting policies adopted in the preparation of the interim financial statements are consistent with those followed in the preparation of the Company's annual financial statements for the year ended 31 December 2013, except for income taxes in interim periods which are recognized using the tax rate that would be applicable to expected annual earnings.

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3. Cash and cash equivalents

(a) This caption was made up as follows:

	As of June 30, 2014	As of December 31, 2013
	US\$(000)	US\$(000)
Cash on hand and petty cash	359	4,910
Cash at bank	203,078	49,572
Term deposits	320,636	183,047
Certificate of bank deposits	1,265	1,059
	<u>525,338</u>	<u>238,588</u>

4. Trade and other receivables, net

(a) This caption is made up as follows:

	As of June 30, 2014	As of December 31, 2013
	US\$(000)	US\$(000)
Trade receivables, net	<u>155,167</u>	<u>135,861</u>
Other receivables, net:		
Value added tax	52,468	64,912
Judicial deposits	19,498	17,383
Leasing Contracts	11,484	11,673
Others	12,422	7,155
	<u>95,872</u>	<u>101,123</u>
Total	<u>251,039</u>	<u>236,984</u>
Classification by maturity		
Current portion	178,482	159,465
Non-current portion	72,557	77,519
Total	<u>251,039</u>	<u>236,984</u>

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5. Inventories, net

(a) This caption is made up as follows:

	As of June 30, 2014	As of December 31, 2013
	US\$(000)	US\$(000)
Finished products	42,512	62,240
Work in progress	55,305	81,546
Raw material	19,547	18,750
Material and supplies	72,040	64,287
Inventory in transit	3,649	6,997
	<hr/>	<hr/>
	193,053	233,820
Impairment losses	(3,769)	(11,014)
	<hr/>	<hr/>
	189,284	222,806

6. Investments in subsidiaries and associates

(a) This caption is made up as follows:

	Interest in Equity		Investment amount	
	As of June 30, 2014	As of December 31, 2013	As of June 30, 2014	As of December 31, 2013
	%	%	US\$(000)	US\$(000)
Rímac Seguros y Reaseguros	14.51	14.51	53,698	54,656
Servicios Aeronáuticos Unidos S.A.C.	47.5	47.5	4,306	15,600
Explosivos S.A.	7.3	7.3	7,624	7,729
Prefabricados de Hormigón Grau S.A.	49	49	6,037	6,030
Futura Consorcio Inmobiliario S.A.	4.96	4.96	4,663	4,633
			<hr/>	<hr/>
			76,328	88,648
			<hr/>	<hr/>

The Company has recognized its investments in Rimac Seguros y Reaseguros, Explosivos S.A. and Futura Consorcio Inmobiliario S.A., as investments in associates, considering that together with Inversiones Breca (parent Company), has the ability to exercise significant influence over the Board of Directors of such companies, which are managed as part of an economic group.

In February 2014, the General Meeting of Shareholders of Servicios Aeronáuticos Unidos S.A.C. agreed to the capital reduction, resulting in the return of contributions made by Minsur SA for \$ 11,871,000.

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7. Property, plant and equipment, net

(a) This caption is made up as follows:

	Balance at 1.1.2014	Additions	Retires	Adjustments and reclassifications	Translation adjustment	Balance at 30.06.2014
	US\$(000)	US\$(000)	US\$(000)	US\$(000)	US\$(000)	US\$(000)
Cost						
Land	59,473	-	(1,372)	(1,104)	(2,158)	54,839
Buildings and installations	441,838	42	(692)	29,395	3,745	474,328
Machinery and equipment	847,829	3,090	(773)	7,755	(14,091)	843,810
Furniture and fixtures and cor	39,681	273	(18)	10,603	(1,082)	49,457
Vehicles	73,302	7	(1,022)	(3,606)	(1,605)	67,076
Units in transit	3,427	-	-	(820)	-	2,607
Work in progress	131,844	29,744	(55)	(49,575)	843	112,801
Mine closure cost	67,916	1,251	-	(3,744)	5	65,428
	<u>1,665,310</u>	<u>34,407</u>	<u>(3,932)</u>	<u>(11,096)</u>	<u>(14,343)</u>	<u>1,670,346</u>
Accumulated depreciation						
Buildings and installations	172,553	17,305	(3)	(719)	(1,291)	187,845
Machinery and equipment	515,250	23,734	(125)	(378)	(9,587)	528,894
Furniture and fixtures and cor	27,806	1,269	(1)	(26)	(842)	28,206
Vehicles	39,775	2,372	(547)	(4,586)	(794)	36,220
Mine closure cost	22,818	3,481	-	-	113	26,412
	<u>778,202</u>	<u>48,161</u>	<u>(676)</u>	<u>(5,709)</u>	<u>(12,401)</u>	<u>807,577</u>
Net Cost	<u>887,108</u>					<u>862,769</u>

8. Impairment

The Company's impairment test for goodwill and intangible assets with indefinite lives is based on value –in-use calculations. The key assumptions used to determine the recoverable amount for the difference cash generating units were disclosed in the annual consolidated financial statements for the year ended December 31, 2013. At 30 June 2014 there is no indication that the assets might be impaired in value.

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9. Financial obligations

(a) This caption is made up as follows:

Entity	Warranty	Interest rate	As of June	As of
			30, 2014	December 31, 2013
			US\$(000)	US\$(000)
Bonos "Minsur - Notes Due 2024"	No guarantees	Coupon rate 6.25%	450,000	-
The Bank of Nova Scotia (a)	No guarantees	Libor 3 m + 1.58%	-	200,000
Banco de Chile	Pledge over 37.66% shares of Melon	5.66%	109,997	121,122
Banco de Crédito e Inversiones	No guarantees	5.12%	37,494	45,588
Banco Itaú	No guarantees	5.39%	42,355	40,481
Banco Corpbanca	No guarantees	TAB UF 365 + 0.35%	26,530	31,190
Banco ABC Brasil	No guarantees	5.70%	11,503	12,575
Banco Corpbanca	No guarantees	5.41%	7,313	-
Banco del Estado de Chile	No guarantees	5.35%	5,453	7,669
Banco Santos	No guarantees	Rate CDI + 2%	8,699	6,285
Banco Bic Banco	No guarantees	5.80%	7,408	5,077
Banco Scotiabank	No guarantees	4.77%	3,648	3,814
Banco Scotiabank	No guarantees	4.69%	2,730	3,256
Banco Scotiabank	No guarantees	4.77%	3,099	2,867
FINAME BNDES (Banco Itaú)	Leased assets	9.68%	1,926	2,480
Banco do Brasil	No guarantees	5.50%	1,379	1,430
Banco de Crédito del Perú	Leased assets	3.55%	1,154	1,154
Banco Safra	No guarantees	5.10%	2,520	-
Banco Safra	No guarantees	4.25%	6,176	-
Banco Security S.A.	Leased assets	5.67%	401	534
Caterpillar Leasing Chile S.A.	Leased assets		35	60
Go...			729,820	485,582

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Come...	729,820	485,582
Prepaid Interest	(7,942)	-
Banco Santos (interests)	13,075	11,400
Derivative financial instruments	14,033	11,526
Overdraft	2,184	9,316
Finance comission	-	(725)
	<hr/>	<hr/>
	751,170	517,099
	<hr/>	<hr/>
Classification by maturity:		
Current portion	130,422	153,289
Non-current portion	620,748	363,810
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	751,170	517,099
	<hr/>	<hr/>

10. Provisions

This caption is made up as follows:

	As of June 30, 2014	As of December 30, 2013
	US\$(000)	US\$(000)
Mine closure	99,191	100,306
Environmental remediation	44,682	35,107
Contingencies	14,003	13,578
Provision for bonuses for performance	5,753	11,964
Post-employment benefits	4,986	6,082
	<hr/>	<hr/>
	168,615	167,037
	<hr/>	<hr/>
Classification by maturity:		
Current portion	17,434	21,264
Non-current portion	151,181	145,773
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	168,615	167,037
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11. Income tax

The expense for income tax consists on the following:

	As of June 30, 2014 US\$(000)	As of June 30, 2013 US\$(000)
Income tax		
Current	(58,505)	(58,700)
Deferred	12,385	3,031
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	(46,120)	(55,669)
	<hr/>	<hr/>
Mining royalties and special mining tax		
Current	(19,062)	(18,877)
Deferred	(432)	(453)
	<hr/>	<hr/>
	(19,494)	(19,330)
	<hr/>	<hr/>
Total income tax	<hr/>	<hr/>
	(65,614)	(74,999)
	<hr/>	<hr/>

12. Net sales

The composition of this caption is presented below:

	As of June 30, 2014 US\$(000)	As of June 30, 2013 US\$(000)
Tin and other minerals	421,786	356,420
Gold	63,326	78,710
Cement, concrete, aggregates and other	172,872	213,912
	<hr/>	<hr/>
	657,984	649,042
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13. Cost of sales

The composition of this caption is made up as follows:

	As of June 30, 2014	As of June 30, 2013
	US\$(000)	US\$(000)
Opening finished product inventory	62,240	59,936
Opening product in process inventory	81,546	68,127
Stripping cost	-	8,916
Services rendered by third parties	112,217	124,587
Depreciation and amortization	52,593	53,681
Consumption of miscellaneous supplies	96,346	116,322
Wages and salaries	72,879	69,723
Electricity	19,312	16,402
Other manufacturing expenses	11,158	23,114
Final finished product inventory	(42,512)	(69,986)
Final work in process inventory	(55,305)	(67,021)
	<hr/>	<hr/>
	410,474	403,801
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14. Selling expenses

The composition of this caption is made up as follows:

	As of June 30, 2014	As of June 30, 2013
	US\$(000)	US\$(000)
Personnel expenses	3,663	6,630
Services provided by third parties	8,126	8,526
Sundry expenses	2,108	3,705
Depreciation and amortization	46	558
	<hr/>	<hr/>
	13,943	19,419
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15. Administrative expenses

The composition of this caption is made up as follows:

	As of June 30, 2014	As of June 30, 2013
	US\$(000)	US\$(000)
Personnel expenses	18,557	15,569
Services provided by third parties	7,349	9,001
Sundry expenses	3,439	6,549
Depreciation and amortization	436	1,010
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	29,781	32,129
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16. Exploration expenses

The composition of this caption is made up as follows:

	As of June 30, 2014	As of June 30, 2013
	US\$(000)	US\$(000)
Personnel expenses	6,836	4,741
Services provided by third parties (*)	22,540	16,553
Sundry expenses	2,519	1,885
Depreciation and amortization	713	617
	<hr/>	<hr/>
	32,608	23,796
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(*) Its mainly corresponds to work of diamond drilling and related services performed by Marcobre and Barbastro subsidiaries.

17. Equity

(a) Capital stock -

As of June 30, 2014 and December 31, 2013 the authorized, subscribed and paid capital stock in accordance with the Company's by-laws and amendments, is represented by 19,220,015 common shares with a nominal value of S/.100.00 each one.

(b) Investment shares -

As of June 30, 2014 and December 31, 2013, this caption is made up of 960,999,163 investment shares, with a nominal value of S/.1 each one.

(c) Cumulative translation reserve -

As of June 30, 2014 and December 31, 2013 this caption mainly comprises exchange differences resulting from the translation of the financial statements of the foreign subsidiaries, prepared in their

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functional currency, into the functional currency of the Group. It also includes unrealized investment in related companies.

(d) Contribution of non-controlling interests -

As of June 30, 2014, the Group received contributions of non-controlling interests of the subsidiary Marcobre S.A.C. for an amount of US\$7,740,000 (US\$5,880,000 as of June 30, 2013).

(e) Declared and paid dividends -

The following information on declared and paid dividends paid to shareholders for the six months ended 30.06.2014 and 30.06.2013:

	Date	Dividends declared and paid US\$(000)	Dividends per common share US\$	Dividends per investment share US\$
As of June 30, 2014				
Shareholders' meeting	March 19, 2014	50,000	1.73	0.017
As of June 30, 2013				
Shareholders' meeting	March 21, 2013	50,000	1.73	0.017

18. Commitments and contingencies

a) Environmental Commitments –

The exploration and exploitation activities of the Company are subject to the rules of environmental disclosures in the separated at December 31, 2013 financial statements. There were no significant changes during the period ended June 30, 2014.

b) Contingencies -

The company has no additional significant contingencies other than those described in separated at December 31, 2013 financial statements

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19. Earnings per share

The basic and diluted earnings per share are calculated by dividing the net income for the year by the weighted average number of outstanding shares during the year.

Earnings per basic and diluted share are the same at June 30, 2014 and 2013, since no reducing effects on profits.

The calculation of the earnings per share is presented below:

	As of 30.06.2014	As of 30.06.2013
Numerator		
Net income attributable to common shareholders and investment – US\$(000)	<u>91,467</u>	<u>87,520</u>
Denominator		
Common shares	19,220,015	19,220,015
Investment shares	960,999,163	960,999,163
Reported :		
Basic and diluted per common share – US\$(000)	3.1726	3.0357
Basic and diluted per investment share – US\$(000)	0.0317	0.0304

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20. Related parties transactions

The balances of receivables and payables with related entities as of June 30, 2014 and December 31, 2013 follow:

	As of June 30, 2014		As of December 31, 2013	
	Receivables US\$(000)	Payables US\$(000)	Receivables US\$(000)	Payables US\$(000)
Prefabricados Hormigón Grau S.A.	1,333	-	1,848	-
Hidrotermia S.A.	577	-	586	-
Administración de Empresas S.A.	234	4,627	666	12,866
Protección personal S.A.	-	104	-	-
Estratégica S.A.	126	129	212	98
Compañía Minera Raura S.A.	74	14	38	21
Centria Servicios Administrativos S.A.	38	32	66	190
Constructora AESA S.A.	-	138	52	5,032
Exsa S.A.	-	2,274	-	1,817
Rimac Seguros y Reaseguros	-	86	-	715
Clínica Internacional S.A.	-	326	-	428
Rimac S.A. Entidad prestadora de Salud	-	18	-	157
Otros	23	65	3	131
	<u>2,405</u>	<u>7,813</u>	<u>3,471</u>	<u>21,455</u>
Classification by maturity -				
Current	1,717	7,813	2,627	21,455
Non-current	688	-	844	-
	<u>2,405</u>	<u>7,813</u>	<u>3,471</u>	<u>21,455</u>

21. Segment information

For management purposes the Company is organized into business units based on their products and operations, and as it has two reportable segments are as follows:

- Production and marketing of tin extracted from Peru.
- Production and marketing of tin extracted from Brazil.
- Production and marketing of gold extracted from Peru (production begins in January 2013).
- Production and marketing of cement and concrete in Chile.
- Other mining exploration activities in Peru and Chile.

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(a) The following present's information on revenue and operating profit of the operating segments of the Group for the period ended June 30, 2014 and 2013:

For the period ended June 30, 2014	Tin (Perú)	Gold (Perú)	Tin (Brasil)	Mining Exploration (Perú)	Sub Total Mining Segment	Adjustments and eliminations	Total Mining Segment	Cement, concrete and other related (Chile)	Total Consolidated
	US\$(000)	US\$(000)	US\$(000)	US\$(000)	US\$(000)	US\$(000)	US\$(000)	US\$(000)	US\$(000)
Net sales									
External customers	345,485	63,326	81,212	-	490,023	(4,911)	485,112	172,872	657,984
Between segments	-	-	-	-	-	-	-	-	-
Total net sales	345,485	63,326	81,212	-	490,023	(4,911)	485,112	172,872	657,984
Cost of sales	(141,792)	(35,116)	(80,384)	-	(257,292)	2,840	(254,452)	(156,022)	(410,474)
Gross profit	203,693	28,210	828	-	232,731	(2,071)	230,660	16,850	247,510
Operating expenses									
Administrative expenses	(12,653)	(3,134)	(6,856)	(2,351)	(24,994)	129	(24,865)	(4,916)	(29,781)
Selling expenses	(4,757)	(2)	(715)	-	(5,474)	-	(5,474)	(8,469)	(13,943)
Exploration expenses	(7,992)	(1,979)	-	(22,637)	(32,608)	-	(32,608)	-	(32,608)
Other, net	(2,833)	(702)	(3,895)	(32)	(7,462)	(654)	(8,116)	9,939	1,823
Total operating expenses	(28,235)	(5,817)	(11,466)	(25,020)	(70,538)	(525)	(71,063)	(3,446)	(74,509)
Operating income	175,458	22,393	(10,638)	(25,020)	162,193	(2,596)	159,597	13,404	173,001
Depreciation and amortization (included in cost of sales and expenses)	(13,564)	(13,176)	(13,976)	(802)	(41,518)	-	(41,518)	(12,297)	(53,815)
For the period ended June 30, 2013									
	US\$(000)	US\$(000)	US\$(000)	US\$(000)	US\$(000)	US\$(000)	US\$(000)	US\$(000)	US\$(000)
Net sales									
External customers	280,706	78,710	75,714	-	435,130	-	435,130	213,912	649,042
Between segments	-	-	-	-	-	-	-	-	-
Total net sales	280,706	78,710	75,714	-	435,130	-	435,130	213,912	649,042
Cost of sales	(102,990)	(30,010)	(84,575)	-	(217,575)	-	(217,575)	(186,226)	(403,801)
Gross profit	177,716	48,700	(8,861)	-	217,555	-	217,555	27,686	245,241
Operating expenses									
Administrative expenses	(12,267)	(3,575)	(8,787)	(1,595)	(26,224)	125	(26,099)	(6,030)	(32,129)
Selling expenses	(4,608)	(3)	(738)	-	(5,349)	1	(5,348)	(14,071)	(19,419)
Exploration expenses	(3,575)	(1,042)	(603)	(15,771)	(20,991)	(2,805)	(23,796)	-	(23,796)
Other, net	(1,698)	(494)	(3,942)	(4,994)	(11,128)	(349)	(11,477)	(2,797)	(14,274)
Total operating expenses	(22,148)	(5,114)	(14,070)	(22,360)	(63,692)	(3,028)	(66,720)	(22,898)	(89,618)
Operating income	155,568	43,586	(22,931)	(22,360)	153,863	(3,028)	150,835	4,788	155,623
Depreciation and amortization (included in cost of sales and expenses)	(15,588)	(13,799)	(11,434)	(467)	(41,288)	-	(41,288)	(12,573)	(53,861)

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(b) The assets and liabilities are presented for operating segments of the Group at 30 June 2014 and 31 December 2013:

	Tin (Perú)	Gold (Perú)	Tin (Brasil)	Mining Exploration (Perú)	Sub Total Mining Segment	Adjustments and eliminations	Total Mining Segment	Cement, concrete and other related (Chile)	Total Consolidated
	US\$(000)	US\$(000)	US\$(000)	US\$(000)	US\$(000)	US\$(000)	US\$(000)	US\$(000)	US\$(000)
Assets (c)									
June 30, 2014	605,348	345,507	638,774	914,733	2,504,362	137,087	2,641,449	716,224	3,357,673
December 31, 2013	295,685	259,044	568,011	918,507	2,041,247	310,214	2,351,461	765,218	3,116,679
Liabilities (d)									
June 30, 2014	411,397	110,450	292,040	196,073	1,009,960	(14,221)	995,739	317,012	1,312,751
December 31, 2013	67,054	22,668	235,585	205,918	531,225	237,621	768,846	350,054	1,118,900

(c) At 30 June 2014 total segment assets include cash and cash equivalents of US\$525,338,000 (US\$238,588,000 to December 31, 2013). Of this amount, US\$510,110,000 corresponds is for cash and cash equivalents of the mining segment (US\$221,326,000 to December 31, 2013).

(d) At 30 June 2014, total segment liabilities include financial obligations and bank overdrafts of US\$751,170,000 (US\$517,099,000 to December 31, 2013). Of this amount, US\$538,253,000 relate to financial obligations and bank overdrafts of the mining segment (US\$280,157,000 to December 31, 2013).

(e) The net income at 30 June 2014 was US\$87,592,000 (US\$82,594,000 to June 30, 2013). Of this amount US\$84,711,000, corresponds to the net income of the mining segment (US\$85,899,000 to June 30, 2013).