

## Volcan Compañía Minera S.A.A. and Subsidiaries Management Discussion and Analysis Second Quarter 2018

### Principal Results:

Consolidated Volcan	Jan-Mar 2018	Apr-Jun 2018	Apr-Jun 2017	var %	Jan-Jun 2018	Jan-Jun 2017	var %
<b>Sales Prices</b>							
Zinc (USD/MT)	3,404	3,122	2,587	20.7	3,267	2,646	23.5
Lead (USD/MT)	2,511	2,392	2,133	12.2	2,443	2,202	10.9
Copper (USD/MT)	6,931	6,896	5,651	22.0	6,909	5,767	19.8
Silver (USD/Oz)	16.7	16.6	17.1	-3.2	16.6	17.4	-4.3
Gold (USD/Oz)	1,330	1,302	1,256	3.6	1,315	1,238	6.2
<b>Operating Results</b>							
Mineral treatment <sup>1</sup> (thousands MT)	1,921	1,915	2,088	-8.3	3,836	4,005	-4.2
Zinc Production (thousands FMT)	58.8	56.4	65.4	-13.8	115.2	124.9	-7.8
Lead Production (thousands FMT)	12.0	10.8	12.5	-13.2	22.8	23.6	-3.5
Copper Production (thousands FMT)	1.1	1.2	1.3	-8.5	2.3	2.4	-5.2
Silver Production (millions Oz)	4.2	4.3	4.5	-4.9	8.5	8.3	1.9
Gold Production (thousands Oz)	2.5	2.9	1.8	58.3	5.4	3.5	55.3
Unit Cost (USD/MT)	48.0	47.8	48.5	-1.6	47.9	49.4	-3.0
Total Investments (MM USD)	35.2	44.1	37.9	16.1	79.2	70.3	12.7
<b>Financial Results (MM USD)</b>							
<b>Sales before adjustments</b>	<b>220.2</b>	<b>229.5</b>	<b>207.5</b>	<b>10.6</b>	<b>449.7</b>	<b>406.6</b>	<b>10.6</b>
Volcan Production	220.2	229.5	201.6	13.8	449.7	392.4	14.6
Commercialization Business	0.0	0.0	5.9	-100.0	0.0	14.2	-100.0
<b>Sales Adjustments</b>	<b>-17.6</b>	<b>-19.4</b>	<b>-5.4</b>	<b>261.5</b>	<b>-36.9</b>	<b>1.0</b>	
Settlement of prior period adjustments	2.6	-5.2	0.1		-2.6	5.1	
Adjustments for open positions <sup>2</sup>	-7.8	-8.6	-5.2	65.9	-16.4	-6.7	144.9
Hedging results	-12.4	-5.6	-0.3		-18.0	2.6	
<b>Sales after adjustments</b>	<b>202.6</b>	<b>210.1</b>	<b>202.1</b>	<b>3.9</b>	<b>412.8</b>	<b>407.6</b>	<b>1.3</b>
<b>Net profit before exceptionals</b>	<b>24.5</b>	<b>17.9</b>	<b>15.6</b>	<b>15.0</b>	<b>42.4</b>	<b>39.1</b>	<b>8.4</b>
Exceptional adjustments	-2.3	0.0	0.0		-2.3	0.0	
<b>Net profit after exceptionals</b>	<b>22.2</b>	<b>17.9</b>	<b>15.6</b>	<b>15.0</b>	<b>40.1</b>	<b>39.1</b>	<b>2.5</b>
<b>EBITDA<sup>3</sup></b>	<b>91.8</b>	<b>81.6</b>	<b>73.6</b>	<b>10.9</b>	<b>173.3</b>	<b>153.7</b>	<b>12.8</b>

<sup>1</sup> Includes treated tons at Oxides Plant

<sup>2</sup> Adjustments for open commercial positions refer to shipments without final settlement, which are therefore exposed to possible adjustments from variations of future metals prices. These financial provisions, embedded derivatives and sales adjustments, reflect this exposure according to a forward-price curve.

<sup>3</sup> Does not consider exceptional adjustments.

## 1. Executive Summary

- Volcan continued to strengthen its preventive culture in occupational safety and health matters. Toward that end, the Company decided to suspend operations at the Animon and Islay mines in the Chungar Unit on two occasions with the purpose of ensuring compliance with the Company's high safety standards in these two underground mines. These stoppages lasted almost four weeks, after which both mines restarted normal operations. It is worth noting that these security policies have been applied with the same rigor in all the mines of the Company, and in all of them positive results have been obtained in the evaluations carried out to date.
- This resulted in a decrease in consolidated extraction and treated volumes in 2Q18, in addition to reduced contributions at the Yauli Unit due to the reformulation of mining plans, and reduced contributions at Alpamarca. With regard to fines, zinc, lead, silver and copper production fell by 13.8%, 13.2%, 4.9% and 8.5%, respectively, as compared to 2Q17.
- The average sales price of zinc rose from 2,587 USD/MT in 2Q17 to 3,122 USD/MT in 2Q18 (+20.7%), lead from 2,133 USD/MT to 2,392 USD/MT (+12.2%), copper from 5,651 USD/MT to 6,896 USD/MT (+22.0%), and gold from 1,256 USD/Oz to 1,302 USD/Oz (+3.6%). However, the average sales price of silver decreased from 17.1 USD/Oz in 2Q17 to 16.6 USD/Oz in 2Q18 (-3.2%).
- Better average metals prices resulted in an increase in sales from the Company's own concentrate by 13.8%, from USD 201.6 MM in 2Q17 to USD 229.5 MM in 2Q18. There were no third-party concentrates sales in 2Q18, as compared to USD 5.9 MM sold in 2Q17. Total sales before adjustments increased by 10.6%, from USD 207.5 MM in 2Q17 to USD 229.5 MM in 2Q18.
- However, in 2Q18, sales adjustments were negative (USD -19.4 MM), that is, negative adjustments increased by USD -14 MM, as compared to USD -5.4 MM recorded in 2Q17. The increased negative adjustments are mainly explained by a downward trend of metals prices during 2Q18, particularly at the end of the period. In 2Q18, sales adjustments included negative final settlements of USD -5.2 MM, provisions related to open shipments of USD -8.6 MM, and a negative hedge result of USD -5.6 MM. Total sales after adjustments increased by 3.9%, from USD 202.1 MM in 2Q17 to USD 210.1 MM in 2Q18.
- Consolidated unit cost decreased by 1.6%, from 48.5 USD/MT in 2Q17 to 47.8 USD/MT in 2Q18. This is mainly explained by lower costs at Yauli, the Oxides Plant and Alpamarca and the greater low-cost volumes of production from stockpiles at Cerro de Pasco.
- Total investments increased by 16.1%, from USD 37.9 MM in 2Q17 to USD 44.1 MM in 2Q18, mainly due to higher investments in exploration, development, and mine infrastructure at operating units.

- Gross margin increased from 28% in 2Q17 to 38% in 2Q18. Net profit increased by 15.0%, from USD 15.6 MM in 2Q17 to USD 17.9 MM in 2Q18. EBITDA increased by 10.9%, from USD 73.6 MM in 2Q17 to USD 81.6 MM in 2Q18.
- Year-to-date (Jan-Jun), sales after adjustments increased from USD 407.6 MM in 1H17 to USD 412.8 MM in 1H18, net profit before exceptional items increased from USD 39.1 MM in 1H17 to USD 42.4 MM in 1H18, while EBITDA increased from USD 153.7 MM in 1H17 to USD 173.3 MM in 1H18.

## 2. Consolidated Results

### 2.1 Production

**Table 1: Consolidated Production**

Consolidated Production	Jan-Mar 2018	Apr-Jun 2018	Apr-Jun 2017	var %	Jan-Jun 2018	Jan-Jun 2017	var %
<b>Mineral extraction (thousands MT)</b>	<b>1,938</b>	<b>1,876</b>	<b>2,093</b>	<b>-10.4</b>	<b>3,814</b>	<b>4,017</b>	<b>-5.1</b>
Polymetallic ore	1,720	1,648	1,861	-11.5	3,368	3,608	-6.6
Oxides ore <sup>1</sup>	218	228	231	-1.3	446	409	9.0
<b>Mineral treatment (thousands MT)</b>	<b>1,921</b>	<b>1,915</b>	<b>2,088</b>	<b>-8.3</b>	<b>3,836</b>	<b>4,005</b>	<b>-4.2</b>
Concentrator Plants	1,703	1,687	1,857	-9.1	3,390	3,596	-5.7
Silver Oxides Plant	218	228	231	-1.3	446	409	9.0
<b>Fine Content</b>							
Zinc (thousands FMT)	58.8	56.4	65.4	-13.8	115.2	124.9	-7.8
Lead (thousands FMT)	12.0	10.8	12.5	-13.2	22.8	23.6	-3.5
Copper (thousands FMT)	1.1	1.2	1.3	-8.5	2.3	2.4	-5.2
Silver (millions Oz)	4.2	4.3	4.5	-4.9	8.5	8.3	1.9
Gold (thousands Oz)	2.5	2.9	1.8	58.3	5.4	3.5	55.3

Source: Volcan Cia. Minera

In 2Q18, extracted ore volumes decreased by 10.4% compared to the same quarter of the previous year, from 2,093 thousand MT in 2Q17 to 1,876 thousand MT in 2Q18. This is explained by approximately four weeks of suspended operations on two occasions at the Animon and Islay mines, as a preventive measure to ensure compliance with the Company's safety standards, and reduced extraction volumes at Yauli and Alpamarca. Similarly, treated volumes decreased by 8.3%, from 2,088 thousand MT in 2Q17 to 1,915 thousand MT in 2Q18.

Year-to-date (Jan-Jun), the extraction volume decreased by 5.1% as compared to the same period in the previous year, while treated volume decreased by 4.2%, from 4,005 thousand MT in 1H17 to 3,836 thousand MT in 1H18.

As a consequence of lower treated volumes, zinc production decreased by 13.8%, from 65.4 thousand FMT in 2Q17 to 56.4 thousand FMT in 2Q18; lead production decreased by 13.2%, from 12.5 thousand FMT in 2Q17 to 10.8 thousand FMT in 2Q18, copper production decreased

by 8.5%, from 1.3 thousand FMT in 2Q17 to 1.2 thousand FMT in 2Q18, and silver decreased 4.9%, from 4.5 MM Oz in 2Q17 to 4.3 MM Oz in 2Q18.

## 2.2 Cost of Production

**Table 2: Consolidated Cost of Production**

Consolidated Production Cost	Jan-Mar 2018	Apr-Jun 2018	Apr-Jun 2017	var %	Jan-Jun 2018	Jan-Jun 2017	var %
<b>Production Cost (MM USD)</b>	<b>92.7</b>	<b>90.5</b>	<b>101.4</b>	<b>-10.8</b>	<b>183.2</b>	<b>198.2</b>	<b>-7.5</b>
Mine Cost	48.0	46.2	53.9	-14.4	94.2	106.8	-11.8
Plant and Other Cost	44.7	44.4	47.5	-6.6	89.1	91.4	-2.6
<b>Unit Cost (USD/MT)</b>	<b>48.0</b>	<b>47.8</b>	<b>48.5</b>	<b>-1.6</b>	<b>47.9</b>	<b>49.4</b>	<b>-3.0</b>
Mine Cost	24.8	24.6	25.8	-4.5	24.7	26.6	-7.1
Plant and Other Cost	23.3	23.2	22.8	1.8	23.2	22.8	1.7

Source: Volcan Cia. Minera

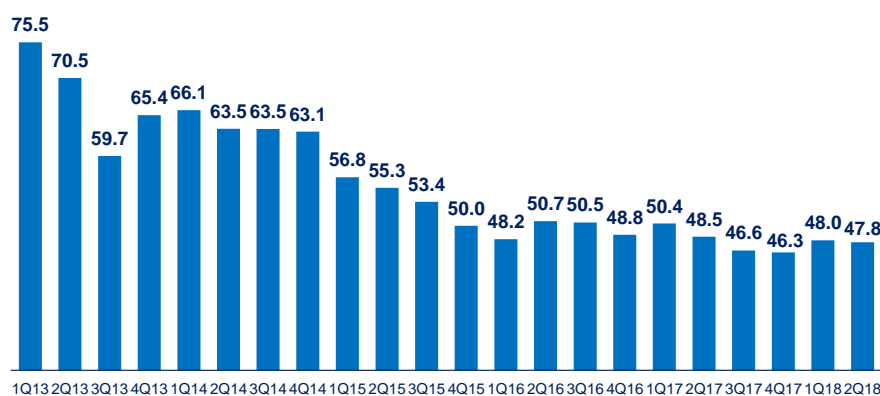
Absolute cost of production decreased by 10.8%, from USD 101.4 MM in 2Q17 to USD 90.5 MM in 2Q18, mainly due to a lower production volume at the Animon and Islay mines in the Chungar Unit.

In 2Q18, consolidated unit cost fell by 1.6%, from 48.5 USD/MT in 2Q17 to 47.8 USD/MT in 2Q18. This is mainly explained by lower costs at Yauli, the Oxides Plant and Alpamarca and greater low-cost volumes of production from stockpiles at Cerro de Pasco (16.2 USD/MT in 2Q18).

Year-to-date, the absolute cost of production decreased by 7.5%, from USD 198.2 MM in 1H17 to USD 183.2 MM in 1H18, and the unit cost in 1H18 was 47.9 USD/MT, 3.0% lower than the unit cost of 49.4 USD/MT of 1H17.

The Company is permanently focused on controlling and reducing operating costs across all operating units. The evolution of unit cost since 2013 is shown in the figure below. It is worth noting that unit cost in 2Q18 was 36.7% lower than in 1Q13.

**Figure 1: Evolution of the Unit Cost of Production (USD/MT)**



Source: Volcan Cia. Minera

## 2.3 Total Investments

**Table 3: Consolidated Investment**

Consolidated Investment (MM USD)	Jan-Mar 2018	Apr-Jun 2018	Apr-Jun 2017	var %	Jan-Jun 2018	Jan-Jun 2017	var %
<b>Mining</b>	<b>34.0</b>	<b>43.4</b>	<b>37.8</b>	<b>14.9</b>	<b>77.5</b>	<b>69.9</b>	<b>10.8</b>
<b>Mining Units</b>	<b>33.7</b>	<b>43.0</b>	<b>35.6</b>	<b>20.5</b>	<b>76.6</b>	<b>66.2</b>	<b>15.7</b>
Local Exploration	3.8	5.6	4.8	16.4	9.3	6.9	35.4
Development	18.5	20.5	17.3	18.1	39.0	33.1	17.6
Plants and Tailings Facilities	4.8	5.8	7.4	-21.0	10.6	12.9	-18.1
Mine and Infrastructure	4.0	8.1	4.6	77.1	12.1	9.9	22.5
Energy in Units	1.6	1.4	0.6	141.9	3.0	1.6	81.3
Support and Others	1.0	1.6	1.0	60.4	2.7	1.7	54.2
<b>Regional Explorations</b>	<b>0.1</b>	<b>0.0</b>	<b>1.8</b>	<b>-100.0</b>	<b>0.1</b>	<b>3.3</b>	<b>-97.5</b>
<b>Growth and Others</b>	<b>0.3</b>	<b>0.5</b>	<b>0.4</b>	<b>26.1</b>	<b>0.8</b>	<b>0.4</b>	<b>85.5</b>
<b>Energy</b>	<b>1.1</b>	<b>0.6</b>	<b>0.1</b>	<b>369.0</b>	<b>1.8</b>	<b>0.4</b>	<b>334.9</b>
<b>Total</b>	<b>35.2</b>	<b>44.1</b>	<b>37.9</b>	<b>16.1</b>	<b>79.2</b>	<b>70.3</b>	<b>12.7</b>

Source: Volcan Cia. Minera

Total mining investments grew by 14.9% in the second quarter, from USD 37.8 MM in 2Q17 to USD 43.4 MM in 2Q18. Total investments at operating units increased by 20.5%, from USD 35.6 MM in 2Q17 to USD 43.0 MM in 2Q18, mainly due to higher investments in exploration, development, and mine infrastructure.

The apparent reduction in greenfield or early stage explorations investments is mainly due to regional explorations outlays being recorded directly as expenses on the financial statement.

Investments in the energy business increased from USD 0.1 MM in 2Q17 to USD 0.6 MM in 2Q18, mainly due to the investment in repairs at the Rucuy Hydroelectric Plant. It is worth noting that the insurance company's adjuster has issued a favorable final report on material damages and loss of profit arising from the Hydroelectric Plant's insurance claim filed in March 2017.

Total investments increased by 16.1%, from USD 37.9 MM in 2Q17 to USD 44.1 MM in 2Q18. Year-to-date, operating investments increased by 12.7%, from USD 70.3 MM in 1H17 to USD 79.2 MM in 1H18.

## 2.4 Income Statement

Table 4: Income Statement

Income Statement (MM USD)	Jan-Mar 2018	Apr-Jun 2018	Apr-Jun 2017	var %	Jan-Jun 2018	Jan-Jun 2017	var %
<b>Sales before adjust.</b>	<b>220.2</b>	<b>229.5</b>	<b>207.5</b>	<b>10.6</b>	<b>449.7</b>	<b>406.6</b>	<b>10.6</b>
<i>Sett. of prior periods adjust.</i>	2.6	-5.2	0.1		-2.6	5.1	
<i>Adj. open positions</i>	-7.8	-8.6	-5.2	65.9	-16.4	-6.7	144.9
<i>Hedging</i>	-12.4	-5.6	-0.3		-18.0	2.6	
<b>Sales after adjust.</b>	<b>202.6</b>	<b>210.1</b>	<b>202.1</b>	<b>3.9</b>	<b>412.8</b>	<b>407.6</b>	<b>1.3</b>
<b>Cost of Goods Sold</b>	<b>-127.9</b>	<b>-131.3</b>	<b>-145.1</b>	<b>-9.5</b>	<b>-259.2</b>	<b>-283.4</b>	<b>-8.5</b>
<b>Gross Profit</b>	<b>74.7</b>	<b>78.8</b>	<b>57.0</b>	<b>38.3</b>	<b>153.5</b>	<b>124.2</b>	<b>23.6</b>
<i>Gross Margin</i>	37%	38%	28%	9 pp	37%	30%	7 pp
Administrative Expenses	-12.1	-10.5	-11.6	-9.5	-22.6	-22.1	2.2
Sales Expenses	-6.2	-7.0	-7.3	-4.3	-13.2	-15.0	-12.1
Other Income (Expenses) <sup>1</sup>	-2.9	-15.1	-1.1		-18.0	-2.7	566.0
<b>Operating Profit</b>	<b>53.5</b>	<b>46.1</b>	<b>37.0</b>	<b>24.8</b>	<b>99.7</b>	<b>84.3</b>	<b>18.2</b>
<i>Operating Margin</i>	26%	22%	18%	4 pp	24%	21%	3 pp
Financial Income (Expense)	-9.3	-9.8	-7.6	28.5	-19.1	-17.1	12.1
Exchange Difference (net)	0.2	-0.9	1.2		-0.7	1.3	
Royalties	-4.0	-4.9	-3.0	62.4	-8.9	-6.8	31.2
Income Tax	-15.9	-12.7	-11.9	6.4	-28.6	-22.6	26.1
<b>Net Profit before Exceptionals</b>	<b>24.5</b>	<b>17.9</b>	<b>15.6</b>	<b>15.0</b>	<b>42.4</b>	<b>39.1</b>	<b>8.4</b>
<i>Net Margin</i>	12%	9%	8%	1 pp	10%	10%	1 pp
Exceptional adjustments <sup>2</sup>	-2.3	0.0	0.0		-2.3	0.0	
<b>Net Profit after Exceptionals</b>	<b>22.2</b>	<b>17.9</b>	<b>15.6</b>	<b>15.0</b>	<b>40.1</b>	<b>39.1</b>	<b>2.5</b>
<b>EBITDA<sup>3</sup></b>	<b>91.8</b>	<b>81.6</b>	<b>73.6</b>	<b>10.9</b>	<b>173.3</b>	<b>153.7</b>	<b>12.8</b>
<i>EBITDA Margin</i>	45%	39%	36%	2 pp	42%	38%	4 pp

<sup>1</sup> Includes the sales and cost of sales of the energy division.

<sup>2</sup> The exceptional adjustment of USD 2.3 MM in 1Q18 is related to the provision of an old account receivable in a subsidiary of Volcan.

<sup>3</sup> Does not consider exceptional adjustments.

Source: Volcan Cia. Minera

• **Sales Analysis**

**Table 5: Average Sales Prices**

Sales Prices	Jan-Mar 2018	Apr-Jun 2018	Apr-Jun 2017	var %	Jan-Jun 2018	Jan-Jun 2017	var %
Zinc (USD/MT)	3,404	3,122	2,587	20.7	3,267	2,646	23.5
Lead (USD/MT)	2,511	2,392	2,133	12.2	2,443	2,202	10.9
Copper (USD/MT)	6,931	6,896	5,651	22.0	6,909	5,767	19.8
Silver (USD/Oz)	16.7	16.6	17.1	-3.2	16.6	17.4	-4.3
Gold (USD/Oz)	1,330	1,302	1,256	3.6	1,315	1,238	6.2

Source: Volcan Cia. Minera

**Table 6: Fine Contents Sales Volumes**

Fines Sales		Jan-Mar 2018	Apr-Jun 2018	Apr-Jun 2017	var %	Jan-Jun 2018	Jan-Jun 2017	var %
<b>Volcan Production</b>	Zinc (thousands FMT)	59.3	56.2	65.1	-13.7	115.5	125.6	-8.1
	Lead (thousands FMT)	10.1	13.9	12.3	12.2	24.0	23.7	1.1
	Copper (thousands FMT)	0.7	1.1	0.7	46.4	1.8	1.5	16.5
	Silver (millions Oz) <sup>1</sup>	3.9	4.8	4.4	7.7	8.7	8.5	1.8
	Gold (thousands Oz) <sup>1</sup>	3.1	3.9	2.1	85.0	7.0	4.3	61.9
<b>Commerciali- zation Business</b>	Zinc (thousands FMT)	0.0	0.0	0.6	-100.0	0.0	2.2	-100.0
	Lead (thousands FMT)	0.0	0.0	0.1	-100.0	0.0	0.2	-100.0
	Copper (thousands FMT)	0.0	0.0	0.5	-100.0	0.0	0.9	-100.0
	Silver (millions Oz)	0.0	0.0	0.2	-100.0	0.0	0.4	-100.0
	Gold (thousands Oz)	0.0	0.0	0.1	-100.0	0.0	0.1	-100.0
<b>Total</b>	Zinc (thousands FMT)	59.3	56.2	65.7	-14.4	115.5	127.9	-9.7
	Lead (thousands FMT)	10.1	13.9	12.4	11.3	24.0	23.9	0.2
	Copper (thousands FMT)	0.7	1.1	1.2	-8.8	1.8	2.4	-26.0
	Silver (millions Oz)	3.9	4.8	4.6	3.3	8.7	8.9	-2.8
	Gold (thousands Oz)	3.1	3.9	2.2	80.5	7.0	4.4	58.9

<sup>1</sup> Includes Oxides Plant silver and gold sales

Source: Volcan Cia. Minera

**Table 7: Sales in USD**

Sales (millions USD)		Jan-Mar 2018	Apr-Jun 2018	Apr-Jun 2017	var %	Jan-Jun 2018	Jan-Jun 2017	var %
Volcan Production	Zinc	139.7	127.2	114.5	11.2	266.9	224.0	19.1
	Lead	21.4	28.2	21.2	32.6	49.6	40.7	21.9
	Copper	3.2	4.5	2.5	82.6	7.8	4.7	63.6
	Silver	53.2	66.0	62.1	6.2	119.2	120.1	-0.7
	Gold	2.6	3.6	1.3	176.1	6.2	2.8	120.9
	<b>Sales before adjust.</b>	<b>220.2</b>	<b>229.5</b>	<b>201.6</b>	<b>13.8</b>	<b>449.7</b>	<b>392.4</b>	<b>14.6</b>
	Sett. of prior period adjust.	2.6	-5.2	-1.6	225.2	-2.6	3.0	
	Adjust. for open positions	-7.8	-8.6	-5.8	47.8	-16.4	-8.6	90.6
	Hedging results	-12.3	-5.7	-0.3		-17.9	1.8	
	<b>Sales after adjust.</b>	<b>202.8</b>	<b>210.1</b>	<b>193.9</b>	<b>8.3</b>	<b>412.8</b>	<b>388.6</b>	<b>6.2</b>
Commercialization Business	Zinc	0.0	0.0	1.2	-100.0	0.0	4.8	-100.0
	Lead	0.0	0.0	0.2	-100.0	0.0	0.4	-100.0
	Copper	0.0	0.0	1.8	-100.0	0.0	3.6	-100.0
	Silver	0.0	0.0	2.7	-100.0	0.0	5.4	-100.0
	Gold	0.0	0.0	0.0	-100.0	0.0	0.0	-100.0
	<b>Sales before adjust.</b>	<b>0.0</b>	<b>0.0</b>	<b>5.9</b>	<b>-100.0</b>	<b>0.0</b>	<b>14.2</b>	<b>-100.0</b>
	Sett. of prior period adjust.	0.0	0.0	1.7	-100.0	0.0	2.1	-100.0
	Adjust. for open positions	0.0	0.0	0.6	-100.0	0.0	1.9	-100.0
Hedging results	-0.1	0.0	0.0	26.2	-0.1	0.7		
<b>Sales after adjust.</b>	<b>-0.1</b>	<b>0.0</b>	<b>8.3</b>	<b>-99.5</b>	<b>-0.1</b>	<b>19.0</b>		
Total	Zinc	139.7	127.2	115.7	10.0	266.9	228.8	16.7
	Lead	21.4	28.2	21.4	31.3	49.6	41.1	20.6
	Copper	3.2	4.5	4.3	5.7	7.8	8.4	-7.5
	Silver	53.2	66.0	64.8	1.8	119.2	125.5	-5.0
	Gold	2.6	3.6	1.3	174.5	6.2	2.8	118.3
	<b>Sales before adjust.</b>	<b>220.2</b>	<b>229.5</b>	<b>207.5</b>	<b>10.6</b>	<b>449.7</b>	<b>406.6</b>	<b>10.6</b>
	Sett. of prior period adjust.	2.6	-5.2	0.1		-2.6	5.1	
	Adjust. for open positions	-7.8	-8.6	-5.2	65.9	-16.4	-6.7	144.9
Hedging results	-12.4	-5.6	-0.3		-18.0	2.6		
<b>Sales after adjust.</b>	<b>202.6</b>	<b>210.1</b>	<b>202.1</b>	<b>3.9</b>	<b>412.8</b>	<b>407.6</b>	<b>1.3</b>	

Source: Volcan Cia. Minera

During 2Q18, sales before adjustments totaled USD 229.5 MM, a 10.6% increase if compared to the USD 207.5 MM reported in 2Q17, mainly due to higher zinc, lead and copper prices. The effect of better metal prices was partially offset by the lower sales volume of the Company's own zinc, mainly due to lower production volumes at Chungar resulting from almost four weeks of suspended operations at the Animón and Islay mines, and the absence of sales of third-party concentrates, which totaled USD 5.9 MM in 2Q17.

In 2Q18, negative sales adjustments were USD -19.4 MM, as compared to the negative adjustments of USD -5.4 MM recorded in 2Q17. The negative effect, quarter versus quarter, amounted to USD -14.0 MM. In 2Q18, negative adjustments included provisions related to open shipments of USD -8.6 MM, hedge results of USD -5.6 MM and final settlements of USD -5.2 MM. This is mainly explained by a downward trend of metals prices during 2Q18, which was even more pronounced at the end of the quarter. Total sales after adjustments increased by 3.9%, from USD 202.1 MM in 2Q17 to USD 210.1 MM in 2Q18.



Year-to-date (Jan-Jun), sales before adjustments rose by 10.6%, from USD 406.6 MM in 1H17 to USD 449.7 MM in 1H18, while sales after adjustments grew by 1.3%, from USD 407.6 MM in 1H17 to USD 412.8 MM in 1H18.

- **Cost of Goods Sold**

**Table 8: Cost of Goods Sold**

Cost of Goods Sold (millions USD)	Jan-Mar 2018	Apr-Jun 2018	Apr-Jun 2017	var %	Jan-Jun 2018	Jan-Jun 2017	var %
<b>Volcan Production</b>	<b>125.0</b>	<b>128.6</b>	<b>138.3</b>	<b>-7.0</b>	<b>253.6</b>	<b>269.2</b>	<b>-5.8</b>
Volcan Production Cost	92.7	90.5	101.4	-10.8	183.2	198.2	-7.5
D&A from Production Cost	35.0	29.6	33.7	-12.1	64.6	63.3	2.0
Ore Purchase	0.0	0.0	1.6	-100.0	0.0	1.6	-100.0
Extraordinary Costs	0.4	0.4	0.5	-32.9	0.7	1.1	-36.6
Variation of Inventories	-3.1	8.1	1.0		5.0	4.9	1.9
<b>Commercialization Business</b>	<b>0.0</b>	<b>0.0</b>	<b>5.0</b>	<b>-100.0</b>	<b>0.0</b>	<b>12.1</b>	<b>-100.0</b>
Concentrates Purchase	0.0	0.0	4.5	-100.0	0.0	10.9	-100.0
Variation of Inventories	0.0	0.0	0.6	-100.0	0.0	1.3	-100.0
<b>Workers Participation</b>	<b>2.9</b>	<b>2.7</b>	<b>1.8</b>	<b>50.7</b>	<b>5.6</b>	<b>2.1</b>	<b>169.5</b>
<b>Total</b>	<b>127.9</b>	<b>131.3</b>	<b>145.1</b>	<b>-9.5</b>	<b>259.2</b>	<b>283.4</b>	<b>-8.5</b>

Source: Volcan Cia. Minera

In 2Q18, total cost of goods sold decreased by 9.5%, from USD 145.1 MM in 2Q17 to USD 131.3 MM in 2Q18. This is mainly explained by a lower cost of production of USD 11.00 MM and reduced depreciation and amortization of USD 4.1 MM, resulting from lower volumes following the suspended operations at the Animón and Islay mines. The absence of sales of third-party concentrates in 2Q18 resulted in a reduction of USD 5.0 MM in the cost of goods sold as compared to 2Q17. This was partly offset by lower inventories of the Company's own concentrates in 2Q18, which resulted in a higher cost of goods sold of USD 7.1 MM.

Year-to-date (Jan-Jun), the total cost of goods sold decreased from USD 283.4 MM in 1H17 to USD 259.2 MM in 1H18.

- **Gross Margin and Gross Profit**

The Company's gross margin increased from 28% in 2Q17 to 38% in 2Q18. This was explained by better metals prices, and the absence of commercialization of third-party concentrates in total sales. Gross profit grew by 38.3%, from USD 57.0 MM in 2Q17 to USD 78.8 MM in 2Q18.

Year-to-date (Jan-Jun), gross margin increased from 30% in 1H17 to 37% in 1H18. Gross profit increased from USD 124.2 MM in 1H17 to USD 153.5 MM in 1H18.

- **Administrative and Sales Expenses**

Administrative expenses decreased by 9.5%, from USD 11.6 MM in 2Q17 to USD 10.5 MM in 2Q18, mainly due to lower personnel expenses provisions and lower property insurance expenses. These were partially offset by increased exploration expenses, USD 1.7 MM in 2Q18 as compared to USD 0.5 MM in 2Q17, because, as from this year, outlays in greenfield

or early stage explorations are reflected as expenses under this item in the financial statement. Year-to-date (Jan-Jun), administrative expenses increased from USD 22.1 MM in 1H17 to USD 22.6 MM in 1H18.

Sales expenses during 2Q18 decreased by 4.3%, from USD 7.3 MM in 2Q17 to USD 7.0 MM, mainly explained by higher freight expenses in 2Q17 resulting from damages caused to roads by the coastal El Niño. Year-to-date (Jan-Jun), sales expenses decreased from USD 15.0 MM in 1H17 to USD 13.2 MM in 1H18.

- **Other Income and Expenses (unadjusted)**

In 2Q18, the net amount of other income and expenses was negative, USD -15.1 MM versus a negative amount of USD -1.1 MM in 2Q17. The increased net expenses during the quarter are mainly explained by costs related to the suspension of the Animón and Islay mines (USD -6.3 MM), the fair value adjustment of Cementos Polpaico shares (USD -3.3 MM), lower income from insurance compensation (USD -2.2 MM), increased non-deductible expenses (USD -1.3 MM) and higher provisions for tax, labor and environmental contingencies (USD -1.1 MM).

Year-to-date (Jan-Jun), the net amount of other income and expenses was negative, USD -18.0 MM in 1H18 versus a negative amount of USD -2.7 MM in 1H17.

- **Financial Expenses and Exchange-Rate Difference**

During 2Q18, net financial expenses totaled USD 9.8 MM, a 28.5% increase if compared to the USD 7.6 MM reported in 2Q17, mainly explained by lower income from loans to third parties, and partially offset by the reduced financing cost. Year-to-date (Jan-Jun), net financial expenses totaled USD 19.1 MM in 1H18, a 12.1% increase if compared to the USD 17.1 MM reported in 1H17.

Exchange-rate losses totaling USD 0.9 MM were registered in 2Q18, as compared to the exchange-rate gain reported in 2Q17 (USD 1.2 MM). Year-to-date (Jan-Jun), an exchange-rate loss totaling USD 0.7 MM was registered in 1H18, as compared to the exchange-rate gain reported in 1H17 (USD 1.3 MM).

- **Income Tax and Royalties**

Royalties rose from USD 3.0 MM in 2Q17 to USD 4.9 MM in 2Q18, while income tax increased from USD 11.9 MM in 2Q17 to USD 12.7 MM in 2Q18, in line with the increased profits.

Year-to-date (Jan-Jun), royalties rose from USD 6.8 MM in 1H17 to USD 8.9 MM in 1H18, while income tax increased from USD 22.6 MM in 1H17 to USD 28.6 MM in 1H18.

- **Net Profit and EBITDA**

Net profit before exceptional items grew from USD 15.6 MM in 2Q17 to USD 17.9 MM in 2Q18. EBITDA grew by 10.9%, from USD 73.6 MM in 2Q17 to USD 81.6 MM in 2Q18.

Year-to-date (Jan-Jun), the net profit before exceptional items increased from USD 39.1 MM in 1H17 to USD 42.4 MM in 1H18. EBITDA increased from USD 153.7 MM in 1H17 to USD 173.3 MM in 1H18.

## 2.5 Liquidity and Creditworthiness

In 2Q18, cash generated by mining operations and energy business totaled USD 77.9 MM. Operating and exploration investments, as well as growth investments in the mining business, reached USD 38.3 MM, while other investments totaled USD 20.1 MM. Interests paid amounted to USD 2.1 MM and net financing cash flow for the period was negative and totaled USD 20.0 MM. Therefore, during 2Q18, the resulting total cash flow was USD -2.7 MM, and the total cash balance as of June 30, 2018, was USD 97.3 MM.

**Table 9: Net Debt / EBITDA Ratio**

<b>Net Debt/EBITDA Ratio</b>	<b>Consolidated 2Q18</b>
Gross Debt (MM USD)	795.8
Cash Balance (MM USD)	97.3
<b>Net Debt (MM USD)</b>	<b>698.5</b>
<b>EBITDA<sup>1</sup> (MM USD)</b>	<b>362.6</b>
<b>Ratio</b>	<b>1.9</b>

<sup>1</sup> EBITDA for the last 12 months.

Source: Volcan Cia. Minera

**Chart 2: Net Debt / EBITDA Ratio Evolution**



Source: Volcan Cia. Minera

At the end of 2Q18, the net debt/EBITDA ratio was 1.9, lower than in the previous quarter, mainly due to the high EBITDA accumulated in the last 12 months.

### 3. Results by Operating Unit

#### 3.1 Yauli Unit Operating Results

**Table 10: Yauli Production**

Yauli Production	Jan-Mar 2018	Apr-Jun 2018	Apr-Jun 2017	var %	Jan-Jun 2018	Jan-Jun 2017	var %
Mineral extraction (thousands MT)	757	808	877	-7.8	1,565	1,681	-6.9
Mineral treatment (thousands MT)	751	823	888	-7.3	1,574	1,693	-7.0
<b>Fines Content</b>							
Zinc (thousands FMT)	33.7	37.7	38.7	-2.5	71.4	71.8	-0.5
Lead (thousands FMT)	4.2	4.6	4.6	-2.0	8.8	8.9	-1.9
Copper (thousands FMT)	0.6	0.8	0.7	17.2	1.4	1.3	7.2
Silver (million Oz)	1.8	2.2	1.9	12.3	3.9	3.5	11.3
Gold (thousands Oz)	1.6	1.9	0.7	187.3	3.5	2.3	55.2

Source: Volcan Cia. Minera

In 2Q18, the ore extracted at the Yauli Unit decreased by 7.8% as compared to the same period of the previous year, due to the reformulation of mining plans which entail lower extracted volumes but higher head grades. The ore treated at the Yauli Unit concentrator plants decreased by 7.3% in 2Q18 compared to the same period of the previous year.

In 2Q18, fine silver production increased by 12.3% as compared to 2Q17, and copper by 17.2%, mainly due to higher head grades at Andaychagua, San Cristóbal and Carahuacra. Production of zinc decreased by 2.5% and lead by 2.0%.

**Table 11: Yauli Cost of Production**

Yauli Production Cost	Jan-Mar 2018	Apr-Jun 2018	Apr-Jun 2017	var %	Jan-Jun 2018	Jan-Jun 2017	var %
<b>Production Cost (MM USD)</b>	<b>52.0</b>	<b>53.1</b>	<b>58.4</b>	<b>-9.1</b>	<b>105.1</b>	<b>114.8</b>	<b>-8.5</b>
Extraction Cost	31.2	32.4	35.0	-7.4	63.6	69.5	-8.4
Treatment Cost	20.8	20.6	23.4	-11.7	41.4	45.3	-8.7
<b>Unit Cost (USD/MT)</b>	<b>68.9</b>	<b>65.2</b>	<b>66.3</b>	<b>-1.6</b>	<b>67.0</b>	<b>68.1</b>	<b>-1.7</b>
Extraction Cost	41.2	40.1	39.9	0.5	40.7	41.3	-1.6
Treatment Cost	27.7	25.1	26.3	-4.8	26.3	26.8	-1.8

Source: Volcan Cia. Minera

In 2Q18, the absolute cost of production decreased by 9.1%, from USD 58.4 MM in 2Q17 to USD 53.1 MM in 2Q18. This is mainly explained by lower production volumes and efficiencies gained at the operations.

Unit cost of production fell by 1.6%, from 66.3 USD/MT in 2Q17 to 65.2 USD/MT in 2Q18, explained by lower energy costs and higher contribution from Carahuacra, the mine with the lowest extraction cost in Yauli.

Year-to-date (Jan-Jun), the cost of production in absolute terms decreased by 8.5%, from USD 114.8 MM in 1H17 to USD 105.1 MM in 1H18. The unit cost of production decreased by 1.7%, from 68.1 USD/MT in 1H17 to 67.0 USD/MT in 1H18.

**Table 12: Yauli Operating Investments**

Yauli Operating Investment (MM USD)	Jan-Mar 2018	Apr-Jun 2018	Apr-Jun 2017	var %	Jan-Jun 2018	Jan-Jun 2017	var %
Local Exploration	2.4	3.2	2.7	18.6	5.6	4.2	32.3
Mine Development	12.0	11.2	13.2	-14.9	23.2	24.7	-5.9
Plants and Tailings Dams	1.1	2.0	2.9	-31.6	3.1	4.8	-35.6
Mine and Infrastructure	1.8	1.8	2.3	-20.4	3.6	4.7	-24.5
Energy	0.8	1.2	0.5	135.1	2.1	1.2	73.6
Support and Others	0.5	0.8	0.5	70.4	1.3	0.8	54.8
<b>Total</b>	<b>18.5</b>	<b>20.3</b>	<b>22.1</b>	<b>-8.1</b>	<b>38.8</b>	<b>40.5</b>	<b>-4.0</b>

Source: Volcan Cia. Minera

In 2Q18, total investments at Yauli amounted to USD 20.3 MM, 8.1% lower than the USD 22.1 MM for 2Q17. Explorations and energy investments increased, but development, plants, tailings dams and mine infrastructure investments decreased.

Year-to-date (Jan-Jun), operating investments decreased by 4.0%, from USD 40.5 MM in 1H17 to USD 38.8 MM in 1H18.

### 3.2 Chungar Unit Operating Results

**Table 13: Chungar Production**

Chungar Production	Jan-Mar 2018	Apr-Jun 2018	Apr-Jun 2017	var %	Jan-Jun 2018	Jan-Jun 2017	var %
Mineral extraction (thousands MT)	434	301	499	-39.7	735	976	-24.7
Mineral treatment (thousands MT)	432	317	486	-34.8	749	959	-21.9
<b>Fines Content</b>							
Zinc (thousands FMT)	19.8	13.7	22.0	-37.6	33.5	43.8	-23.5
Lead (thousands FMT)	5.0	3.6	5.4	-32.5	8.6	10.0	-13.5
Copper (thousands FMT)	0.4	0.3	0.5	-45.2	0.7	0.8	-21.3
Silver (million Oz)	1.0	0.8	1.0	-23.4	1.8	1.8	-2.6

Source: Volcan Cia. Minera

In 2Q18, ore volumes extracted at Chungar declined by 39.7% as compared to 2Q17. This is explained by approximately four weeks of suspended operations at the Animón and Islay mines, as a preventive measure to ensure compliance with the Company's safety standards. Similarly, ore volumes treated in 2Q18 decreased by 34.8%, as compared to the same quarter in the previous year.

With regard to fines, in 2Q18, zinc, silver, lead and copper production fell by 37.6%, 23.4%, 32.5% and 45.2%, respectively, as compared to 2Q17, in line with lower production volumes.

**Table 14: Chungar Cost of Production**

Chungar Production Cost	Jan-Mar 2018	Apr-Jun 2018	Apr-Jun 2017	var %	Jan-Jun 2018	Jan-Jun 2017	var %
<b>Production Cost (MM USD)</b>	<b>25.1</b>	<b>19.8</b>	<b>26.6</b>	<b>-25.8</b>	<b>44.9</b>	<b>52.3</b>	<b>-14.2</b>
Extraction Cost	14.6	11.2	16.3	-31.3	25.8	31.9	-19.1
Treatment Cost	10.5	8.5	10.3	-17.0	19.0	20.4	-6.7
<b>Unit Cost (USD/MT)</b>	<b>57.9</b>	<b>64.2</b>	<b>53.9</b>	<b>19.2</b>	<b>60.6</b>	<b>54.0</b>	<b>12.2</b>
Extraction Cost	33.7	37.3	32.7	14.0	35.2	32.7	7.5
Treatment Cost	24.3	27.0	21.2	27.2	25.4	21.3	19.4

Source: Volcan Cia. Minera

The absolute cost of production decreased by 25.8%, from USD 26.6 MM in 2Q17 to USD 19.8 MM in 2Q18, mainly explained by lower treated ore volumes resulting from suspended operations at the Animón and Islay mines. For the same reason, the unit cost of production increased by 19.2%, from 53.9 USD/MT in 2Q17 to 64.2 USD/MT in 2Q18.

Year-to-date (Jan-Jun), the cost of production in absolute terms decreased by 14.2%, from USD 52.3 MM in 1H17 to USD 44.9 MM in 1H18. The unit cost of production increased by 12.2%, from 54.0 USD/MT in 1H17 to 60.6 USD/MT in 1H18.

**Table 15: Chungar Operating Investments**

Chungar Operating Investment (MM USD)	Jan-Mar 2018	Apr-Jun 2018	Apr-Jun 2017	var %	Jan-Jun 2018	Jan-Jun 2017	var %
Local Exploration	1.4	1.7	1.8	-6.3	3.1	2.4	28.9
Mine Development	6.5	9.3	4.2	122.4	15.8	8.5	85.8
Plants and Tailings Dams	0.9	1.0	2.5	-60.1	1.8	5.2	-64.7
Mine and Infrastructure	2.2	2.1	1.5	39.6	4.3	3.6	17.9
Energy	0.7	0.2	0.1	210.4	0.9	0.4	100.2
Support and Others	0.2	0.2	0.3	-46.6	0.3	0.4	-26.0
<b>Total</b>	<b>11.8</b>	<b>14.4</b>	<b>10.3</b>	<b>39.5</b>	<b>26.2</b>	<b>20.6</b>	<b>27.1</b>

Source: Volcan Cia. Minera

Operating investments increased by 39.5%, from USD 10.3 MM in 2Q17 to USD 14.4 MM in 2Q18. This is mainly explained by higher investment in mine development.

Year-to-date (Jan-Jun), operating investments increased by 27.1%, from USD 20.6 MM in 1H17 to USD 26.2 MM in 1H18, mainly due to higher investment in mine development.

### 3.3 Alparmarca Unit Operating Results

**Table 16: Alparmarca Production**

Alparmarca Production	Jan-Mar 2018	Apr-Jun 2018	Apr-Jun 2017	var %	Jan-Jun 2018	Jan-Jun 2017	var %
Mineral extraction (thousands MT)	239	223	244	-8.6	462	483	-4.2
Mineral treatment (thousands MT)	229	232	242	-4.0	462	475	-2.9
<b>Fines Content</b>							
Zinc (thousands FMT)	2.4	2.2	2.8	-20.7	4.6	5.6	-16.9
Lead (thousands FMT)	1.8	1.6	1.7	-6.7	3.4	3.3	2.1
Copper (thousands FMT)	0.1	0.1	0.1	-13.9	0.2	0.3	-18.3
Silver (million Oz)	0.4	0.4	0.5	-20.5	0.8	1.0	-22.8

Source: Volcan Cia. Minera

In 2Q18, ore volumes extracted at the Alparmarca Unit decreased by 8.6% compared to the same quarter of the previous year, in line with the open pit's mining plan. Treated ore volumes decreased by 4.0%, mainly due to lower volumes from the open pit being partially offset by ore from stockpiles.

In fine terms, in 2Q18, zinc, silver, lead and copper production decreased by 20.7%, 20.5%, 6.7% and 13.9%, respectively, mainly explained by lower production volumes and head grades.

**Table 17: Alparmarca Cost of Production**

Alparmarca Production Cost	Jan-Mar 2018	Apr-Jun 2018	Apr-Jun 2017	var %	Jan-Jun 2018	Jan-Jun 2017	var %
<b>Production Cost (MM USD)</b>	<b>3.6</b>	<b>4.0</b>	<b>4.2</b>	<b>-5.9</b>	<b>7.6</b>	<b>9.1</b>	<b>-16.4</b>
Extraction Cost	1.0	1.3	1.3	-4.6	2.2	3.3	-32.6
Treatment Cost	2.7	2.7	2.9	-6.5	5.4	5.8	-7.0
<b>Unit Cost (USD/MT)</b>	<b>15.7</b>	<b>17.3</b>	<b>17.3</b>	<b>-0.4</b>	<b>16.5</b>	<b>19.0</b>	<b>-13.5</b>
Extraction Cost	4.1	5.7	5.5	4.4	4.9	6.9	-29.7
Treatment Cost	11.7	11.5	11.8	-2.6	11.6	12.1	-4.2

Source: Volcan Cia. Minera

In 2Q18, the absolute cost of production was USD 4.0 MM, 5.9% lower than the USD 4.2 MM figure for the same quarter of the previous year. The unit cost was reduced by 0.4%, from 17.33 USD/MT in 2Q17 to 17.26 USD/MT in 2Q18.

Year-to-date (Jan-Jun), the cost of production in absolute terms decreased by 16.4%, from USD 9.1 MM in 1H17 to USD 7.6 MM in 1H18. The unit cost of production decreased by 13.5%, from 19.0 USD/MT in 1H17 to 16.5 USD/MT in 1H18.



**Table 18: Alparmarca Operating Investments**

Alparmarca Operating Inv. (MM USD)	Jan-Mar 2018	Apr-Jun 2018	Apr-Jun 2017	var %	Jan-Jun 2018	Jan-Jun 2017	var %
Local Exploration	0.0	0.5	0.0		0.5	0.0	
Plants and Tailings Dams	0.1	0.4	0.7	-42.3	0.5	0.9	-39.7
Mine and Infrastructure	0.0	0.1	0.2	-39.8	0.2	0.3	-42.0
Support and Others	0.2	0.0	0.1	-85.1	0.2	0.2	-7.8
<b>Total</b>	<b>0.3</b>	<b>1.1</b>	<b>1.0</b>	<b>0.9</b>	<b>1.4</b>	<b>1.4</b>	<b>0.9</b>

Source: Volcan Cia. Minera

Operating investments increased by 0.9%, from USD 1.0 MM in 2Q17 to USD 1.1 MM in 2Q18, due to higher explorations investments.

Year-to-date (Jan-Jun), operating investments increased by 0.9%, from USD 1.38 MM in 1H17 to USD 1.39 MM in 1H18.

### 3.4 Cerro de Pasco Unit Operating Results

**Table 19: Cerro de Pasco Production**

Cerro de Pasco Production	Jan-Mar 2018	Apr-Jun 2018	Apr-Jun 2017	var %	Jan-Jun 2018	Jan-Jun 2017	var %
Mineral extraction (thousands MT)	291	315	241	30.7	606	469	29.3
Mineral treatment (thousands MT)	291	315	241	30.7	606	469	29.3
<b>Fines Content</b>							
Zinc (thousands FMT)	2.9	2.8	2.0	42.4	5.7	3.8	50.1
Lead (thousands FMT)	1.0	1.0	0.7	44.1	2.1	1.4	43.1
Silver (million Oz)	0.1	0.1	0.1	40.0	0.2	0.2	28.0

Source: Volcan Cia. Minera

In 2Q18, the treated volumes of polymetallic ore from stockpiles amounted to 315 thousand MT, 30.7% higher than the same quarter of the previous year. With regard to fines, production volumes amounted to 2.8 thousand FMT of zinc, 1.0 thousand FMT of lead and 0.1 MM Oz of silver, which grew by 42.4%, 44.1% and 40.0%, respectively, as compared to production in 2Q17.

**Table 20: Cerro de Pasco Cost of Production**

Cerro de Pasco Production Cost	Jan-Mar 2018	Apr-Jun 2018	Apr-Jun 2017	var %	Jan-Jun 2018	Jan-Jun 2017	var %
<b>Production Cost (MM USD)</b>	<b>3.7</b>	<b>5.1</b>	<b>3.4</b>	<b>49.5</b>	<b>8.8</b>	<b>6.4</b>	<b>36.2</b>
Treatment Cost	3.7	5.1	3.4	49.4	8.8	6.4	36.0
<b>Unit Cost (USD/MT)</b>	<b>12.6</b>	<b>16.2</b>	<b>14.2</b>	<b>14.3</b>	<b>14.5</b>	<b>13.7</b>	<b>5.4</b>
Treatment Cost	12.6	16.2	14.2	14.3	14.5	13.7	5.2

Source: Volcan Cia. Minera

Absolute cost increased by 49.5%, from USD 3.4 MM in 2Q17 to USD 5.1 MM in 2Q18 due to higher treated volumes and by a portion of the unit's permanent costs being reclassified as production costs. Moreover, unit cost increased by 14.3%, from 14.2 USD/MT to 16.2 USD/MT.



Year-to-date (Jan-Jun), the cost of production in absolute terms increased by 36.2%, from USD 6.4 MM in 1H17 to USD 8.8 MM in 1H18. The unit cost of production increased by 5.4%, from 13.7 USD/MT in 1H17 to 14.5 USD/MT in 1H18.

**Table 21: Cerro de Pasco Operating Investments**

Cerro de Pasco Operating Inv. (MM USD)	Jan-Mar 2018	Apr-Jun 2018	Apr-Jun 2017	var %	Jan-Jun 2018	Jan-Jun 2017	var %
Local Exploration	0.0	0.1	0.2	-52.7	0.1	0.2	-56.6
Plants and Tailings Dams	1.3	1.2	1.2		2.5	1.8	38.8
Support and Others	0.1	0.5	0.0		0.6	0.0	
<b>Total</b>	<b>1.5</b>	<b>1.7</b>	<b>1.4</b>	<b>21.5</b>	<b>3.2</b>	<b>2.0</b>	<b>57.7</b>

Source: Volcan Cia. Minera

Operating investments increased by 21.5%, from USD 1.4 MM in 2Q17 to USD 1.7 MM in 2Q18. Year-to-date (Jan-Jun), operating investments increased by 57.7%, from USD 2.0 MM in 1H17 to USD 3.2 MM in 1H18.

### 3.5 Oxides Plant Operating Results

**Table 22: Oxides Plant Production**

Oxides Plant Production	Jan-Mar 2018	Apr-Jun 2018	Apr-Jun 2017	var %	Jan-Jun 2018	Jan-Jun 2017	var %
Mineral treatment (thousands MT)	218	228	231	-1.3	446	409	9.0
<b>Fines Content</b>							
Silver (million Oz)	0.9	0.9	1.0	-15.0	1.8	1.8	-0.9
Gold (Oz)	884	1,019	615	65.6	1,903	1,224	55.5

Source: Volcan Cia. Minera

In 2Q18, the treated volume of ore from the Oxides Plant stockpiles decreased by 1.3% as compared to 2Q17.

Silver ounces production decreased by 15.0%, from USD 1.0 MM in 2Q17 to USD 0.9 MM ounces in 2Q18, due to lower head grades.

**Table 23: Oxides Plant Cost of Production**

Oxides Plant Production Cost	Jan-Mar 2018	Apr-Jun 2018	Apr-Jun 2017	var %	Jan-Jun 2018	Jan-Jun 2017	var %
<b>Production Cost (MM USD)</b>	<b>8.3</b>	<b>8.6</b>	<b>8.8</b>	<b>-1.9</b>	<b>16.9</b>	<b>15.6</b>	<b>9.0</b>
Extraction Cost	1.2	1.2	1.2	-1.7	2.5	2.1	17.0
Treatment Cost	7.1	7.4	7.6	-1.9	14.5	13.5	7.7
<b>Unit Cost (USD/MT)</b>	<b>38.1</b>	<b>37.9</b>	<b>38.1</b>	<b>-0.5</b>	<b>38.0</b>	<b>38.0</b>	<b>0.0</b>
Extraction Cost	5.7	5.4	5.4	-0.4	5.5	5.1	7.3
Treatment Cost	32.4	32.6	32.7	-0.5	32.5	32.9	-1.1

Source: Volcan Cia. Minera

Absolute cost of production decreased by 1.9%, from USD 8.8 MM in 2Q17 to USD 8.6 MM in 2Q18, mainly due to a lower treated volume and efficiencies gained in the process. The operation's unit cost fell by 0.5%, from 38.1 USD/MT in 2Q17 to 37.9 USD/MT in 2Q18.

Year-to-date (Jan-Jun), the cost of production in absolute terms increased by 9.0%, from USD 15.6 MM in 1H17 to USD 16.9 MM in 1H18. The operation's unit cost remained unchanged at 38.0 USD/MT.

**Table 24: Oxides Plant Operating Investments**

Oxides Plant Operating Investment (MM USD)	Jan-Mar 2018	Apr-Jun 2018	Apr-Jun 2017	var %	Jan-Jun 2018	Jan-Jun 2017	var %
Plants and Tailings Dams	1.4	1.3	0.1	1812.0	2.6	0.2	1113.1
Mine and Infrastructure	0.0	4.1	0.6	592.0	4.1	1.2	232.0
Support and Others	0.1	0.2	0.1	59.7	0.3	0.3	1.2
<b>Total</b>	<b>1.5</b>	<b>5.5</b>	<b>0.8</b>	<b>616.7</b>	<b>7.0</b>	<b>1.7</b>	<b>304.8</b>

Source: Volcan Cia. Minera

In 2Q18, operating investments amounted to USD 5.5 MM, mainly explained by investments for the development of oxides on-site and the expansion of the Ocroyoc tailings dam. Year-to-date (Jan-Jun), operating investments increased by 304.8%, from USD 1.7 MM in 1H17 to USD 7.0 MM in 1H18.

## 4. Energy

**Table 25: Volcan's Electric Power Balance**

Electric Balance (GWh)	Jan-Mar 2018	Apr-Jun 2018	Apr-Jun 2017	var %	Jan-Jun 2018	Jan-Jun 2017	var %
<b>Energy generation</b>	<b>84.0</b>	<b>73.0</b>	<b>82.6</b>	<b>-11.7</b>	<b>157.0</b>	<b>196.2</b>	<b>-19.9</b>
Chungar	40.3	37.9	42.0	-9.7	78.2	85.0	-8.0
Tingo	2.2	2.4	2.3	3.7	4.6	4.6	1.1
Huanchor	41.5	32.7	38.4	-14.7	74.2	72.1	3.0
Rucuy	0.0	0.0	0.0		0.0	34.6	-100.0
<b>Energy consumption</b>	<b>174.0</b>	<b>174.6</b>	<b>181.6</b>	<b>-3.9</b>	<b>348.6</b>	<b>347.8</b>	<b>0.2</b>
<b>Energy purchase</b>	<b>131.4</b>	<b>134.3</b>	<b>139.7</b>	<b>-3.8</b>	<b>265.8</b>	<b>260.5</b>	<b>2.0</b>

Source: Volcan Cia. Minera

During 2Q18, Volcan's total consumption of electric power reached 174.6 GWh, with a maximum demand of 93.3 MW.

The 10 hydroelectric plants that belong to the Chungar Unit generated 37.9 GWh. This accounted for 22% of the Company's total consolidated consumption, at an average cost of 17.9 USD/MWh, including operating, maintenance and transmission costs. Moreover, the Tingo Hydroelectric Plant generated 2.4 GWh, which was sold directly to Chungar.

Volcan purchased 134.3 GWh from the national central grid system (the SEIN) in order to meet its total consumption demand, at an average unit cost of 57.6 USD/MWh.

The Huanchor Hydroelectric Plant produced 32.7 GWh. All of this power was sold to third parties.



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As a consequence of the coastal El Niño, the operations at the Rucuy Hydroelectric Plant are still suspended due to damage to part of the penstock and a section of the transmission line in March 2017. Repairs are progressing as planned, and the operations are expected to resume in the second half of 2018. It is worth noting that the insurance company's adjuster has issued a favorable final report on material damages and loss of profit arising from the insurance claim.

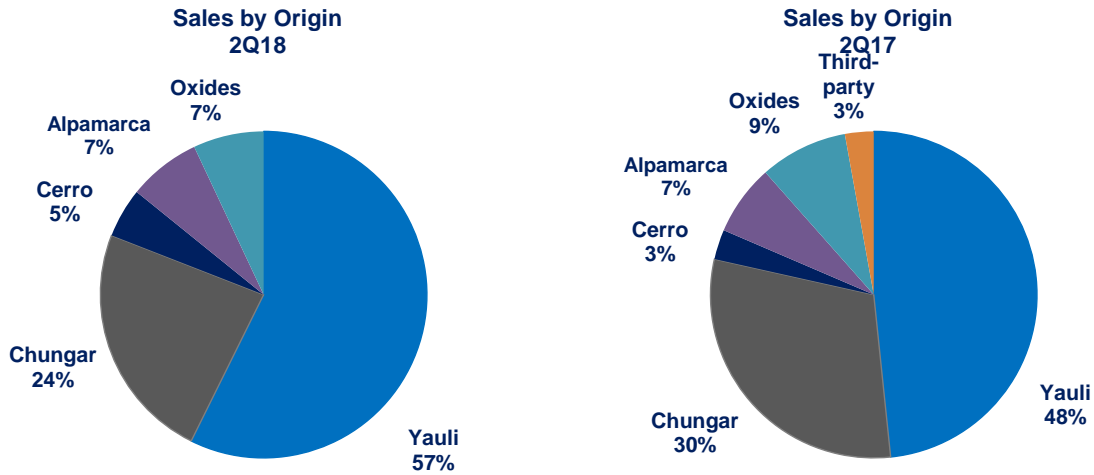
## 5. Final Comments

- Volcan continuously performs rigorous evaluations in all its operations to ensure strict compliance with corporate security policies. In this context, it was decided to temporarily suspend the operations at the Animón and Islay mines of the Chungar Unit in two occasions with the aim of reinforcing the prevention culture and ensuring compliance with the Company's high safety standards in these two underground mines. These stoppages lasted almost four weeks, after which both operations resumed normal operations.
- During 2Q18, Glencore continued sending professionals to visit and to support the development of different departments in the Company. These highly qualified professionals came from Australia, Canada, South Africa, and other countries. With their support, Volcan seeks to optimize the potential of current operations, prioritize resource allocation at the operating units and identify synergies that benefit the Company.
- The Company is focused on consolidating its current operations, investing in explorations to increase resources at our main operations, and develop them and improve their infrastructure. This will act as the foundation for medium-term growth, which will seize the quality and potential of our mines. It seeks to increase the value of extracted ore and reduce costs of production to improve margins and cash generation. On this basis, medium term growth will be built taking advantage of the quality and potential of our deposits.
- EBITDA grew by 10.9%, from USD 73.6 MM in 2Q17 to USD 81.6 MM in 2Q18. Net profit grew from USD 15.6 MM in 2Q17 to USD 17.9 MM in 2Q18. The results were affected by negative hedge results (USD -5.6 MM), negative open commercial provisions (USD -8.6 MM) and negative final settlements (USD -5.2 MM) due to a decreasing price trend during 2Q18, particularly at the end of the quarter.
- In the January-June period, over 86 thousand meters have been drilled at current operations, mainly focused on infill drilling (56 thousand meters), resources (15 thousand meters) and potential (14 thousand meters). Moreover, 4 thousand meters have been drilled at regional explorations, mainly at Palma, Carhuacayán and Zoraida. It is worth noting that the budget for 2018, includes more than 284 thousand meters of diamond drilling; much higher than the 208 thousand meters executed in 2017.
- Regarding the Rucuy Hydroelectric Plant, suspended since March 2017 as a consequence of the coastal El Niño, due to damage to part of the penstock and a section of the transmission line, it is worth noting that the repairs are underway as planned, and the operations are expected to resume in the second half of 2018. Up to date, the insurance company's adjuster has issued a favorable final report on material damages and loss of profit arising from the insurance claim.
- The Company continues developing the Chancay port project, through Terminales Portuarios Chancay S.A.. Additionally, the process to find a strategic partner is still underway. Furthermore, in 2Q18, USD 20.1 MM were invested in this project.

**Annexes**

**Annex 1: Sales Breakdown**

**Chart 3: Sales by Origin (percentage of value in USD)**

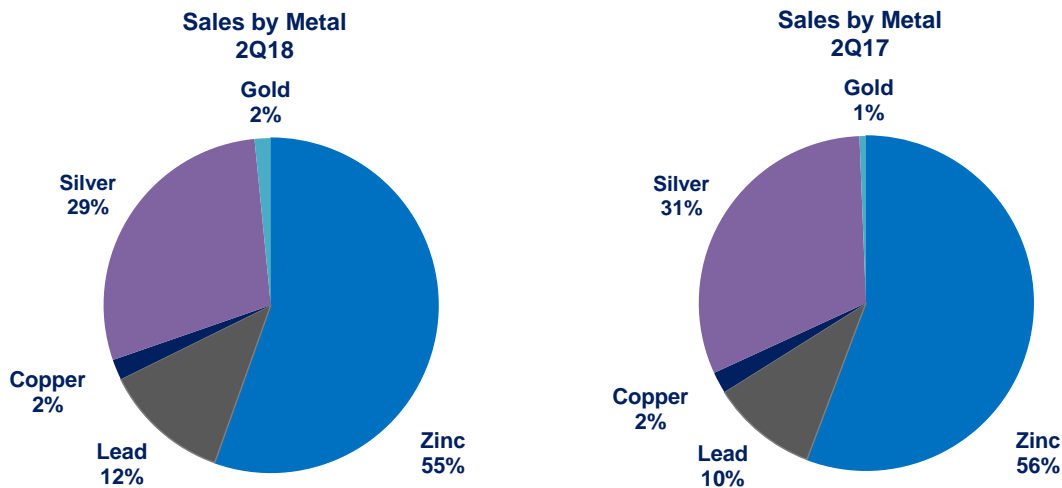


Source: Volcan Cia. Minera

Source: Volcan Cia. Minera

The distribution of sales by origin reflects an increase in the contribution of Yauli and Cerro de Pasco in total sales, as compared to a reduced contribution by Chungar and third-party concentrates.

**Figure 4: Sales by Metal (percentage of value in USD)**



Source: Volcan Cia. Minera

Source: Volcan Cia. Minera

The distribution of sales by metal in 2Q18 reflects a decline in the contribution of silver, as a result of the reduction in the price of this metal.

## Annex 2: Average Spot Prices

Spot Prices	Jan-Mar 2018	Apr-Jun 2018	Apr-Jun 2017	var %	Jan-Jun 2018	Jan-Jun 2017	var %
Zinc (USD/MT)	3,422	3,114	2,598	19.8	3,268	2,690	21.5
Lead (USD/MT)	2,523	2,387	2,165	10.3	2,455	2,222	10.5
Copper (USD/MT)	6,959	6,872	5,663	21.3	6,915	5,748	20.3
Silver (USD/Oz)	16.8	16.5	17.3	-4.2	16.6	17.3	-4.0
Gold (USD/Oz)	1,331	1,307	1,258	3.9	1,319	1,238	6.5

Source: London Metal Exchange

## Annex 3: Macroeconomic Indicators

Macroeconomic Indicators	Jan-Mar 2018	Apr-Jun 2018	Apr-Jun 2017	var %	Jan-Jun 2018	Jan-Jun 2017	var %
Exchange Rate (S/ x USD)	3.24	3.26	3.26	-0.1	3.25	3.28	-0.8
Inflation	0.36	1.43	2.73	-47.7	1.43	2.73	-47.7

<sup>1</sup> Inflation of the last 12 months

Source: Central Reserve Bank of Peru

## Annex 4: Domestic Peruvian Metal Production

National Production	Jan-Mar 2018	Apr-May 2018	Apr-May 2017	var %	Jan-May 2018	Jan-May 2017	var %
Silver (Thousands Oz)	32,551	22,554	23,559	-4.3	55,105	56,243	-2.0
Zinc (FMT)	345,966	272,766	249,453	9.3	618,732	582,033	6.3
Lead (FMT)	67,545	45,119	51,633	-12.6	112,664	123,966	-9.1
Copper (FMT)	567,502	399,744	401,236	-0.4	967,246	965,261	0.2
Gold (Thousands Oz)	1,075	752	786	-4.3	1,827	1,931	-5.4

Source: Ministry of Energy and Mines