

**Rating Action: Moody's downgrades Volcan's ratings to Ba1; outlook stable**

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**Global Credit Research - 05 Feb 2015**

New York, February 05, 2015 -- Moody's Investors Service (Moody's) has downgraded to Ba1 from Baa3 the rating of Volcan Compania Minera S.A.A.'s ("Volcan") USD 600 million senior unsecured notes due in 2022. At the same time, Moody's assigned a Ba1 corporate family rating (CFR) on the global scale. The outlook is stable.

Ratings changed:

Issuer: Volcan Compania Minera S.A.A.

-- USD600 million senior unsecured notes due 2022: to Ba1 from Baa3

Ratings Assigned:

-- Corporate Family Rating: Ba1

The outlook for all ratings is stable

The downgrade of Volcan's ratings to Ba1 reflects the deterioration in the company's credit metrics and the low likelihood that cash flow, leverage and interest coverage metrics will improve in the next 12 to 18 months to levels commensurate with a Baa3 credit. Worsening operating performance as a consequence of weakening industry fundamentals (low base metals and precious metals prices) reduced the company's cash generation ability. This, combined with large expansion capex, resulted in a tighter liquidity position, increased its reliance in short term debt and led to poorer debt metrics. Accordingly, adjusted leverage (total debt to Ebitda) increased to 3x and EBIT to interest expense declined to 4.0x in the last twelve months ended September 2014.

**RATINGS RATIONALE**

Volcan's Ba1 senior unsecured rating is driven by its good mine diversity, its cost position, its operational diversity in terms of number of metals produced, mines, complexes and concentrators and the company's position as a leading producer of zinc, silver and lead globally. Ratings are further supported by the significant exploration properties in mineral rich locations, and we expect its reserve position to improve over time as it continues its exploration activities and strategic investments.

Constraining factors to the rating include Volcan's relatively moderate reserve position (compared to global peers) of approximately 8 years, and its more modest revenue size as exemplified by revenues of about USD 1.1 billion for the twelve months through September 30, 2014. The exposure to commodity price volatility (particularly silver and zinc), low regional diversity and the political landscape in which it operates in Peru are further considerations.

The stable outlook is based on our view that zinc, copper, lead and silver prices, while expected to continue to be pressured by weakening global macroeconomic growth indicators, will nonetheless remain at levels above Volcan's cash costs, and that Volcan will benefit from higher volumes coming from the recently completed investments. The outlook also assumes that should prices retreat further, the company will make the necessary adjustments in its capital spending to maintain its financial profile.

To the extent that the company is able to successfully complete planned developments, further diversifying its metal revenue base and enhancing its reserves, the outlook or rating could be positively impacted. In addition, should the company be able to maintain a good liquidity position, reduce its reliance on short term debt and maintain interest coverage (measured by EBIT to Interest Expense) metrics of 4x or better, the ratings could be favorably impacted.

Ratings could be negatively impacted if profitability and cash generation capacity materially deteriorates, for example, due to a combination of a drop in metals prices and increase in production costs significantly exceeding our expectations, with negative impact on liquidity and on interest coverage metrics. Specifically, if

EBIT margin falls towards a 5%-8% range with cash generation being negative on a sustained basis, ratings could be downgraded. Negative pressure could also result from material debt financed acquisitions.

The principal methodology used in these ratings was Global Mining Industry published in August 2014. Please see the Credit Policy page on [www.moodys.com](http://www.moodys.com) for a copy of this methodology.

Volcan is a Peruvian mining company with mining, concentrating and commercial operations. It primarily produces zinc and lead concentrate and some copper concentrate. These concentrates have a high silver content. The company operates through four operational complexes with a total of 10 mines and 7 concentrate plants. All of Volcan's operations are located in Peru (A3 stable). For the twelve months ended September 2014 it had revenues of USD 1.1 billion. During the period, silver represented 43% of total sales, zinc 40%, lead 12% and copper 4%. Volcan is a holding company listed in the stock exchanges of Lima and Chile and in Madrid's Latibex. Virtually all of the company's shares are traded on the Peruvian stock exchange, the Bolsa de Valores de Lima.

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