# VOLCAN COMPAÑÍA MINERA S.A.A. AND SUBSIDIARIES
# 4TH QUARTER 2012 MANAGEMENT'S DISCUSSION AND ANALYSIS

| US$ Millions | Oct - Dec 2012 | Oct - Dec 2011 | Var (%) | Jan - Dec 2012 | Jan - Dec 2011 | Var (%) |
|---|---|---|---|---|---|---|
| Sales | 349.1 | 289.9 | 20.4% | 1,160.8 | 1,211.6 | -4.2% |
| EBITDA | 109.2 | 118.9 | -8.2% | 460.5 | 623.7 | -26.2% |
| Net Profit | 54.4 | 70.9 | -23.2% | 210.9 | 328.9 | -35.9% |

This document constitutes a brief analysis of the most significant economic and financial results for Q4 2012.

The analysis of the Company's results presented below is based on accounting figures from Q4 2012 Financial Statements, prepared under International Financial Reporting Standards (IFRS). The 2011 figures presented in this section have been restated under IFRS so that they are comparable with those from 2012.

## I. General Overview:

Due to their significance in the explanation of the Company's results, it is important to describe the behavior of metal and oil quotes, as well as of certain macroeconomic variables during the period under analysis.

1. During Q4 2012, average international prices for Zinc (Zn), Lead (Pb), and Silver (Ag) increased by 2.8%, 11.1%, and 2.7%, respectively, as compared to the same period of the previous year. However, average prices for Zinc, Lead and Silver during the 12 months ended December 2012 fell by 11.2%, 14.2%, and 11.3%, respectively, if compared to the average prices for 2011.

**Table 1: Average prices**

| | Oct - Dec 2012 | Oct - Dec 2011 | Var (%) | Jan - Dec 2012 | Jan - Dec 2011 | Var (%) |
|---|---|---|---|---|---|---|
| Zn (US$/MT) | 1,951 | 1,897 | 2.8 | 1,948 | 2,193 | (11.2) |
| Pb (US$/MT) | 2,203 | 1,983 | 11.1 | 2,062 | 2,402 | (14.2) |
| Ag (US$/Ounce) | 32.7 | 31.9 | 2.7 | 31.2 | 35.1 | (11.3) |

Source: Metals Week – Platts

2. The average exchange rate during Q4 2012 was S/. 2.585 per U.S. Dollar, representing a 4.7% appreciation of the Nuevo Sol if compared to the average exchange rate during Q4 2011 (S/. 2.712 per US$). The exchange rate at the end of 2012 reached S/. 2.551 per U.S. Dollar, as compared to the rate at the end of 2011 (S/. 2.697 per U.S. Dollar).

Source: SBS

3. At the end of Q4 2012, Brent Crude oil price was quoted at US$ 110.9 per barrel, a 3.4% increase with regard to its quote at the end of Q4 2011 (US$ 107.22 per barrel).

   Source: Investis

4. Inflation, measured as the variation in the Consumer Price Index over 2012, reached 2.65%. The Wholesale Price Index registered an annual variation of -0.59%.

   Source: bcrp.gob.pe / inei.gob.pe

5. The domestic production of the most important metals increased during 2012 as compared to 2011. Lead production increased 8.5%, from 230,159 MT during 2011 to 249,642 MT during 2012.

**Table 2: Peru's metal production**

Source: Ministry of Energy and Mines

| Production (Fines) | Unit | Jan - Dec 2012 | Jan - Dec 2011 | Var (%) |
|---|---|---|---|---|
| Copper | MT | 1,300,353 | 1,235,278 | 5.3 |
| Gold | Kg | 160,755 | 164,625 | (2.4) |
| Zinc | MT | 1,280,633 | 1,256,354 | 1.9 |
| Silver | Kg | 3,478,798 | 3,418,188 | 1.8 |
| Lead | MT | 249,642 | 230,159 | 8.5 |

## II. Analysis of Operating Results

### 1. <u>Production</u>

The volume of ore treated during 2012 totaled 7.8 million MT, a 3.2% increase with regard to the 7.6 million MT treated during 2011. In annnual terms, the volume of ore treated in Yauli, Cerro de Pasco, and Chungar Mining Units increased by 1.2%, 4.3%, and 6.2%, respectively.

The volume of ore treated during Q4 2012 declined by 2.0% as compared to the volume treated during Q4 2011. This reduction is explained by a 10.9% decline in the treatment volume of our Cerro de Pasco mining unit, resulting from the completion of the current phase of the Raul Rojas Open Pit, as well as because of lower ore contribution from the Paragsha underground mine. On the other hand, the volume treated in Chungar and Yauli mining units increased by 6.7% and 1.4%, respectively, which allowed us to partially offset the decline of the volume treated in the Cerro de Pasco mining unit. The production increase registered in the Chungar mining unit is mainly explained by improvements in the crushing and milling processes and the startup of an additional mill in late 2011 in the Animón plant, as part of its expansion plan.

It is worth mentioning that Q4 production[1] of Silver ounces increased from 5.6 million in 2011 to 5.8 million in 2012; meanwhile, in annual terms, Silver production grew from 21.1 million in 2011 to 22.0 million in 2012. Likewise, the production of Lead fines during the last quarter of the year increased from 18,742 MT in 2011 to 19,135 MT in 2012, while, in annual terms, it grew from 62,011 MT in 2011 to 72,494 MT in 2012. This increase in Lead production is mainly explained by higher grades obtained in Yauli and Chungar. On the other hand, Q4 production of Zinc fines decreased from 79,334 MT in 2011 to 68,414 MT in 2012. Annual production of zinc fines in 2012 reached 296,508 MT as compared to the 318,435 MT produced in 2011. This decline is the result of lower production in our Cerro de Pasco mining unit due to lower Zinc grades with regard to 2011, and due to lower production from the underground mine. Finally, it should be noted that production of Copper fines during the last quarter of 2012 decreased to 680 MT from 701 MT in Q42011, while, in yearly terms, the production of Copper fines decreased to 2,804 MT from 3,103 MT in Q42011.

The tables below show the volumes of ore treated and fine metal produced by each mining unit.

**Table 3: Treated ore (thousand MT)**

| Operating Unit | Oct - Dec 2012 | Oct - Dec 2011 | Var (%) | Jan - Dec 2012 | Jan - Dec 2011 | Var (%) |
|---|---|---|---|---|---|---|
| Yauli | 903 | 891 | 1.4 | 3,550 | 3,509 | 1.2 |
| Cerro de Pasco | 636 | 715 | (10.9) | 2,656 | 2,547 | 4.3 |
| Chungar | 425 | 398 | 6.7 | 1,621 | 1,526 | 6.2 |
| **Total Volcan** | **1,965** | **2,004** | **(2.0)** | **7,826** | **7,581** | **3.2** |

[1] Production figures reported by the Ministry of Energy and Mines include fine metal sold which may include stock variations and concentrates bought from third parties.

### Table 4: Production of fines

| Unit | Oct - Dec 2012 | Oct - Dec 2011 | Var (%) | Jan - Dec 2012 | Jan - Dec 2011 | Var (%) |
|---|---|---|---|---|---|---|
| **Zinc (MT)** | | | | | | |
| Yauli | 40,865 | 39,618 | 3.1 | 153,789 | 155,213 | (0.9) |
| Cerro de Pasco | 4,566 | 15,433 | (70.4) | 45,811 | 61,412 | (25.4) |
| Chungar | 22,983 | 24,283 | (5.4) | 96,908 | 101,810 | (4.8) |
| **Total Volcan** | **68,414** | **79,334** | **(13.8)** | **296,508** | **318,435** | **(6.9)** |
| **Lead (MT)** | | | | | | |
| Yauli | 9,440 | 7,874 | 19.9 | 30,648 | 25,702 | 19.2 |
| Cerro de Pasco | 2,881 | 5,322 | (45.9) | 18,520 | 17,412 | 6.4 |
| Chungar | 6,814 | 5,547 | 22.8 | 23,325 | 18,897 | 23.4 |
| **Total Volcan** | **19,135** | **18,742** | **2.1** | **72,494** | **62,011** | **16.9** |
| **Silver (Ounces 000)** | | | | | | |
| Yauli | 2,917 | 3,114 | (6.3) | 11,091 | 11,190 | (0.9) |
| Cerro de Pasco | 1,425 | 1,154 | 23.5 | 5,495 | 5,059 | 8.6 |
| Chungar | 1,445 | 1,295 | 11.6 | 5,443 | 4,888 | 11.4 |
| **Total Volcan** | **5,788** | **5,563** | **4.0** | **22,029** | **21,136** | **4.2** |
| **Copper (MT)** | | | | | | |
| Yauli | 352 | 450 | (21.7) | 1,663 | 2,088 | (20.4) |
| Chungar | 327 | 252 | 30.1 | 1,141 | 1,015 | 12.4 |
| **Total Volcan** | **680** | **701** | **(3.1)** | **2,804** | **3,103** | **(9.6)** |

## 2. Operating Costs

Mining sector inflation affects all mining companies across the world without exception. In Peru, in particular, it is estimated that 2012 mining inflation reached 20%. Inflation is mainly reflected in the increase in own and third-party labor costs, as well as higher prices of services, energy, goods and supplies.

Volcan is no stranger to this phenomenon and its operating costs have accordingly increased. However, due to its efforts to control costs and optimize processes, as well as due to significant investments in all units, the annual unit cost grew by 12.7%, from 50.5 US$/MT in 2011 to 56.9 US$/MT in 2012. It should be mentioned that, in addition to the effect of the industry's inflation, the costs of our mining units have been affected by the deepening of our deposits, which are reflected in higher pumping, services and transportation costs and by our decision to improve safety standards, which involves, among others, higher roof support costs. Moreover, such increased costs are related to general improvements in our operating and accommodation conditions in our units, aimed at achieving world-class standards. Finally, it should be noted that the devaluation of the U.S. Dollar with regard to the Nuevo Sol also had a significant negative impact in our production cost, given that approximately 40% of our operating costs are denominated in Nuevos Soles.

On the other hand, we can observe a stronger increase in Q4 unit cost, mainly explained by the recent reduction of production tonnage in our Cerro de Pasco mining unit and by the high proportion of fixed costs related to permanent staff, pumping and water treatment. The unit cost in this unit grew by 34.1% in the last quarter, from 41.8 US$/MT in Q42011 to 56 US$/MT in Q42012. As a result, Volcan's consolidated unit cost for the last quarter of the year increased by 30.1%, from 54.1 US$/MT in Q42011 to 70.3 US$/MT in Q42012.

The company remains focused on controlling its costs through cost reduction initiatives and continuous improvement projects related to major operating investments and processes, such as the Victoria Ramp in San Cristóbal and the Jacob Timmers and Roberto Letts shafts in Chungar and Andaychagua, respectively. Moreover, we should note that the expansion of the Chungar treatment plant will be fully operational during almost all of 2013. All this, added to the fact that the Baños V Hydroelectric Power Plant has been operational since August 2012, and is directly linked to our Chungar mining unit, will have a favorable impact in the Company's unit costs during 2013.

**Table 5: Unit cost of production (US$/MT)**

| Production Cost (US$/MT)* | Oct - Dec 2012 | Oct - Dec 2011 | Var (%) | Jan - Dec 2012 | Jan - Dec 2011 | Var (%) |
|---|---|---|---|---|---|---|
| Yauli | 72.7 | 60.7 | 19.8 | 65.8 | 55.7 | 18.1 |
| Cerro de Pasco * | 56.0 | 41.8 | 34.1 | 41.1 | 40.6 | 1.3 |
| Chungar | 67.1 | 59.9 | 12.2 | 59.9 | 54.6 | 9.8 |
| **Total Volcan** | **70.3** | **54.1** | **30.1** | **56.9** | **50.5** | **12.7** |

* Excludes the purchase cost of third-party ore. The calculation of Cerro de Pasco's production cost and Volcan's consolidated cost includes the Pyrite ore treated in Cerro de Pasco's San Expedito Plant. The unit cost of production for 2011 has been recalculated considering the aforementioned. The above table does not include Vinchos' 2012 mining cost, of 64.4 US$/MT.

## 1. <u>Investments</u>

During 2012, the consolidated investments made by Volcan totaled US$ 325.4 million, 18.3% higher than in the previous year (US$ 275.1 million). It is noteworthy that the investment figure for 2012 excludes the acquisition of Huanchor Hydroelectric Power Plant amounting to US$ 47 million, which took place during the first quarter of such year.

Investments made in mining units grew by 18.2%, moving from US$ 196.1 million in 2011 to US$ 231.8 million in 2012. Such operating investments focused on obtaining new resources through local exploration (US$ 21 million), assuring suitable mine infrastructure and gaining flexibility through development activities (US$ 60 million), guaranteeing the efficiency of pumping systems and equipment (US$ 34 million), plants and tailing storage facilities (US$ 50 million), and the execution of special projects such as the Roberto Letts shaft in Andaychagua, and the Jacob Timmers shaft and the expansion of Animón Processing Plant, both in Chungar (US$ 31 million).

On the other hand, investments made in regional exploration increased by 185.1%, from US$ 4.4 million in 2011 to US$ 12.5 million in 2012. Such increase is in line with the strategic objective of generating new projects to support the Company's next wave of growth.

Finally, investments made in growth projects grew by 9%, moving from US$ 74.6 million in 2011 to US$ 81.2 million in 2012. Growth-related investments were focused on certain projects announced by the Company over the past years, such as the ones executed in the Alpamarca-Río Pallanga Project (US$ 28 million), the Ag Oxides Project in Cerro de Pasco (US$ 17 million), the Rondoní Copper Project (US$ 15 million), and the Baños V Hydroelectric Power Plant (US$ 10 million).

During Q4 2012, total investments amounted to US$ 109.1 million, a representing a 25.9% increase with regard to the same period of the previous year. In general, Q4 investments show a similar composition and trend as the ones described in the foregoing paragraphs referred to the total investments of the entire year. However, it should be noted that, over the last quarter, investments in growth projects such as Alpamarca – Río Pallanga and Ag Oxides were boosted up, given that the foreseen date for startup is getting closer (Q4 2013).

**Table 6: Investments***

| US$ (000) | Oct - Dec 2012 | Oct - Dec 2011 | Var (%) | Jan - Dec 2012 | Jan - Dec 2011 | Var (%) |
|---|---|---|---|---|---|---|
| Investments in Mining Units | 72,541 | 58,462 | 24.1 | 231,751 | 196,138 | 18.2 |
| Regional Explorations | 2,632 | 1,776 | 48.2 | 12,464 | 4,372 | 185.1 |
| Growth Projects and Others | 33,864 | 26,399 | 28.3 | 81,270 | 74,578 | 9.0 |
| **Total** | **109,037** | **86,637** | **25.9** | **325,485** | **275,088** | **18.3** |

* This table and the Consolidated Balance Sheet differ from each because the former excludes the acquisition of Huanchor, as well as advances, goodwill, municipal agreements, among others, which are reported in the Balance Sheet. In addition, the latter excludes investments made in Vichaycocha (Rondoní).

# III. Analysis of Economic and Financial Results

## 1. Sales

During Q4 2012, Volcan's sales reached US$ 349.1 million, a 20.4% increase with regard to the same period of 2011. This is explained by a higher volume of Zinc (22.8%), Lead (15.1%), and Copper (18.6%) concentrates sold, in addition to increased prices of Lead (11.1%), Zinc (2.8%), and Silver (2.7%).

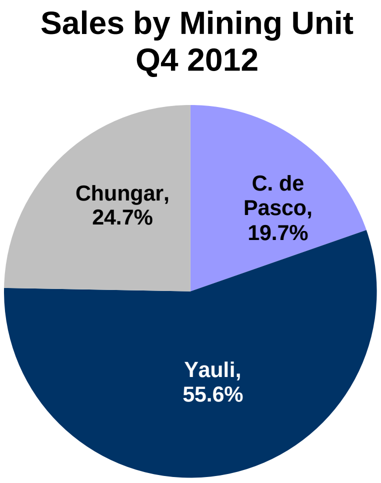
During 2012, Volcan's sales reached US$ 1,160.8 million, a 4.2% decline with regard to 2011 sales (US$ 1,211.6 million). This decline is mainly explained by the reduction in average prices for Zinc (-11.2%), Lead (-14.2%), and Silver (-11.3%), despite the increased volumes of Lead (12.5%), Silver (11.7%), Copper (10.1%), and Zinc (6.4%) concentrates sold.

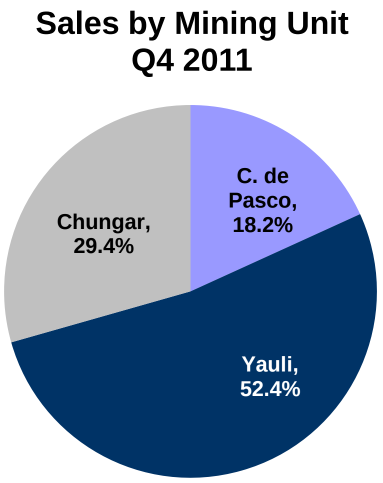
**Table 7: Sales Volume (DMT)**

| Product | Oct - Dec 2012 | Oct - Dec 2011 | Var (%) | Jan - Dec 2012 | Jan - Dec 2011 | Var (%) |
|---|---|---|---|---|---|---|
| Zinc Concentrate | 165,814 | 134,989 | 22.8 | 618,571 | 581,150 | 6.4 |
| Lead Concentrate | 46,810 | 40,682 | 15.1 | 136,564 | 121,385 | 12.5 |
| Copper Concentrate | 9,242 | 7,792 | 18.6 | 28,238 | 25,644 | 10.1 |
| Silver Concentrate | 3,717 | 4,267 | (12.9) | 15,029 | 13,452 | 11.7 |

It should be noted that, during Q4 2012, Yauli mining unit continued having the biggest share of Volcan's sales (55.6% of the total), followed by Chungar with 24.7%, and Cerro de Pasco with 19.7%.

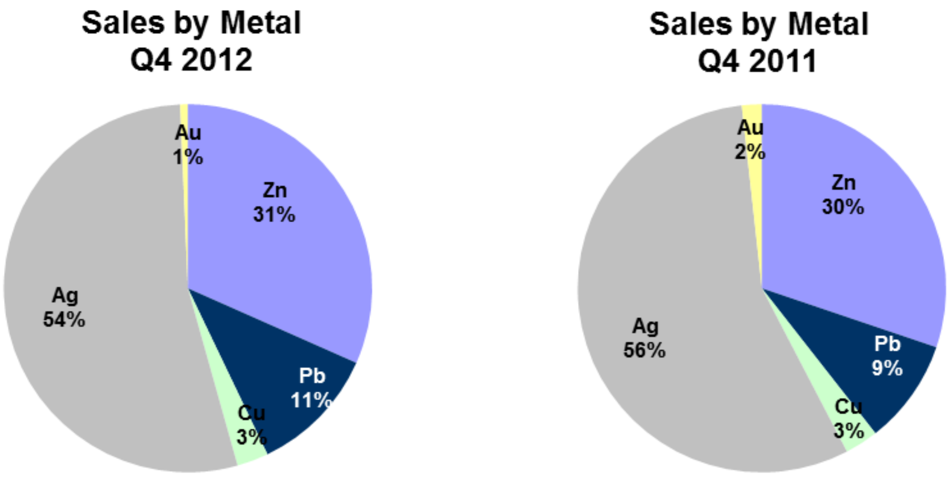
**Chart 1: Sales by Mining Unit (% of value in US$)**




On the other hand, Silver continues to be the largest contributor to the total sales of the company. Therefore, in Q4 2012, Silver represented 54% of Volcan's total sales, exceeding the share of Zinc (31%), Lead (11%), Copper (3%), and Gold (1%).

**Chart 2: Sales by Metal (% of Value in US$)**




## 2. <u>Profitability</u>

In Q4 2012, gross profit reached US$100.8 million, a 14.1% decline with regard to the same period of the previous year. This is mainly explained by the higher production costs previously discussed.

In annual terms, 2012 gross profit reached US$424.2 million, which represents a 29.1% decline with regard to 2011. This decline is explained by i) lower sales of 4.2%, related to lower metal prices, ii) higher production costs, iii) a 16% increase in depreciation and amortization, and iv) higher volume of third-party concentrate purchases, which have a lower profitability margin than our own concentrate. As a result, the 2012 gross margin was 37%, 12 percentage points lower than in 2011.

In addition, the operating profit for Q4 2012 reached US$77.0 million, a 16.5% decrease compared to the US$ 92.2 million registered in the same quarter of 2011. Full year 2012 operating profits reached US$ 339.6 million, a 33.5% decrease compared to the US$ 510.4 million obtained in 2011. Selling expenses in 2012 rose by 37.6% with respect to 2011, due to the increase of transportation and storage rates for concentrates in Callao. Higher selling expenses were compensated by a reduction of 3.1% in administrative expenses and by the US$ 4.4 million contribution of the Huanchor Hidroelectric Plant.

The Company uses derivative instruments, in particular futures contracts involving metal commodities, in order to reduce the risk of price fluctuations. During Q4 2012, the Company registered a US$ 10.5 million gain related to such financial instruments, while in the same period of 2011 it registered a US$ 21.0 million gain. In annual terms, the use of these instruments generated a US$ 17.6 million gain for 2012 as compared to the US$ 12.6 million loss registered for 2011.

Q4 2012 net profit totaled US$ 54.4 million, a 23.2% decline compared to the results obtained during Q4 2011. As a result, the net margin fell from 24% during Q4 2011 to 16% in the similar period of 2012.

In annual terms, the net profit for 2012 reached US$ 211.0 million, a 35.9% decline compared to the net profit for 2011 (US$ 328.9 million). The net margin for 2012 reached 18%, 9 percentage points less than the net margin registered in 2011.

**Table 8: Main accounts of the income statement**

| Thousands US$ | Oct - Dec 2012 | | Oct - Dec 2011* | | Var (%) | Jan - Dec 2012 | | Jan - Dec 2011* | | Var (%) |
|---|---|---|---|---|---|---|---|---|---|---|
| Sales | 349,057 | 100% | 289,850 | 100% | 20.4 | 1,160,784 | 100% | 1,211,614 | 100% | (4.2) |
| Cost of Sales | (248,225) | -71% | (172,438) | -59% | 44.0 | (736,567) | -63% | (613,698) | -51% | 20.0 |
| **Gross Profit** | **100,832** | **28.9%** | **117,412** | **40.5%** | **(14.1)** | **424,217** | **37%** | **597,916** | **49%** | **(29.1)** |
| Administrative Expenses | (18,738) | -5% | (15,293) | -5% | 22.5 | (58,898) | -5% | (60,800) | -5% | (3.1) |
| Selling Expenses | (10,471) | -3% | (8,267) | -3% | 26.7 | (35,876) | -3% | (26,072) | -2% | 37.6 |
| Other Income/(Expenses) | 5,341 | 2% | (1,689) | -1% | (416.3) | 10,115 | 1% | (689) | 0% | (1,568.0) |
| **Operating Earnings** | **76,964** | **22%** | **92,163** | **32%** | **(16.5)** | **339,558** | **29%** | **510,355** | **42%** | **(33.5)** |
| Financial Income/(Expenses) | 169 | 0% | (5,159) | -2% | (103.3) | (25,477) | -2% | (1,950) | 0% | 1,206.8 |
| Options and Hedging | 10,459 | 3% | 21,007 | 7% | (50.2) | 17,617 | 2% | (12,630) | -1% | (239.5) |
| Taxes | (24,695) | -7% | (29,849) | -10% | (17.3) | (97,475) | -8% | (138,400) | -11% | (29.6) |
| Royalties | (8,450) | -2% | (7,275) | -3% | 16.1 | (23,273) | -2% | (28,475) | -2% | (18.3) |
| **Net Profit** | **54,447** | **16%** | **70,887** | **24%** | **(23.2)** | **210,950** | **18%** | **328,900** | **27%** | **(35.9)** |

Note: According to International Financial Reporting Standards (IFRS), the workers' profit sharing is included in the cost of goods sold and administrative expenses rows, both for 2012 and 2011.

Q4 2012 EBITDA[2] totaled US$ 109.2 million, an 8.2% decrease as compared to the same period of 2011. This decrease is mainly explained by a lower gross margin. In addition, EBITDA margin fell from 41% during Q4 2011 to 31% in the same period of 2012.

In annual terms, EBITDA reached US$ 460.5 million, a 26.2% decline from the US$ 623.7 million reported in 2011. This decrease is mainly explained by the fall in sales due to lower prices of the metals we sell. EBITDA margin fell from 51% in 2011 to 40% in 2012. It is worth mentioning that 2011 EBITDA has been recalculated by considering the addition of the workers' profit sharing in the operating profits according to International Financial Reporting Standards (IFRS).

**Table 9: EBITDA**

| | Oct - Dec 2012 | Oct - Dec 2011 | Var (%) | Jan - Dec 2012 | Jan - Dec 2011 | Var (%) |
|---|---|---|---|---|---|---|
| Net Profit (US$ '000) | 54,447 | 70,887 | (23.2) | 210,950 | 328,900 | (35.9) |
| EBITDA* (US$ '000) | 109,200 | 118,911 | (8.2) | 460,512 | 623,732 | (26.2) |
| EBITDA/Sales | 31% | 41% | | 40% | 51% | |

* 2011 EBITDA has been recalculated by considering the addition of the workers' profit sharing item in the operating profits according to International Financial Reporting Standards

[2] EBITDA: Operating Profit + Depreciation and Amortization + Exceptional Expenses.

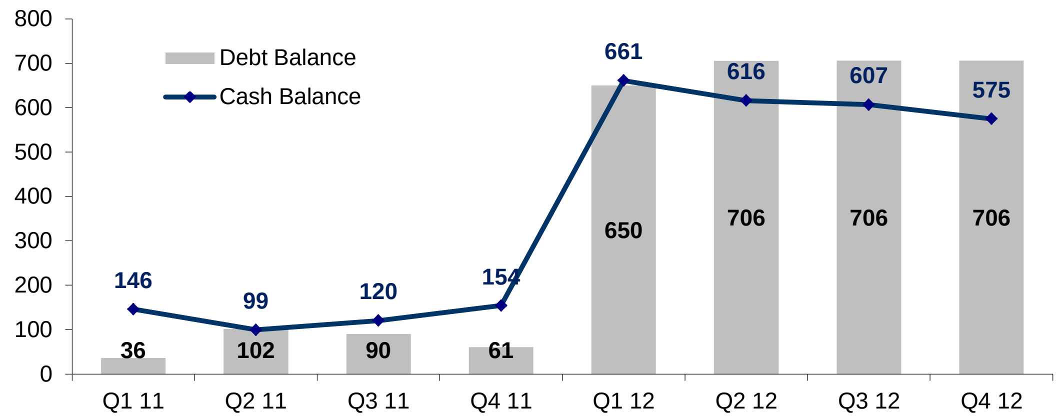
## 3. Liquidity and Creditworthiness

During 2012, despite the fall in the prices of the metals we produce, the operating cash flow generated by the Company reached US$ 258.6 MM. These funds were used to finance operating investments in the amount of US$ 248.4 MM. Additionally, the Company invested US$ 137.4 million in growth projects (including the acquisition of the Huanchor Hydroelectric Plant). It is worth noting that funding for growth projects is provided by the US$ 600 million 10-year bonds issued by the Company in early 2012. The net cash flow for the period was positive US$ 420.7 MM and the ending cash balance as of December 31, 2012 was US$ 574.9 MM.

Taking into account the Company's bonds and financial obligations (leasing and other loans), Volcan's leverage ratio (Financial Debt / EBITDA) at the end of 2012 was 1.53x.

The chart below shows the evolution of the Company's cash position and debt balance as of the end of the last 8 quarters.

**Chart 3: Cash Position and Debt Balance[3] (US$ million)**




3 The financial debt includes loans granted by financial institutions, leasing agreements, and others.

## IV. Final Comments

1. In 2012 mining companies were reminded that their focus has to be in identifying and developing new mineral deposits and in controlling their costs, as in 2012 average metal prices for most metals fell significantly with respect to 2011. In addition to the decline in prices, cost inflation in the global mining industry and specifically in Perú, put many sector companies to the test of adapting to changing scenarios like the ones experienced in 2012, with zinc and metal prices reaching levels below US$ 1,800 and US$ 1,900 per ton, respectively, in July and August.

2. Because of the above, we at Volcan continue to be strongly focused on consolidating an efficient, low cost and safe mining operation that will allow us to overcome low price cycles with less difficulty than the rest of the industry.

   The Company is continuously looking for opportunities to make its costs even more competitive, and along that line, Volcan has taken important steps, with the completion of the Baños V Hydroelectric Plant. Baños V went live in August 2012 and is already contributing to reduce our production costs in the Chungar mining unit with its 9.2MW of energy generation. Additionally, in December 2012, we completed construction of the expansion of the Animón Plant, increasing plant capacity from 4,200 tpd to 5,200 tpd. This additional capacity, which went live in January 2013, will allow as to increase our silver production and to reduce our unit production costs as well. Furthermore, we have made great advancement in the construction of the Jacob Timers shaft, which will result in increased productivity and lower cost in the Chungar mining unit.

   During 2012, in parallel to the above mentioned projects, the Company invested in other projects that will also contribute to reduce costs, such as the shafts at Andaychagua and Carahuacra, and the Victoria Ramp, in the San Cristobal mine of our Yauli mining unit.

3. Regarding our growth initiatives, 2012 was a year that allowed us to make significant progress in our Silver Oxides and Alpamarca - Río Pallanga projects, which together will contribute approximately an additional 8 million ounces of silver fines on an annual basis. We expect this additional production to be reflected in our results starting in Q42013. Even though the full impact of these projects won't be evident until 2014, in 2013 they will allow us to compensate for the reduced production levels at our Cerro de Pasco mining unit, resulting from the completion of the current production phase at the Raul Rojas Open Pit and lower activity at the Paragsha underground mine.

   In our Silver Pyrites Project, we continue to obtain promising results in the metallurgical tests we have performed. Our plan in on schedule, and we maintain our estimations of having this project ready in 2015, contributing new silver production.

   Finally, in relation to our Rondoní copper project, we are awaiting the results of a pre-feasibility study conducted by AMEC. We expect to have these results, which are important to validate the metallurgical feasibility of the project, by the end of Q42013

In summary, 2013 is a crucial year, considering that we intend to deliver two important silver producing projects. Having said that, we can say that we are well underway to fulfill our promise, both, in terms of schedule and of the needed funding. At the beginning of 2012 we issued US$ 600 million in 10-year bonds, which in addition to our own cash generation, allowed us to close 2012 with US$ 575 million in cash, in spite of the progress already made in the above mentioned projects.

4. Looking beyond the current projects and in line with our long term vision of consolidating the company as an important player in the global mining industry, Volcan constantly and systematically evaluates multiple growth opportunities, some of which are based on the development of our own mining concessions, and others, related to opportunities that come up in the market, both in Perú and abroad.

5. Finally, it is important to highlight that the progress that the company is achieving in its plans is largely the result of the high quality human group that has been put together in the last 2 - 3 years. We strongly believe that we have the talent and capabilities to overcome the challenges of the industry and to achieve the ambitious goals that we have set for ourselves in our long term vision.