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CREDIT OPINION
1 February 2021

Update

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RATINGS

Volcan Compania Minera S.A.A. y Subsidiarias

Domicile	Peru
Long Term Rating	B1
Type	LT Corporate Family Ratings
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Volcan Compania Minera S.A.A. y Subsidiarias

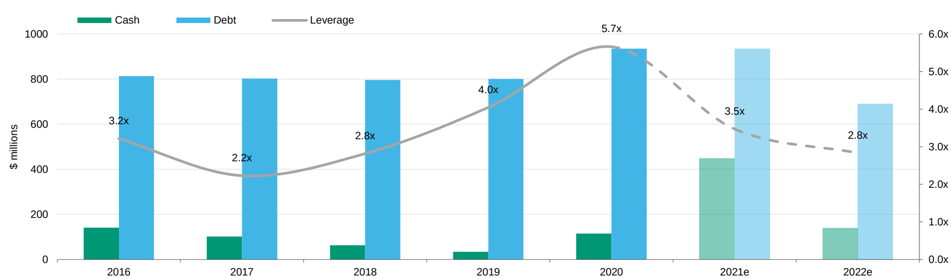
Update following affirmation of B1 rating and outlook change to stable

Summary

Volcan Compania Minera S.A.A. y Subsidiarias' (Volcan) B1 ratings incorporate the company's competitive cost position, operational diversification in terms of metals produced and assets; and status as a leading producer of zinc and silver globally, with some of the largest zinc reserves. Glencore plc (Glencore, Baa1 negative) became a controlling shareholder of Volcan in November 2017, with positive implications for Volcan's strategy, operations, corporate governance standards and financial policies.

Volcan's B1 ratings are constrained by its modest scale (with expected revenue of $535 million in 2020) compared with that of its global peers, concentration in one country and high earnings volatility because of its exposure to commodity prices.

Exhibit 1
Improved profitability and debt reduction will drive leverage below 3x
Proforma for the proposed transactions



Moody's forecasts are our opinions and do not represent the views of the issuer. Periods are financial year-end unless indicated.
Source: Moody's Financial Metrics™ (historical) and Moody's Investors Service (forecasts)

Credit strengths

» Leading producer of zinc and silver globally, with competitive cost positions

» Good diversification in metals and mines

» Glencore's status as a controlling shareholder, which enhances Volcan's policies and processes

Credit challenges

» Modest revenue scale compared with that of its global peers and concentration in one country

» Exposure to commodity prices, which creates high earnings volatility

» Execution risks related to the proposed liability management

Rating outlook

The stable rating outlook reflects our expectation that Volcan's operating performance will continue improving on the back of more favorable base metal prices and its competitive cost position supporting adequate credit metrics.

Factors that could lead to an upgrade

Positive actions could arise if Volcan maintains its competitive cost position, while continue investing for growth, achieving higher scale; and maintaining a conservative approach towards short term debt.

Quantitatively, an upgrade would require an EBIT margin above 10% and a total adjusted debt/EBITDA below 3.5x on a sustained basis.

Factors that could lead to a downgrade

Negative action could materialize if Volcan fails to execute the refinancing as proposed or substantially underperforms current expectations with Moody's adjusted EBIT margins falling below 5% and interest coverage measured as EBIT/interest expenses below 1 time.

Key indicators

Exhibit 2

Volcan Compania Minera S.A.A. y Subsidiarias

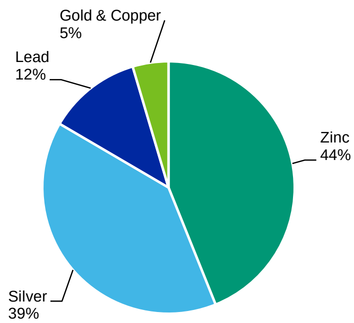
US$ Millions	Dec-15	Dec-16	Dec-17	Dec-18	Dec-19	LTM (Sep-20)	2021f	2022f
Revenue	$795	$822	$857	$775	$744	$563	$784	$719
EBIT Margin %	6.8%	14.6%	25.5%	16.3%	-0.5%	-11.8%	8.1%	7.1%
EBIT / Interest Expense	1.4x	3.2x	5.5x	2.7x	-0.1x	-1.7x	1.1x	1.3x
Debt / EBITDA	3.9x	3.2x	2.2x	2.8x	4.0x	8.6x	3.5x	2.8x
Debt / Book Capitalization	42.3%	38.9%	47.8%	52.4%	52.9%	59.3%	49.4%	41.9%
(CFO - Dividends) / Debt	21.4%	22.5%	41.0%	23.8%	22.1%	13.5%	14.9%	30.6%

All figures and ratios are calculated using Moody's estimates and standard adjustments. Moody's Forecasts (f) or Projections (proj.) are our opinion and do not represent the views of the issuer. Periods are financial year-end unless indicated. LTM = Last 12 months.
Sources: Moody's Financial Metrics™ (historical) and Moody's Investors Service (forecast)

Profile

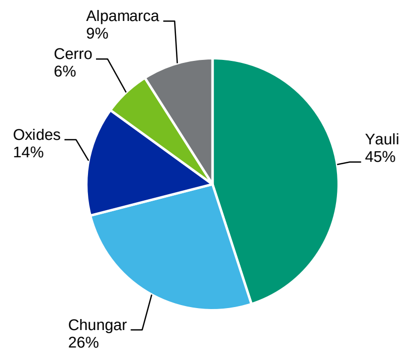
Volcan is a Peruvian mining company which primarily produces zinc and lead concentrate and some copper concentrate, all with high silver content. The company operates through five operating units including 8 operating mines, six concentrator plants and one leaching plant for silver oxide production. All of Volcan's operations are located in Peru and it reported revenue of $563 million for the last twelve months ended September 2020. Volcan is a holding company listed on the stock exchanges of Lima, Santiago and Madrid (Latibex). Since November 2017, Glencore has a controlling stake of 55% in Volcan's Class A voting shares, which is equivalent to a 22% economic interest in Volcan.

Exhibit 3
Sales by product for the first nine months of 2020



Source: Volcan's quarterly management discussion and analysis

Exhibit 4
Sales by origin for the third quarter of 2020



Source: Volcan's quarterly management discussion and analysis

Detailed credit considerations

Improvement in credit profile following liability management efforts, but moderate risks remain

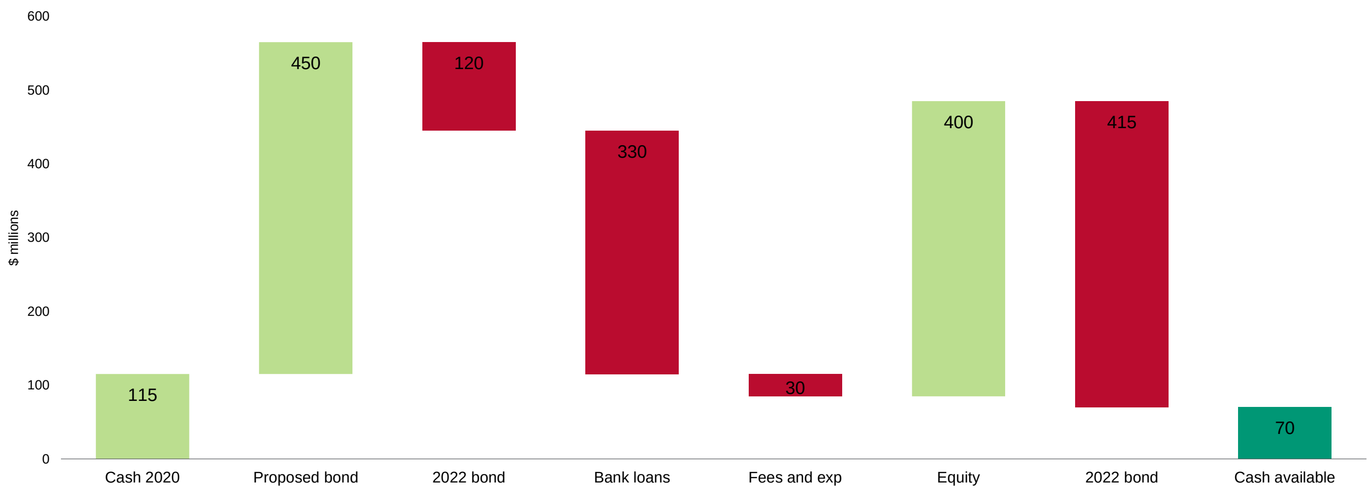
On 1 February 2021, Volcan announced a transaction aimed at strengthening its liquidity profile, including a $450 million bond offering, followed by a $400 million equity offering. The $850 million in cash inflow will not be simultaneous, but Volcan expects it will happen before the third quarter of 2021.

Volcan will use the proceeds from the $450 million bond issuance to fund up to $120 million in a tender offer for its outstanding $535 million notes maturing in February 2022 and repay $330 in its bank loans. Assuming acceptance of the tender offer as proposed, Volcan will use the remaining proceeds in cash and the equity injection to repay the remaining outstanding $415 million in its 2022's senior unsecured notes at maturity.

Volcan expects the $850 million cash inflow to happen before Q3 2021 once it completes all the regulatory procedures pertaining the equity offering, including obtaining approval in the annual shareholders' meeting. On 19 January 2021, Volcan's board of directors agreed to seek approval for the equity increase of up to $400 million in the annual shareholders' meeting, which is likely to take place around March 2021.

The announced transactions have positive implications for Volcan's liquidity and refinancing risks. However, relevant risks exist in the execution of the plan, including a potential delay in the capital increase and another coronavirus pandemic-related lockdown, which can disrupt the supply chain or even the company's production levels, as was the case in 2020. Volcan has some pulls it can lever to protect its liquidity, including a $50 million committed revolving credit facility (RCF) available until October 2022; its historically easy access to low-cost, short-term advised credit lines with the local banks in Peru; and its capital spending flexibility. However, none of these would suffice to fully service the company's $835 million debt due in February 2022.

Exhibit 5
Simplified waterfall
Next twelve months



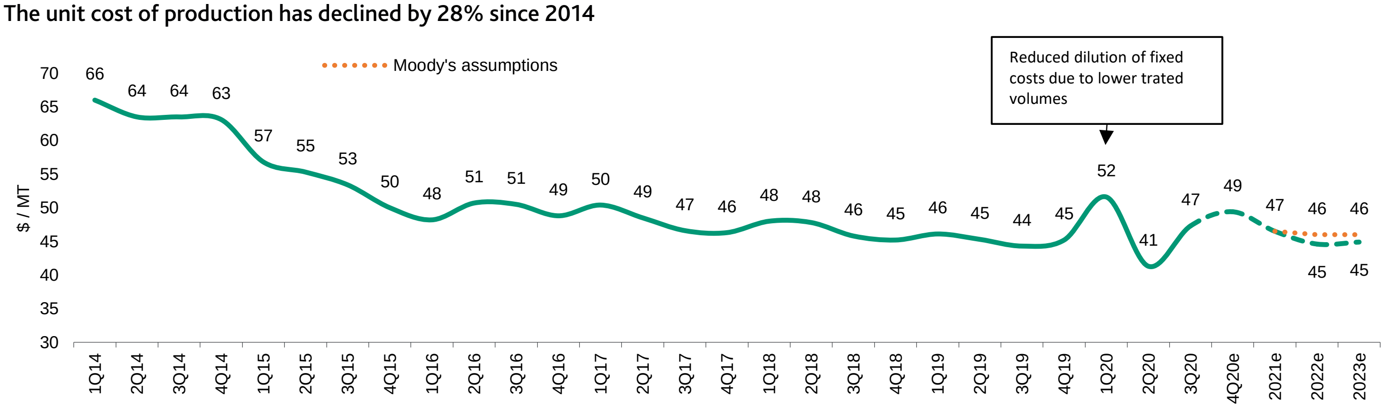
Source: Moody's Investors Service's estimates

Diversification in metals and mines and a low cost position support Volcan's operating recovery

Volcan is the leading producer of zinc in Peru and is among the largest producers of zinc in the world. Moreover, the company has a diverse mix of metals and good operational diversification, with its five main operational units at Yauli, Chungar, Cerro de Pasco, Oxides and Alpamarca-Rio Pallanga in the central region of Peru. It produces metals from eight underground mines, three open pits and has six concentrator plants and one leaching plant for silver oxide production.

Since 2014, Volcan has focused on optimizing its production costs. Its unit cost declined 28% since Q1 2014, having reached the lowest of $44 per metric ton in Q3 2019. Efficiencies have been gained through multiple channels, including mine optimization, the review of scope and number of contractors, the rationalization of input/raw material (including energy), and the ramp-up of low-cost units. In 2020, Volcan's production costs peaked at $52 per metric ton because of lower production as a result of the mandatory lockdown. While we expect Volcan to remain disciplined with costs, and its costs to return to the 2019 levels, we do not expect its unit cost to further decline significantly.

Exhibit 6
The unit cost of production has declined by 28% since 2014



Sources: Volcan's quarterly management discussion and analysis, and Moody's Investors Service's estimates

Volcan has a policy to hedge up to 30% of the production for 12 months, this policy is approved by the board of directors. The company currently hedges around 12% of its production.

Weakening of its financial profile since 2019 further aggravated by the lockdown; volatility remains

Volcan's operating performance was hurt by the lower production volumes because of the strict lockdowns in Peru and also the persistently low zinc prices in 2020, particularly during the first half of the year. Accordingly, zinc production volumes declined 32.6% as of September 2020 in comparison with September 2019, with declines of 25.5% for silver, 18.2% for lead, 32.1% for copper and 56.8% for gold during the same period. At the same time, zinc prices averaged $1.03/pound in 2020, which negatively compares with the $1.14/pound average price in 2019.

While the company managed to reduce costs, including exploration and mining development, as a result, EBIT margin (including our adjustments) declined to -11.8% in the 12 months that ended September 2020 from -0.5% in 2019 and 16.3% in 2018. This led to Moody's-adjusted debt/EBITDA of 8.6x for the 12 months that ended September 2020.

Volcan's performance started recovering in Q3 2020, and the company reported a 14.1% EBIT margin for Q3 2020. We project a recovery in 2021 on the back of normalized mining production volumes and higher zinc prices, as compared to those observed in 2020; although still lower than those in 2017-2018. We assume zinc prices in the high end of our price sensitivities, $1.05/pound for 2021 and in the mid-point going forward with Volcan's adjusted debt/EBITDA declining to around 2.6x in the next twelve to eighteen months. On January 26 2021, the Peruvian government announced another lockdown from January 31 throughout, at least, February 14 2021, while this does not restrict mining activities, it could disrupt the company's supply chain.

Exhibit 7
Historical and expected average zinc prices

Sources: Moody's Investors Service and London Metal Exchange (LME)

Volcan does not have projects that will reach the production phase in the next couple of years and increase its production, helping to mitigate lower zinc prices. We also do not expect significant improvements in costs, which will keep the company's profitability at levels below those reported in recent years.

Reserve position aided by valuable exploration properties and expansion projects

Volcan's reserve position amounted to 33 million metric tons as of year-end 2019. The company holds significant exploration properties in mineral-rich locations and has a high potential to improve its reserves. In addition, under the impetus of the stake acquisition by Glencore, Volcan stepped up its exploration investments to $46 million in 2019 from $40 million in 2018 and $30 million in 2017.

Volcan's exploration projects comprise mostly brownfield explorations distributed along the company's existing mining units and one important greenfield project. To take advantage of the current infrastructure in its existing mines, Volcan plans to develop the Romina, Carhuacayán and Zoraida polymetallic projects (zinc, lead and silver), which are close to the Alpamarca and Yauli unit mines. Romina is planned to start in 2024 and is the most advanced project, with the feasibility study in progress and around 14.6 million metric tons of estimated resources and minerals and an estimated annual production of 30,000 tonnes of zinc, 20,000 tonnes of lead and 0.7 million ounces of silver. Romina is expected to require an additional $125 million in capital spending in 2022 and 2023. The investment will be relatively limited because Volcan will be able to use some existing mine infrastructure to exploit this new mine. However; based on current prices, we believe the company will need additional debt to fund this project.

Other possible future projects include Carhuacayán and Zoraida, which would both be close to the existing mines and benefit from operating synergies. Another relevant development project is Palma, located 60 kilometers from Lima, which is a zinc, lead and silver project with inferred resources of close to 23 million metric tons.

Glencore's majority shareholding is credit positive

In November 2017, Glencore increased its participation in Volcan to a 55% controlling stake in Class A voting shares from 18% earlier. Glencore has a 22% economic interest in Volcan, including the nonvoting Class B shares. Glencore is a leading publicly listed natural resources group domiciled in Switzerland, which combines a large and well-diversified portfolio of mining assets with an extensive third-party marketing business. The company is active in all key base metals (copper, zinc, cobalt, nickel and aluminum), thermal and metallurgical coal, and oil and agricultural commodities. In 2019, Glencore generated $215 billion of revenue and $11.6 billion of reported EBITDA.

We view Glencore's strong credit profile, industry expertise and financial strength as beneficial for Volcan. In recent years, Volcan has been raising its operating standards (including safety, payment terms and exploration methods) to match those of Glencore, which has increased its costs. However, we expect these higher standards to continue strengthening Volcan's overall business profile.

ESG considerations

The global mining industry has high emerging environmental risks and moderate social risks. In Latin America, the main environmental risks that mining companies face are soil/water pollution and land-use restrictions, water shortage and natural/man-made disasters, while the most prominent social risks pertain to health and safety, human capital and responsible production. In Peru, mining companies are particularly susceptible to conflicts with communities, which can delay mining companies' investments and increase costs.

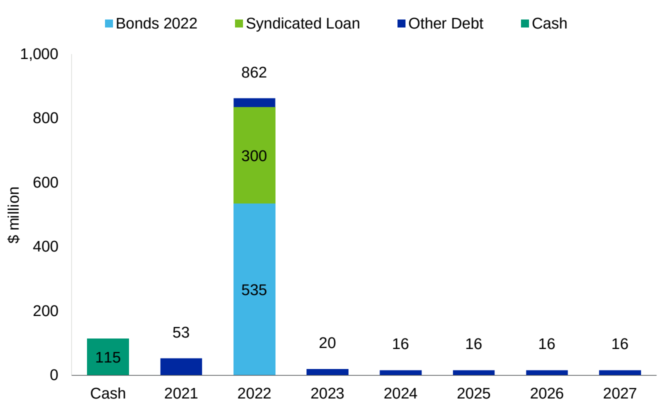
Volcan has an environmental management system in place, which is a tool that monitors eight critical risks and follows up on the fulfillment of Volcan's environmental obligations and their effective implementation. It includes measures to improve Volcan's tailing dam technology and align it with the guidelines of the Canadian Dam Association, with about $170 million of investments in tailing dams planned over the next four years. In the past year, under the impetus of the stake acquisition by Glencore, Volcan further increased its safety standards and aims at attaining the zero fatality status. With regard to local community relations, Volcan has not reported significant disputes or opposition to its operations or projects, unlike other mining companies operating in the country. During the pandemic, the company developed strict protocols to protect the company's operations, contractors, providers, communities and other stakeholders that have been approved by authorities.

Volcan is a public company listed on the stock exchanges in Lima, Santiago and Madrid, and it has to comply with local and international regulations in terms of compliance and reporting. Glencore has a 55% controlling stake in Volcan. The company has a seven-member board of directors, of which four are appointed by Glencore. Corporate governance practices include committees for decision-making and management of the economic, social and environmental aspects: executive, audit, human resources and social responsibility. Volcan is subject to internal audits and frequent cross audits from Glencore and third parties.

Liquidity analysis

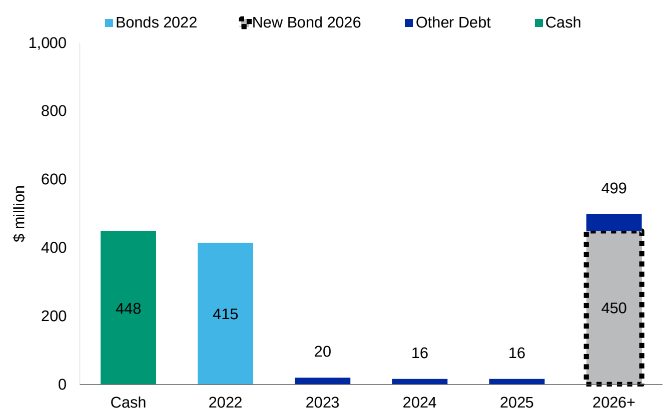
Pro forma for the proposed transactions, the company's refinancing risk will materially reduce. However, the transaction will close only in Q1 2022, leaving Volcan's liquidity tight and subject to market conditions with $835 million in debt maturing in February 2022.

Exhibit 8
Volcan's maturity profile
As of December 2020



Sources: Volcan's quarterly management discussion and analysis and Moody's Investors Service's estimates

Exhibit 9
Pro forma maturity profile
As of December 2021



Sources: Moody's Investors Service's estimates

Assuming the transaction is completed as proposed, by year-end 2021, the company will have cash available from the equity injection to repay the remaining $415 million of its 2022 notes. However, we estimate the company will need additional debt throughout 2022 to be able to fund the capital investments needed in the Romina project that would demand additional $125 million to meet the company's target of keeping $100 million in cash available.

We expect the company to exhibit a more conservative approach towards liquidity, including maintaining its RCF, managing its maturities well in advance, reducing its reliance on short-term debt and keeping its target $100 million in cash. Although there is no dividend policy and the board of directors approves this every year, we don't expect any distributions in the next three years.

During 2020, the company engaged in some contracts related the sale of some of its subsidiaries including Compañía Minera Chungar and Oxidos de Pasco, guarantors of the new notes. On October 31 2020, the agreement was terminated but Volcan is still considering the sale of three of its non-core hydroelectric plants. The company also owns 40% of the Chancay port, located 80 kilometers north of Lima. The remaining 60% is owned by Cosco Shipping Ports Chancay Perú S.A. and the total estimated cost of the first stage of the project is approximately $1.3 billion, which is expected to be partially financed with a $0.9 billion project finance loan with no recourse to Volcan.

Methodology and scorecard

The principal methodology used in these ratings was our Global Mining Industry rating methodology, published in September 2018. For the 12 months that ended September 2020, the scorecard-indicated outcome is Caa1, reflecting the effect of a volume decrease because of the lockdown in Peru and lower base metal prices.

The scorecard-indicated outcome in our 12-18-month forward view maps to B2 incorporates our expectations of a 25% debt reduction following execution of proposed liability management and improved operating performance based on more favorable base metal prices, normalized production and cost controls.

Exhibit 10

Rating factors

Volcan Compania Minera S.A.A. y Subsidiarias

Mining Industry Scorecard [1][2]	Current LTM 9/30/2020		Moody's 12-18 Month Forward View As of February 2020 [3]	
Factor 1 : Scale (20%)	**Measure**	**Score**	**Measure**	**Score**
a) Revenues (USD Billion)	$0.6	Ca	$0.72	Ca
Factor 2 : Business Profile (25%)				
a) Business Profile	Ba	Ba	Ba	Ba
Factor 3 : Profitability and Efficiency (10%)				
a) EBIT Margin (EBIT / Revenue)	-11.8%	C	7.1%	B
Factor 4 : Leverage and Coverage (30%)				
a) EBIT / Interest Expense	-1.7x	C	1.3x	Caa
b) Debt / EBITDA	8.6x	Ca	2.6x	Baa
c) Debt / Total Capital	59.3%	Ba	40.1%	Baa
d) (CFO - Dividends) / Debt	13.5%	B	33.1%	Baa
Factor 5 : Financial Policy (15%)				
a) Financial Policy	B	B	B	B
Rating:				
a) Scorecard-Indicated Outcome		Caa1		B2
b) Actual Rating Assigned		B1		B1

All ratios are based on adjusted financial data and incorporate Moody's Global Adjustments for Non-Financial Corporations. Data for the next 12-18 months represent Moody's forward view, not the view of the issuer, and unless noted in the text, do not incorporate significant acquisitions and divestitures.
Sources: Moody's Financial Metrics™ (historical) and Moody's Investors Service (forecast)

Ratings

Exhibit 11

Category	Moody's Rating
VOLCAN COMPANIA MINERA S.A.A. Y SUBSIDIARIAS	
Outlook	Stable
Corporate Family Rating	B1
Senior Unsecured	B1

Source: Moody's Investors Service

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