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## **MINSUR S.A. : MANAGEMENT DISCUSSION AND ANALYSIS FOR THE FOURTH QUARTER OF THE YEAR 2014**

Lima, February 16th, 2015 – MINSUR S.A. and subsidiaries (BVL: MINSUR11) (“the Company” or “Minsur”) a Peruvian mining Company, dedicated to the exploration, processing and commercialization of tin and other minerals, announced its individual results for the fourth quarter of 2014 (“4Q14”). These results are reported in accordance with International Financial Reporting Standards (IFRS) and are expressed in U.S. dollars (US\$), unless otherwise mentioned.

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### **I. OPERATING RESULTS AND FINANCIAL HIGHLIGHTS:**

- **Tin production** in 4Q14 reached **6,190 tons**, a **7%** decrease compared to 4Q13, mainly due to the lower head grade, 7% below that in 4Q13. Nonetheless, tin production in 2014 reached **24,333 tons**, slightly above the production reported in 2013.
- **Gold production** in the 4Q14 reached **28,097 ounces**, an **increase of 13%** compared to 4Q13, as a result of an increase in daily treated tonnage capacity from 14,000 in 4Q13 to 17,500 in 4Q14 and higher head grade mined.
- **Net revenue** reached **US\$ 168.2 MM** in 4Q14, **17%** below that in 4Q13. It is worth noting that in 2014 net revenue reached **US\$ 760.2 MM**, an increase of **1%** when compared to 2013.
- Increase of **123%** in **exploration and project expenses** in 4Q14, due to investments in brownfield exploration in areas surrounding existing operations, and the progress of San Rafael’s tailings project pre-feasibility study.
- **EBITDA<sup>1</sup>** reached **US\$ 68.4 MM** in the 4Q14, **39% (-US\$ 43.4 MM)** below the EBITDA in the 4Q13. Similarly, EBITDA in 2014 was 15% lower than that reported in 2013, mainly as a result of an increase of cost of sales and exploration and project expenses, in line with the efforts to optimize the plant capacity and extend life of mine.
- The **financial expenses** in 4Q14 and 2014 reached **-US\$ 8MM** and **-US\$ 29MM**, respectively. These represented an increase with respect to the figures reported in 4Q13 and 2013, as a result of the issuance of a US\$ 450 MM international bond earlier in 2014.
- In 4Q14, Minsur adopted the return of equity method to record its investments in subsidiaries, resulting in an **accounting adjustment (non-cash)** of **-US\$16.7 MM** in 4Q14 and **-US\$71 MM** in 2014. **Net profit** reached **US\$ 1.2 MM** in the 4Q14, **95%** below that in 4Q13. Excluding the adjustment, net income would have reached **US\$17.9 MM**, **66%** below that in 4Q13.
- When also excluding the exploration & project expenses, as well as the financial expenses, net income in 2014 would have reached US\$ 226.1 million, 10% below that in 2013.

**Table N° 1: Summary of Operating & Financial Results**

Operating Results							
Summary Results	Unit	4T14	4T13	Var (%)	2014	2013	Var (%)
Tin (Sn) Production	TM	6,190	6,643	-7%	24,223	24,132	0%
Gold (Au) Production	Oz	28,097	24,769	13%	105,939	116,665	-9%
Financial Results							
Summary Results	Unit	4T14	4T13	Var (%)	2014	2013	Var (%)
Net Revenue	US\$ MM	168.2	203.2	-17%	760.2	755.8	1%
Gross Profit	US\$ MM	79.1	115.9	-32%	406.3	452.5	-10%
Administrative Expenses	US\$ MM	-10.0	-7.6	32%	-34.9	-31.4	11%
Exploration & Project Expenses	US\$ MM	-11.2	-5.0	123%	-28.6	-13.7	108%
EBITDA <sup>(1)</sup>	US\$ MM	68.4	111.8	-39%	384.1	453.0	-15%
EBITDA Margin	%	41%	55%	-26%	51%	60%	-16%
Net Profit	US\$ MM	1.2	22.9	-95%	97.5	175.5	-44%
Adjusted Net Income <sup>(2)</sup>	%	17.9	52.7	-66%	168.4	235.0	-28%

<sup>2</sup> Adjusted Net Income = Net Income + adjustment - implementation of return of equity method

## II. MAIN CONSIDERATIONS:

### a. Average metal prices:

Average Tin (Sn) Price in 4Q14 was US\$ 20,181 per TM, which represents an decrease of 12% compared to the same period of the year 2013.

Average Gold (Au) Price in the 4Q14 was US\$1,210 per ounce, a 6% decrease compared to the same period of the previous year.

**Table N° 2: Average metal prices**

Average Metal Prices	Unit	4Q14	4Q13	Var (%)	2014	2013	Var (%)
Tin	US\$/t	20,181	22,899	-12%	21,894	22,305	-2%
Gold	US\$/oz	1,210	1,291	-6%	1,266	1,411	-10%

Source: Bloomberg

### b. Exchange rate:

The Peruvian Nuevo Sol average exchange rate for the 4Q14 closed at S/. 2.92 per US\$1, compared to S/. 2.78 per US\$1 in the 4Q13, which represents a depreciation of 5% for the Peruvian Nuevo Sol.

**Table N°3: Exchange Rate**

Exchange Rate	Unidad	4Q14	4Q13	Var (%)	2014	2013	Var (%)
PEN/USD	S/.	2.92	2.78	5%	2.84	2.70	5%

(Source: Banco Central de Reserva del Perú)

### III. OPERATING MINING RESULTS:

#### a. San Rafael – Pisco (Perú):

**Table N° 4: San Rafael - Pisco Operating Results**

San Rafael - Pisco	Unidad	4T14	4T13	Var (%)	2014	2013	Var (%)
<b>Operaciones</b>							
Mineral Tratado	TM	277,703	254,405	9%	1,032,255	973,492	6%
Ley de Cabeza	%	2.48%	2.68%	-7%	2.48%	2.72%	-9%
Producción Estaño (Sn)	TM	6,190	6,643	-7%	24,223	24,132	0%
Cash Cost	US\$/TM Sn	9,145	7,852	16%	8,459	7,751	9%
<b>Financieros</b>							
Ventas	US\$ MM	131.1	164.3	-20%	621.4	597.9	4%
Volumen de Ventas - Tin	TM	6,334	7,040	-10%	27,443	26,183	5%
EBITDA	US\$ MM	47.7	88.4	-46%	307.7	344.7	-11%
Margen EBITDA	%	36%	54%	-32%	50%	58%	-14%

Note: During 4Q14 the Company continued performing pilot test treating Pitinga's tin concentrate at the Pisco smelter. The tests finished in December of 2014.

In the 4Q14, tin production reached 6,190 tons, which represents a decrease of 7% compared to the same period of the previous year. This was mainly explained by a decrease in ore head grade, from 2.68% in 4Q13 to 2.48% 4Q14. Nonetheless in 2014 tin production was in line with that reported in 2013, mainly explained by a higher volume processed (6% above that in 2013) and the execution of a tin concentrate stocks optimization plan.

Net revenue reached US\$ 131.1 million in the 4Q14, which represents a decrease of 20% (- US\$ 33.2 million) compared to the same period of the previous year. This was mainly due to i) a 10% decrease in volume of tin sold (6,344 tons in the 4Q14 versus 7,040 tons in the 4Q13), and ii) a lower average tin price in the 4Q14 compared to the 4Q13 (US\$/TM 20,181 in 4Q14 vs. US\$/TM 22,899 in 4Q13). Nevertheless, it is worth noting that in 2014, net revenue reached 621.4 million, a 4% increase when compared to 2013, mainly due to a higher volume of tin sold (+1,260 tons) as a result of a tin stocks optimization plan, partially offset by the lower tin price in 2014 when compared to 2013.

Cash cost<sup>3</sup> per ton of tin in 4Q14 (excluding the impact of the purchase and processing of tin concentrates from Taboca) was US\$ 9,145 per ton, a 16% increase when compared to the 4Q13. Similarly, in 2014, cash cost per ton of tin (excluding the impact of the purchase and processing of tin concentrates from Taboca) reached US\$ 8,459, 9% above that reported in 2013, mainly due to the processing of stocks of tin concentrates which carried a higher unit cost.

<sup>3</sup> Cash Cost = (production cost + net revenue expenses + change in tin concentrates inventory, excluding employee profit sharing, depreciation and amortization) / (tin Production Volume, in tons, excluding the tons recovered when treating Pitinga's concentrate at Pisco)

San Rafael – Pisco EBITDA reached US\$ 47.7 million in the 4Q14, a decrease of 46% (-US\$ 40.7 million) compared to same period of the previous year. This was mainly due to: i) lower volume of tin metal sold, and ii) an increase in explorations & projects expenses (+US\$ 4.6 million) as a result of the execution of the exploration program in San Rafael's surrounding areas and the advancement of San Rafael's Tailings project pre-feasibility study. Similarly, in 2014, EBITDA reached US\$307.7 million, 11% below that in 2013, mainly explained by: i) an increase in cost of sales and exploration and projects expenses, and ii) lower tin prices, both partially offset by a higher volume of tin metal sold as a result of a stock optimization plan. Excluding exploration and projects expenses, EBITDA would have reached US\$ 330 million, 7% below that of 2013.

#### b. Pucamarca (Perú):

**Table N°5. Pucamarca Operating Results**

Pucamarca	Unidad	4T14	4T13	Var (%)	2014	2013	Var (%)
<b>Operaciones</b>							
Mineral Tratado	TM	1,492,728	1,160,707	29%	6,088,442	5,990,038	2%
Ley de Cabeza	g/t	0.767	0.726	6%	0.697	0.957	-27%
Producción Oro (Au)	Oz	28,097	24,769	13%	105,939	116,665	-9%
Cash Cost	US\$/Oz Au	328	400	-18%	356	383	-7%
<b>Financieros</b>							
Ventas	US\$ MM	37.2	38.9	-4%	138.8	157.9	-12%
Volumen de Ventas - Oro	Oz	30,916	30,533	1%	109,607	113,211	-3%
EBITDA	US\$ MM	20.7	23.4	-12%	76.3	108.4	-30%
Margen EBITDA	%	56%	60%	-7%	55%	69%	-20%

In 4Q14, Gold production reached 28,097 ounces, which represents a 13% increase when compared to the same period of the previous year. This was mainly explained by: i) a higher head grade (0.726 g/t in 4Q13 versus 0.767 g/t in 4Q14) in line with Pucamarca's geological and mine plan model, and ii) a 29% increase in ore treated mainly explained by an increase in plant daily capacity from 14,000 tons in 4Q13 to 17,500 tons in 4Q14.

Pucamarca net revenue reached US\$ 37.2 million in 4Q14, which represents a 4% decrease (-US\$ 1.7 million) compared to the net revenue of the same period in the previous year. This was due to a lower average gold price (US\$1,210 in the 4Q14 versus US\$ 1,291 in the 4Q13), partially offset by a 1% increase in ounces of gold sold in the 4Q14 compared to the 4Q13 (30,916 ounces in the 4Q14 vs. 30,533 ounces in the 4Q13).

Cash cost<sup>4</sup> per gold ounce in 4Q14 was US\$ 328, which represented a decrease of 18% when compared to 4Q13. This decrease was due to the higher production of gold ounces in 4Q14 (28,097 in 4Q14 vs. 24,769 in 4Q13), as a result of the higher tonnage treated, as well as the head grade increase. Similarly, in 2014, cash cost per gold ounce reached US\$ 356, 7% below that in

2013, mainly explained by higher production costs in 2013 mainly associated to the pre-mining activities.

Pucamarca's EBITDA reached US\$ 20.7 million in the 4Q14, a decrease of 12% (-US\$ 2.7 million) compared to same period of the previous year. The EBTIDA decrease is mainly explained by: i) an increase of the cost of sales as a result of higher tonnage treated, and ii) a 155% increase of the exploration expenses (US\$ 2.7 million in the 4Q14 vs. US\$ 1 million in the 4Q13) in line with the execution of the exploration plans in the surrounding areas.

#### IV. CAPEX:

**Table N°6. CAPEX**

CAPEX	Unit	4Q14	4Q13	Var (%)	2014	2013	Var (%)
San Rafael	US\$ MM	8.5	5.7	48%	16.5	18.2	-9%
Pisco	US\$ MM	0.5	0.6	-23%	1.9	1.8	4%
Pucamarca	US\$ MM	5.9	14.2	-58%	16.6	32.1	-48%
Other	US\$ MM	0.2	2.1	-92%	0.7	2.7	-75%
<b>Total Capex</b>	<b>US\$ MM</b>	<b>15.0</b>	<b>22.7</b>	<b>-34%</b>	<b>35.8</b>	<b>54.8</b>	<b>-35%</b>

In the 4Q14, capex was US\$ 15 million, a decrease of 34% (-US\$ 7.7 million) compared with the same period of the previous year. In the 4Q14 the major investments were:

- San Rafael: Increase of the tailings dam and waste dump capacity, in line with the mine short and mid-term sustaining plan.
- Pucamarca: Continuation of construction of the second stage of a leaching pad for mine continuity and increased plant daily capacity from 14,000 tons to 17,500 tons.

## V. FINANCIAL RESULTS:

**Table N°7. Financial Statements**

Financial Statements	Unit	4Q14	4Q13	Var (%)	2014	2013	Var (%)
Net Revenue	US\$ MM	168.2	203.2	-17%	760.2	755.8	1%
Cost of Sales	US\$ MM	-89.2	-87.2	2%	-353.9	-303.3	17%
<b>Gross Profit</b>	<b>US\$ MM</b>	<b>79.1</b>	<b>115.9</b>	<b>-32%</b>	<b>406.3</b>	<b>452.5</b>	<b>-10%</b>
Selling Expenses	US\$ MM	-2.3	-3.2	-27%	-9.0	-10.1	-10%
Administrative Expenses	US\$ MM	-10.0	-7.6	32%	-34.9	-31.4	11%
Exploration & Project Expenses	US\$ MM	-11.2	-5.0	123%	-28.6	-13.7	108%
Other, net	US\$ MM	-6.8	-4.5	50%	-11.9	-7.6	57%
<b>Operating Income</b>	<b>US\$ MM</b>	<b>48.7</b>	<b>95.6</b>	<b>-49%</b>	<b>321.9</b>	<b>389.8</b>	<b>-17%</b>
Other Income (Expenses)	US\$ MM	-12.1	-0.1	19390%	-30.6	1.4	-2300%
Adjustment - return of equity method <sup>5</sup>	US\$ MM	-16.7	-29.8	-44%	-71.0	-59.5	19%
<b>Profit before Income Tax</b>	<b>US\$ MM</b>	<b>19.9</b>	<b>65.7</b>	<b>-70%</b>	<b>220.4</b>	<b>331.7</b>	<b>-34%</b>
Income Tax Expense	US\$ MM	-18.7	-42.8	-56%	-122.9	-156.2	-21%
<b>Net Income</b>	<b>US\$ MM</b>	<b>1.2</b>	<b>22.9</b>	<b>-95%</b>	<b>97.5</b>	<b>175.5</b>	<b>-44%</b>
Net Income Margin	%	1%	11%	-94%	13%	23%	-45%
<b>EBITDA</b>	<b>US\$ MM</b>	<b>68.4</b>	<b>111.8</b>	<b>-39%</b>	<b>384.1</b>	<b>453.0</b>	<b>-15%</b>
EBITDA Margin	%	41%	55%	-26%	51%	60%	-16%
Adjusted Net Income <sup>6</sup>	US\$ MM	17.9	52.7	-66%	168.4	235.0	-28%

### a. Net revenue:

In the 4Q14, net revenue reached US\$ 168.2 million, a decrease of 17% (-US\$ 35 million), compared to 4Q13. This decrease was mainly explained by: i) a 10% decrease in tin metal sold in the 4Q14 when compared to the same period of the previous year, ii) a 12% decrease in average tin price in the 4Q14, and iii) a 6% decrease in average gold price in the 4Q14, all of this partially offset by a higher volume of gold ounces sold (30,916 in 4T14 vs. 30,533 in 4T13). It is worth noting that in 2014 net revenue reached US\$ 760.2 million, a 1% increase when compared to 2013. This increase was driven by the higher volume of tin tons sold in 2014, in line with a stock optimization plan.

**Table N°8. Net revenue Volume by product**

Net Revenue Volume	Unit	4Q14	4Q13	Var (%)	2014	2013	Var (%)
Tin	TM	6,334	7,040	-10%	27,443	26,183	5%
Gold	Oz	30,916	30,533	1%	109,607	113,211	-3%

<sup>5</sup> In accordance with the IAS 8, the accounting adjustment associated to the implementation of the return of equity method to register the investment in subsidiaries and associated is treated as a change in an accounting policy, and therefore, the balances must be adjusted retroactively in the previous report.

<sup>6</sup> Adjusted Net Income = Net Income + adjustment - implementation of return of equity method

**Table N°9. Net revenue in US\$ by product**

Net Revenue in US\$	Unit	4Q14	4Q13	Var (%)	2014	2013	Var (%)
Tin	US\$ MM	131.1	164.3	-20%	621.4	597.9	4%
Gold	US\$ MM	37.2	38.9	-4%	138.8	157.9	-12%
<b>TOTAL</b>	<b>US\$ MM</b>	<b>168.2</b>	<b>203.2</b>	<b>-17%</b>	<b>760.2</b>	<b>755.8</b>	<b>1%</b>

**b. Gross Profit:**

Gross profit during 4Q14 reached US\$ 79.1 million, a 32% decrease (-US\$ 36.9 million) when compared with the same period of the previous year. Likewise, gross profit during 2014 reached US\$406.3 million, 10% below that reported in 2013; mainly due to i) a lower average tin and gold price in 2014 when compared to 2013, and ii) a 17% increase in cost of sales, due to the processing of tin concentrate stocks with a higher unit cost.

**c. Administrative Expenses:**

Administrative expenses in 4Q14 were US\$ 10 million, an increase of 32% (+US\$ 2.4 million) compared to 4Q13. Similarly, administrative expenses in 2014 reached US\$ 34.9 million, an increase of 11% when compared to 2013. This was mainly due to an increase in administrative labor expenses as a result of staffing of key administrative areas, such as projects development.

**d. Exploration & Project Expenses:**

In 4Q14, exploration & project expenses totaled US\$ 11.2 million, which represented an increase of 123% (+US\$ 6.2 million) compared to the 4Q13. Likewise, in 2014, exploration & project expenses totaled US\$ 28.6 million, an increase of 108% when compared to 2013. This increase was mainly due to investments associated to the exploration in areas surrounding San Rafael and Pucamarca, as well as the advancement of San Rafael's tailing project pre-feasibility study.

**e. EBITDA:**

EBITDA in the 4Q14 reached US\$ 68.4 million, a decrease of 39% (-US\$ 43.4 million) when compared to the 4Q13. Similarly, EBITDA in 2014 reached US\$ 384.1 million, 15% below that reported in 2013. This was mainly explained by i) lower volume of gold ounces sold, ii) lower average price of tin and gold, iii) an increase in cost of sales associated to higher realization of stocks of tin concentrate with a higher unit cost, and iv) an increase in exploration & project expenses.



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**f. Other Income/Other Expenses:**

Other income/other expenses in 4Q14 and 2014 were higher than that reported in 4Q13 and 2013, mainly due to higher financial expenses, which reached US\$ 8 million in 4Q14 and US\$ 29 million in 2014. The higher financial expenses result from the issuance of a US\$ 450 million international bond.

**g. Net Income:**

Net income in 4Q14 reached US\$ 1.2 million, 95% below that reported in the 4Q13 (-US\$ 21.7 million). This was due to i) a lower EBITDA reported in 4Q14 ii) higher financial expenses increase, and iii) the adoption of accounting rule IAS 27, which allows the use of the **return of equity method** to record investments in subsidiaries and associates. By adopting IAS 27 rule (same rule used for consolidated purposes), Minsur will match the methodology used for calculating the asset value of its subsidiaries reported in its individual financial statements with that used in its consolidated financial statements, thereby correcting an existing distortion.

Excluding this accounting adjustment associated to the implementation of the return of equity method, the net income in 4Q14 would have reached US\$ 17.9 million vs. US\$ 52.7 million in 4Q13, a decrease of 66%. Similarly, net income in 2014 reached US\$ 97.5 million, 45% below the figure reached in 2013. Excluding, the accounting adjustment previously mentioned, net income would have reached US\$ 168.4 million, 28% below the same figure for 2013.

Likewise, when also excluding the exploration & project expenses, as well as the financial expenses, net income in 2014 would have reached US\$ 226.1 million, 10% below that in 2013.

## VI. LIQUIDITY:

As of December 31<sup>st</sup>, 2014, cash and cash equivalents totaled US\$ 586.4 million, an increase of 180% compared to US\$ 209.7 million at the end of 2013. As to the financial debt level, by the end of 2014, total debt reached US\$ 443.7 million, a 121% increase when compared to the debt by the end of the 2013 (US\$ 200.4 million). As a result of this, the net leverage reached -0.4x at the end of 2014 vs. -0.02x at the end of 2013.

**Table N°10. Total Debt**

Net Debt	Unit	2014	2013	Var (%)
Total Debt	US\$ MM	443.7	200.4	121%
Cash	US\$ MM	586.4	209.7	180%
Net Debt	US\$ MM	-142.7	-9.2	1445%
Total Debt / EBITDA	x	1.2x	0.4x	161%
Net Debt / EBITDA	x	-0.4x	0.0x	1723%