

1Q22 Nexa's Transcript Earnings Call and Q&A

Participants:

I - Mr. Ignacio Rosado – CEO of Nexa Resources

M - Mr. Rodrigo Menck – CFO of Nexa Resources

R - Ms. Roberta Varella – Head of IR of Nexa Resources

L - Mr. Leonardo Coelho – Senior VP Mining of Nexa Resources

O - Operator

O - Good morning and welcome to Nexa Resources First Quarter 2022 Conference Call. [Operator Instructions]

I would now like to turn the conference over to Ms. Roberta Varella, Head of Investor Relations, for opening remarks. Please go ahead.

R – Good day and good afternoon, everyone, and welcome to Nexa Resources' First Quarter 2022 Earnings Conference Call. Thanks for joining us today. During the call, we will be discussing the company's performance as per the earnings release that we issued yesterday. We encourage you to follow along with this on-screen presentation through the webcast. Before we begin, I would like to draw your attention to slide number 2, as we will be making forward-looking statements about our business, and we just ask that you refer to the disclaimer and the conditions surrounding those statements. It is now my pleasure to introduce our speakers. Joining us today, is our CEO, Ignacio Rosado; our CFO, Rodrigo Menck; and Leonardo Coelho, our Senior Vice President of Mining; as well as the Investor Relations Team.

With that, I am going to go ahead and turn the call over to Ignacio. So, Ignacio, please go ahead.

I – Thank you Roberta, and thanks to everyone for being with us this morning. Please, let's move now to slide number 3 where we will begin our presentation.

As the main highlights, you can see that overall operating performance was as expected and in line with guidance. In the first quarter our production was mainly affected by the Vazante's flooding due to the heavy rains. However, we announced in early April that Vazante is operating at full capacity. Also in this quarter, we have continued to benefit from high base metal prices, that combined with our solid operational performance, and financial discipline, generated a record-high adjusted EBITDA and a strong operational cash flow. Our balance sheet continues to be strong with a low financial leverage. In this first quarter, we also announced and concluded the early redemption of our 2023 notes in the amount of US\$130 million. Aripuanã has continued to progress, and we are on track to start production in the third quarter of this year. Mechanical completion has ended, and we are at more than 75% of commissioning. In Aripuanã it is worth mentioning that at the beginning of the year we signed an agreement to replace an obligation of royalty payments for a 5-year copper supply contract. The copper concentrate produced by Aripuanã will be sold during this period at market prices subject to a cap, including then a financial instrument. The fair value of this financial instrument had a non-cash impact of US\$19 million in the quarter and it's excluded from our adjusted EBITDA analysis. Finally, we would like to emphasize that we remain very optimistic about market fundamentals for the coming months.

Moving now to the next slide, slide number 4, where I will discuss our results in more detail. In this slide, you can see that zinc production in the first quarter of this year decreased by 14% compared to the first quarter of 2021, this was mainly driven by the

temporary reduced capacity in Vazante and lower treated ore volume in Cerro Lindo. As previously disclosed, Vazante underground mine was partially flooded from mid-January until the end of march due to the heavy rainfall levels in the state of Minas Gerais. At Cerro Lindo, treated ore volume was below our expectations as the workforce was impacted by COVID and we also anticipated maintenance at the concentrator plant. For the next quarters, we expect zinc production from Cerro Lindo and Vazante to improve, while Cerro Pasco complex and Morro Agudo are estimated to be relatively stable, similar to their first quarter performance. Mining cash cost in this quarter decreased by 23% compared to the prior year, and this was mainly explained by: (i) higher by-products and lower TCs; which offset; (ii) higher operating costs and the decrease in zinc volumes. Similar to the end of last year, we continue to face inflationary cost pressures in third-party services, consumables, and logistic expenses. Now moving to the smelting segment in slide number 5.

In the first quarter, metal sales totaled 134kt, 9% lower compared to the first quarter of last year, following lower production in Peru and in Brazil. In Brazil, smelter production was affected by the decrease in supply of Vazante, as well as lower calcine availability from Peru. In Peru, as previously anticipated, production in Cajamarquilla decreased year-over-year due to the reduction of calcine supply. For the second quarter, smelter production is expected to increase, as Vazante supply is normalized. Sales are expected to follow higher production volume and our 2022 guidance remains unchanged. Our smelting cash cost in this first quarter increased by 26.5% compared to the same period of last year, and this was mainly driven by: (i) higher zinc LME prices, which increased 37%, lower TCs, and higher operating costs. These factors were partially offset by higher by-products contribution. Conversion cost in the first quarter was US\$0.25 cents per pound compared to US\$0.18 cents per pound in the first quarter of last year. This increase is driven by the increase in energy prices and other variable costs, also influenced by higher inflation rates. Now moving to the next slide related to the completion of our Aripuanã project.

In Aripuanã we continue to make solid progress in all areas. The beneficiation plant was delivered to the operations team for commissioning, which reached more than 75% of progress by the end of march. In the second quarter, we plan to continue with the cold and hot commissioning of flotations' circuits of the three minerals and their concentrate filters. Also, the rest of the beneficiation plant circuits, as flocculants are under the commissioning phase to allow the start of operations. We are on track to start commercial production in the third quarter of 2022. In mine development, we have been very successful developing our Arex and Link mines and have reached 3.3 months of production in stockpiles. I had the opportunity to visit Aripuanã at the beginning of this month and I am confident that we're close to completion. As I mentioned before, Aripuanã will become a long-life flagship mine. Now, moving to the next slide where I will give you an update on explorations.

In the first quarter of this year, we executed our exploration program as planned and 28 thousand meters were drilled. At Cerro Lindo, the exploration program continued to focus on extensions of known orebodies to the southeast of the mine, and on the new VMS discovery at the Pucasalla target; in which drilling keeps confirming the continuity of zinc and lead mineralizations. At Aripuanã, the Babau NW revealed thick intersections with still pending assay results. At the Pasco complex, drilling remained focused on extending the existing mineralized bodies. In Bonsucesso, infill and deep exploratory drilling continue revealing thick and high-grade mineralized intersections that will increase resources in the north extent of this body. Now, moving to the next slide to show our financial results.

In slide number 8, beginning with the chart on your upper left, consolidated net revenue for the first quarter grew 20% compared to the first quarter of 2022. This was mainly driven by higher LME prices, which compensated for lower volumes. Consolidated adjusted EBITDA for the quarter was US\$208 million, a record-high for a first quarter, and increased by 16% from the first quarter of 2021. This performance is explained by higher metal prices and higher by-products contribution, which offset lower volumes and the increase



in unit costs resulting from inflationary pressures. Compared to the fourth quarter of last year, adjusted EBITDA increased by 53%. So, in addition to the comments mentioned before, adjusted EBITDA was also affected by the decrease in mineral exploration and project evaluation expenses, and lower SG&A expenses. In the next slide, I will discuss the financial performance by segment.

In the mining segment net revenue totaled US\$322 million in the first quarter and increased 26% versus the first quarter of last year. This factor was mainly driven by higher average LME prices. Adjusted EBITDA for the mining segment followed the upward trend and reached US\$127 million, 31% compared to the first quarter of 2021. Higher prices and by-products contribution offset the decrease in volumes and the increase in variable and fixed costs, as well as the increase in pre-operating expenses of the Aripuanã project in the amount of US\$10 million. In the smelting segment, net revenue in the first quarter totaled US\$562 million, and rose 20% versus the first quarter of last year, also supported by higher LME prices. Adjusted EBITDA was US\$82 million, a slight decrease compared to the first quarter of last year but a strong recovery from the fourth quarter of last year, and this was explained by: (i) higher LME prices; (ii) the expected reverse in hedge book difference, as we explained in the previous quarter; and (iii) higher by-products contribution and higher TCs.

I will now turn over the call to Rodrigo Menck, our CFO, who will comment on our investments.

M – Good morning and good afternoon, everyone. In the first quarter, we have invested US\$83 million dollars in capex, being us\$27 million dollars directly to the Aripuanã project. The Brazilian real appreciation against the U.S. Dollar had a negative impact of US\$4.7 million in the quarter on this specific line. With regards to the mineral exploration and project evaluation, we invested a total of US\$16 million in the quarter, being almost US\$11 million related to mineral exploration and mine development. As part of our long-term strategy, we will maintain our efforts to replace and increase mineral reserves and resources, supporting our business growth. Total planned exploration and project evaluation expenditures are expected to be US\$82 million in 2022 and remains unchanged. Moving to the next slide, where we will discuss our cash flow generation.

Here on slide 11, starting from our US\$208 million adjusted EBITDA and considering the reconciliation to cash flow, cash flow provided by operations before working capital changes was US\$227 million. We had US\$93 million from interest paid and taxes, and US\$46 million dollars of sustaining capex. Still, Nexa has generated US\$88 million dollars of cash before expansion projects and working capital during the analyzed period. After that, we invested US\$10 million dollars in non-sustaining capex and US\$27 million in Aripuanã. We also had a negative net effect of US\$43 million due to the early redemption of our 2023 notes of approximately US\$133 million, partially offset by a new export credit agreement in the principal amount of US\$90 million. Dividends and shareholder premium payments totaled US\$50 million, and foreign exchange effects on cash and cash equivalents, was positive effect in US\$31 million dollars. Finally, there were working capital investments of US\$156 million in the first quarter, highly impacted by higher LME prices on inventories and receivables, and lower outstanding amounts of account payables. With all the effects presented in this slide, free cash flow was negative in US\$168 million dollars in the first quarter. This negative effect was financed by our strong balance explained in the following slide.

On slide 12, you can see that our liquidity remains strong, and we continue to report a healthy balance sheet with an extended debt profile. By the end of the first quarter, our current available liquidity was approximately US\$900 million, which includes our undrawn revolving credit facility of US\$300 million. Total cash decreased compared to December 31, 2021, mainly driven by the early redemption of the outstanding 2023 notes, and the continued investment in excess of operating cash flows over the quarter. As of March 31st, the average maturity of our total debt was 5.4 years, with a 5.16% average debt cost.



Our leverage, measured by the net debt to adjusted EBITDA ratio was 1.53x compared with 1.37x at the end of 2021 and 1.73x a year ago. Moving to the next slide.

On this slide 13, we show you that average zinc price in the first quarter of the year increased more than 35% when compared to the same period one year ago, as limited supply has continued to support higher prices. Furthermore, the Russia-Ukraine war boosted base metal prices, which were already on a strong upward trend. Copper prices similarly increased by 18% in 1Q22 compared to 1Q21. Regarding market fundamentals, there is no change from what we presented in our call in February. The supply projections for zinc continue to be above real mine production and this effect combined with solid demand should support higher zinc prices.

I will now handle the call back to Ignacio, who will continue our presentation. Ignacio please.

I – Thank you, Rodrigo. I am now on slide 16. Corporate social responsibility is key for our industry, and it is core for our strategy. Last year, we started to revise our material topics related to corporate goals and ESG management guidelines. We have already established ESG metrics to our executive’s annual compensation. In the first quarter of this year, we published our code of conduct for suppliers. The purpose of this document is to establish the rules that will guide our suppliers’ ethical and socio-environmental behavior, which are directly related to our code of conduct and reflect a responsible and transparent performance. In May 2022, we expect to publish our annual sustainability report, which provides detailed and transparent information on the ESG results achieved throughout the year. For this year, we expect to finalize and have the final approval of the board of our ESG targets and KPIs to be disclosed to the market. We aim to enhance our transparency and accountability to our ESG initiatives. Now, turning to our last slide.

I would like to close this presentation by briefly reinforcing our priorities for this year. We are very close to deliver our 3rd flagship mine, Aripuanã, and we need to focus on its start-up and commercial production, as well to continue to work on its life of mine extension. We will continue working on improving our cash flow generation from our operations. Inflationary cost pressures are expected to continue, and we remain committed with our financial discipline on costs and capex optimization, extending our life of mine of our main assets remains a priority and this action has to be implemented in combination with a clear growth strategy in copper. Finally, we need to deliver a strong balance sheet, so we can fund most of our growth with our cash flow, while generating value to all our stakeholders.

Thank you very much for attending this presentation. I will now open up for questions.

Q&A Session:

O – We will now begin the question-and-answer session. [Operator Instructions] The first question comes from Carlos De Alba with Morgan Stanley, please go ahead.

Question – Thank you very much, everyone. So, first question, if I may, is on the new offtake agreement in Aripuanã that replaced a royalty liability. We read that the notes, we heard the comments earlier but maybe if you could explain a little bit more, I still don't fully understand what exactly happened? Was this an obligation that you were supposed to start paying earlier than the new start-up of Aripuanã and exactly what is happening there in terms of what is the volume which is capped the concentration of sales as well the minimum price? I think if I understood correctly, the lower of the LME price or a fixed price. So, if you could provide details around that, so we can model that would be great as well as to when exactly these concentrate deliverables will start presumably as early as the third quarter when the operation commences. My second question, if I may, has to do with working capital and cost of run of mine trends. In the first quarter, all working capital increase, part of that definitely is prices. But if you could comment as to how your



level of inventories in terms of volumes? Where do they stand right now? And what are the trends that you expect in working capital from that perspective, that will be very useful. And then also any comments that you may have on the trend of cost per run of mine given that they have been the increase year-on-year and quarter-on-quarter as well. Thank you.

M – Hello, Carlos. Good morning, thank you for the questions, Rodrigo here. First of all, the offtake, I will provide you something that you will be able to have a rationale because the details of the contract are under confidentiality, so cannot open up, for example, the price cap. But as you can see on the intangibles, we have an inception in January, which is what would be in the cost of mining rights, okay? And then the mark-to-market that you see affecting our results is the variation on this price. So, we have committed to deliver up to 31kt of copper in 5 years beginning October this year, all right? There is a curve of deliveries throughout the 5 years which respectively, ramp-up of the project. And once we deliver approximately 31kt, we finalized the obligation. This obligation extinguishes part of the royalties that we have in Aripuanã, one specific royalty for this specific offtake that we had in the past. And this was a negotiation that we had as we were managing these agreements of royalties from the past. That's pretty much it. You will follow up this quarter-to-quarter by the mark-to-market that we will disclose. This can be positive or can be negative depending on the future prices of the copper curve. I hope this is clear. The second one, working capital. Working capital is mainly price, mainly on receivables and of course inventories. Our volumes in inventories for the first quarter has increased a bit for calcine and also zinc concentrate in preparing for the maintenance stoppages that we have also, right, in some parts of our process. This is forecasted to be consumed in the coming quarter, not necessarily all at once, but this provides production stability in our smelters, so it's very important for us. Price is going up, of course, by the end of the quarter, it was above US\$4,000/t. This increased the mark-to-market of inventory, so this is forecasted to be reversed in the coming quarters when you consume those outstanding. On the payables, what happened was that we had higher payments than the ratio of generation of new payables. Why is that? As you saw in the fourth quarter, we invested US\$160 million approximately of CAPEX. And in this first quarter, we invested half of that. As our average term for this type of payment is around 45 to 50 days, you can do the math really the outstanding amounts were reduced, so this impacted the investment of working capital. But if you look overall, we are balanced in working capital index. We are investing US\$9 million only in our whole balance sheet position. So, I hope this is clear as well.

I – Yes. And Carlos, just to add to Rodrigo's comment, as you can see on slide 11, the main effects that affect our cash flow was mainly working capital. And as Rodrigo was explaining, we were building this inventory and then some receivables and payables and some of these effects are going to turn back. So, we believe that in the second quarter, we will have, hopefully, with these prices, cash flow positive quarter. Yes. Regarding costs, yes, we already factor in our projections and the guidance that we gave to the market, 7% of inflation in cost because these inflation pressures were not in this quarter, they began during last year. There were a lot of increases in energy costs, a lot of it is in cement, in lime. And we had a lot of pressure from the contractors in terms of salaries and in terms of replace of equipment, etc. So, this has been the case in this quarter and given that we have anticipated that we sort of comply with the cost per ton that we had in the quarter. In the second quarter, we don't see more important effects. However, we have to be very cautious because at high zinc prices and these high prices that we have, all the industry and all the providers also face pressures, and we have to be balanced with them as well because we have to keep long-term relationships. So, we are cautious. We don't see in the second quarter more increases, but if we see those, we will get back to you and we will provide guidance to the market as well.

O – The next question comes from Orest Wowkodaw with Scotiabank. Please, go ahead.

Question – Hi, good morning. I also wanted to talk a little bit more about cost today. Just I'm very surprised that you're not seeing or not guiding to higher costs. Just when I think about some of the impacts to your business right now, certainly, zinc TCs have moved up and the Brazilian currency has strengthened. Obviously, there's rising input costs across the board. How does your cost guidance, I guess that you already assumed 7% higher cost guidance, I assume, in the guidance. But I'm just wondering how to think about those factors in the fact that there's no change in your cost guidance.

I – Yes. I mean, there are many variables to consider here. The comment that I mentioned before was on the cost per ton, which is the 1 that is controlled at the mine. But if you consider the C1 you will see that TCs will influence that, and that's true because TCs are going up, and you are right on that. But again, our by-products, on the sales of our by-products with these prices and the volume that we have, we will sort of offset the C1 cash cost as well. So, the cost per tonne per mine is the comments I made, yes, we are having pressures on those. We anticipated this 7% of those costs. We are having more pressures, but with volume and some internal initiatives related to efficiencies on that support, efficiencies in the mine, in the utilization of equipment efficiency in productivity, we are sort of managing those. TC is something that we don't control. And the byproducts are driven by price, so that's why the C1, we don't see that C1 going up. So that's more or less this. Regarding the Brazil real, yes, we forecasted an exchange rate higher. We had, I think, an average of US\$5.20.

M – US\$5.50, I think, for the year, right? Cost guidance was forecasted with US\$5.50 of FX exchange ratio. And of course, now that we are under that, we have a pressure, a sensitivity that we can use as a rationale for the whole year, every US\$0.10, we have kind of an increased, nominal dollar increase of US\$10 million for the whole year and then proportionally throughout the year. So together with those initiatives that Ignacio mentioned, there are some balances between one and another. But one thing that is important is that within the 7% expectation that we included in our guidance, cost guidance we were very pessimistic about energy costs. And in Brazil, as you know, our main component of the matrix is hydrological. At that moment, we had the red flag as we call it in the system here and the prices were really expected to go up, but the raining season was really good for the basins here. And now we are in the green flag and the expectation is for costs to go down. So, we are observing, it's still too early in the year to know if this is going to really benefit us because we also have, as Ignacio mentioned, pressure on the transportation and logistics side, and some other inputs, warehouse items and all that. So, we are being cautious, we are observing, and we will come back to the market with some change on that, but we are not anticipating at this point in time, anything that for us means anything higher than the 7% in dollar terms for the year. Is it clear?

Question – It is. Thank you for that. And then...

M – The bit of a difference that Brazil has with the other countries.

Question – Definitely. Can you please remind us just on how your smelting contracts work? The new TC, I assume, will come into effect here in the second quarter for zinc. But can you just remind us of sort of how that 3-year kind of trailing TC is going to work for the smelting business?

I – Yes. The higher TC, you know, is related to the availability of smelting throughout the world, especially in Europe. Europe is facing a very high energy costs, so some of the smelters are closing down and because of that the TCs are going up. So, part of the contracts, part of the inputs in our smelters in Peru, 50% are from Cerro Lindo and from El Porvenir and Atacocha. In Brazil, a big percentage of those come from Vazante and from Morro Agudo. So, the new TCs will translate to the mines, because we have to follow market tendencies, but the profitability will go to the smelters. And the other TCs, regarding the concentrate that we bought to fill the plants, a big percentage was already fixed with the previous TC. So, we are not getting the benefit in the smelters of this TCs.

We, however, have some small spots that are being benefited from this new TC. So that's more or less the mix that we are having today in this effect of new TCs in the market.

M - If you want some proportions or just to remind you, 50% of our concentrated sourced by our own mines. So, the new TC will impact as an accounting policy ever since the beginning of the year throughout the year as a reference, so from our internal transfers. The 50% of what we consume is sourced by third parties, as Ignacio was mentioning, being 80% to 90% under the BRIC agreement, as he was describing, and 10% to 20% from spot and then we have a mild impact there, but it's very marginal overall. It's going up a bit with the new TCs, just to remind you of the percentages.

O - Our next question comes from Alex Hacking with Citi. Please, go ahead.

Question - Hi, good morning. I just have a couple of follow-up questions, if I may. Firstly, on the TCs, the smelting charges, is there any zinc price participation back in those contracts? Thank you.

M - I'm sorry, Alex, how are you? Just for me to clearly understand your question. You mean escalation mechanisms in case zinc prices go up, such as what was disclosed as the benchmark?

Question - I'm sorry. I had a problem with my headset. My question was just around price participation in the in the treatment charges this year. Is there any price participation in the contracts?

M - No. No, this is not a common feature for us. In some spot negotiations, you might have some escalation. So, as you saw recently, for example, it's US\$230 and if prices stay above a certain level, you can have additional dollars in the CPC's. But we don't have this type of features in our agreements. As I was describing to Orest's question about the percentages that we have, what remains in this spot is really 10% of the 50%. So, 5% overall has a minor effect in our overall TCs impact. Is this clear?

Question - Yes, that's clear. And then just a follow-up on Carlos' question earlier about the Aripuanã offtake. Just to clarify, it's 30kt in total, right, over 5 years, so it would be roughly 6kt.

M - 6kt over 5 years, yes. So, it's 30kt over 5 years. So, it's not 30,000 per year.

Question - Okay. Perfect. And then just finally on the cost side, are you seeing significant increases in the cost of your explosives? This is something that a couple of other miners who have highlighted as seeing significant cost inflation for them, thank you.

M - No. From our end here, as I explained, we are pretty, I wouldn't say comfortable. We're cautious, but we are seeing that the pressure that we're feeling on our cost, and it's really within those 7% range that we have disclosed. But of course, should this increase, we will be updating our estimates.

O - Next question comes from Jackie Przybylowski with BMO Capital. Please, go ahead.

Question - Thanks very much and congratulations on the quarter. I just wanted to ask a question about Aripuanã and the commissioning there. It looks like you're on track, still to hit commercial production later this year. Can you maybe just talk about where is the definition of commercial production related to full nameplate capacity. Do you expect to hit your full nameplate capacity by the third quarter? And also, can you maybe just talk about what are maybe the risks that you see over the next couple of months to hitting commercial production?

I - Yes. As I was saying, 75% of the commission is already done. And I guess we are in the process of testing with water, most of the equipment today. And so far, we are not



having any problems. As you can see, as you may know now, also the plant is all automated. So, we need to run all these cables and make sure that the automation process works. So, we are in that process right now. So, we are very close of starting the ramp-up of the plant, yes. Having said that, I would say we are very, very close to start the ramp-up. I cannot give you some, I would say, I cannot put some time on it because this is a process. But however, I would say that it's going to be soon, it's going to be in the third quarter, hopefully, beginning to mid-third quarter it's starting to ramp up. Regarding a commercial production, I don't know, Rodrigo.

M – So commercial production, we have defined the level of the stability that needs to be achieved for us to call it, commercial production. And that will be throughout the ramp-up process. So, once we have it, we will be disclosing, as Ignacio said, there is a plan of the ramp-up, but things can happen, and this might be variable. We expect to achieve it throughout this year yet.

I – Yes, but Jackie, I mean we are very, very confident that we are towards the end of the project. This is going to be in the third quarter, and we are very confident that that's happening.

Question – Yes, sorry. I mean, maybe just to clarify my question. Can we assume that when you hit commercial production or let's say, by the end of the third quarter or sometime this year, like Rodrigo mentioned, can we assume you're at your nameplate? Or is there still a gap between where you hit commercial production and where you hit full capacity? I'm just wondering because some people define commercial production as a lower throughput rate than that.

M – Yes, there's a gap between what we call commercial production and nameplate capacity, certainly. Nameplate capacity, we'll be achieving on by next year probably in the second half of last next year. Remember that our disclosure for the ramp-up period was up to 15 months. So, we are working the curve throughout this period. Usually, commercial production is around 70% of the nameplate capacity utilization so, we are working on those curves and numbers, Jackie.

I – And once the ramp-up starts, Jackie, I think we can provide more guidance to the market on how this is going to evolve through the end of the year. So, we will do that.

O – Our next question comes from Hernán Kisluk with MetLife. Please, go ahead.

Question – Good morning, thank you for taking my questions. I have 2 questions actually. The first is regarding your plans to expand in copper production. So, in the report you mentioned, you are targeting 100kt at some point in time. And I have already seen the projects that you have in the pipeline, Magistral and Pukaqaqa, but it seems that Pukaqaqa is still on hold, so I would like maybe to hear more color from you guys in terms of when and how and maybe even where you expect to deploy your resources to place your copper production? That's the first question. The second one is around Cerro Lindo production. So, since the end of 2020 or all along 2021 and into the first quarter of 2022. It seems that production has been on a declining trend that it has actually resuming decline in trend that started a long time ago. So, my question here is what should we expect in terms of production from Cerro Lindo? And also, the other side of this is that cost per ton before by-products are going up because of lower dilution, I guess, and so also, what should we expect in terms of cost from this mine?

O – It appears we've lost connection with our main speakers.

L – Yes, I can take question and they told me that they have lost connection. But Herman, you're right, for the previous years, Cerro Lindo has been reducing production, mainly because of rates, which was expected by our reserve model. And throughput was about stabilizing between 6.5 million tons a year. We expect to keep that level of production for the coming years. We're still assessing our geotech models to see how that's going to be



behave in long term. And grades, we don't see right now any major changes for the long term. We're still seeing that we are reaching an average grade for the deposit and that's what we're seeing right now. And in terms of cash costs, of course, that's impact in the first quarter we saw because of the impact on volume. But you see also that the cost can be stabilized in a level between what you have right now.

Question – Okay. So basically, we should expect stability from Cerro Lindo in terms of production?

L – You're right. We intend to see some stability from now on at the levels you were seeing in the previous years.

I – Okay. I'm very sorry. This is Ignacio. We don't know what happened, but our call was canceled, and we are back, so, we answered the Cerro Lindo question. Is that correct?

Question – Yes, that's correct. Yes.

M – And do you have the answer for the copper strategy, Hernan?

Question – No, not that one.

I – Okay. So, in terms of copper, you know that we produce copper in Cerro Lindo, almost 30kt and with the other mines and considering Aripuanã, we might go up to 40%. And the idea is that we produce at least 100kt in 5 years, that's the aim. That's what we are trying to achieve. So, we have some projects in the pipeline. We have the most important one is Magistral. Magistral in FEL3 right now, and it's a very good project in Peru. But the question mark, I would say in Magistral is that we don't expect in Peru that our operations today are going to be affected by any impacts, economic impacts on taxes or other impacts that would affect our profitability to date. But having said that, to fund a project today in Peru of sort of US\$800 million to US\$1 billion is something that we have to be cautious regarding Magistral. And we have to compare this investment with other alternatives that we can find in the market. So, the team, we have a dedicated team looking for opportunities and we are very flexible on many opportunities that what we are trying to look at is greenfield projects close to production, some producing mines. So, we are assessing a lot of opportunities, and we are very active in the market. So, when the time comes, we may come back to you with some news. Having said that, in this price cycle, everything is very expensive, it's very difficult to find something that is going to be accretive for the company. But I mean, as the process goes on, we will assess many, many opportunities. And the idea is that hopefully, we reach this 100kt of copper in 5 years.

O – Our next question comes from Lawson Winder with Bank of America. Please, go ahead.

Question – Hello Ignacio, Rodrigo and team. Thank you for the exploration report that you guys put out earlier this week. That was very helpful. I'd like to ask about the work that's happening at Cerro Lindo, particularly the focus on Pucasalla. So, there's 4 drill rigs operating. One, are those all drilling from underground? Or there's some drilling from surface. Two, how much of Pucasalla material is already included in the existing reserve and resource estimates? Also, how much or how material would you view the opportunity here? And then finally, what is your confidence level that Pucasalla will ultimately add to reserves at your year-end update?

I – Sure, yes. Pucasalla is a VMS. It's a massive organic deposit. And Pucasalla, these drill holes that we have in Pucasalla are from underground. We are still working on the extension of Pucasalla. Pucasalla is probably close to 3 to 4 kilometers from the structural center of Cerro Lindo. So, this is an upside for us in terms of reserves going forward. In the reserves that we have today, Pucasalla is not considered. So, from a structural point of view of Cerro Lindo, today, we have 8 years, and we are replacing these reserves, most of them from the surroundings of the main orebodies we are drilling with a lower grid, and we are into those. So, we are replacing reserves from those. However, we see Pucasalla

as a new discovery that could be massive, as I was saying, is still open. And the idea is that we drill Pucasalla this year, next year, and we will come back with news on its extension and its potential in terms of volume, and how are we going to incorporate that mineral in the reserves.

Question – Okay. That's great color. That's extremely helpful. Are there other targets at Cerro Lindo on which you're focusing drilling in 2022?

I – Yes. As I was saying, we have other targets. We have targets close to the mine, yes. They are not as promising as Pucasalla but given that they have continuity on the orebodies that we are mining today. The idea or the expectation that we have is that we add more resources from those that will be converted into reserves in the coming years. How many targets do we have? I mean we can give you more detail later on, but I believe that there are like 2 or 3 targets very close to the mine. I don't recall the names right now. But it's important that we add those in the coming years as reserves as well.

L – Ignacio, if you allow me to add additional information, those targets, the satellite targets, they are drilled from surface. Once you identify them and close a minimum level of understanding, the target is to develop towards underground to get a better shape on that and then add into our resources base and reserves later on.

Question – Yes, that's super helpful. And then maybe just sort of one final question to wrap this all up. What proportion of the entire exploration budget for 2022 is for Cerro Lindo is just focused at Pucasalla?

I – The Cerro Lindo target today, let me see, I think we have like 18,000 meters in Cerro Lindo, this should be like 10% of total budget of exploration that includes also greenfield in Cerro Lindo more or less.

Question – So Now we have questions from the web. So first one comes from BTG, Jose. Can you give a range of the EBITDA contribution that we should expect from Aripuanã in 2023, given your current assumptions?

M – 2023, we're going to be still in the ramp-up process. So, we will not reach full, let's say, full cash generation capacity. I would say as a projection, for example, we have the second quarter report, which is a bit outdated. So, I would expect more EBITDA contribution for Aripuanã than it is there in the technical report because we have higher prices. Technical report states EBITDA contribution with full capacity at US\$120 million, but with prices around US\$2,600, US\$2,700. So, we can estimate a much higher EBITDA with current price levels and considering full capacity above US\$200 million of EBITDA contribution. But this is only a forecast, it's still in the projections. And we need to observe the ramp-up curve evolution so that we can have this more in detail. But I would use the proxy of the technical report for estimate.

Question – Okay. We also have another question here in the webcast from Terence. Could you please provide more color on zinc markets like the balance between metal versus concentrated, if there is any surplus or debts this year and about treatment charges.

I – Yes. As we were saying, the key today in the zinc market are the smelters. As I was mentioning before, most of the smelters or some of the smelters in Europe especially are facing very high-power costs. And this translates them to shutting down these smelters or reducing the capacity. So, because of that and given that the mine supply or the concentrate is not going down that much. I mean it's sort of stable but TCs have gone up. Having said that, when we sell our metal, we see still a lot of demand and that translates in the premiums that we are receiving. The premiums today on a spot base are much higher today. So, from a zinc point of view, we are very bullish on the price of zinc today. Of course, you never know what will happen. But as we were saying in our presentation, for the coming months, we see a very high prices of zinc. What will happen next year, we don't know. I mean, it might be that Europe will face some recession because of the war,



we don't know that. But for this year, given these high TCs that we are seeing and high premiums, we believe that the market is very tight because of this smelter program that we are facing.

Question – And we have time for one more question from the web from Joanna. Can you just remind us of this energy accounting total costs? Can you comment on the higher net leverage ratio compared to the end of 2021? And also mentioned you intend to deleverage. Can you tell us if you have any net leverage target or guidance for the end of the year? In terms of rating, do you have any expectations regarding an upgrade of the S&P rating to investment grade?


M – Joanna, this is Rodrigo. Thank you very much for the questions. So, for the first question, it's around 5% overall, okay. Measures to mitigate impact of volatility and energy costs, it is very complicated to do that everywhere because energy, you have a pass-through, which is almost immediate everywhere. But in Brazil, what we follow up is the energy curve here internally. And now that we are in the green flag, these things begin to soften down a bit in the pressure on costs. About leverage, it's like there is no leverage targets. We have, by our policy, our target overall is to be below 2x net debt to EBITDA according to our risk management policy. This is something that we already are below. With current prices, we certainly will be generating more cash, and this ratio is probably trending towards 1x net debt to EBITDA by the end of the year. We have deleveraged on a gross basis last year, considering that we had many bank loans that were prepayable. Currently, out of our US\$1.7 billion debt, we have US\$1.2 billion that is the long-term bonds. The remaining amounts are pretty much on export credits notes in Brazil up to 5 years and also ECA's, export credit agencies, including the BNDES as one. So, there's less, let's say, days for gross deleverage. But we will be generating cash, and we will be considering this capital allocation either for growth or returning cash to the shareholders. In terms of rating, we have been in close discussion with all the rating agencies. I do not anticipate any change in our ratings in the short-term. but this is a constant discussion, our price metrics and our business fundamentals are really strong. This is something that we have to follow up according to their reports update that the periodically do. I hope this has answered your question.

I – Yes. One other comment that I want to make here is that you are right, the net debt EBITDA ratio for the end year was 1.37x and now it's 1.53x. So, you could see that we are increasing. And we wanted to be clear here is that the net cash that we consume in the quarter was US\$168 million. But out of those, US\$156 million were working capital that we already explained. And we see this working capital, a good part of that is going to reverse. So, I would say that the leverage ratio is going to go down with these prices should go down in the second quarter and towards the end of the year should go down as well. So, this was that main thing that influence this ratio.

O – Thank you. This concludes our question-and-answer session. We will now hand over to Ignacio for his final remarks. Mr. Rosado, please go ahead.

I – Thank you. Thank you, everybody, for attending the call. We hope we were clear with the results that we have in this quarter. We were very pleased that Vazante today is up and running again. We are projecting a good month in April, and we are projecting that we will achieve the guidance for the second quarter. As I was saying, Aripuanã, we are confident that it's going to be started to ramp up in the third quarter. We are very close to that. And we are very committed to make sure that we are disciplined in this environment that there is a lot of inflationary pressures. We have a lot of meetings through the weeks with the operations to make sure that we have initiatives to compensate for these pressures, and we are very committed to increase our cash flow. This is at the end, the objective that we have. So, thank you very much for attending the call. Thank you very much for the time. And we will speak soon. You know that Roberta and her team are here, if you have further questions, we will be very happy to answer later on. Thank you and have a good day.



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O - [Operator Closing Remarks]

Participants of the Q&A:

Carlos De Alba – *Morgan Stanley*

Orest Wowkodaw – *Scotiabank*

Alex Hacking – *Citibank*

Jackie Przybylowski – *BMO Capital Markets*

Hernán Kisluk – *MetLife Investment Management*

Lawson Winder – *Bank of America Securities*

(Call Duration: 63 Minutes)