2Q21 Nexa's Transcript Earnings Call and Q&A

Participants:

T - Mr. Tito Martins – CEO of Nexa Resources
M - Mr. Rodrigo Menck – CFO of Nexa Resources
R - Ms. Roberta Varella – Head of IR of Nexa Resources
O - Operator

O - Good morning and welcome to the Nexa Resources Second Quarter 2021 Conference Call. [Operator Instructions] The presenters on this call are Mr. Tito Martins, CEO of Nexa Resources; Mr. Rodrigo Menck, CFO of Nexa Resources; and Ms. Roberta Varella, Head of Investor Relations. Please note, this event is being recorded.

I would now like to turn the conference over to Mr. Tito Martins. Please go ahead.

T – Thank you. Good morning and good afternoon, everyone. Welcome to Nexa's earnings conference call and thank you for taking the time. Today, we'll be talking about our results for the second quarter of 2021. Please let's move now to slide three, where we will begin our presentation. I will start by briefly commenting on our results. We delivered another strong quarter we have safely operated and our adjusted EBITDA stood at US$233 million, the highest quarter result in our history. We benefited from strong pricing and the continuous commitment of our team to operational and financial performance. We ended the quarter with cash above US$1 billion and leverage down to 1.2 times. Vaccination has advanced, but we stay diligent. In light of the extension of the pandemic business continuity measures and COVID-19 protocols remain in place in our operations, exploration activities and projects. We believe they have been very effective. Mining and smelting operations are running at high utilization rates, and we expect to deliver our guidance. I'm glad to confirm that our first greenfield project, Aripuanã is also on track. As forecast, our sixth underground polymetallic mine should start production in early 2022. Global demand for our products remains strong and it is estimated to continue to grow, especially in a green economy. We will continue to invest in growth, adjusting ourselves through the opportunities and challenges imposed by COVID-19, among other factors. Given some recent events, we are evaluating our capital allocation strategy and the jurisdictions where we are operating. Meantime, we continue to invest and advance the engineering studies of our growth opportunities such as Magistral and Bonsucesso projects. In addition, we have revised our capex guidance for 2021 to US$510 million, which we will comment in more detail during this presentation. With respect to our ESG initiatives and our fight against COVID-19, we continue to provide support to our host communities and to the local governments in the regions where we operate. In order to reinforce our commitment to plurality and human rights, we joined the LGBTI+ business and rights forum in Brazil and the pride connection in Peru. In the second quarter of 2021, we also signed a partnership with Artemis, a social enterprise founded on a collectively of female entrepreneurs focused on disruptive change in global economic, environmental and social developing mine. Moving forward, we will maintain our efforts to build a sustainable business model, generating value for all of our stakeholders. And for that, we have also continued to invest in our exploration program in all of our mines and projects. On the next slide, slide four, I will comment on the results of Cerro Lindo brownfield exploration. Please move to slide 4.

In Cerro Lindo, exploration drilling has been concentrated on extensions of known ore bodies to the southeast of the mine and new mineralized zones like Pucasalla. Pucasalla target is located at the 4.5 km to the northwest of the mine and drilling results confirmed positive intercepts in the second quarter of 2021. We still need to continue to advance, but these initial results indicate that we could potentially expand our current mineral resources and reserves, extending the life of mine. We have, at the same time, also retained positive brownfield drilling results at the Pasco Complex, Vazante and Morro Agudo mines. Now please move to the next slide, slide 5.

Here, I will make some comments about the development of our first greenfield mining project, Aripuanã. When we published our update capex last October, we were contemplating an estimated impact of the first wave of COVID. However, the extension of the pandemic has demanded additional precautionary measures and some of the costs were not predictable at that time. Our previously capex guidance of US$547 million has been now updated to US$575 million and it may go up to US$595 million depending on some unexpected conditions. Here, we want to be cautious about future impacts of the pandemic, so we are setting up US$20 million kind of provision for the project, assuming that same costs incurred up to now would happen until the end of the construction. Fortunately, the current scenario in Aripuanã, has been much less negative than the one seen in the last nine months. In addition to COVID-19 costs, this capex increase also contemplates some inflation in a minor scope change. This scope change has to do with housing for our future employees. As you may know, as part of the infrastructure of the project, we are building houses for our operational team, surprisingly, during the hiring process, most of the future employees chose to be relocated to Aripuanã instead of working on a flying in fly out scheme. So, we had to increase the number of houses to be built in the city, good news in terms of retention and commitment to the project. In summary, despite the current circumstances with COVID and its impacts, we are on track to deliver our project as planned and start production in the beginning of 2022. Aripuanã construction works continue to advance, and overall physical progress has reached 89% at the end of June compared to 79% in March. Mining development activities continue to progress in both Arex and Link mines, and in June, the vertical development project scope was concluded. With respect to our exploration program, drilling has been focused at the deep Northwest extension of Babaçu and last results continue to confirm a high-grade mineralization area. These results support our belief that Aripuanã will be a long-life mine.

Moving now to slide 6. Let's talk about our project pipeline. In addition to Aripuanã, as you know, we have a pipeline of potential growth projects in different stages of maturity. With respect to Magistral copper project, engineering studies continue to progress and a peer review for the FEL3 stage will be carried out during the second half of 2021. These works are being developed to mitigate risks of project execution and before any consideration or approval by our Board. With respect to Hilarión, exploratory drillings results confirmed two new ore bodies at the Hilarión sur target. Regarding Bonsucesso, we continue to execute expansion drilling in the central zone of the site, and we have confirmed that the Bonsucesso mineralized zone extends at depth along parallel Southwestern trend.

Now I would like to pass to Roberta Varella, our Head of Investor Relations, who will comment on our financial results. Roberta, please.

R – Thank you, Tito. Good morning, everyone. Please let's move to slide 8. Beginning with the chart on your upper left, consolidated net revenue in second quarter of 2021 was US$686 million, up 104% compared to the same period a year ago, mainly driven by higher metal prices and volumes. If we compare with first quarter of 2021, net revenue increased by 14%. Adjusted EBITDA stood at US$233 million compared to US$40 million in the second quarter of 2020 and US$180 million in first quarter of 2021. As Tito mentioned, we have recorded the highest quarter adjusted EBITDA in our trajectory, we delivered another quarter of solid financial results and operational performance. And this performance not only benefited from higher metal prices and volumes, but also reflects our initiatives from Nexa Way program. Considering the first six months of 2021, adjusted EBITDA totaled US$413 million. In the next slide, we will discuss in further detail our segment's performance.

On slides 9 and 10, we will discuss our mining segment results. Zinc equivalent production reached 136kt, up 52% year-over-year and about 5% from first quarter 2021, mainly driven by higher treated ore volume. In second quarter 2021, zinc production of 82kt increased by 31% compared to a year ago, following the recovery of our Peruvian production, which was temporarily suspended due to the measures announced by the Peruvian government. Compared to first quarter 2021, total zinc production increased by 5.5%, primarily driven by Cerro Lindo, which benefited from increased production in the remaining areas and short-term mine design and lower dilution in the quarter, production in El Porvenir and Atacocha mines also increased. With respect to Vazante, as previously disclosed, Extremo Norte mine production remains temporarily suspended. During the quarter, an in-depth analysis of the technical conditions was carried out and no significant progress was detected. We have already started our rehabilitation plan to access the main ramp entrance and mine development should start in the third quarter of 2021. We expect mining production to resume in the first quarter of 2022. In terms of net revenue, we reached US$311 million in the second quarter, up 181% year-over-year and 22% quarter-over-quarter, explained by higher average LME prices and increase in sales volumes. Adjusted EBITDA for the mining segment stood at US$141 million, strongly recovering from a year ago. Compared to the first quarter, adjusted EBITDA also increased.

As you can see on slide 10, this performance was mainly explained by the positive price effect of US$34 million related to higher LME prices and changes in market prices resulting in quotation period adjustments followed by higher by-product credits due to better price and volumes and lower TCs, which were partially offset by the increase in operating costs driven by COVID-19 and maintenance expenses, higher workers' participation and the increase in exploration and project evaluation investments. In the first six months of the year, adjusted EBITDA amounted to US$239 million. In terms of cash cost, as you can see on the bottom right, consolidated mining cash costs of US$0.14/lb in second quarter 2021 decreased by 60% compared to the second quarter of 2020 and by 40% from the previous quarter. This decrease was mainly driven by higher by-product credits and lower TCs. Now let's turn to this smelting segment results.

On slide 11 and 12, we will discuss our smelting segment results. In second quarter 2021, metal sales amounted to 157kt, up 31% year-over-year and 5.5% from first quarter 2021, driven by a recovery in global demand. Net revenue in the quarter was US$522 million, totaling US$990 million in the first six months of the year, positively driven by higher prices and sales volumes. Adjusted EBITDA for the smelting segment in second quarter 2021 stood at US$93 million compared with US$39 million a year ago, compared to first quarter adjusted EBITDA also went up.

As you can see on slide 12, the 11% increase in EBITDA was mainly explained by higher sales volume with a positive impact of US$4 million, increase in by-products contribution due to higher prices and volumes and the positive effect of other income and expenses which were negatively impacted by an incremental provision in the first quarter. These factors were partially offset by the negative price effect of US$11 million related to changes in market prices resulting in quotation period adjustments. In the first six months of the year, adjusted EBITDA was US$176 million. In terms of cash cost, as you can see on the bottom right, consolidated smelting cash cost of US$1.08/lb in second quarter increased by 9% compared to the previous quarter, mainly driven by market-related factors such as higher zinc prices impacting the concentrate purchase and lower treatment charges.

I will now turn over the call to Rodrigo Menck, our CFO, who will provide more detailed information about our balance sheet. Menck, please.

M – Thank you, Roberta. Good morning and good afternoon, everyone. I am now on slide 13. As demonstrated in the upper-left graph, our liquidity remains strong and we continue to report a healthy balance sheet with extended debt profile. By the end of the second quarter, our current available liquidity was of US$1.4 billion, which includes our undrawn revolving credit facility of US$300 million. As of June 30th, the average maturity of our total debt was 5.5 years with a 4.6% average debt cost. Our leverage, measured by the net debt to adjusted EBITDA ratio decreased to 1.19 times from 1.73 times, mainly driven by higher adjusted EBITDA and lower net debt. The debt breakdown by category and currency is shown on the right side of the slide. In light of our strong balance sheet and liquidity, in July, we continued to advance with our liability management program, and we have prepaid additional existing financial debt by reducing our gross debt by almost US$180 million. On slide 14, you will see our proforma balance sheet considering these prepayments.

On this slide, we present Nexa's free cash flow generation. During the quarter, our free cash flow generation was US$40 million. Describing it further and starting from our US$233 million adjusted EBITDA, we had a US$35 million loss in working capital, US$56 million of sustaining capex and US$35 million of interest paid and taxes. Still, Nexa has generated US$107 million of cash before expansion projects during the annualized period, after that, we invested US$61 million in non-sustaining capex, which includes mainly our Atacocha development projects. We also had a negative net effect of US$63 million as we have prepaid about US$94 million of debt during the quarter, partially offset by the additional drawdown of US$51 million related to the BNDES loan agreement. Other non-operational impacts, including foreign exchange effects had a positive impact of US$53 million.

Turning now to the next slide, slide 16. As Tito mentioned, we have revised our 2021 capex guidance to US$510 million versus the previous US$450 million. This increase was mainly driven by the updated expenditures for our growth projects, mainly driven by Aripuanã, as explained earlier in our presentation. Feasibility studies investments for Magistral and Bonsucesso were also updated. In addition, we estimate higher sustaining investments in the second half of 2021 due to expected increase in mine development and higher maintenance costs, also affected by inflation. In the second quarter, we have invested US$116 million in capex. The Aripuanã project amounted to US$59 million, 49% of the total investment. For the year, we now estimate to invest US$255 million to continue developing Aripuanã. Sustaining investments, including HSE amounted to US$56 million in the quarter, totaling US$87 million in the first half of 2021. As projects advances, we expect the disbursements to increase over the second half of 2021, meeting our guidance disclosed in the beginning of the year. In terms of mineral exploration and project evaluation, we invested a total of US$17 million in the quarter, totaling US$31 million in the first half of 2021. For the whole year, we expect to continue our mineral exploration and project evaluation investments as we will maintain our efforts to replace and increase mineral reserves and resources supporting our business growth. On July 21, we published our second exploration report. We hope it could provide further clarity over our results and exploration program strategy.

I will now hand the call back to Tito. Tito, please.

T – Thank you, Menck. We are now at slide 18. Here, we will make some comments about the market fundamentals. Despite some downward pressure during June, zinc price maintained its upward trend and increased by 6% compared to the last quarter. This increase continues to be driven by a global economic activity growth, the depreciation of the US dollar against other major currencies also contribute to higher metal prices. Despite the challenge imposed by COVID-19, global mine production continues to improve. As a consequence, TCs have already shown some signs of recovery compared to the last quarter. This could add some downward pressure in metal price during the second half, the big question here is how Chinese mining production will behave. With respect to copper, price also presents a significant recovery year-over-year and increased by 14% compared to first quarter of 2021. Going forward, as the world is in transition to green economy, demand for our products should continue to increase. Moving now to our last slide, slide 18.

We remain focused on delivering Aripuanã project and strong results, benefiting from the favorable commodity prices and the operational improvements from our Nexa Way initiatives. We expect to be able to continue safely operating and delivering a sustainable result. Although there are some inflationary signs at the horizon, we believe our commitment to cost control and capital discipline will help us to overcome any difficulties. Our products are essential for a growing economy, and we believe we have a unique position to grow in zinc and copper in the long run, creating value for all our stakeholders.

Thank you all for your time, and let's move to the Q&A session.

Q&A Session:

O - We will now begin the question-and-answer session. [Operator Instructions] And the first question comes from Orest Wowkodaw with Scotiabank. Please go ahead.

Question – Hi, good morning, Tito, Menck, Roberta. Tito, I wanted to ask you about the comment that you made earlier and also in the front page of the press release pertaining to this issue of you're evaluating your capital allocation strategy and the jurisdictions where you operate. Does that imply that you're potentially looking at new assets outside of Brazil and Peru? Or am I just reading too much into that?

T – Hi, Orest. Thank you for your question. Let's put this way, I think in the last call, we had already mentioned that we were looking at new assets outside of the two countries. I mean we have some resources being expanding in Namibia today, some exploration drillings and we are also moving to Ecuador, where we have just opened a new subsidiary and we are talking to potential partners there, Junior companies. So, the idea is, clearly, we need to mitigate our geopolitical risks, right? So, the best way to do it is actually moving to different geographies. It's exactly what we are doing and of course, we must be very cautious because everybody is asking us what's going to happen in Peru, we don't know. We are in Peru to stay, it's our home country, but understanding that things are changing everywhere, so it makes sense to move, to be present in other geographies.

Question – Okay. But it sounds like your presence here in these other jurisdictions, it sounds like they're fairly modest sort of at the exploration-type stage.

T - Yes. The idea is, we said that in the past, of course, we have our greenfield projects. They are located basically in Peru and Brazil, but we keep looking around to see if there are other competitive opportunities. This is one of the things that we keep saying all the time. I mean, if I can find a competitive project in another geography that actually can bring us a higher return and value, of course, we would look for that and maybe disregard what we have in our portfolio already.

Question – Okay, and the capital allocation strategy part of that statement, is that pertaining to sort of new investments? Or could it pertain to higher shareholder returns? Or what are you alluding to there?

T - No, we are still looking at new investments. We want to grow our portfolio and grow in copper. Copper is our priority. Clearly, the market still does not understand completely the zinc market. So, we understand that we want to keep our volumes of zinc, but in parallel, we want to grow in copper. So, the capital allocation would be in this direction, right, to look at the opportunities and grow.

Question – Okay, thank you, Tito.

T – Thank you.

O – The next question is from Isabella Vasconcelos with Bradesco BBI. Please go ahead.

Question – Hi, good morning all. Thanks for the opportunity. I have a couple of questions on my side. The first one on dividends, and of course, you already have a dividend and capital allocation looking into the next couple of years. You already have a very comfortable leverage position, so should we see dividends trending up? Or are there other opportunities in liability management? And the second question, looking ahead to the second half in terms of demand, if you can comment, Tito, a little bit on your order book visibility, and what you're seeing in the LATAM market, that would be helpful. Thank you.

M – Hello, Isabella. Good morning. This is Rodrigo Menck. I'll answer the first question for you. Regarding this strong cash position and dividends versus liability management, we have already paid dividends this year. Although we are, let's say, coming from a challenging year last year, we wanted to really be committed to our shareholders, and we had that payment. We don't foresee any additional payment throughout this year. The strong cash position that we have, we have been also using for liability management. We have bank loans mainly that are more flexible to be prepaid, that we have been prepaying, as you saw in subsequent events in our figures released yesterday. So, we already paid during the quarter around US$80 million and an additional US$180 million ever since the beginning of July. So looking forward, with strong cash generation and a proper liability management or liability surveillance here that we have been doing. As Tito mentioned, our goal is to invest and increase the business, so with all the due governance and looking forward these opportunities he just mentioned.

T – Isabella, your second question about the market. Let's put this way, the market has been very strong, I remember in the last call, I mentioned that we were seeing a very strong first half of the year and we are still seeing the same situation, meaning US, Europe, LATAM, Asia, all continents everywhere, we're still seeing a very strong demand for base metals in general. On the other hand, there is a lack of supply, mostly in China. It has to do with the lack of concentrate production, the concentrate production is lower than what was expected to be. So, we are confident that we should have a second half very similar to the first half, meaning in terms of performance of sales, supply and demand profile and pricing. So, we are very optimistic about the second half. Thank you.

Question – That's very clear. Thank you, both.

O – The next question is from Jens Spiess with Morgan Stanley. Please go ahead.

Question – Hello, everyone. So, two questions. I just want to ask if you could elaborate on the increase of the sustaining capex guidance and if you could give us a number of what do you see being the long-term sustainable capex. On the capital allocation, I would like to know if it's fair to assume that you will deprioritize Magistral maybe next year given the heightened political uncertainty. Thank you.

M – Hi, Jens. How are you? Let me cover the sustaining capex first. Actually, we have been seeing some events there, Jens. First of all, I believe we have to a certain extent, which is not as high as other market peers are facing, but we have inflationary costs to a certain extent. But when you talk about sustaining capex, we are increasing mine development investment, especially in Cerro Lindo. So then with this, you get kind of a rounded-up figure, as you saw, also infrastructure, I apologize. Once you are increasing mine development going deeper and all, you have infrastructure investment that you must cover. So this justify quite a bit the larger amount of this increase you observed. Looking forward on a long-term sustaining capex for every year, we have been discussing this ever since the IPO. I believe proportionally we have been increasing that as to the new operations that we have in Aripuanã. So, I think it's fair that you could think about something around 240 to 270 per year, and that's it's a fair reference. This is going to be effectively sold. We need to forecast every beginning of the year, which is the timing we really provide guidance to the market. But as a rationale or broader rationale, I think it's fair to assume this type of range.

T – Okay. Regarding the question about Magistral. We are in the process of actually ending the feasibility study, we are almost done with that, we are only de-risking the project. By de-risking, I mean we want to be sure that we have everything in place and completely assessed it in order to develop the project, it's our priority to have it ready for development. I'm assuming that soon after we finish the construction of Aripuanã, we should be able to discuss with our Board if we move ahead or not with the project next year. When you think about what's going on in Peru with the new president and the new political situation, I said that before, and I still believe that we should not be very concerned about it because Peru is our priority. Peru has a very stable institutional and political situation. So, we are not concern about the change in the politics there and the merits of the project would be the ones to justify its development, regardless the political situation. So, we are just being very precise and looking at the technical aspects of the project in order to decide about the future, I'm optimistic about that, by the way. I keep saying that it's a good project, and we should pursue it. Thank you.

Question – Thank you.

O – Your next question is from Jackie Przybylowski with BMO Capital. Please go ahead.

Question – Thanks very much. Maybe I'll ask a question about the projects that you have in your pipeline. I'll start with Aripuanã, as you mentioned that some of this capex increase. I think if I understood you correctly, some of this capex increase is coming from the fact that more workers are opting to live at site rather than fly in and fly out. Does that affect your forecast for operating costs going forward? Should we expect that those might actually be lower than you had previously targeted because of that?

T – Hi, Jackie. Thanks for the question. Yes, it's not material. It's not a significant value amount. But yes, the final impact would be an exchange of opex or capex. You're correct about that. But it's not material. We're talking about US$9 million increase.

Question – Okay. Got it. Thank you. And on that same vein, I guess, I mean you continue to list in your MD&A, the number of projects that you have in your pipeline. Can you maybe give us an update in terms of what you're thinking now that we're getting closer to completion of Aripuanã, are you planning in 2022 to accelerate your efforts on any of these other projects that have been on the quieter side since COVID?

T – Okay. I'm taking a picture here, ok. The way I see from today looks natural for us to go for Magistral next year, ok? COVID is still a big problem everywhere, I think the situation is going back to a more normal, but COVID, it's still there. It's still a matter of concern. Assuming that the situation turns to be more sustainable and quieter, we should pursue the next project that would be Magistral. Following Magistral, looking at our pipeline, it seems to me that Hilarión should be the next one, given the good results we are having from the exploration there. Hilarión is an important project for us because at the end of the day, it will add additional zinc capacity for our mines. So, this to me is exactly what we are seeing for the next few years.

Question – What's the development timeline as far as you can tell right now for Magistral? Is this maybe like when would you see it coming into production like 2025-ish?

T – 2022, 2023, 2024, yes. Should be ready beginning in 2025. Exactly.

Question – Okay. And then maybe I'll just ask on a separate topic. Roberta mentioned earlier in the call, Extremo Norte, I think starting to resume production in Q1 2022, is that correct? Can you give us a little bit of update on it?

T – Yes. We are going back to the development now. We'll start development actually next week, which are good news. When we stopped production there, we had to replan our production in Vazante mine. So, we are not considering that Extremo Norte will produce anything on the second half. We will just concentrate on development and actually having it back in production at the beginning of next year. We will replace what Extremo Norte would produce in 2021 by more production coming from the main mine, the Vazante mine.

Question – How does that affect grade, like, how do you see the grades in second half of this year? And then how does that change once Extremo Norte comes back in.

T – It doesn't, it doesn't. We should see the same grades we had in the first half. It doesn't, it doesn't change anything.

Question – Okay. That's it for me. Thank you very much for that.

T – Thank you.

O – The next question is from Alex Hacking with Citi. Please go ahead.

Question – Yes. Good morning. I have a couple of follow-up questions, just following up on what Orest asked earlier. I just want to clarify around geographic diversification, just so I fully understand, is that something that you think is strategically preferable to diversify outside of Brazil and Peru? Or it's more a question of just chasing the best projects and having some optionality in case the investment environment in those two countries isn't so good. And then just on Magistral, is it still going to be a 30kt a day project? Has anything changed there? And if I remember correct, there was an issue with one of the communities that you had to work around their land, is that side all resolved, all the community relations and everything? Thank you very much.

T – Thank you, Alex. In terms of our speech about jurisdictions. I would say we are looking at new geographies in order to work on our geopolitical risk profile. And of course, we are also looking for good assets, right? So, I would say, of course if tomorrow someone comes to us and offers us an interesting project in Brazil, of course, we would look at that, ok? But if I have opportunities to be somewhere else, I would do it. Clearly, we've been kind of punished for being only in Brazil and in Peru. So, in our view, it makes sense to look at other opportunities and other places. In terms of Magistral, we are keeping the same size of the project to 30kt a day, there is no change on that. Of course, we had a chance to look at different possibilities. We are still looking at cost of business, but it seems to us it makes a lot of sense to have scale there. So economically speaking, it would be better to actually produce with large volumes daily. Issues with the communities, we don't have. I mean, we have a good agreement with the community where we will be operating, this agreement has been in place, if I'm not wrong, for the last four or five years already. There is another community, which was in dispute against the first one, the dispute is among them, and it has to do with the limits of each area, belonging to each of the communities, but doesn't affect our project directly. So, it's an internal dispute between them and doesn't affect our relationship. In general, we are doing fine there, there are no issues with them.

Question – Okay. Thanks. Great. Good luck with the Aripuanã.

T – Thank you.

O – The next question is from Hernan Kisluk with MetLife. Please go ahead.

Question – Good morning. Thank you for taking my question. Congratulations on the results. It's a follow-up on many of the political issues that you have been discussing so far. We have seen Castillo talking about social returns for mining companies, so I'm wondering what you are foreseeing here? Are you thinking maybe higher taxes, higher labor costs, more restrictive environmental regulations? And with all this mix and if the situation takes a turn, maybe for the worse, with a more aggressive government, what are the legal means that Nexa has available to try to fend off attacks or higher costs that go beyond what is rational?

T – Well, very good, very huge, very broad question, but thank you. What happens is the following, we rely on the institutions in Peru, ok? So, we trust the Peruvian democracy has been in place for decades already. There were different governments along the last 20 years from the left or from the right, and the economy and business were in a very sustainable way. The government is saying now that they may go for increasing taxes, they want to distribute better the income, but we have to see how the congress will react to the position of the president, because the president doesn't have the majority of the votes there. So, we don't think there will be a major change, a disruptive change, in the way businesses are treated by the central government in Peru because the difference between what the presidency wants and what the congress supports. Clearly, there's no match between them, which actually can keep the institutions working as usual. So, we are not so concerned about it right now, and of course we have to wait and see how the politicians will behave along the next few months in order to be able to define that it will be a major change, but we don't think it's going to happen.

Question – Okay. My second question on that regard, do you have a tax stability agreement in place in Peru?

T – Menck, do you want to answer that?

M – Hi. We have just one agreement with Cerro Lindo, and this will end until the end of this year. It finalizes in December this year, so from next year on, there are no tax stability agreements in place. There will not be any tax stability agreement in place.

Question – Okay. Thank you very much.

M – Thank you for your question.

O – [Operator Instructions] The next question is from Lucas Yang with JP Morgan. Please go ahead.

Question – Hi, everyone. Good morning and thank you very much for taking my question. I have two brief ones, first one is that you mentioned that the outlook for price is positive and there should be no changes in grade, right? Mining costs were very low year-to-date, and the guidance wasn't changed. My question is, do you expect a pickup in costs into the second half and why is that? How should this play out? My second question would be, every change in Peru will depend on Congress and how the political scenario will play out? What do you think that with the Castillo presidency, there should be more risk on the labor side, maybe strikes and things like that? So, if you could explain to us a little bit how the labor contracts were delt, what are the risks, that would be great. Thank you very much.

M – Okay, Lucas, thank you for your question. First of all, on the cash cost. We know we are conservative to some extent in maintaining what we see as mining costs. But let's be reminded that part of the decrease comes also from prices in by-product. And that the prices are still showing some volatility, and also, we have been as I mentioned in another response here, we have been seeing some higher investments in mining development as we're increasing our scope of work in the mines, so this might impact as well. The thing is, the way we saw the year back in January, when we released the guidance had some changes, some positive impact, some other negative impacts. And we understand the guidance still represents a fair information about what to expect throughout the year. Have I addressed your question?

Question – Yes, it's very clear. Thank you.

T – Okay. About the second question, we have had a very stable relationship with the unions in all of our operations in Peru. From time to time, there is some noise, but it's a thing that we consider very normal, nothing that calls our attention. With the new government, I would say that I'm not expecting to see a major change in the relationship with the unions, it seems to me that the government is more focused on promoting the social development. So what we may see is more discussions and negotiations with local communities because, as you know, we've been supportive to them all the time. I mean it's part of our industry is very important to the country, so is part of our lives and our daily business, actually being closer to the community. So, we may see this relationship increasing, but in general, I'm confident that the situation should not change much. Thank you.

Question – Great. Thank you.

O – This concludes our question-and-answer session. Now we will hand over to Tito for his final remarks. Mr. Martins, please go ahead.

T – Thank you very much. Thank you for all being here today. We are still living a difficult time because, as I said before, COVID has not ended up yet. But it seems that the situation is improving a little bit. I mean we see less people being contaminated and vaccination is increasing, so we are very optimistic about the second half of the year. As I said before, market has been very good, and it seems to us our operations they've reached a very stable level. So, we're expecting a positive scenario and a positive performance for the rest of the year. In the case of Aripuanã, as I said we are very optimist, we believe that we will be on schedule, and we should end up the year ready for production in 2022. So once more thank you very much, we are available, our Investor Relations team, is available to speak with you at any time. I wish you a good weekend, thank you very much.

O - [Operator Closing Remarks]

Participants of the Q&A:

Orest Wowkodaw – *Scotiabank*

Isabella Vasconcelos – *Bradesco BBI*

Jens Spiess – *Morgan Stanley*

Jackie Przybylowski – *BMO Capital Markets*

Alex Hacking – *Citi*

Hernan Kisluk – *MetLife*

Lucas Yang – *JPMorgan*

(Call Duration: 51 Minutes)