4Q20 and 2020 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
P	Presenter

P - Good morning, and welcome to the Nexa Resources Fourth Quarter and Full Year 2020 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, and good morning and good afternoon everyone. Thanks for joining us in another Nexa's earnings conference call. I hope you and your loved ones remain safe and healthy. Today we will be talking about our results for the fourth quarter and full year of 2020. Please, let's move to slide 3 where we will begin our presentation.

In an unprecedented and challenging scenario, we have safely resumed our operations after the mandatory shutdown in Peru. Our financial performance recovered strongly from the first half of the year. Although we're still learning how to adapt ourselves to a "new normal" with COVID-19, we were able to rapidly implement additional health and safety protocols to mitigate the spread of the virus in our operations and projects. We estimate these additional protocols will remain at least in 2021. Part of our employees will continue working remotely. We maintain our efforts to build a differentiated sustainable and cost-efficient business model, generating value for all of our stakeholders. In 2020 production guidance was achieved, sales were stronger than expected, operational performance and cost reduction resulted from our Nexa way program. Besides, Nexa way also have strengthened our inclusion and plurality programs. In this context, we reinforce our commitment of returning capital to the shareholders. Therefore, based on our expected future cash flow and balance sheet stability, we are pleased to announce a dividend payment of US$35 million to be realized next march. Please turn to slide 4.

In 2020 we have continued to progress in our social and environmental programs, as mentioned before we are prioritizing our plurality program. In 2020, Nexa signed a commitment letter with the "women in mining" that aims to expand and strengthen the participation of women in the sector. We have created a tailing dams website to improve transparency on our tailings management and we have also continued to improve our energy matrix. In terms of our social commitment, Nexa continue to collaborate to the economic development and quality of life of our host communities. Moving to the next slide, slide 5.

As you can see, slide 5 shows the projects in our pipeline. Aripuanã is our project under development and I will discuss it more in details ahead. Our projects are in different phases of maturity. Since the beginning of the COVID-19 outbreak, we have been very concerned and disciplined about our capital allocation. Because of that, our project portfolio and its timeline, is subject to a continuous evaluation of COVID-19 impact in our financials. Engineering studies at Magistral copper project have continued to progress and in 2021, we expect to advance further detailed engineering and optimization opportunities to mitigate the risk of execution, before proceeding with its approval and execution. The pre-feasibility studies at Shalipayco and Puka remain on hold. Regarding Hilarión, exploration activities were resumed in the third quarter of

2020 and were completed as planned. For 2021, drill program will focus on testing the continuity of the mineralization towards the south of the area. In Brazil, we have resumed our exploration activities of the Bonsucesso project in the fourth quarter and the engineering studies have been resumed earlier this year. Bonsucesso is expected to extend the life of mine of Morro Agudo, reinforcing the integration of our mines and smelters in the country. Turning now to slide 6 please.

Here I will comment the Aripuanã development. Construction works continue to advance and overall physical progress reached 70% at the end of December. The operational readiness team is on site and stopes development have started. Based on the current status of engineering, procurement and construction, we believe we will continue to deliver according to the updated plan. Mechanical completion is expected in the fourth quarter of 2021 and production should start right away. In 2020 we invested US$187 million in the project and we estimate the capex of US$232 million along this year. Aripuanã reinforces our mining-smelting integration, decreasing our exposure to third-party concentrate, by adding in our production something around 120kt of zinc equivalent. We estimate its cash cost to be in the beginning of the 2nd quartile of the cash cost curve which will reduce our average mining cash cost. The Aripuanã project is one of the few zinc projects under development in the world and we believe it will be a long-life mining operation with competitive costs. Please move to the next slide.

Since the approval of the project we have continued to advance in our drilling campaigns either with mine drilling and exploration drillings. In response to covid-19, exploration activities were temporary suspended but resumed in the third quarter of 2020. The new exploration target Babaçu northwest was tested in the fourth quarter, confirming extension of the mineralization. In 2020, 4,000 meters of exploratory drilling was completed, and for 2021 we plan to continue the extension drilling in the Babaçu northwest. Based on current inferred mineral resources and considering our track record of conversion, we believe life of mine could easily be extended beyond 20 years.

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

R – Thank you Tito, good morning everyone. Please, let’s move to slide 9. Beginning with the first chart on your left, consolidated net revenue in 4Q20 was US$635 million, up 8% from the same period a year ago, mainly driven by higher zinc and copper prices. Adjusted EBITDA stood at US$167 million compared with US$65 million in 4Q19. The main factors that contributed to this performance were: (i) lower operating costs and expenses; (ii) the positive net price effect related to higher zinc prices; and (iii) the increase in by-products contribution. The U.S. Dollar appreciation against Brazilian real had a positive impact of US$13 million. In 2020, net revenue was approximately US$2 billion, down 16% compared to 2019, mainly driven by lower average zinc and lead prices, and lower volumes due to COVID-19 related measures. Adjusted EBITDA, however increased by 15% year-over-year, (i) the solid performance of our operations in the second half of the year; (ii) lower costs; and (iii) the decrease in mineral exploration and project evaluation expenses were the main drivers. The U.S. Dollar appreciation against Brazilian real had also a positive impact. On the next slides we will discuss in further details our segments performance.

On slides 10 and 11, we will comment on our mining segment operational results. In 4Q20, adjusted EBITDA stood at US$87 million, strongly recovering from 4Q19, mainly explained by (i) the increase in net revenue due to higher production and better metal prices; (ii) lower operating and corporate costs; (iii) and the decrease in mineral exploration and project evaluation expenses. In 2020, adjusted EBITDA totaled US$140 million compared with US$173 million in 2019. Net revenue was US$748 million, down 25% year-over-year, mainly affected by (i) lower average zinc and lead prices; and (ii) the decrease in volumes due to the temporary suspension of our operations in Peru; which was partially offset by the solid performance of our mines in Brazil.

As you can see on slide 11. The decrease in volume had a negative variation effect of US$113 million, followed by market related factors such as lower prices and higher TCs, with an impact of US$92 million. These factors were partially offset by (i) the positive impact from the Brazilian real depreciation against the U.S. Dollar; (ii) lower operating and corporate costs; and (iii) the decrease in mineral exploration and project evaluation expenses. In terms of cash cost, consolidated mining cash cost in 2020 decreased by 10% to US$0.39/lb positively affected by lower operating costs. Moving to the next slide.

On this slide we will comment on our 3-year production guidance. At the midpoint of guidance range, zinc equivalent metal production is forecasted to increase 7% on average, mostly driven by the start-up of Aripuanã in 2022. For 2021, zinc production is estimated to increase by 8% from 2020 and for 2022, after Aripuanã ramp up, an additional 7% over 2021. For 2023, zinc production is estimated to decrease primarily driven by a decrease in the forecasted zinc head grade in Cerro Lindo mine. Exploration activities in Cerro Lindo were resumed in 2H20 and we will maintain our efforts to replace and increase mineral reserves and resources. In terms of cash cost, we estimate mining average cash cost of US$0.33/lb in 2021, as we forecast (i) higher by-product credits, driven by better volumes and higher prices compared to 2020; and (ii) lower benchmark TCs; which should offset (iii) the normalization of mine development and infrastructure costs in Peru after the temporary shutdown restrictions. Cost reduction initiatives also remain in place. Turning to the next slides.

On slides 13 and 14, we will discuss our smelting segment operational results. In 4Q20, adjusted EBITDA stood at US$83 million, up 47% from 4Q19, mainly explained by (i) higher TCs; (ii) lower corporate expenses; and (iii) the depreciation of the Brazilian currency. In 2020, adjusted EBITDA stood at US$264 million, up 50% from 2019. Although net revenue went down affected by the pandemic, especially in 2Q20.

As you can see on slide 14, adjusted EBITDA improvement was mainly driven by (i) higher treatment charges, which were partially offset by changes in market prices in respect of quotation period price adjustments; (ii) lower operating costs due to the decrease in energy prices and higher silicate mix; and (iii) the decrease in corporate expenses. In terms of cash cost, consolidated smelting cash cost in 2020 decreased by 20% to US$0.81/lb positively affected by higher TCs and lower operating costs. Turning to slide 15.

On this slide we will comment on our smelting segment 3-year guidance. Metal sales volume in 2021 at the midpoint of the guidance range is estimated to increase 7% from 2020. In 2021, we expect our smelters will continue to benefit from improved operational performance and will run at normal utilization rates. For 2022, metal sales volume is estimated to increase 3kt over 2021, and to remain stable in 2023 over 2022. In terms of cash cost, we estimate smelting average cash cost of US$0.95/lb in 2021, as we forecast (i) lower benchmark TCs compared to 2020; and (ii) higher metal prices, increasing raw material costs; which should be partially offset by (iii) cost reduction initiatives.

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 16. Before we discuss our financial performance, I would like to present our historical EBITDA and EBITDA margin for the smelting segment. As you can see, despite the changing in zinc prices, smelter margins in 2018 and 2019 were relatively stable. Which means smelter margins are mainly affected by changes in treatment charges and operational costs. As you may know, we apply the benchmark TC for our integrated mining and smelting operations. Also our purchases of zinc concentrate from third-party suppliers is mainly based on the 3-year average benchmark TC, which has not changed much in 2018 and 2019. Analyzing the year of 2020, TCs increased from 2019 and despite the volatility in metal prices, we delivered two digits margin. This strong performance not only reflects higher TCs, but also our ongoing efforts on reducing fixed costs. We wanted to bring this analysis to reinforce the strategic importance of being integrated and having smelters in our portfolio. Turning to the next slide.

On slide 17, 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 2020, our current available liquidity was US$1.4 billion, which includes our undrawn revolving credit facility of US$300 million. We have overcome the challenges we faced in the beginning of pandemic. As we recall, we proactively managed our liquidity position by raising additional debt during 1H20. We added about US$300 million to our cash balance through export credit notes in March and April. Then we drew down our revolving credit facility, which was repaid with the proceeds of the US$500 million bond we issued in June. And finally we partially drew down approximately US$90 million in 4Q20 from the BNDES loan agreement from a total available amount of US$140 million. The debt breakdown by category and currency, is showed on the lower left side of the slide. As of December 31st, the average maturity of our total debt was 5.4 years. On the right side, we see net debt decrease compared with the previous quarter reflecting the improved results of our operations and cash generation. Our leverage, measured by the net debt to adjusted EBITDA ratio also decreased to 2.29x, as a result of higher adjusted EBITDA and lower net debt. Now moving on to slide 18.

In response to the COVID-19 outbreak and our focus on preserving cash, we decreased our investments in 2020. We invested US$354 million in capex and we have accrued US$18 million in tax credits with respect to our ongoing investments. Consequently, total capex in 2020 amounted to US$336 million. The Aripuanã project amounted to US$187 million, 55% of total capex. Sustaining investment, including HSE expenses, amounted to US$115 million, below our historical levels as we maintained only the essential investments to operate safely. For 2021, we expect capex of US$450 million. We estimate to invest US$232 million to continue developing Aripuanã and we expect to resume our sustaining and HSE investments similar to pre-pandemic levels, in order to continue building a sustainable long-term business. In terms of mineral exploration and project evaluation, in 2020 we invested US$54 million. For 2021, we will resume our mineral exploration and project evaluation investments as we will continue our efforts to replace and increase mineral reserves and resources, supporting our business growth, we estimate here a total investment of US$71 million. In addition, we expect to invest US$9 million in technology and contribute US$10 million to our host communities. We invest in education, training and we try to employ and contract local services, supporting their social and economic development. Turning now to the next slide, slide 19.

On this slide, we present Nexa's free cash flow generation. During the quarter, we generated US$132 million. Describing it further and starting from our US$167 million adjusted EBITDA, we had an US$89 million gain in working capital, which, similar to the last quarter was mainly a result of increased average supplier payment terms and income tax payable, partially offset by sustaining capex interest paid and taxes. Still, Nexa has generated US$187 million of cash flow before expansion projects during 4th quarter. Non-sustaining capex, which includes mainly our expansion project in Aripuanã, amounted to US$58 million. Finally, during the quarter, we had a positive net impact from loans and financial investments of US$66 million partially offset by US$53 million of other non-operational expenses, resulting in the final cash flow generation of US$132 million. Now moving on to slide 20.

On this slide, we present Nexa's free cash flow generation for the full year. In 2020, we generated US$388 million. Starting from US$403 million EBITDA, we generated US$92 million from working capital gains, partially offset by US$123 million of sustaining capex and another US$71 million of interest paid and taxes. Still, Nexa has generated US$280 million of cash flow before expansion projects. Non-sustaining capex, which includes mainly our expansion project in Aripuanã, amounted to US$201 million. Finally, during the year, as I mentioned earlier, we proactively managed our liquidity position by raising additional debt, which combined to the healthy cash flow generated from our operations, resulted in the final US$388 million cash generation for the full year. I will now handle the call back to Tito. Tito please.

T – Thank you Menck. Please move to slide 22. Here, we will make some comments about the market fundamentals. During the quarter, zinc prices were up by 10% compared to fourth quarter of 2019 and 13% from the third quarter of 2020. This increase was mostly driven by strong economic activity in china, whose investments in infrastructure continue to contribute to zinc demand, and due to a weaker U.S. Dollar. In terms of market fundamentals, most mines in China and Latin America have resumed activities in the 2Q20, but concentrate supply has not been sufficient to meet the improved demand from the smelters, particularly in Asia we can see it clearly by the current level of the spot TCs. In terms of our home market (Latin America), zinc metal demand recovered after the decrease in the 2Q20. Demand has been recovering mostly driven by a mix of pent-up demand, stocks replenishment and fiscal stimulus, particularly in Brazil. In addition, the updated long-term balance between supply and demand shows that the previous estimated increase in supply should be lower than forecasted. Meaning market balance should remain tight. So in our view metal prices have the fundamentals to remain at higher levels. Moving to slide 23.

On this slide we present the performance of other metals. Lead, copper and silver had a strong performance in the 4Q20. Similar to zinc prices, the increase in metal prices from the third quarter levels was driven by a weaker U.S. Dollar and a positive outlook for global growth. For 2021, the outlook is positive, given how economies have responded to the various economic stimulus packages. The U.S. Dollar performance should also continue to impact base metals prices. Obviously, COVID-19 remains a risk factor to this scenario and we will continue to evaluate its development and the measures adopted to mitigate the virus spread, including worldwide vaccination. Moving now to our last slide.

We have delivered a strong operational result, overcoming the challenges and restrictions imposed by the COVID-19 global outbreak. The performance in the second half of the year demonstrates the resilience of our business, the contribution of Nexa way program and the commitment of our team with operational excellence and their enthusiasm to transform. As I mentioned in my previous slide, COVID-19 remains a risk factor and we will continue to evaluate its potential impact in our value chain. The Peruvian government recently announced a new quarantine period in the country that should last until mid-February. Different from last year, mining and smelting operations were not suspended. We remain confident that the demand for our products will continue to recover. Nexa will maintain its priority on capital discipline and costs control. We believe we have an attractive pipeline of projects and we have been preparing ourselves to generate long-term value building the mining of the future. Thank you all for your time, and let's move on to the Q&A session.

Q&A Session:

P - Thank you. We will now begin the question-and-answer session. [Operator Instructions] Our first question is from Carlos De Alba from Morgan Stanley. Please go ahead.

Question – Yeah. Good morning, everyone. The question I have, Tito, is if you can just clarify a little bit on the Nexa Way. So I think you guys believe that EBITDA was positively impacted by almost US$100 million in 2020. And then you see US$120 million annualized benefit by the end of 2021. Is this incremental? So US$20 million more in

2021, or is this your full $120 million more throughout 2021? And similar for the additional measures or initiatives that were identified post COVID-19, which you estimate will give you a benefit of US$60 million also in 2021. Is this in addition to the US$120 million by the end of 2021 mentioned in the prior bullet in your press release, or is this included?

M – Hi Carlos, this is Rodrigo speaking here. Hope you are well, as well as your family. Thank you for your question, it's a very good question. The Nexa Way needs to be explained and to be consistent with what was disclosed before. That's why we have this breakdown. So from the US$120 million that we have disclosed as our forecast in the middle of the year, we have already captured US$98 million, ok? So that was the one of the fees that we paid back in 2019, so we are connecting with this US$120 million. After the program had officially ended and this was informed to the market by taking in our call for the second quarter, we identified additional initiatives, which might cause us to have additional G&A of US$3 million to US$10 million approximately EBITDA above that. And this group of new initiatives will generate up to US$60 million. So coming back to your question. Yes, the US$120 million is until the end of the year of 2021, out of which US$98 million are already within our results in 2020. So they are within our presented EBITDA. And moreover, we'll have aside from the US$20 million, additional US$22 million by our accounts will have also additional US$60 million. You're correct in understanding that. I hope I have addressed your question.

Question – Yeah. Thank you, Rodrigo. Yeah. This is very good. And this SG&A, the US$3 million to US$13 million temporary increase in SG&A. Will it happen mostly in the first quarter or how should we allocate this in the first half of the year?

R - First half of the year, the amount will depend on the performance of the initiatives. So they are forecasted to happen in the first half of the year.

T – Let me add something here, Carlos. Thanks for your question. It's Tito here speaking. I think it's important to know that the Nexa Way is ongoing program. So of course, what we want to see is for initiatives being generated. And meaning that we actually can generating more productivity and cost cutting, cost reductions or increasing our performance. And of course, naturally, it would generate more expenses fees to pay. Clearly, if it happens, we will have a chance action to speak in the market and give some guidance about that.

Question – All right. Understood. And then just my final question is if you can comment on your expectation for TCs in 2021?

T – It's a US$1 trillion question. Because we've got nobody who actually knows. I'll tell you what, in 2019, I was in one conference, everybody was asking about the TC and made a prediction and I was absolutely right. I was surprised with myself. This year is the other way around. What's going on here is, TCs are still very low, below US$100 in Asia. We reached some point in the mid of last year that TCs were almost zero in some case. We are guessing that probably the benchmark will come something around US$150, it's very difficult to say, but we see a huge drop from US$300 to US$150, right? But it's very difficult to be precise as you, very difficult.

Question – All right. Thank you very much. Rodrigo and Tito. Hopefully everything is going well, and good luck this year. Thank you.

T – Thank you, Carlos.

M – Thank you, Carlos.

P – [Operator Instructions] The next question is from Timna Tanners from Bank of America. Please go ahead.

Question – Hey there, and thanks for taking my question. Just two I wanted to follow-up on. One was regarding the dividend payment of US$35 million for March that compares to US$50 million from the prior year. So just wanted to get your thinking on how that's calculated given the market condition seemed to be better, and you're talking about improved balance sheet. And then the second question is regarding also the capital allocation. And hoping that you could talk a little bit more about how you think about the projects that you have right now. So going through them, it looks like there's a number of them on hold. So what does it take to restart? What are you looking for to make those decisions? Thanks a lot.

M – Okay. Timna, nice talking to you. This is Rodrigo here. Thank you for your question. Dividend payment US$35 million. Well, if you take a look on the dividend yield, we're paying as of today, a bit above 2.7% of dividend yield. If you remember last year, the US$50 million were 4.5% of the dividend at very moment. When we proposed and approved our dividend last year, we had a good perspective for the year. Of course, COVID was beginning to increase its effect. And this was in January, right? This year, what we are recognizing here is that, one, we have been paying dividends consistently throughout the year. We have a minimum dividend yield to be pursued according to our dividend policy of 2%. And although we had a challenging year last year, we were successful in managing our cost levels and be profitable by the end of the year. We have a good year ahead of us. We are performing well in the operations. We are being able to hold back our cost level and we are performing well our revised project of Aripuanã. So we believe this is a consistent level of dividend. That's the origin of the amount.

Question – Okay. Great.

T – Is it clear?

Question – Yeah. And then on the projects, if you wouldn't mind, yeah, that's clear. Thank you.

T – Yeah. Timna, Tito here. What do we have? Our plans for the year are we are finishing Aripuanã, everything goes as expected, and we should be starting up production sometime in between in the last quarter of the year, first quarter of 2022. In the pipeline, we have following Aripuanã, Magistral. Magistral in 2021, we will be ending the feasibility study, the FEL3, the Stage of Magistral. The idea is since we had said in the past, and we assume that we should not start a new project before we finished the one that we are building, in this case Aripuanã. Magistral would be built. Of course, it comes with a potential good return only after we finish Aripuanã. So we will have time along 2021 to finish the FEL and actually keep working on the project to de-risk it as much as possible to come up with the decision to execute this or not, probably starting up with some time in 2022. The other projects we have, we are still drilling Hilarión. We are very confident that we'll be very zinc asset for future production maybe replace Cerro Lindo in the future. And the other two, currently again, we are also keeping some drilling. Puka and Shalipayco, we stopped the development last year because of the market conditions, the situation we were facing in Peru with the lockdown. In my view, we should return to these projects probably after we see more stability in the market. We were being conservative and actually to avoid to invest more in new projects before we assure that our cash generation will be stable, back to stability. By the way, as we have seen today, right? So being optimistic, it should return with those projects, sometime in between 2021 and 2022.

Question – Yeah. The stability of the copper price has been there. It sounds like maybe you're talking about the stability of what the ability to operate in your regions or COVID-19...

T – Not on the copper. Zinc as well. Not copper only, but zinc as well.

Question – Right. Right. So the price is there, but you're looking for other factors, I guess?

T – I'm sorry, say again.

Question – I was saying the price has been accommodating, right? The price of the commodity is positive. So it looks like you just want more evidence or more evidence of the ability to operate given COVID-19.

T – Exactly. Exactly that. Exactly that. As you see, we are operating in normal levels today, everywhere. COVID has not impacted us anymore, but we always have this uncertainty about the exogenous factors, right? Lockdowns imposed by government or municipalities and things like the contamination of our contractors and employees. So we need to see a more normal life. That's good as well.

Question – Okay. Thank you.

T – Thank you.

P – [Operator Instructions] The next question is from Daniel McConvey from Rossport Investments. Please go ahead.

Question – Thank you. Good day, Tito and everyone. I have a COVID question, I guess, and there's three components to it. First, when you did your forecast for 2021, was there much in the way of hangovers from what you had from 2020? What I mean by that is in terms of maintenance catch-ups, in terms of stripping catch-ups, how much was that a factor in your forecast for 2021? Second component, you probably answered this, but what's more difficult now in your operations, both in the smelting side and the mining side as a result of COVID, whether it's getting the right resources, the right technical skills, people across the border, etc., both in Brazil and in Peru? And then the third component is, is there anything as a result of the crisis that you're actually doing different is actually resulting in some productivity increases? Thank you.

T – Thank you for your questions. Menck, do you want to answer the first one about the guidance? The catch up?

M – Yes, yes, please. Daniel, thank you for your questions. About this cost hangover, as you called it, actually, for the estimate we have for the year is pretty much covering the continuous protocols that we have in place, considering that these health protocols will be maintained throughout the year for the whole year. So we are not considering in any circumstance, the reduction of those protocols due, for example, to broad vaccination. So these are the additional costs. In terms of the costs on the operational side, I believe, once we had the ramp-up in the middle of the year, we came back to the normal course of business.

T – I would add to that. The only thing that actually comes from 2020 is some of the capex that we had to delay and postpone given the issues we were facing with the COVID. Some sustaining capex that was delayed, and we will be performing along this year, right? Okay. Regarding your second question about the difficulties, I would say, our main concern in terms of operations, either in Brazil and Peru has to do with the conditions of our employees and contractors. We setup lots of different protocols, depending where and how we are operating and we need to follow those protocols. The concern we have is, for example, sale mainly is in and out sites. So we have shipped every 14 days and employees will stay at home for seven days. So we have to test them. When they come in, we have to test them after the seven days they are there at the site. So this is a big concern, to have less people available to reach our operations.

We had that last year when we were ramping up returning to operation. Just to give an example, I remember in the beginning of August, Cerro Lindo was supposed to take to the site 1,200 people. And we were only able to take 700 because the other 500 tested positive. So this is, I would call, the major concern we have in terms of operations and the impact of COVID. The third question, is there anything we are doing differently, yes, our offices, we are still in home office. We have decided already that we should not have everybody returning to the offices after the pandemic. We used to have part of the team being able to work from home from time to time, but it was not a very regular system. It will become regular ordinary for us. We will be saving with real estate costs. And we're also looking at some improvements in the way we travel, we are avoiding trips, there will be at the end of the day, some sales. If you don't ask me how much, we're going to generate we don't have this number yet because we still operate under the pandemic, but the idea is to bring beyond some learns we have during this time.

Question – Thank you. Thanks for some great answers. I guess it's kind of surprising that with all the constraints of last year that getting 700 employees to site versus 1,300, whatever the number was, some things weren't dropped, it had kind of a catch-up this year, but it's pretty impressive if things are recovering that smoothly. Thank you.

T – Thank you.

P – The next question is a follow-up from Carlos de Alba from Morgan Stanley. Please go ahead.

Question – Yeah, thank you very much. Tito and Rodrigo, so given where copper prices are and obviously, silver and lead alone zinc, if your cash flow generation is strong, would you consider paying a special dividend or another dividend throughout the year?

T – Good question, good question.

M – It's a great question, but our dividend policy currently states that we pay once a year. So we do not forecast at this point in time to pay anything in addition to the payment that we are announcing now.

Question – All right. Well, hopefully, you guys deliver on the top end of your guidance and you surprise us with a dividend later in the year. Good luck.

M – No.

T – No, my guess here, let me add something here. My guess is, let's assume that price remain at a higher level throughout the year, and we are able to produce as planned and we generate more cash. We still have to deal with the debt that was raised last year because of the crisis, right? And of course, we want to return to the level of indebtedness we had before it. So priority would be to look at the debt and manage it.

Question – All right. Thank you very much.

M – In conversion, the levels of leverage that we have before the investment.

Question – All right. Understood.

P – The next question is from Orest Wowkodaw from Scotiabank. Please go ahead.

Question – Hi, good morning. I wanted to ask you about Cerro Lindo. In my view, it's your biggest and most important asset in the portfolio. Based on kind of 2019 reserves, I think that mine looks like it's going to deplete around 2027, 2028. I'm just wondering if there's going to be a focus on trying to grow those reserves to extend that mine life and sort of what kind of focus is that going to have over the next couple of years?

M – Thanks for your question, Orest. Yes, you're right Cerro Lindo is our main asset. We've seen along the last few years, a drop in the grades there, which made the production more difficult because we have to increase the throughput to generate the same levels of production we had before. In parallel, we've been investing, I don't have this number here, but we've been investing a significant amount of money in drilling exactly to expand the resources and reserves available there. If you look back, so we need to maybe three or four years ago, had a similar profile of price. Life of mine by that time was forecasted to be between seven and nine years. And today, as you mentioned, we are forecasting eight years of life of mine. So our efforts to increase the availability of results has been proven to work because we are producing and keeping some room to enhance the potential life of mine.

Question – Do you see Tito, on that, do you see a significant upside to the current life of mine, or should we think about this as maybe you can add a couple more years, or do you see here?

T – The difficulty we have there has to do with part of the drilling is done underground, right? So you need to develop the mine to increase your knowledge about what we will have ahead of you. So actually, we performed two types of drillings. We have the drilling that follows the growth of the mine, all of the route of the mine, and we have external drillings, which gives us less possibilities to identify more resource. So my view is Cerro Lindo should last longer than anybody expects because it's the area is a rich area in polymetallic. But the big challenge we will face in some years, maybe in between five and 10 years, will be related to our capacity to generate more run of mine, to keep up with the same levels of production given the grade drop.

Question – Okay. Thank you for that color, Tito.

T – Thank you.

P – [Operator Instructions] There are no more questions. 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. I would like to thank.

M – Just…

T – Menck? Okay. Go ahead, Menck. Make a comment here.

M – Just one second. I would say, as we didn't have a specific question, I'll take the opportunity to clarify something on the smelting segment cash costs. One about the quarter and one about the year's impact. Although the year cash cost is mildly above the guidance that we gave for the year, it was 4% above, it increased much less than proportionally to the zinc price increase, which is the factor that impacts the most of cash cost, which was 17% higher against our initial estimate. So we were estimating US$0.99/lb and the zinc price at the end was US$1.16/lb. So the difference was pretty much the operational cost efficiency that we have been disclosing and existing that we are focusing on. The second comment is quarter-on-quarter, although on yearly basis, the price effects tend to be neutral as we try to show on slide 16 of our presentation, on a quarterly price basis, the price volatility might cause the kind of cash cost variation you saw between the third quarter and the fourth quarter, due mainly to mark-to-market and QP setting effects as we have opened invoices, both on the side of concentrate purchase and the metal sales. So sometimes, when you see this type of variation, it's not only that the costs have jumped, but also this price effect, it's good to have it in mind when we are talking about the quarterly evolution. Thank you for the opportunity. And Tito, please, back to you.

T – Thank you, Menck. I'm sorry, I forgot we were planning to make this statement. I would like to thank all of you for being here. Just saying that it's different from the view of some of our analysts. We believe that 2020 was a surprising year for us because based on what we went through in the first half of the year with the lockdown in Peru, the problems we faced, the year ends up being a very good year, even better than 2019. And the main reasons for that were, of course price, the price helped a lot in the second half of 2020, but also cost reduction and productivity. We are showing that the Nexa Way is working and bringing results for us. We are very happy to see it happening. And we are confident that even having the COVID still impacting everybody, we should have hopefully a more stable and efficient year in 2021. Thank you for being here. I hope you see healthy and safe. And let's move on. Let's have a better 2021. Thank you. Bye-bye.

P - [Operator Closing Remarks]

Participants of the Q&A:

Carlos de Alba – *Morgan Stanley*

Timna Tanners – *Merrill Lynch*

Daniel McConvey – *Rossport Investments*

Orest Wowkodaw – *Scotiabank*

(Call Duration: 54 Minutes)