Nexa Resources S.A.

2Q18 Nexa's Transcript Earnings and Q&A

2Q18 Nexa's Transcript Earnings Call and Q&A

	Participants
T	Mr. Tito Martins - CEO of Nexa Resources
M	Mr. Mario Bertoncini - CFO of Nexa Resources
P	Presenter

P – Good morning and welcome to Nexa Resources conference call.

All participants will be on only listen mode. Should you need assistance, please signal conference specialist by pressing the star key followed by zero.

After today's presentation, there will be an opportunity to ask questions.

To ask a question, you may press star, then one in your telephone keypad.

To withdraw you question, please press star, then two.

Presenters in this call Mr. Tito Martins, CEO of Nexa Resources and Mr. Mario Bertoncini, CFO of Nexa Resources, also joining the call, Nexa's executive team and Mr. Leandro Cappa, head of Investors Relations.

Please note this event is being recorded. I would now like to turn the conference over to Mr. Tito Martins, CEO of Nexa Resources. Please go ahead.

T – Thank you. Good morning, everyone. And thank you for joining Nexa's Second Quarter Earnings Call. On Slide 3, right after disclaimer page, you'll see the agenda for today's call.

Today, we are going through the following topics:

- Second quarter main events and performance; then Nexa's CFO, Mario Bertoncini, will discuss our operational performance and consolidated results;
- Closing the first part of the call, we will give you details of our mineral exploration campaigns, and remind you of our projects and priorities for 2018;
- Then we'll open for a Q&A session. Please go to the Slide 4.

We reached the end of the first half of the year committed to our priorities and In line with our plans. Here are some important events. Aripuanã our main project was 95% completed at the end of June and we are on track to the take it to the board approval in the next month.

In July, we submit the construction permit request to environmental authorities of Mato Grosso state. We should have it granted some time along this semester.

Mineral exploration, one of our priorities is to keep our exploration drilling campaigns to ensure the long-term sustainability of the business and also to increase our resources.

In the last call, we have lightly increased of results from June to December 2017. And today I would like to emphasize our continuous work on this. We have drilled 147,000 meters until June 18, and you can find all the details of these results in our earnings release.

An important news on this front, the environmental authority of Peru have just authorized us to explore the northern part of Cerro Lindo, which is our largest mine. And we are planning to start the drilling activities still in August 2018.

Smelting, the smelting business kept operated at full capacity, and our efforts to automate the plants have resulted in better performance. We had a 4% increase on metal sales in the second quarter of 2018, and 5% increase in the first half of 2018 when comparing with the same period of 2017.

Finally, the Board of Directors decided to convene a general meeting of shareholders in order to approve a share buyback of up to 6.5 million shares over a 3-year period. The board proposal reflects the confidence in the fundamentals and the long-term outlook of the company and the commodities, specifically zinc and copper. Our operating cash flow with a strong capital structure provides us the ability to increase our options to deliver shareholder return, always respecting our investment strategy and our dividend policy.

Let's now move to Slide 5, please.

In terms of our performance for the period, I'd like to highlight the following: Our zinc mining production was in line with the second quarter of 2017, reaching 92,000 tons of zinc contained in concentrate. Better zinc grades were offset by lower-treated ore volumes in Cerro Lindo. Our efforts there were towards developing new galleries and stopes, which prevent the mine to operate in full capacity. These new galleries will allow us to grow production in the second half of 2018. Business in line with our mine production guidance.

As I mentioned before, the smelting sales were robust, having 4.4% increase in the quarter when compared with the second quarter of 2017, and a 5% increase when comparing it with the first half of that year. It was driven by smelters operating at full capacity and debottlenecking efforts.

Regarding the Brazilian operations, we must highlight that our actions to mitigate the impact of the truck drivers' strike were successful. We have just delivered backlog of approximately 3,000 tons during that event. As a consequence of the better performance from the smelters and consistent base metals price increased revenues totaled $637 million in the quarter, an 11% increase when compared to the second quarter of 2017.

In line with what we have just mentioned, EBITDA increased 17% to $163 million when compared to the second quarter of 2017. Mario will comment the results with details in the following slides.

Net debt to adjusted EBITDA remained at the very comfortable level of 0.35x. Following our financial discipline, we are always working to reduce our costs and extend the average maturity of our debt.

Please move to Slide 6.

On this slide, we would like to mention some key points of the zinc fundamentals. The first chart shows global zinc concentrate outputs. In the recent years, constraints in the zinc mine production have caused a lack of additional concentrate in the market. As you can see, the ore production of the zinc concentrate has been stable since 2012 without any relevant increments.

We have seen the closures of the important mines around the world. In China, the main zinc producers has had a series of restrictions, both environmental ones, effecting some mines already in production and preventing others to be opened. Global inventories of zinc concentrate have been on a rapid drawdown since 2014, reaching critical levels in the second half of 2016, as you can see on the second chart.

The lack of zinc concentrate and the growth in zinc demand has created a deficit in the refined zinc market since 2012 as you can see on the third chart. On the fourth chart, we are showing the zinc metal stock that reached the low levels in days of consumption.

Let's move to Slide 7 to discuss in LME prices.

On average zinc went up 20% in the second quarter when compared to the same quarter of 2017. Average price was $3,112 per ton. This price level was supported by consistent demand and a significant low-metal inventories. Acquiring to WoodMackenzie, at the end of 2018 the total inventories including the nonofficial ones will be covering only 29 days of consumption. We have not seen any changes in the fundamentals of the zinc market as mentioned before.

Clearly, the volatility in the second quarter of 2018 was directly related to a potential trade war. We are about to reach the 8th consecutive year of market deficit. This trend being followed through 2019 with the stocks at a critical levels. Copper and lead price have had similar behaviors along the quarter.

I'm sure you follow the copper market better than we do. Now I'm going to pass to Mario Bertoncini, who will discuss our results. Mario, please?

M – Thank you, Tito. Turning to Page 8, we discussed our mining performance in the second quarter. As usual, let me remind you, that we convert our production by metal to our zinc equivalent basis using full year 2017 LME prices in order to present comparable figures.

The zinc equivalent production in Nexa's mining operations totaled 135,000 tons in the second quarter of '18, in line with the first quarter of this year and 6% down when compared to second quarter of '17. A decrease of 4% in treated ore volumes, and copper grade were partially offset by the increase in zinc grade. You can observe on the top left table on this page that our a zinc contained in concentrate in the second quarter of this year was in line with the same quarter last year, and

6% higher compared to the first quarter of this year. Allowing zinc equivalent production to reach 99% of the volume planned for the first half of this year.

Specifically in Cerro Lindo, we have focused on developing new galleries and stopes as planned, which will enable us to grow production in the second semester. It's important to highlight that our efforts to extend Vazante mine life asserting the new ore body there, and to keep El Porvenir operating at capacity resulted in better performance on both mines when compared to previous year. These 2 mines, Vazante and El Porvenir, accounted for 44% of zinc equivalent production in this second quarter of the year.

At the bottom right part of the page, we have our mining cash cost after byproduct credits. Which were on a consolidated basis, $0.04 per pound higher in the quarter, impacted by lower byproduct credits due to the decrease of copper, silver and gold content in concentrate, and also impacted by higher operating cost in Peru, due to the already known process revisions made in the second half of last year to enforce our safety conditions. These effects were partially offset by the BRL devaluation, by the real devaluation, that impacted positively our Brazilian mine and lower treatment charges.

Please let's move on to Slide 9, where we present our smelting performance. As already discussed in the previous quarter, our metallic zinc production is back to full capacity this year. Our sales totaled 143,000 per tons in the second quarter, a 5% increase when compared to the second quarter of the previous year of '17, driven by smelters operating at capacity as mentioned, and also debottlenecking efforts, as Tito already explained. Cajamarquilla sold 82,000 tons in second quarter of '18, up 14% compared to second quarter of last year, which was impacted by heavy rainfalls and floods, as we know.

Compared to the first quarter of this year, metal consolidated sales were 4% higher. Cash cost, net of byproducts credit increased by 21% to $1.30 per pound in second quarter of this year. Compared to the same periods of the previous year, mainly due to higher raw material costs driven by higher zinc prices and lower treatment charges, partially offset by higher byproduct credits, Brazilian currency devaluation and the higher metallic zinc sales.

Moving on, on this Page 10, we present our revenues and EBITDA per segments. Please note that these segmented sales, on sales, not EBITDA, includes the intersegment revenues that will be offset on the consolidated sales presented on the next page.

Revenues for the mining segment totaled US$301 million in the second quarter of this year, an increase of 10% or US$27 million when compared to the second quarter of last year, mainly due to higher metal prices.

Adjusted EBITDA totaled US$116 million for the mining segment in the second quarter of this year, a 6% increase when compared to the same quarter in the previous year, mainly because of higher revenues as I just mentioned. When comparing first half of '18 and '17, adjusted EBITDA increased by 31% to US$277 million.

For the smelting division, revenues totaled US$520 million in the second quarter of '18, 17% up, or US$77 million compared with the same period of last year, mainly due to an increase in metal production and metal prices, as presented in the previous page.

Adjusted EBITDA amounted US$47 million in the second quarter of this year, a 32% increase when compared to the same quarter of last year for the smelting division.

As Tito mentioned before, Brazilian truck drivers went on strike between May 22 and 31, interrupting roads transportation nationwide and partially affecting Nexa's smelting operations as communicated to the market. The company took all necessary and appropriate measures to mitigate the impact caused by these strikes. As a result, metal production at our Juiz de Fora smelter was not affected, while production at the Três Marias smelter was partially affected due to the interrupted supply of the zinc concentrate and other critical inputs. After these events, financial impact caused by such interruption was immaterial, despite the sales backlog already explained.

Let's move on now to Page 11, where we talk about the financial results. Our revenues went up 11% to US$637 million in the second quarter of this year, primarily due to higher metal sales volumes and base metals prices in the global market. The higher revenues allowed us to reach an adjusted EBITDA of US$163 million on a consolidated basis in this quarter, resulting on a sound margin of 26%, and an increase of 17% comparing to the same period of last year.

On the upper right part of the slide, we present our CapEx breakdown for the period. $58 million, 6% higher than the CapEx of the second quarter of previous year, and 7% higher when comparing to the 6-month period. In accordance, with our strategy and plan of growing in mining, investment in this segment represented 60% of the US$91 million disbursed from January into June in CapEx.

On the bottom part of this page, is our sound operational of free cash flow before investments that principle and distribution, resulting a 26% cash conversion. If we deduct the expansion CapEx, our cash conversion goes to 34% in the first half of this year.

Let's move on to the next slide, please. As we reach the end of this first semester, we reiterate our -- all of our guidance for '18 that were released in last February. Mining production in the second quarter of this year reached 135,000 tons in zinc equivalent terms. In the first half of '18, we produced 99% of the volume planned for the period, which allow us to reinforce our annual guidance.

Production is slightly below the planned amount for the first of '18, due to delay in developing new mining gallery at Cerro Lindo. But the performance improvement in Vazante and El Porvenir partially offset this effect.

As planned, we are focusing our efforts to sustain high levels of production in Cerro Lindo during the second half of this year, which includes the development of new mining galleries at these mines, in addition to the very good levels of production in the remaining mines particularly Vazante and El Porvenir.

The smelting metallic zinc sales totaled 143,000 tons in the quarter, while zinc oxide sales reached 9,000 tons. In the first half of this year our smelters ran at capacity while roasters performed increased as expected.

Weather conditions were more favorable this year than compared to last year enabling us to operate within our planned schedule and focus our efforts on cost efficiency and enhancing our safety standards.

Let's move on please to the next slide, where we discuss our guidance on CapEx and project-related expenses. As said, we also reiterate our guidance for CapEx and project-related expenses for this year.

We invested US$59 million during the quarter, US$35 million within our mining business and US$93 million within our Smelting segment and the remaining $4 million in other fronts, totaling US$91 million in the semester.

CapEx was US$9 million below budget in the second quarter of this year, being the most part of this difference -- around 80% of this difference explained by the depreciation of the Brazilian real, since most of the CapEx in Brazil is denominated in reais and translated to dollars.

Let me remind you of our main projects -- CapEx project for this year.

- First Aripuanã, the final feasibility study was 95% complete as of June 30, and the construction of the project is expected to be submitted to our Board of Directors approval in the following months.

- Second, the Vazante life of mine extension, our key brownfield project, which is expected to extend the mine life of Vazante from 2022 to '27.

- Third, the implementation of dry stacking tailings in Vazante. This project encompasses the installation of a press filtering tailings plant for the dry disposal of these materials in piles, replacing wet tailings disposal directly into the dam. During the second quarter of this year, we attained 28% of the project overall progress. The detailed engineering progressed to 90% in this period.

- The fourth main project is our process conversion at the Cajamarquila smelters from Goethite to Jarosite, as already explained in previous quarters. This is expected to improve the zinc recovery and that smelted by 3%.

The expenses on mineral exploration and project development advance, and we expect to meet the guidance as planned. In this regard, I would like to make an observation. On the project development line, we adjusted the amount to US$30 million to be expensed this year. This is not a guidance change, we are not changing the guidance, that's because the remaining part, the other US$24 million that used to be on this line was reclassified. Out of this Us$24 million, we classified US$14 million where we classified -- reclassified to CapEx and the other US$10 million to corporate project expenses, okay?

Let's move on to Slide 14 where, where we present our capital structure. Following our financial discipline and cash and leverage targets, we amortized in the first half of this year approximately US$60 million in export credit notes, in order to reduce our financial interest costs. We also renegotiated some outstanding debts with banks, amounting US$200 million during the quarter -- during this last quarter. Extending the maturity from November 2021 to May '23, and reducing cost from 250 bps to 130 bps per annum over LIBOR of this US$200 million. As a result, the average maturity of the total debt was 6.4 years at an average cost of 4.8% per annum in dollar terms as of June 30.

On the pie chart, we present the debt breakdown. In terms of currency, 92% of total debt is dominated in U.S. dollars, and our 2 bonds outstanding accounts for 73% of this total debt. By the end of second quarter, Nexa reported a cash balance of US$1.1 billion, and a net debt of US$261 million, resulting in a 0.35x net debt-to-EBITDA ratio when considering the last 12 months adjusted EBITDA for this purpose.

As you can see on the rating table, our credit was reinforced by the 3 major rating agencies even after the Brazilian saw down rating in the recent past, which not only confirmed the BBB- rating, but also revised our outlook to stable.

Now, I pass back to Tito, so he can talk about our projects and priorities for this year.

T – Thank you, Mario. Let's go through the highlights regarding our mineral exploration. In our earnings release for this quarter, we prepared a comprehensive summary of our main achievements in mineral exploration. Here, we are going to talk about Cerro Lindo, and Aripuanã, but I strongly recommend you to look at our earnings release and read more about the developments in other projects.

In Cerro Lindo we drilled approximately 30,800 meters in the first half of 2018. The drilling program has 2 main goals.

- One, to extend the mineralized zones within the mine.
- And the other one is to explore new massive sulphide deposits in the surrounding areas.

In this regard, in May 2018, an agreement with the local community of Chavin was signed, which is part of the process to operate 20 diamond drilling platforms in the area of Topara North. The environmental permit has just been granted, and we should start the campaigns still in August 2018.

Let's move to the next Slide to talk about the Aripuanã on Slide 16.

In Aripuanã we are drilling the southeastern region of the project, the main area called Babaçu. This region is additional to the project. We have already drilled 9 holes, totaling approximately 5,000 meters. That are indicating good potential to expend the project toward that direction. The drilling program for this region is 11,000 meters for the year, and we expect to complete the remaining as planned.

Please move to the next slide. Slide 17.

Let's talk about our projects and operations. In Cerro Lindo, the construction license for the new waste deposit was granted in early July. So construction will begin shortly. And we expect to start operations in the new deposit in the first quarter of 2019. Also in Cerro Lindo, we concluded procurement process for the new seawater pipeline and the contractor selection will be concluded in the third quarter of 2018. Moving to Vazante, the detailed engineering for the dry stacking tailings project reached 90% of progress and we expect to have all equipments on site during the third quarter of 2018. The life of mine extension project is moving as expected with 69% of overall physical progress. One of the main milestones was achieved successfully. Delivery of pumping station EB140 and the start-up is planned for the fourth quarter of 2018. As we discussed earlier, Aripuanã FEL3 development reached 95% and is expected to be submitted to the board's approval during the second semester. Mining plan and design were concluded, and now our under review of RPA in Canada, while the plant engineering is advancing as expected.

Magistral and Pukaqaqa are advancing in FEL2. The drilling campaign for Magistral was concluded. And the social license for Pukaqaqa drilling program was granted. In Shalipayco, Wood Group, former Amec Foster Wheeler, was awarded with the FEL1 development.

Let's move to the next slide, Slide 18.

Well, now the closing remarks. Despite of some delays in the Cerro Lindo performance, we are reiterating again our guidance for the year. All volume targets should be reached. CapEx projects in mineral expiration expenses are also on track. As we mentioned before, we have been developing successfully our mining exploration program. And I would like, once again, to recommend you to read the summary we prepared in our earnings release.

Aripuanã is advancing as expected and we are confident we will have it ready for approval by our board during the second semester. We are also expecting the installation permit to be granted along the next month. With that, the implementation of the project will start still in 2018.

We have presented again a sound financial performance and cash generation during this quarter. The share buyback proposal enforces our confidence in the long-term outlook for Nexa and our commitment to deliver value to our shareholders. Thank you all for your time and let's move to the Q&A part.

P – We will now begin the question and answer session. To ask a question, you may press star then one on your phone, if you're using speakerphone, please pick up the headset before pressing the keys. To withdraw your question, please press star, then two.

Again, that is star, then one to ask a question. At this time, we will just pause momentarily. To assume our roaster.

P – The first question comes from Thiago Lofiego with Bradesco BBI. Please, go ahead.

Question – Thank you guys, I have two questions. The first one on capital allocation. You guys have announced a potential buyback to be approved. But what else could we expect from the company? Do you think you guys could consider accelerating the acquisition of the minority stakes of Milpo in agriculture for instance? Or any other alternative in terms of capital allocation beyond the projects that you have already announced?

And the second question on the zinc market. So we've seen other zinc producers reporting higher zinc concentrates volumes in the second quarter, which triggered an upward correction on the TC ratio, so do you think that the concentrate market right now is still in a tight situation? Or you're seeing some signs of the market loosening in the short-term? Thank you.

T – Thiago, this is Tito. Thank you for your questions. Capital allocation what we've got is, we are keeping our plans in terms of investments, as we mentioned during the presentation. And clearly, the decision about the buybacks -- the proposal of the buybacks is related to -- our confidence on the outlook for not only for Nexa performance, but also looking at the performance of the commodities in the market. So we are confident that the zinc and copper should perform well along the next 2 years.

Of course, we are still trying to negotiate with the minority shareholders in Peru to acquire those shares from Milpo, the previous Milpo, now we call it Nexa Peru. Of course, the volatility in the market in the last 3 months is not helping much. Just to remind you, we start to negotiate with them, Nexa's share price was around $18 or $19 per share and Nexa Peru shares were around 6 -- no, 5 Sols per share. So the volatility is not helping us to reach an agreement.

In terms of the other minority shareholders we have in different business in different projects, we are still with the -- we are still following the concept that we should try to buy them out. But it will depend on how those specific projects we will build along the time. And we feel that we are confident about the value of those projects for our company, for Nexa.

The second question, and I understand that you are asking about how we feel about the market. Fundamentals have not changed, we are still seeing a very tight market for concentrate. An example of that is the -- that this year in China, we are seeing a very low level, I would say, it's around $30 per ton, just to give a reference, TC today is 147. I don't know if you heard but in the last 2 weeks, the big players like Teck are making some moments. They are saying that they want to rediscuss the way the contracts are set, which implies that they're also confident that the market is tight. So that's why we keep saying price of zinc when you compare with price of copper and other commodities has dropped more than them. But there is no structural reason to see it happening. And we are not foreseeing at least for the next year, a huge change, a significant change in the market. Once more, it seems to me that it happened with zinc because zinc is not very well known in the market. Thank you.

P – The next question comes from Carlos De Alba with Morgan Stanley. Please go ahead.

Question – Thank you, and good morning, everyone. So I understand that the guidance for output has been reiterated and the big driver there is probably the recovery in ore grades ot the improvement in ore grades in Cerro Lindo. But could you comment, Tito or Mario perhaps on what are the expectations of cash cost in the second half of the year? Typically when you see ore grades going up, cash cost come down, is this something that we should also expect? And should provide or would provide support to the EBITDA and cash generation of the company, despite your lower zinc prices, right now, already to what we saw averaging in the first half of the year?

And then my second question has to do with management or the company's view and flexibility towards growth projects. I mean some of the concerns about Nexa's story is on the free cash flows in the coming years as the company starts to ramp up CapEx on the different projects in Aripuanã, Magistral, Shalipayco. To what extent is the company coming or seeing these projects with a flexible approach or mentality? Are these projects dependent on a specific zinc price? Would management defer these projects, if zinc prices go beyond, say, $0.90 or $1? What can you tell us as to how flexible the approach towards Capex is for the company?

T – Yes, maybe you want to mention about the cash cost management, Mario.

M – Carlos, Mario speaking. Thanks for your question. Regarding the cash cost. A fair assumption is to assume a stable cash cost in the second half of this year compared to the first half. You are right that we do expect as we have pointed out an increase on rates and also increase on our production particularly from Cerro Lindo. Although, we are expecting a stable and cash cost in this regard. Regarding the other mines, we performed very well in Vazante and Aripuanã particularly this quarter. We do expect to keep this performance and also some increase in performance from the other mines particularly Morro Agudo and Atacocha along with Cerro Lindo.

T – Just a reminder, you have to bear in mind that our cash cost has some influence from the byproducts as well, I mean the price of the byproduct. So one of the reasons why the price on the second quarter -- the cash cost of 17% went up a little bit has to do with the reduction, the drop in the copper price, right?

Question – Sorry, Tito, but before we go there. So I understand the cash cost after byproducts will be negatively affected by the lower metal prices. But what about the cost before byproducts? Are those also forecast to be stable? Or and if so why would they remain stable if you have higher grades?

M – I mean when I mentioned stable, yes, it's before byproducts, okay? Not considering the impact of the byproduct. Being stable because although the ore grades can be increased, we'll be also increasing the ore production. And Carlos, we're preparing the new mining plants, and this brings some marginal cost. Carlos, to predict a stable cost is a fair assumption for what?

T – However, we try to be fair here. Assume that we'll be spending more into mining development.

Okay, in terms of growth, I would tell you we keep saying -- we have said that in the past and I think it's fair to say, we intend to grow, we will be approving Aripuanã. We have Shalipayco in the pipeline. We have Magistral in the pipeline. The idea here is as the mining is a little much better and the mining cycles are long cycles, we should keep the investments over the next 2 years but avoiding to stockpiling those projects. We want to sure that we are able based on our financial structure and financial top position to build Aripuanã, to move on with Shalipayco. Maybe by the end of Aripuanã, we start to develop Shalipayco. And when we finish the development of this first project, we should move on with the Magistral. Never having more than one project happening at the same time of other.

So in fact the difference is very specific. One because of its size, right. We are assuming that what we spend in Shalipayco is more than the other projects because we are not planning to build a new plant. We will have only the mine. So we are confident that even if we have price not so attractive, we should be able to reach our targets in terms of return. We do have a hurdle rate of 15% and we want to pursue that.

Usually, when we won for those projects, we worked with long-term consensus price. Exactly to obliged to be biased in our decision process, internal decision process, we need to work with what market thinks about the future prices. So there's no specific price that will guide us. Actually, the return will be -- the minimum return of the project will be the main guidance for us to define if we're going to move or not with that. I hope that answers your question.

P – The next question comes from Timna Tanners with Bank of America Merrill Lynch.

Question – Good morning, everyone thanks for the time. I wanted to ask a little bit more about the last question, if I could. I think what I understood, I just want to clarify is that you're saying that it's not a specific price of zinc that determines your growth projects but more the returns on those projects. So is it fair to believe that you're continuing with the supply growth plans even at lower zinc prices? Is that a fair summary of what you'd say as long as the project makes sense and those are your returns requirements?

T – Yes, it is. It is. You have to see that, we have been consistent with that along the last -- at least 10 years. I mean we never gave up to invest mostly in the brownfield growth, if you look at Cerro Lindo, that's a very good example. We managed to move from 5,000 tons per day to 21,000 tons per day in terms of ore used. And even when the prices were not so good. So we really have to be consistent. As long as we feel that returns are proper ones, we should keep the investment. Of course, always looking at this; the perimeters will follow, I mean strong cash flow, strong balance sheet, leverage not going beyond 2x and things like that.

Question – Understood. So taking a step back and looking at the broader zinc market our strategists concerns on the zinc market have to do precisely with this supply building from not just you but other zinc producers adding capacity and so the balance is more to a surplus over the next couple of years. I guess since you said that you didn't see any reason for zinc price weakness, so I was wondering if you could share your opinion on if you think that's a valid concern? And if you think that there's anything different on the supply side or any discipline supply wise that maybe we're missing?

T – Yes. What happens with the way we see it, not only us, but some of the analysts also. If you look back to the last 5 to 10 years, most of the additional supply in additional concentrated markets actually came from China, China production. And most of it was actually from small mines in China. What we've seen along the last 3 years is that China is not adding additional production in the market.

So when you mentioned, there will be new mining projects around the work. We agree with that, we are following it, we believe that most of the parts that had been announced will be built. But the big question is, how much China actually will be able to built in the next 2 years in order to -- actually to add this additional production in the market and cope with the potential demand?

We don't think that this will happen very fast. And why is that? As I said, the structure of the zinc production in China has, as a base case, small mines. And zinc production has been done by groups that are not only mining companies.

So if you take all of this into consideration, it seems to us that -- I keep saying, I have no doubt in the long-term, China will be able to cope with the demand. But how long will they last the short-term, 1 year, 2 years, 3 years, we don't know. We may be seeing right now a major shift in the zinc market because of that.

Question – So you think the Chinese -- the [bears in general] the zinc market are overly concerned about the supply side from China, is that fair?

T – Yes, they are looking there. They are assuming that, ask the guys to point out the names -- to give you the name of the new mines in China. Nobody knows.

That's the point, that's the point. We keep saying that all the times, nobody knows. They just give you a number, 200,000 tons next year, 300,000 tons in the following one. But they never provide the real source of work -- of concentrate.

P – The next question comes from Petr Grishchenko with Barclays.

Question – Good afternoon, gentlemen. Thanks for taking my question. First, can you perhaps elaborate a little more on this [$76 million] of CapEx for Aripuanã project. How does the time line look like? And how long do you think it would take to get to the first production?

T – Right now, the official number we have for the Aripuanã, it's around US$360 million. We are finishing the FEL3, we should have the final numbers some time in the next month. That's what we are expecting to have. And we have -- we need to -- in order to take it to our board approval, we need to be sure that we will have the installation permit, we're expecting to have it some time along the semester.

I'm considering that it could happen before November and we are working with that. And we would spend the US$360 million along the next 2 years and start-up should be at the end of 2020. Most of the investment will be due -- I mean the SEMEC has announced for the project will actually happen in -- the end of 2019, in the first half of 2020.

Question – Another question I have, if you can maybe talk about the impacts from minimal freight tariffs in Brazil? And how do you think this will affect your cost if the preliminary measure becomes or maybe even more directly if you can just give us what percent of your operating cost is transportation, like truck transportation will get affected?

M – Okay, Petr. Thanks for this questions. Regarding the truck drivers first, as we mentioned before, that has not been an impact for us so far. Regarding the prices -- was established as up to date because as you know this is changing, anything is expected to change. But let's assume the price is established for to date. The impact for the full year, 12 months, to date, it will be for us something around $5 million to $6 million, we are -- for the full year, 12 months. We are working in order to minimize and reduce these effects. And the trend from now on is downward. We expect to reduce it more to that impact. And regarding logistics, the cost of inbound, if you add inbound and outbound, our logistics cost are something around 17% of our total costs, final costs.

Question – That's very helpful. And last question, if I may. Can you perhaps elaborate a little more on the credit ratings? And specifically, if you consider getting to IG as your objectives? And are you actively engaged with the agencies right now?

M – We keep talking with agencies all the time on a continuous basis, right? Regarding our -- the way we organized, as the cash flow structure, the leverage per se is the strong cash conversion of the firm. Here, we keep working hard with the rating agencies in order to be at [second point] revised. So far we are relatively captive by even the Brazilian Republic according to their reports and we are working hard in order to overcome potential blockers in our ratings, Petr.

P – The next question comes from Terence Ortslan with TSO. Please go ahead.

Question – My question is actually on the smelting side. You announced that converting into Jarosite, you're going to be able to recover 3% more zinc at Cajamarquilla. Just given the [world] concentrate and metal balances, what are the next brownfield or greenfield projects you have on the smelting side? And if you obviously, consider brownfield, which is far more reasonable in cost in capital and timing, where would that be and how much more can you add for the smelting capacity?

M – Terence, thanks for your questions. And we don't have the intention to grow capacity -- to expand capacity in our smelting assets or in our smelting business. We keep debottlenecking. We keep investing in automation in productivity gains all the time. And we'll keep doing so, but it's not in our plans for this next years or even medium-term to increase capacity on it as well.

T – Just to add to that, I'll give an example. Cajamarquilla smelter, the expansion we did for 2 years ago to get to the nominal capacity of 320,000 tons per year. We are already operating Cajamarquilla about 335,000 tons per year. How we did that? A lot of our small projects like the one you just mentioned, the Jarosite project. That we bottleneck the plant and helped us to increase some capacity. We know for sure that there are other things that can be done, not only in Cajamarquilla, but also in Três Marias and Juiz de Fora, and we are pursuing it. Unfortunately, I don't have with me today a number, that would say, how much we're going to spend actually to increase some capacities. But we will be doing this in 2 years for sure. With much lower amount of resources and achieving better production and more productivity as well.

Question – Because I was looking at the $80 million also that you have in your slide, some of that we'll go into technology improvements and as well as recoveries and expected the Jarosite. But I guess I'll take that. Thank you very much.

Tito, you also mentioned that one of the major producers, Teck, is trying to bring a new norm or it's about time new norm in the concentrate market. Do you think that is overly aggressive or realistic given the circumstances?

T – I think they are a little bit aggressive. But it's part of the game, right? And they have to start to move, if they want to make it some change. I don't think that they actually make a lot of change in this next negotiation. But we are seeing some signs and you know why? We want to see something changing in the next 2 years, right. The relationship between the concentrate producers and the smelters has been very strong along the years. If you look back, it took 4 to 6 months to have the new TC, the referenced TC, and everybody was saying that TC should drop dramatically. And when you compare the drop from 170 last year to 147 this year, it's not much, looking at the spot, this is -- because of this, because of this long and very traditional relationship between the two sides. So there will be change in the future, but not so fast. Not like, for example, I don't see it happening like it's happened with the copper, which was probably was faster than what we would see with zinc.

P – The next question comes from Caio Ribeiro with JPMorgan.

Question – So my first question is in regards to growth prospects other than the greenfield/brownfield alternatives that you have in your portfolio right now. And recently the company was looking at Michiquillay project in Peru. I just wanted to see if you, at this point, are looking at any other projects externally to bid for or perhaps any M&A opportunities that you see right now.

And then secondly I just wanted to see if there are any labor contract negotiations that you are involved in, in the near future. This has been an important thing for copper with some major mines going through this negotiations right now. I just wanted to get your sense if you see anything on this front for zinc as well?

T – Thank you for questions. The first one, of course, we keep an eye on the market all the time. Lastly, now are you looking at anything, specifically? If I were, I would not tell you today, for sure. But what happened is, we try to compare our greenfield projects with what's available in the market, okay. Michiquillay was a good attempt because we knew well the project. So we had a chance actually, we have some relationships with them in the past and we were actually able to know better the project. We are confident that we could actually move ahead and have the social permits and then maybe attract someone, some other players to be with us in the project, because the project, we were assuming was too big for a company of ourselves to be developed by ourselves. And I would say, if we find in the market the opportunity that actually can be comparable with the projects we have in our pipeline, we have to decide and probably we'll go for that. It's not something that we are not paying attention to.

The second question is labor. We just finished -- I would say that year cycle in negotiation, we finished -- we have an agreement with El Porvenir mine employees, 10 days ago, I think, yes, it was 10 days ago. The next one, it's one of the mines that I can't remember, which one, remember during November, our negotiations are spread out long the year and if you look back on our track record, of course, there's a lot of noise during the negotiations. The unions mostly in Peru, they like to make noise through the press. They threat to go for a strike, but it's not like what you see in Chile. There are different unions at the same site with different level of interests. So we haven't had any situation where our production was actually affected by a strike that lasted 1 or 2 days. You have to also know that we work with most of the labor force in our operations is provided by contractors. So -- and those contracts are not unionized. So the disruptions in our operations because of the labor disputes is not very usual. We haven't seen this for many, many years. And I think that -- in the case of Brazil, relationship with the labors and the unions -- the employees and the union is a very stable one. We haven't had the case of any strike or any major issue with them for decades actually.

P – Our next question comes from Orest Wowkodaw of Scotiabank.

Question – Hi, good morning. Just another question on capital allocation. It's great to see the announcement a share buyback program moving ahead and that makes total sense given your balance sheet and your free cash flow position, but I'm just curious on how we should think about the balancing that with dividends or special evidence moving forward? Because the one downside about buying back your shares is just simply that your trading liquidity, which is already not the best, what could be impacted by just lower shares being in the market. Just curious on your thoughts.Thanks.

M – Thanks, Orest for your question. The decision regarding that share buyback program is on the top of our dividend policy in terms of capital allocation. The whole idea typically was developed before, right. First, keep our investment, our growth strategy, the greenfields, the expansion of brownfields that we're saying. At certain point, if it's advantageous to Nexa stakeholders, we should be ready as Tito said, to repurchase minority stakes and also to serve the dividend policy as we already have served. On the top of that without impacting our dividend policy, we decided for the share buyback at program to be implemented from now on. This will not change our capital allocation strategy discussed so far, Orest.

P – This concludes our question-and-answer session. I would now like to turn the conference back over to Mr. Tito Martins for any closing remarks.

T – Thank you. Before I finish, Mario has one comment to make.

M – Sure. Well, another important thing to reemphasize, it was pretty much presented and clarified in our financials and earnings release, but is the impact to this quarter of the exchange rate variations, right. Everybody know, we had a significant real devaluation, BRL devaluation during the quarter -- second quarter. And this impact, accounting wise -- this impact on the financial expenses, given the impact of the exchange rate on our intercompany loan, Nexa Luxembourg, our holding company's creditor of Nexa Brazil in intercompany loan in dollar terms, dollar wise. Given the real devaluation, we do have to print financial expense, given the exchange rate variation in Brazil. That on the consolidation, on the consolidated financials this is not a set off. This is not compensated by gains in LUX. This is printed, as expensed. Important to say, that first, this do not represent any impact on our EBITDA, this do not represent any impact in our cash flow. It's only an accounting number that will be basically addressed as we reduce the amount of these intracompany loans, as we are already doing throughout this months. I would like to basically to provide comfort to the market regarding this variation.

T – Very good. Thank you. Just to finish this call. As most of the analysts who called us today said -- I think the proposal for the buyback was well seen. And the maintenance of our guidance in the market was also very well seen. Both case shows that we are very structured in our plans. And I would want to give you this assurance that we are moving in the right direction, we are moving according to the plans we had since the IPO. And the company is actually performing very well.

And hopefully, we are right about the market, we are confident that the knowledge we have about the zinc market today is among the best knowledge that you can find around. And we have foreseen a very good future for our organization.

I would like to thank you for being with us and we'll talk in the future. Thank you very much.

P – The conference is now concluded. Thank you for attending today's presentation. You may now disconnect.

Participants of the Q&A:

Last Name	Name	Company
De Alba	Carlos	Morgan Stanley
Grischenko	Petr	Barclays
Lofiego	Thiago	Bradesco BBI
Ortlan	Terence	TSC
Wowkodaw	Orest	Scotiabank
Tanners	Timna	Bank of America