Nexa Resources S.A.

3Q18 Nexa's Transcript Earnings and Q&A

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	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 your 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 Investor 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 Third 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:

- Third 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 about the Aripuana project and the feasibility study; and
- Then we'll open for a Q&A session.

Please go to the Slide 4.

Let's start with some corporate highlights. As it was informed to the market 2 weeks ago, the Aripuana Mine project, the first one in our pipeline of greenfield projects, was approved by Nexa's board. The feasibility study was concluded, and we are ready to start construction as soon as we have the construction permit. Just to remind you, in July, we submitted to the environmental authorities of Mato Grosso state the request for the permit, and we should have it granted sometime on the following weeks. I intend to guide you through the main details of the project in a few minutes.

But before that, I just want to call your attention to some important specific results from the feasibility study. We estimate an average production of 120,000 tons of zinc equivalent for 13 years of mine life. Here we are considering only mineral reserves.

Looking at the technical report, you will see that the project has the potential to expand its life of mine by at least 6 more years when we also consider inferred mineral resources -- really, a very promising amount in returns of investment.

On October 27, we celebrated 1 year of Nexa as a listed company, 1 year of some volatility in the metals, which affected our share price, but also a year of a lot of achievements. Nexa reached important milestones and improvements in its operational actions in safety standards and its project execution and in its financial discipline. As part of the rebranding process, Milpo, Votorantim Metais Zinco, Cajamarquilla and Atacocha are now officially called Nexa.

Following our objectives to be perceived as a transparent organization, we are reiterating our zinc, copper and silver mining production guidance. We are also reiterating our smelting sales. The gold production range has changed up by 6,000 ounces, and the lead production range has moved down by 5,000 tons. CAPEX has been adjusted, given the foreign exchange effect in Brazil. Mario later will give you more details about that.

Another important highlight, the smelter operations have run at full capacity, and we had a 5% increase of metal production and sales in the first 9 months of 2018 when you compare it with the same period of 2017.

Finally, the Board of Directors approved our first share buyback program. Amounting $30 million over a 1-year period, the program will start on November 6, when we will exit the current blackout period. The Board's approval reflects its confidence in the fundamentals of the industry as well as the long-term outlook of the company and the commodities.

Let's move now to Slide 5, please.

In terms of our performance for the period, the following are the main topics. Our zinc mine production was in line with the third quarter of 2017, reaching 90,000 tons of zinc contained in concentrate. Lower treated ore volumes were offsetted by balancing rates in Cerro Lindo.

As mentioned in the second quarter call, we have speed up our mine development in order to increase the number of available stopes. Developments grew from 2,400 meters per month at the beginning of the year to 3,200 meters per month in the last 2 quarters, a 33% increase, and we expect to remain at these higher levels for the next 12 months. As we have seen through the year, the smelting production sales remained strong, with a 4% increase in the quarter when you compare it with the third quarter of 2017, and also a 4% increase when you compare it with the first

9 months of last year. It was mostly driven by smelters operating at full capacity and due to some debottlenecking efforts along the year, really a very good performance.

Specifically about the Brazilian sales, they were somehow building back in the quarter by a delivered backlog from the previous quarter, driven by the truck drivers' strike. Revenues totaled $595 million in the quarter, a 5% decrease when compared to the third quarter of 2017. The better performance of our smelters was not able to offset the drop in metal prices. In line with what we have just mentioned, it is almost $120 million, 26% decrease when compared to the third quarter of 2017. Mario will comment on the results with more details on the following slides. Net debt to adjusted EBITDA remained at the very comfortable level of 0.32x.

Please now move to Slide 6.

On average, zinc went down 14% in the third quarter when compared to the same quarter of 2017. Average price was $2,537 per ton. On a year-to-date basis, the price increased by 9% when compared to the first 9 months of 2017, averaging $3,020 per ton in the period. As we have said in the previous calls, 2018 was supposed to be a very positive year for zinc. Global zinc metal market has been in deficit since 2012, and inventories are reaching the lowest levels ever reported. However, trade war risks have influenced the commodity markets, including zinc, resulting in higher volatility and prices lower than expected. According to Wood Mackenzie, despite some new mining startups, the additional volumes of zinc and concentrate in 2018 will not be enough to offset the current shortage, impacting smelter production, resulting in the 8th consecutive year of zinc metal deficit. Mining production in China is actually decreasing. We may see at the end of the year inventories of metal covering only 29 days of consumption, and we are considering the non-official inventories as well. There's no reason to believe the situation will change in 2019, as stocks of zinc metal may reach critical levels at the end of the next year.

Copper and lead price had similar behaviors along the quarter. Volatility was caused by the uncertainties related to the potential trade war. Now I'm going to pass to Mario Bertoncini, who will discuss our results. Mario, please?

M – Thank you, Tito. Turning to Page 7, we discuss our mining performance in the third quarter and year to date. As usual, let me remind you that we convert our production by metal to a zinc equivalent basis using full year '17 LME prices in order to present comparable figures. The zinc equivalent production in Nexa's mining operations totaled 137,000 tons in the third quarter of this year, 1.4% down compared to 139,000 tons produced in the same period of the previous year. When comparing our mining production throughout this year, we have consistently increased our zinc equivalent production since the first quarter of this year, and we are prepared to speed up this track in the last quarter of this year.

Production totaled 407,000 tons in the first 9 months of '18, down 2.8% compared to 418,000 tons recorded in the same period of last year. Comparing our mines on the third quarter of this year against the same quarter last year, the decrease of 1.4% in treated ore volumes and the decrease in copper grades were partially offset by the increase in zinc grades. Decreasing production in Cerro Lindo and Atacocha were partially offset by a production increase in El Porvenir and Morro Agudo on a zinc equivalent basis.

At the bottom right part of this page, we have our mining cash costs after byproduct credits that increased to $0.34 per pound in the third quarter of '18. This was a $0.14 increase, mainly due to 2 reasons: mainly due to lower credit of byproducts, accounting for an impact of approximately $0.11 per pound and an impact of about $0.07 per pound from higher operating costs, driven by higher maintenance, as anticipated, and mining development costs. And this last factor, the mining development, is the main driver to increased production in the short term.

Please let's move on to Slide 8, where we present our smelting performance.

The sales of metallic zinc and zinc oxide in third quarter of '18 on a consolidated basis were 4.4% higher than the third quarter of last year, totaling 160,000 tons, driven by a sales backlog generated in Brazil due to the truck drivers' strike that took place in May, this last May. In this regard, sales from our smelters in Brazil were 8% higher in this quarter compared to the same quarter of last year. Sales also rose 4.9% in the first 9 months of this year compared to the same period of last year, when production and sales were impacted by heavy rainfalls and floods in Peru in 2017.

Cajamarquilla sold 84,000 tons in third quarter of this year, which was in line to the third quarter of previous year. Comparing to the second quarter of '18, metal sales were 2.4% higher. Cash costs net of byproducts credit decreased by 8.4% to $1.11 per pound in the third quarter of '18 compared to $1.22 per pound in the same period of the previous year, mainly due to efficiencies arising from higher production, lower raw material costs driven by lower zinc prices as presented by Tito and Brazilian BRL, Brazilian currency devaluation impacting our Brazilian smelters.

Moving on to Slide 9, here on Slide 9 we present our revenues and EBITDA per segment. As usual, please note these segmented sales -- only sales, not EBITDA -- includes inter-segment revenues, or some overlap that will be offset on the consolidated sales presented on the next page. Revenues for the mining segment totaled $260 million in the third quarter of this year, a decrease of 19% or $57 million when compared to the third quarter of last year, mainly due to lower metal prices, as already presented. Adjusted EBITDA for the mining segment totaled $65 million in the third quarter, a 49% decrease when compared to the same quarter of the previous year, mainly because of lower revenues, as I just mentioned, and the higher costs explained on the previous slide page. When comparing the first 9 months of this year and last year, adjusted EBITDA and EBITDA margin were in line, totaling $342 million of EBITDA and 39% of EBITDA margin, respectively, this year.

For the smelting division, revenues totaled $483 million in the third quarter of this year, down 3% or $16 million compared to the same period of last year, mainly due to an increase in metal sales as presented in the previous page, offset by the lower LME prices. Adjusted EBITDA in the smelting division amounted to $57 million in the third quarter of this year, a 39% increase when compared to the same quarter of '17, driven by stable revenues and lower costs, generating a better EBITDA margin in this third quarter, 12%, and a stable margin, 9%, comparing year-to-date to the same period of last year.

Let's move on to Page 10, where we talk about our financial results.

Our consolidated revenues totaled $595 million in the third quarter of '18, impacted by lower base metal prices, partially offset by higher metal sales, as already presented.

Another factor to mention is that there is some inertia on price movements impacting our revenues, given the normal terms we sell our products. Our adjusted EBITDA in third quarter of this year totaled $120 million, resulting on an EBITDA margin of 20% this quarter.

On the upper right part of this slide, we present our CAPEX breakdown for the period, $71 million in the quarter, 58% higher than the CAPEX of the third quarter of last year and 24% higher when comparing the 9-month period. As you saw during the year, in accordance with our strategy and plan of growing in mining, investments in this segment accounted for 58% of the $163 million invested from January into September this year in total.

On the bottom, right part of this page is our sound operational free cash flow before debt, principal and distributions, resulting in a 25% cash conversion, comparing this free cash flow to our EBITDA. If we deduct the expansion CAPEX, the cash conversion would be approximately 36%.

Let's move on, please, to Slide 11.

Regarding our debt profile and cash position, the third quarter was pretty stable, but we continue to analyze opportunities to keep reducing debt costs and extend the average maturity of our debt. Let me remind you that we have amortized in the first half of this year approximately $60 million of export credit notes in order to reduce our financial interest costs. As a result, the average maturity of the total debt to gross debt was 6.2 years at an average cost of 5.1% per year in U.S. dollar terms as of September of this year. On the pie chart at the center of the page, we presented that breakdown.

In terms of currency, 93% of total debt is denominated in U.S. dollars, and our 2 bonds outstanding account for 3/4 of this total debt. By the end of the third quarter, Nexa reported a cash balance of $1.2 billion and a net debt of $222 million, resulting in a 0.32x net debt to EBITDA ratio when considering the last 12 months' adjusted EBITDA.

Before we go to the guidance slides, let me highlight a point about cash allocation in this next, the fourth quarter of '18. Starting from our Pollarix energy structure that is maybe familiar to the major part of you, this quarter the Brazilian electricity regulator agency, Aneel, approved the transfer of the energy assets that we discussed in previous quarters. Therefore, Nexa now can move on with the payment of the balance amounting of BRL 290 million as registered in our financials. In addition to that, we expect a stronger CAPEX execution as guided. These effects combined should increase our net debt to EBITDA ratio to something around 0.7x net debt to EBITDA, 0.7x.

Please move to Slide 12, where we'll talk about guidance.

As we approach the year-end, we reiterate, as Tito mentioned, our annual zinc, copper and silver mining production guidance within the lower part of the range for zinc and copper. We are adjusting the gold mining production guidance range up 6,000 ounces and lead mining production down 5,000 tons. The smelting sales guidance is also reiterated. Given the BRL devaluation, we are lowering, decreasing by $20 million our CAPEX guidance for the year to $260 million from the previous $280 million. OPEX related to exploration and project development for this year remain unchanged.

Mining production in the third quarter of '18 reached 137,000 tons on a zinc equivalent basis. In the first 9 months of '18, we produced 96% of the volume planned for the period. Production is slightly below the planned amount due to the needs to develop and bring new stopes at Cerro Lindo, allowing the access of new production areas, as discussed before. The performance improvement in El Porvenir and Morro Agudo partially offset this effect.

On the smelting side, production and sales remain robust. Metallic zinc sales totaled 150,000 tons in the quarter while zinc oxide sales reached 10,000 tons. In the first 9 months of this year, our smelters ran almost at full capacity, while roasters' performance increased as expected. We have operated within our planned schedule.

Let's move on to the next slide to discuss our guidance on CAPEX and project-related expenses.

The CAPEX guidance and OPEX-related guidance provided on this page was already presented on the previous one, so moving on to the comments on the CAPEX. We invested $71 million during the quarter, $40 million within our mining business, $23 million within our smelting business, and $8 million in other fronts, totaling $163 million in the first 9 months of this year.

Let me remind you of our main projects for 2018.

- First, Aripuana. The feasibility study was completed as of October 15, and the construction of the project was approved by the Board of Directors on October 19, as communicated to the market.

- The second project, Vazante's life-of-mine extension, which is expected to extend the mine life of Vazante from 2022 to 2027. As of September of this year, we have reached 73% of physical progress on this project, focusing on the new pumping station op.

- Our third project to highlight is the implementation of dry stacking tailings in Vazante. The detailed engineering was concluded during this quarter, and long-lead items have been delivered to the site as expected.

- Our last project to mention is the process conversion at the Cajamarquilla smelter from Goethite to Jarosite, that is expected to improve the zinc recovery, as anticipated, by 3%. The project execution phase has progressed and is expected to be concluded by the second half of 2019. The expenses on new exploration and project development advanced and are expected to meet the guidance as mentioned.

I will now pass back to Tito, who will guide us through the key details of Aripuana. Thank you.

T – Thank you, Mario. Please move to Slide 14. Once again, we are pleased to announce that our Board of Directors approved the construction of the Aripuana project. This approval reinforced Nexa's commitment to develop our pipeline of greenfield projects, and it's important to mention the efforts the Nexa team made to have all the studies completed. And I want to assure you we are well prepared to build and to operate this project.

We filed technical reports summarizing the results of the feasibility study and discovery for the first time of the mineral reserves of Aripuana, comparing it with the previous studies. This middle one shows a significant increase in the expected average of production of the new mine. We are expecting the installation permit in the next 2 weeks and the operation permit by the end of 2020. The project expects to be operational and ramping up sometime in between fourth quarter of 2020 and first quarter of 2021. The project is a polymetallic mine, 70% owned by Nexa Resources. All figures presented here consider 100% of the project. The spec annual zinc equivalent production is 120,000 tons for 13 years, only producing from the mineral reserves. It includes 67,000 tons of zinc, 23,000 tons of lead, then the remaining copper, silver and gold. Zinc volumes represent 18% of Nexa's zinc total production and approximately 28% of the total concentrate we buy today from third parties.

Based on the current inferred resource, the project has the potential to be extended at least for 6 additional years, and it's important to say we keep a very consistent drilling program to increase the life of the mine beyond its current 20 years' production.

Regarding CAPEX, the total investment will be $392 million with an estimated NPV of $129 million. So far, in 2018, we have spent $9 million and we have another $13 million planned for the last quarter.

Aripuana is a world-class project with high-level safety standards, includes the use of dry stacking for waste material and has close to 100% of recirculation of water with minimum discharge being planned.

On the next slide we show you the logistics and some of our social strategies for Aripuana.

The Aripuana site is located in the northwest of the state of Mato Grosso, more than 2,400 kilometers from our Tres Marias smelter and more than 2,700 kilometers from our Juiz de Fora smelter. Despite the distance and some logistical challenges, we have managed to come up with some suitable solutions to take the concentrate to our smelters or, as an option, to the Port of Santos in Sao Paulo to be exported.

With the positive impacts to the society around this, we have developed a socioeconomic integrated plan where negative impacts would be mitigated and regional development would be boosted. We have five priorities: economic development; public management and social participation; attention to the childhood, youth and vulnerable groups; safety and health; and indigenous people.

The project is expected to create 1,600 jobs during the construction phase and employs 750 direct employees during operations.

Please let's move to Slide 16.

With the publication of the feasibility study, this is the first time we are disclosing mineral reserves for Aripuana. Previously when we published the pre-feasibility study, we disclosed the estimated mineral resource. At the time we were forecasting annual production around 100,000 tons of zinc equivalent. Now, with the new publication and considering only estimated mineral reserves, we have forecast average annual production of 120,000 tons of zinc equivalent and 13 years of life of mine.

If we do consider additional production from the third mineral resource, we could produce at least for six more years, so in total, almost 20 years already identified for production. The capacity of the plan was increased compared to the previous studies. Now it can reach 6,300 tons per day. Furthermore, it is very important to note that the NPV of $129 million presented at the technical report relates only to the 26 million tons of mineral reserves. It does not consider the potential production from the 23 million tons of inferred resources.

Remember, one of the requirements of our projects is to have production costs positioned in between the first and second quartiles of the cost curve. According to the Wood Mackenzie's methodology, Aripuana is located in the second quartile, with an average zinc cash cost of $0.14 per pound.

Now, please move to Slide 13.

This is the final slide before the Q&A section. We have been developing successfully our mineral exploration program with consistent expenditures on brownfields and greenfield projects. It has presented very good results. An example of this can be seen in the first declaration of Aripuana mineral reserves. We may see soon similar situations in other mines and operations.

We are also following our mine development plan for Cerro Lindo, aiming higher and more stable production in the future. We have presented here a sound financial performance and cash generation during this quarter, even on a less favorable LME scenario. The approval of the first share buyback program reinforced our confidence in the long-term outlook for Nexa and our commitment to deliver value to our shareholders. Nexa is becoming more visible to the capital market. We feel confident of our targets to be reached in 2018 and in the coming years.

Safety, governance, compliance to others, transparency having proved, and we want to be perceived as a good option for our stakeholders, a good option in our industry. 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 and then one on your phone, if you're using a speakerphone, please pick up the headset before pressing the keys. To withdraw your question, please press star, then two. At this time, we will just pause momentarily. To assume our roaster.

P – The first question comes from Arthur Suelotto from Bradesco BBI. Please, go ahead with your question.

Question – So gentlemen, my first question is regarding Cerro Lindo. You just mentioned that zinc production is a bit down when compared to what you were expecting for the year. But even maintaining your zinc production forecast for 2018, so I understand that maybe you're considering acceleration in terms of zinc production coming from Cerro Lindo in the fourth quarter. I want to understand if that's correct and what you're expecting in zinc volumes coming from this mine in the first quarter.

And also, we saw cash costs in Cerro Lindo going up. Of course, it is related to the development costs that you are having there. But since you are maintaining your development costs in a more accelerated pace through following quarters, I want to understand what can you expect in terms of cash cost reductions? I mean, even if we see consolidation in volumes coming from the mine, can we see also a drop in cash costs if you consider the high development costs? That will be my first question.

And the second regarding Aripuana. I just want to understand you have the partnership with Karmin Exploration with the mine, and they have to decide now. I think it's 1 year to decide if they're going to continue with the CAPEX for the development of the mine. Just want to understand in the case that they decide not to consider it, what happens there, and will Nexa try to find another partner, or Nexa would be responsible for this CAPEX allocation? That will be it.

T – Let's address early in the first. Just to remind everybody, since the beginning of the year we've been saying that production in Cerro Lindo should actually move up in terms of volumes along the year. Our original plan already had considered that Cerro Lindo performance would improve along the year and would be higher in the second half. What happened specifically in the third quarter, it's due to some minor and actually out of our control events, small events. We had some delays in not only the development of the mine but also in the action. Production was a little bit affected. That's why the production of the quarter as a whole was lower than what we were expecting. But when you see that we are keeping the guidance for the year, we are actually sending the message that we are confident, that despite those events that happened along the third quarter, the full production for the year should be close to the original plan. So we are confident that we actually can, and actually already in the fourth quarter things are going much better than they were before.

In terms of cost, Mario, do you want to mention this?

M – Yes. In terms of costs, Arthur, if we -- I would like to refer to Page 7 of our material, that on the bottom right part of the page we bring the cash costs and the costs on a consolidated basis and per mine. And there you see that increment of $0.34 per pound. Out of that, of this delta or $0.14 delta, as we mentioned, $0.11 is related to byproducts -- in this quarter, lower byproduct credits in this case. And the other $0.07, operating costs. Addressing your question, what we should expect is these operating costs to remain on the next quarters, around at least 3 quarters ahead. Why? Because they are related to maintenance and safety, and these will remain. It has to do with the higher standards of safety in particular that we adopted and we discussed in these last quarters, particularly in Peru, and mine development. In mine development, we are spending more, and this will remain for the next 2 or 3 quarters ahead.

Then around $0.07 is kind of regular additional costs. The others are related to byproducts, Arthur. In parallel to that, we are working hard in efficiency, gains of productivity and cutting some other costs in order to partially offset the operating costs that I mentioned.

T – Thanks, Mario. Regarding Aripuana, what happens is as we have officially announced that we have the completed feasibility study, our partner there, Karmin, has a year, and now technically, they have 180 days to say if they are moving on or not with us. If they decide to move with us, they actually have to provide some sort of guarantees in order to have to start to contribute with capital in 1 year time.

Our position today, it's well known by the market that of course we would prefer to have the full control of the project because we are confident it's a good, robust project. But we are open to have Karmin with us. They have the right, we respect it and we have a very good relationship with them. If Karmin gives up the possibility or they do not follow us in the implementation of the project, we would move ahead by ourselves. We would not have an additional partnership in the project.

P – And our next question comes from Carlos De Alba from Morgan Stanley. Please go ahead.

Question – So I wanted to ask you, Tito or Mario, if you have any preliminary views on the production and CAPEX for 2019. And also as to your plan, you just mentioned the evolution of cash costs for the mine, but if you can also provide a sense of how the cash costs for the smelting business would evolve, that would be great.

T – Thanks, Carlos. In terms of the production, as we are planning action to, as we did in 2018, to release the numbers about Nexa's production at the end of the next year. I cannot say much about it right now, but I'm assuming that we should have a stable production along the next year, hopefully more stable than the one we are having in 2018. As I said before, some unexpected factors actually delayed the production at Cerro Lindo. But as we announced in the release, you can see it, the developments have improved a lot, so the numbers, the 3,200 meters that we have, we have been performing today, they give us much more comfort in terms of how much Cerro Lindo will be able to produce next year.

I would -- the guidance now would be we have a more positive view about production for 2019. In terms of costs, Mario, do you want to say anything?

M – In terms of costs, it's exactly as we addressed it, Carlos. It's basically the whole thing is we do have some higher costs in mine development, safety and maintenance. And on the other hand, working hard in order to offset part of that next year with efficiency gains. I would expect something around, slightly up, the $0.20 reported before the by-product effect.

T – Just add one thing. It's important here to note that if we have this more stable production at Cerro Lindo in the next year, of course it will be a little bit higher than what we are having in 2018, as I kept telling you, I can say now. Thank you.

P – And our next question comes from Timna Tanners from Bank of America-Merrill Lynch.

Question – I wanted to ask about, on the Aripuana project, I just wanted to make sure I understood. It says in the footnotes that this -- I assume the NPV is based on consensus forecasts. Is that correct and as of what date? If you could just detail what the components are for this NPV, and would it be changing, then, with the forecasts?

M – Yes, you are right. In terms of Aripuana, we have followed all the consensus market prices for zinc and all the other metals on that. It's not our own curve; it's the market consensus price curve for that and reported on the technical report. For the longer term, although we don't necessarily agree, the price considered for zinc there on the long term is $1.00, $1.01 per pound.

Question – Have you looked at the NPV in the current spot place, or are you -- does the NPV really reflect more of the longer-term outlook, then?

T – Long-term, long-term. We follow the long-term. We don't work with the spot price. And the reason why we prefer to work with the consensus is to avoid some kind of bias. We tend to be more optimistic about the market than the market, actually.

Question – That's fair. That's understandable. And then just 2 more questions, then. Did you quantify the effect of the stronger Brazilian currency on your costs, just to get a sense of if we have an assumption about what the outlook will be on the currency. And then the second question along those lines, any guidance on the tax rate? Just because it's been moving around, wondering how to think about that going forward.

M – Yes, in terms of FX, FX effects on costs, Timna, we haven't guided the market in significant costs. What I can tell you is that on a full year basis, it's $0.10 of BRL. Let's assume Brazil for a while, because it's more impacted, then, by the FX effects. For 10 cents of the BRL per dollar, up or down, we would have a full impact on the EBITDA -- full year, 12 months -- in fact, of around $17 million. That's on the EBITDA directly.

And referring tax, on Page 32 -- let me check that, yes -- Page 32 of our earnings release provided to the market, we bring the tax assessment. And we are pretty confident that probably you're referring to that, if I'm not wrong. And we do have -- we list there 3 cases. We are pretty much confident on that. We haven't provisioned because we don't see any needs for that. They are related to basically ICMF, the Brazilian VAT, on some sales of energy, also related to taxes applied to the value-added, value-added tax applied to energy sales and on income tax. Pretty confident on that. It's the Page 32 of our financial statement and not earnings release.

P – And our next question comes from Lucas Yang with JPMorgan.

Question – I have just a quick one. Could you explain a little bit the FX impacts on your net financial results and consequentially to your EPS?

M – Luke, what happens is that the main effect of FX on our net profit and earnings per share is basically related, as anticipated, by intercompany loans that we do have, having Nexa Luxembourg as creditor and Nexa Brazil as debtor. These do have a significant impact yet. We have decreased a lot. At the beginning of this year, we had a balance of $1.1 billion in these intercompany loans. As we speak, this balance is $500 million, less than half of that, and we'll keep reducing this on the next quarters.

If, just to simplify, if you take, for instance, the earnings per share of this quarter, third quarter of '18, the earnings per share is $0.06 per share, the net one, publicized. But the FX effect on this third quarter is $0.17 and the effects on these intercompany loans I mentioned. In other words, since these intercompany loans effect is not cash, does not represent cash disbursement or anything, our earnings release out of this effect would be more than $0.20. If you take the year-to-date in parallel, the year-to-date earnings per share, the last 9 months' earnings per share, it is $0.17, although we do have an embedded FX effect of $1.21 of these FX effects, again, on the intercompany loans. If we do not consider that or assume for a while directly a zero of this effect, our earnings per share would be something around $1.40 per share. That's the main effect on this.

P – And our next question comes from Orest Wowkodaw from Scotiabank.

Question – I was wondering if we could get some more color on the EBITDA in the smelting business. We've seen a big pickup since -- really, I guess, started in Q2 that continued into Q3. I'm surprised to see the pickup this quickly, especially because I believe you hedge out the provisional pricing risk on the third-party concentrate that you buy. Can you maybe give us an idea of sort of what's driving that big increase in profitability there?

T – I would say it is basically because, first, we are operating at full capacity. We have actually managed to debottleneck some things, so production has been stable in all the 3 smelters. There's some support, also, for FX in Brazil, so productivity improves. The margins in the Brazilian smelters is a little bit higher than that.

In the third quarter, we also have the backlog of the strike, the truck drivers' strike, that made us actually sell more in the third quarter when you compare to the second quarter. So there's a group of factors that are affecting positively. But in general terms, I think performance has been really good in all the 3 smelters, no interruptions at all, and actually with a little, some gains in volumes. And those are the facts I just mentioned.

In terms of supply of concentrate, we haven't had any constraints. Our contracts are in place. We've been able to get all of the needed concentrate from the producers in Peru. And we are comfortable with that. We are already negotiating contracts for the next year. So that part that's not a long-term contract, we are already negotiating for the next year. It seems to us that situation will be pretty much the same.

Question – Okay, but any third-party concentrate that you did buy earlier in the year, because the zinc price went down, normally you would, I guess, collect positive adjustments there from the miners. But am I correct in assuming that you hedge out that risk so you don't actually get that upfront?

T – Yes, we hedge what we buy from third parties. You're right about that. But the QP backed, we have some positive effect to the quarter. You're right as well. I don't have the number by heart. Do you know the number?

M – 16.

T – $16 million in the third quarter, which actually affects positively the performance as well, the productivity as well, right? But $16 million.

Question – Okay. And so was that exposure that was not hedged, or just the hedging?

T – It was a result of the hedge. It was exactly the opposite of what you're saying. Okay? Usually we hedge the QP, the quotation price. We have the quotation price. What we are buying from the market, we do not be exposed to that.

P – And our next question comes from Oscar Cabrera from CIBC Capital Markets.

Question – Tito, if I just -- staying with the smelting business, treatments, spot treatment charges have gone higher and remain high. I know that you guys have a competitive advantage because of the smelting capacity you have in South America. Could you perhaps comment on the premium that you saw in the quarter compared to year-to-date and compared to last year?

T – Okay. The TCs, they are a little bit higher as we have, what you say, the brief contracts. The effects of any movement in the TCs up or down just affects one-third of the contracts we have. So when TCs, they come down as we saw from last year, the impact on our numbers is mitigated by the fact that just one-third of the contracts suffer from that. When the TCs goes up, the effect is exactly the opposite, which means that when you see that TCs is moving up, the effect on our numbers will be lower than they were supposed to be because impacting the one-third of the contracts.

In the case of premiums, they've been very stable since last year. We haven't had any major change. I could tell you that because of the situation in Argentina, demand in Argentina is weaker than it was a year ago, we are sending more to other countries in LatAm, so premiums could go a little bit lower. But on the other hand, the market in Brazil is improving, so actually, I can assume that we will have stability in premiums because the market in Brazil will offset the loss of demand in Argentina. So at the end of the day, everything will be pretty much the same.

Question – Pretty stable. Okay, no, great. If I may just follow up on the previous question, understand you hedging your -- the concentrate that you purchase. But how should we think about how the concentrate is moving through the smelter? Do you tend to keep a stockpile that you use, or how the stockpiles are looking right now, should we -- is there any seasonality to that stockpiling of concentrate or refined zinc production at all?

M – Our operating time period in the smelting, is around 43 to 45 days in total. Then what we hedge is exactly this period for the working capital in progress there, for the inventories we buy. The hedge follows the same pattern. We're basically hedging that part of this inventory in process that comes from third party, not comes from our mines.

Question – That's understood. Mario. And then lastly if I may, just getting back to the question on the costs for Cerro Lindo, just backing into on a per-pound basis before byproducts, you were about $1.26 per pound of zinc produced. Do you -- what sort of -- what do you expect over the next, say, year to year and a half? I'm assuming that with development improving and your production improving as well, that has to go backwards. Should we be thinking about inflationary pressures because of diesel or labor or other things?

M – Yes, and regarding Cerro Lindo specifically, Oscar, if we take into consideration the maintenance and development, mining development services, they together account for $0.11 per pound. These $0.11, I think it's fair to assume that will remain for some of the quarters ahead, around 2 to 3 quarters, at least, as we speed up the mining development there in order to keep producing more and more.

Regarding inflation of other cost factors, no, we haven’t seen that. In terms of labor, in terms of energy, contractors in general, we haven't seen any inflation in this regard. We do not expect any cost pickup on these others.

P – And our next question comes from Alex Hacking from Citi.

Question – I just have one question on Aripuana. How are you thinking about the timing of potential conversion of resources to reserves? Is this a situation where once you develop the underground, we should expect to see reserves being replaced every year, or is it more of a long-term project to convert those over?

T – Straight answer: you should assume that at least we will be able to convert on a yearly basis what we will be consuming. And as we have stressed in our release, of course, we have a very strong drilling program there. Our target is for our operations, the minimum level of reserves, it's around 12 years' reserves. In Aripuana, we already have 13 years. But the situation looks so promising that we actually decided to move faster with Aripuana and see how much actually we can convert along the next 2 years. I would say we will be converting the year's production at least. But actually, we intend to increase the level of reserves for more years.

P – And the next question comes from Luis Pardo from Compass Group.

Question – I just have a quick question about the timing of CAPEX deployment for Aripuana. Are you thinking -- maybe if you could give us more color on how you plan to spend the CAPEX. Is it front-end loaded? Back-end loaded?

M – Regarding CAPEX, as we released on the technical report, and we have a lot of details there, Luis. We are investing around $20 million this year. That's in order of the finalization of the FEL3, and as soon as we get the installation license to start some of the investments for seeing galleries. In addition to that, next year our expected CAPEX for Aripuana is $140 million and something around $160 million to $170 million the following year, meaning 2020.

Question – And we expect all this to be funded with internal cash flow generation, right?

M – We have worked with some funding, particularly this incentivized funding between us and the region, but we are prepared to move ahead with our own cash to that risk.

P – Our next question comes from Terence Ortslan from TSO and Associates.

Question – Just on the zinc markets, you answered some of the questions that Oscar had on the neighborhood and the area that looked domestic market. This morning inventories at LME were down to a 10-year low, about 145,000 tons from like 1 million tons in 2012. It's a huge drop. Warrants have tripled the last few months. And I'm just wondering, in your view, being in the business, how synthetic is this market, or how real is the market that you would assess compared to what's happening to the price? What's your assessment?

T – I would say that what is happening in the market right now is pretty much what we said that it would happen more than a year ago. We are not seeing new mining production in China. The concentrate market in China has been supplied by concentrate coming from abroad, so TC's in China went up in the last few weeks because of that. But on the other hand, we are seeing, as I said, a drop in the cancellation of warrants and a drop in the physical stocks of metal. So if everything remains as it is today, and we are not seeing any reason at all to see a major change, we may end up the year with official stocks of less than 30 consumption days of metal available.

And besides that, price actually -- let me stress this -- price has been behaving very well when you compare with the other metals. Zinc price along the last 2 months, they have been much more resilient than the copper price and nickel prices. What's affecting the price of zinc today has much to do with the general perception about what's going to happen with China, if the trade war actually lasts longer. So if there is -- if the market reverses and starts to believe that the trade war will not be longer, we should see, actually, zinc prices going up faster than most of the other base metals. And that's what I do think. Thank you.

P – And this concludes our question-and-answer session. I'd like to turn the conference back over to Mr. Tito Martins for any closing remarks.

T – Oh, thank you very much. I would like to thank all of you for being with us this morning, or this afternoon for those who are in Europe. As said before, we are very confident about the Aripuana project. We are very excited and waiting for this permit, the installation permit, that should be granted soon. We're expecting to have that in the next few weeks. We are ready to start construction. We have the construction companies already hired, the equipment available. So we want to move as fast as possible in order to be able to end up 2020 with the operations ready to start to ramp up. So we're very confident about this.

Another piece of information to you is the next 2 to 3 days, we should be releasing the information to the market about the share buyback. As you know, we are in the black period, should end up on November 6. So the share buyback probably should start next week, or potentially next week. Of course, we would not say that we would start to buy the first day. But anyways, the share buyback program will be in place next week. And that's it. Thank you very much for all of you. Have a good day.

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
Suelotto	Athur	Bradesco BBI
De Alba	Carlos	Morgan Stanley
Tanners	Timna	Bank of America
Yang	Lucas	JPMorgan
Wowkodaw	Orest	Scotiabank
Cabrera	Oscar	CIBC Capital Markets
Hacking	Alex	Citi
Pardo	Luis	Compass Group
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