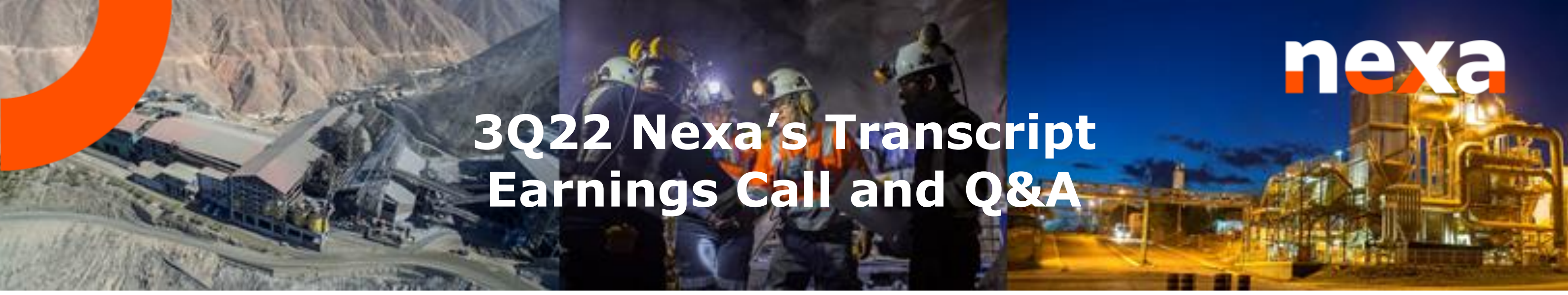

3Q22 Nexa's Transcript Earnings Call and Q&A

Participants:

I - Mr. Ignacio Rosado – CEO of Nexa Resources
J - Mr. José Carlos del Valle – CFO of Nexa Resources
R - Ms. Roberta Varella – Head of IR of Nexa Resources
L - Mr. Leonardo Coelho – Senior VP of Mining of Nexa Resources
O - Operator

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

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

R – Good day and good afternoon, everyone, and welcome to Nexa Resources' third quarter 2022 earnings conference call. Thanks for joining us today. During the call, we will be discussing the company's performance as per the earnings release that we issued yesterday. We encourage you to follow along with this on-screen presentation through the webcast. Before we begin, I would like to draw your attention to slide number 2, as we will be making forward-looking statements about our business, and we just ask that you refer to the disclaimer and the conditions surrounding those statements. It is now my pleasure to introduce our speakers. Joining us today, is Ignacio Rosado, our CEO; José Carlos del Valle, our CFO; and Leonardo Coelho, our senior vice president of mining. So now I will turn the call over to Ignacio for his comments. Ignacio, please go ahead.

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

Let me begin by saying that overall, we experienced a challenging third quarter. A rapid deterioration of growth prospects coupled with rising inflation has resulted in tightening monetary policy, driving expectations of a global recession. The uncertainty of the macroeconomics affected the perspectives for our industry, as well as increased commodity prices volatility, which contributed to a significant pressure on base metal prices since the mid-second quarter of this year. Despite all these hurdles, we are delivering on production, costs, and capex in line with our guidance. We believe the fundamental value of zinc will continue to be strong given low physical inventory levels and a lower supply of metal in smelters in Europe. Nonetheless, we are taking appropriate actions to maintain a healthy balance sheet through the execution of our costs reduction programs, capex optimization, and improved cash flow generation strategy. Adjusted EBITDA decreased to US$103 million in the third quarter of this year, mainly affected by the decrease in metal prices. José del Vale, our new CFO, will discuss all the effects influencing this number during his presentation. As part of our measures, we have also been working on reducing our corporate overhead. During July we implemented actions to reduce our headcount and corporate costs that will generate annual savings in the range of US$25 to US$30 million. In Aripuanã, we are focused on optimizing process plant stability and recoveries while steadily increasing the plant throughput rate. The first batch of zinc, copper, and lead was successfully produced in the quarter. We are on track to achieve commercial production by December. Additionally, in light of our successful exploration program, we are expecting for potential addition of new resources by the end of the year. Before going into details in the next slides, I would like to emphasize our strong balance sheet with a solid cash position, of almost US$850 million, and a net debt to EBITDA ratio of 1.5x. Now, moving to slide number 4.

In slide number 4, regarding the operating performance of the mining segment, you can see that zinc production in the third quarter decreased to 76kt, because of the lower average head grade in Cerro Lindo. This decrease was according to the mining plan for this period. At Cerro Lindo, we also had scheduled maintenance at the plant to increase the reliability of thickeners and filter circuits, which reduced treated ore volume compared to the second quarter of this year. Following this lower treated ore, copper production in the third quarter also decreased by 5% year-over-year. Lead, on the other hand, increased to 15kt as we accessed higher average grades areas in this quarter, and silver production remained relatively flat at 2.6MMoz. For 4Q22, we expect zinc and copper production to increase compared to the third quarter, while total lead and silver production should be slightly lower. We want to emphasize that we are on track to achieve from the mid to the upper range of the production guidance for all metals for all year 2022. Now moving to the next slide.

In slide number 5, run-of-mine mining cost in the third quarter was US$43/t compared to US$41/t in the third quarter of last year, reflecting inflationary pressures on cost. Compared to the second quarter of this year, run-of-mine mining cash cost was relatively flat. Mining cash costs in this quarter increased to US$0.57/lb compared with US$0.22/lb in the third quarter of last year and US$0.16/lb in the second quarter of this year. In both cases, the main drivers were: (i) the decrease in by-products credits; and (ii) lower zinc volume. Cash cost guidance for 2022 is expected to be close to our annual guidance. Now moving to the smelting segment in slide number 6.

In slide number 6, regarding the operating performance of the smelting segment, in the third quarter, metal sales totaled 162kt, up 4% year-over-year and up 7% quarter over quarter, following higher production volumes and improvement in lead times compared to previous periods. In both Peru and Brazil, production increased due to better performance and production stability. For the upcoming quarter, smelter production is expected to remain stable compared to the third quarter of this year. Sales are expected to follow the same positive trend. Our smelting cash cost in this third quarter increased to US$1.36/lb compared to the same period of last year, mainly driven by higher LME prices. Compared to the second quarter of this year, however, cash cost decreased by 6% due to lower operating costs and higher volumes. Conversion cost in this third quarter was US$0.26/lb compared to the US$0.23/lb a year ago. And this was mainly driven by higher energy prices. Compared to the second quarter of this year, conversion costs decreased by 10% mainly driven by lower variable costs. Now moving to slide number 7.

I will now give an update on the redesign program we recently implemented. We have revised our organizational structure and our internal process to operate more efficiently. We made drastic changes in corporate headcounts and corporate overhead expenses, and we expect to generate annual savings in the range of US$25 to US$30 million. These actions, not only look to optimize overhead but also to improve organizational efficiency to focus more on supporting our operations and make more agile decisions. Now moving to slide number 8 where we will discuss progress around Aripuanã.

Ramp-up activities in Aripuanã mine are progressing, and we are focused on steadily increasing the plant throughput rate and asset reliability. The milling utilization was expected to be between 30-40% in 3Q22 and reached 32% at the end of the quarter. We expect to be at 70% at the end of this year. We believe we are on track to commence commercial production in December. At the end of September there were approximately 646kt of ore available in stockpiles, which is enough to cover five months of the estimated ramp-up period. Furthermore, the mine is already fully operational, and underground mining operating activities are focused on developing and preparing new areas and increasing mineral reserves with our infill drilling campaigns. In the third quarter, we invested US$9 million in Aripuanã, totaling US$63 million in capex the first nine months of this year, which includes a negative impact of the Brazilian real appreciation against the U.S. Dollar of US$5.4 million. The cumulative capex of the project since the beginning of construction is US$629 million, and there are still minor investments to be made in this 4Q22, around US$5 million as a result of additional contract expenses. Now, moving to the next slide where I will give you an update on Aripuanã's exploration program.

In Aripuanã over 12 thousand meters of infill drilling were completed at Ambrex and Babaçu exploration targets. The infill drilling campaign in Ambrex for 2022 has been completed in 3Q22 and the drill rigs were moved to Babaçu exploratory campaign in order to be completed during 4Q22. The latest drill holes results indicated that the mineralization has been confirmed which should support the conversion of inferred to indicated mineral resources. For the fourth quarter, the drilling campaign will focus on the exploratory program of the Babaçu target, for resource definition and resource expansion at the northwest extension. In light of our successful exploration program, we are expecting for potential addition of new resources by the end of this year. Now, I would like to turn over the call to José Carlos who will present our financial results. José, please go ahead.

J – Thank you, Ignacio. Good morning and good afternoon to everyone. I will continue on slide 10. Although our operations performed as expected in terms of production and costs, financial results were affected by the decrease in LME base metal prices over the last few months. As you can see, beginning with the chart on your upper left, total consolidated net revenues for the third quarter increased by 7% year-over-year, due to higher average zinc LME price, metals sales, and lead volumes. However, compared to 2Q22, net revenues decreased by 15%, as a result of the lower LME prices I mentioned a moment ago. Net revenues were also negatively impacted by the remeasurement adjustment in the silver-streaming agreement we have for our Cerro Lindo mining unit, registering a non-cash reduction of US$11 million. Looking at the first nine months of this year, consolidated net revenues reached US$2.2 billion, versus US$1.9 billion in the same period last year, an increase of 16%. In terms of EBITDA, during the last quarter, consolidated adjusted EBITDA decreased to US$103 million. However, for the first nine months of this year, consolidated adjusted EBITDA increased by 5% to US$598 million. It is important to highlight that this amount includes pre-operational expenses of US$44 million related to Aripuanã. We now move to slide 11, where I will explain in further detail.

Adjusted EBITDA in 3Q22 was US$103 million, 64% lower than in the previous quarter. This performance is mainly explained by: (i) US$106 million related to lower LME prices and also to changes in market prices that result in MTM adjustments; (ii) the net negative hedge effect of US$18 million – which is mainly due to hedge mark-to-market adjustments resulting from lower LME prices in 2Q22. Here, accounting rules result in these adjustments being recognized in the company's P&L in advance of the physical sale of finished products; and (iii) lower by-product contribution due to the already mentioned decrease in prices and volumes. Moving to the next slide.

I am now on the slide number 12. In the mining segment, 3Q22 net revenues totaled US$241 million, down 13% versus the same period of last year. This is explained mainly by lower zinc and copper volumes, in addition to the decrease in average LME prices for copper and lead, which was partially offset by higher zinc prices. Also, in the first nine months of this year, net revenue for the mining segment totaled US$933 million compared to the US$842 million in the first nine months of 2021. This is mainly due to higher metal prices and lead volumes. Regarding EBITDA, on your upper right, 3rd quarter adjusted EBITDA for the mining segment was US$45 million, a reduction of 51% year-over-year, mainly explained by: (i) lower prices and volumes;(ii) higher TCs; and (iii) the negative variation of US$11 million related to pre-operating expenses in Aripuanã. Compared to the second quarter, adjusted EBITDA decreased by 69%, mainly driven by lower prices and volumes, which were partially offset by a decrease in other variable costs and mineral exploration expenses. Finally, adjusted EBITDA for the mining segment in 9M22 was US$318 million, compared US$331 million last year, mainly due to Aripuanã pre-operating expenses of US$44 million incurred this year. Switching over to the smelting segment, net revenues in the third quarter totaled US$616 million, an increase of 18% versus 3Q21, supported by higher LME prices and volumes. Compared to 2Q22, net revenues decreased 9%, mainly due to lower prices. Now, for the first nine months of this year, revenue for the smelting segment totaled US$1.8 billion compared to US$1.5 billion in the same period of last year, mainly due to higher metal prices. When we look at adjusted EBITDA for 3Q22, we see that the smelting segment reported US$59 million, down 9% from 3Q21, mainly explained by: (i) the negative price effect of US$15 million related to higher zinc prices and positive changes in metal prices that resulted in MTM adjustments; (ii) an increase in operating costs; and (iii) the negative variation of US$8 million related to the recognition of energy recovery costs that benefited 3Q21. This was partially offset by higher by-product contribution. Compared to the second quarter, adjusted EBITDA for the smelting segment decreased by 58%, mainly explained by the net negative hedge effect of US$18 million that I mentioned earlier, and also by lower prices. Finally, the smelting segment's adjusted EBITDA for the 9M22 totaled US$282 million, compared to US$241 million a year ago. Now, moving to slide 13 to discuss our investments.

On the top left of the slide, we can see that in the third quarter we invested US$85 million in capex, of which US$9 million are directly associated with the construction of Aripuanã. And in the first nine months of this year capex totaled US$265 million, of which US$63 million was related to Aripuanã as well. During this period, we also invested US$186 in sustaining and HSE, including US$28 million of Aripuanã. Also, it is important to mention that the Brazilian real appreciation against the U.S. Dollar had a negative impact of US$14 million in the first nine months of this year. Based on these results and our projections for the year, we believe we will achieve 2022 capex guidance of US$385 million. With regards to mineral exploration and project evaluation, we invested a total of US$24 million in the third quarter, for a total of US$64 million in the first nine months of the year. I would like to emphasize that as part of our long-term strategy, we are focusing our efforts on replacing and increasing mineral reserves and resources, supporting our organic growth. Also, important to mention that we are maintaining guidance on these, expecting to finish

2022 at about US$82 million. Now let's move on to the next slide, in which I will discuss our cash flow generation in the first nine months of the year.

I am now on slide 14. So, for the first 9M22 and starting from the US$641 million of adjusted EBITDA without Aripuanã expenses and investments, we can see that cash flow provided by operations before working capital changes was US$605 million. We then had US$194 million related to interest paid and taxes, and the US$157 million invested in sustaining capex. We also paid dividends of US$62 million, including the amount distributed by our subsidiary Pollarix. Additionally, we invested US$22 million dollars in non-sustaining capex. Regarding Aripuanã, we invested approximately US$200 million in the first nine months of the year, including capex, pre-operating expenses and working capital. It is important to mention that we had a negative net effect of US$69 million due to the early redemption of our 2023 notes, partially offset by a new export credit facility. Also, foreign exchange effects on cash and cash equivalents, was positive in US$12 million dollars. Finally, there was a working capital variation of US$133 million, mainly due to higher LME prices on inventories and lower outstanding amounts of accounts payable. With all the effects presented in this slide, free cash flow was negative in US$226 million dollars during the first 9M22. We expect to reverse most of the increases in inventories during the coming months. Now moving to slide 15.

In this slide you can see that our liquidity remains strong, and we continue to report a healthy balance sheet with an extended debt profile. By the end of the third quarter our current available liquidity was approximately US$838 million, including our undrawn revolving credit facility of US$300 million. Important to mention that as of September 30th, the average maturity of our total debt was 4.9 years, with a 5.7% average cost of debt. Finally, our leverage, measured by net debt to adjusted EBITDA ratio was 1.5x, compared to 1.3x at the end of the second quarter and 1.2x a year ago. With that, I would like to turn over the call back to Ignacio for his final remarks. Thank you.

I – Thank you José. I am now on slide 17. We recently announced our new targets and long-term commitments on our ESG strategy which includes commitments across areas, such as water usage and disposal, safety and workplace, and the reduction of CO2 equivalent emissions, in line with the sustainable development goals of the United Nations. In addition, topics such as waste and dams management, local development, decommissioning, and human rights are also included in Nexa's ESG strategy. Here, you can see our ESG structure covering climate change, natural capital, health, safety & well-being, and plurality with targets to be achieved by 2030, 2040, and 2050. Our determination to be assessed based on the strictest international standards is in line with our principles to operate with transparency and ethics while creating a positive impact on the environment. We also want to emphasize that we launched our new purpose: Mining that changes with the world. Which will guide all our initiatives. For more information about our targets and commitments, please visit our new ESG page under the institutional website. Now, turning to our last slide.

I would like to close this presentation by briefly reinforcing our priorities not only for the rest of 2022 but for the next year. Aripuanã is our first greenfield project, and we are very proud to have completed this project in a very challenging global environment. As I mentioned earlier, we are in the ramp-up stage, and we should achieve commercial production in the coming months. Our exploration strategy is focused on increasing mineral resources, to rapidly extend the life of mine. Despite a complex macro-outlook, our focus on cost control, efficiency, and cash flow generation is aimed to allow us to achieve a healthy balance sheet as we remain confident that the long-term dynamics of our industry are promising as fundamental value for zinc and other base metals is strong. Looking forward, we will continue to invest in our business for the long term, to generate cash flow while increasing the life of our mines and to be focused on our people, our communities, and our sustainability agenda. Thank you all for attending this presentation. With that, we will be happy to take your questions.

Q&A Session:

O – We will now begin our questions and answers session. [Operator Instructions] At this time, we will pause momentarily to assemble our roster.

R – Hi Ignacio, we have a question from the web. Could you please provide more color about the fourth quarter? What's your expectation in terms of zinc prices and demand?

I – Yes. I guess, first of all, I would like to mention that our third quarter in terms of production, costs and capex, we have been able to manage the business. And if you see our EBITDA that has missed expectations has a lot of financial changes that we have been explaining in this report and in the presentation, but I would like to emphasize that has been influenced by US$11 million of a silver-stream update on our model. This is non-cash. The market doesn't have that we have US$15 million in Aripuanã every month now that we are in the ramp-up period and in pre-operation. We also have this difference of US$18 million of the volatility of hedge that we have to update the mark-to-market every month and every quarter. And also, in the smelter, we have a difference in buying price from our mines and selling our concentrate, given that, as you know, we don't hedge our production from the mines. So, based on that, we have like between US$60 million to US$70 million in the third quarter that have influenced the EBITDA. So, it should be higher on that amount in the third quarter, given that our operations have been right on track. In the fourth quarter, we don't see any of our operations performing in a different way. We see that we will achieve the budget and the guidance to the market. So that's going to be the case. In the case of prices, we don't know what could happen in prices. The market is not weak on prices. Still, we believe that the fundamental value of zinc in the short term should be strong in terms of today, we have lower inventories of metal, three smelters in Europe, one of Trafigura and two of Glencore has stopped, which are 700kt of metal. And we see that on the TCs and we see that on the premiums that are present with it. So, we believe there is a fundamental price of zinc that will support the fourth quarter, but you never know. So, from a company point of view, we are on track to achieve the guidance, as we said, on production, cost and capex. And we expect some recoveries on the price of zinc. So, I would say that in terms of the year, the full year, we as Nexa will achieve on all the variables that we control.

O – The next question comes from Lawson Winder of Bank of America.

Question – I apologize. Hello. I am here. Good morning Ignacio, and thank you for the update and your comments today. I wanted to ask about the language around full operation in 2Q23. So, in Q2, there was some pretty clear language that you expected

Aripuanã to be fully operational at some point in 2Q23, and I couldn't find that language in today's release. And I'd like to get your thoughts on the implications of that, please.

I – Yes, no problem. The message we said was that towards quarter one we finished the commissioning, and we started the ramp-up period. And we said that on the fourth quarter, we were coming on a commercial production, and we thought that the ramp-up period was going to last between six to eight months, okay? So that is still the case. But as you know, in the ramp-up period, you face some bottlenecks that sometimes you don't know because you are in the process of ramping up the plant. And this was the case. So, at the end of September, we were supposed to be between 30% to 40% on our capacity on the plant. And it was 32%. It was in the lower range. But we have been working on all of these bottlenecks, some drainage systems, some pumping equipment, some other variables in the mine that have been affecting us and make us stop the plant from time to time. But this is something that we are not facing far of loss. So, we are still aiming to start the commercial production in December. That is the case. If I were to tell you, is we might be like, I don't know, 15 days to a month behind, but still Aripuanã is ramping up, and as I said, we are willing to declare commercial production in December.

Question – Okay. That's fantastic color. And then also, is achieving nameplate capacity in 2Q23 still achievable?

I – Yes, yes. No, that's for sure. I guess we said also in the press release that towards the end of this year, we should be at 70%. The way we define commercial production is at least 60% of the plant on a four-week period has to be stable. And the quality of the concentrate that goes to the smelters have to be commercial. So that's the way we define that. That is starting in December. So, towards the end of December, it's going to be at 70%. I would say in the first three months of the year should be close to 90%. And yes, we will be at the end of the quarter or beginning of the second quarter, 100% of production.

Question – Fantastic, thank you for clarifying all that. I wanted to ask about the stream effect on the new mine plan. So, I mean, we haven't seen the documentation around the new mine plan. But is the implication of the stream effect that the negative impact of the stream is increased or reduced under the new mine plan?

I – No. I mean this is for the company that the stream is good news, but also for us, because mines evolve and given that mines evolve, you add more reserves and resources. And when you update the plan, you have to give up US$11 million more, based on an NAV analysis. So that you have to adjust from your part. But that said, you have also the zinc, the copper and the lead that comes with that and it comes with the extension of the life of the mine of Cerro Lindo. So, this is mainly the case.

Question – Okay. That's very clear. And then just one final question relating to Cerro Pasco and the capex around that at the Investor Day in New York, you talked about investing US$150 million in Cerro Pasco over the next few years. When do you expect that to start? And how much of that could end up in 2023?

Question – Yes, we are still assessing that. And as I was saying, we have some upgrade of the shaft for El Porvenir. We have a small expansion of the plant of El Porvenir. We have to build a tailing pumping system from El Porvenir to Atacocha and we have to develop Atacocha underground. The main objective of this debottleneck is that to access resources from the underground from Atacocha and to use all of this infrastructure to create more opportunities and produce more and create more cash flow. So, we are working on that, yes. And we are presenting this to our Board during December, during the budget season. So, we will get back to you before the year-end with the investments that will come next year, but this is a 4-year investment period. So, it will be clear for you at the beginning of next year that how much are we investing in this project going forward.

O – The next question comes from Carlos De Alba of Morgan Stanley.

Question – Great. If I may ask, I have a few. Just on the first one, just going through the release, there is a couple of things that were struggling to reconcile. First on Aripuanã, the capex guidance for the year on expansion projects is US$59 million. However, year to September, the first nine months, according to the table in the release, you have already spent US$63 million. So, I wonder if you can help us understand if you're going to have negative capex in Aripuanã in the fourth quarter or what is taking place there. The second point where we are struggling to reconcile is in the reconciliation of realized prices for the smelting business or for metal the realized price was US$1.10/lb. There were no price adjustments, at least was close to 0 in that table. And that seems a little bit low based on the price average that we have seen in the second quarter and in the third quarter so if you could please help us understand that would also be quite interesting. And then finally, regarding cost for the mining sector. So, I think the guidance for the year remained unchanged. However, when we looked at the cash cost for the first nine months was US$0.31/lb net of by-products. The guidance for the year continues to be US$0.28/lb but in the third quarter, it was significantly higher than that. So, if you could help us understand what is going to drive what seems to be a very dramatic implied decrease in cash cost for the mining division so that you can meet your guidance.

I – Sure. No, thank you for the question, Carlos. I will start with the cost. The third quarter on the C1 cash cost has been influenced by Cerro Lindo mainly. So, Cerro Lindo, as I was explaining, had a lower throughput, we have lower zinc grade as well because of the mine plant. And this lower throughput, this lower zinc grade and also a lower copper grade because of the area of the mine that we were mining, yes. We'll give you a higher cost per ton because of the lower throughput and will give you a low by-product in terms of the copper, which is very significant. So that affected Cerro Lindo and that affected as an average the rest of our mines, okay? In the fourth quarter, Cerro Lindo is recovering the throughput and is also recovering the rates. So, Cerro Lindo under the cost per ton is flat as well. So, Cerro Lindo is going back to what we have in our budget. So that's why we are confident that this is we're going to be in the range of what we give as a guideline to the market. And the rest of the mines have been performing very well. So, all our cost per ton, which are the ones that we control in the mines towards the end of the year are in line with budget and in line with what we have presented to the market. And if prices do not change, the by-products contribution should be also something that won't affect the C1 cash flow. So that's why we are still informing the market that we will be in range with what we have provided. So that's the first question. I don't know if that's clear.

Question – Yes, that was clear. So, the delta from the third quarter cash cost of US$0.57/lb in the third quarter to get to the guidance of 29% for the year is basically driven by Cerro Lindo.

I – Exactly. Yes. The first question regarding Aripuanã, yes. Aripuanã, the capex that we expend in Aripuanã is in reais. It's in Brazil and local currency. And there is an FX effect. So, part of the FX effect was US$5.4 million to close the from, okay? So that's what influenced the difference that you have been mentioning. But having said that, you know that in the commissioning period before the ramp-up, we had some trouble in the thickeners, in the zinc thickener, in the copper thickeners, yes, we were commissioning those and we have some trouble, and we need to extend the contractors, and we need to bring the equipment providers, and we needed to have more fixed cost. And that in us and settling those contracts could be around US$4 million to US$5 million more. So that's more or less where the capex of Aripuanã is right now. And this is something that happened in June, and the FX, I mean, it's something that we cannot manage. But the commissioning part and finding this in the thickeners is something that we have happened in June and July. So, we are communicating that to the market.

Question – Sorry, I'm not sure that I understood that. So, the issues with the thickeners and other parts of the equipment are increasing capex by around US$4 million for expanding in Aripuanã in 2022. But that is more than offset by the currency effect in the fourth quarter that will, therefore, basically imply a reduction in capex in the fourth quarter in dollar terms.

I – Not necessarily because we don't know what that FX is going to be. So, what I'm trying to say is that from the number we provided in June is US$5 million more because of FX. And from the number that we will close this quarter is US$4 million more because of more expenses related to the thickeners. The FX effect, I don't know what's going to play.

Question – Understood. So, what is the FX that is implicit then in your guidance of US$59 million for 2022.

I – Budget was BRL 5.50 per dollar. And today, it varies very much is 5.10, 5.20, depending on the week and it's like 2% or 3% less and that influence. And in the third quarter, the FX was the budget from that we provide to the market with the value, it was 5.5%, and we end up at 5%. So, it was 2.5%. But we don't know what's going to be the FX. So that's mainly, I guess, the assumption. Okay, so from a smelting point of view, I guess what really influences melting and this is something that the policy of the company was that all the concentrates from the outside parties, not our mines were hedged, and the concentrates for our own mines were unhedged. So, if prices have variances, you translate that price to the mine. If it's positive, and the mines are exposed to that, all the mines in the world are exposed to that, yes. Because we were looking at the business that was in integration. We integrated the business, okay? So, this sharp decrease in price really affected the smelter because, let's say, you pay a good price on the concentrate to our own mines, yes. And you saw that met at a lower price. So that has created a difference on the realized price that you are projecting, and that's what explains the difference. Going forward, and we are discussing this very broadly with the Board, the view that we have is that the businesses have to be independent, so the mines will follow the quotation periods of the market, as always, and the smelter has to follow 100% of hedge in the concentrate they buy and in the metal we sell. We are aiming to create natural hedge in terms of match all the positions that we buy with some of the positions that we sell. And this is a process, and we are starting to do that in this quarter.

Question – So, it means that when you buy concentrate from your own mines, you don't do it on with a T+2 or T+4, whatever the quotation appear is, you do it on a spot basis. And therefore, you pay them a high zinc price embedded price in that concentrate that you bought saying during the second quarter or early third quarter that you treated during the third quarter, and you pay high zinc prices to your own mines because you pay close to spot or a spot. And then when you sold that concentrate in the smelting business, you sold that at a lower price? Is that what happened?

I – Yes. That happened in the third quarter, and it was significant because the trend of the price was very negative. So that's one case in the third quarter.

Question – And that was only for the mines, the concentrate that you buy from your own mines?

I – Exactly. The rest didn't happen because we were hedging 100% of the metal of the concentrate we buy that will match the metal that you saw.

Question – Now in the table that you provided in your release, you have current period sales of 1.1%, and you have price adjustments and is basically zero. So, wouldn't that impact that you mentioned that you referred to have to flow through that price adjustment line in your reconciliation table?

I – Yes. To be honest, that detail I don´t have, I can get back to you. But what I can tell you is that the mechanism I've been explaining is what really what affected the third quarter in terms of the adjustment on prices on these matters.

R – We have some questions here from the web. So, one from Fiorella Mendoza from Inteligo Group. Ignacio, you mentioned that Nexa could acquire a new mine in Latam. We would like to know which percentage of that you could acquire and if this transaction could affect in the dividend payment as the interview that you had with Reuters.

I – Yes. No, as I was saying in the final remarks of this presentation, we are now focused on finishing Aripuanã. Aripuanã is a very good mine. We are in the ramping up period, and next year, we need to consolidate Aripuanã. So that's very important for us and is our priority. In parallel on that we are always active in the market, looking for some mines that are in brownfield, advanced brownfield for producing mines, I would say, that are similar to the ones that we have, Cerro Lindo, Vazante or Aripuanã and we are active on that, okay? But that doesn't mean that we are going to execute some transaction in the next few months because Aripuanã is the priority for us, but we are active on that. But regarding the capital allocation, the way we see it is that dividends is something that we will always pay, and the policy is there, and we have been paying dividends in the last four or five years in that policy. And the way we will finance this new growth is going to be between our cash flow and some debt. We have capacity of that. And I think that the cash flow that will come in the next two, three, four years is going to help us that with the debt to finance this new acquisition going forward. But for today, Aripuanã is what we need to be focused on right now.

R – The next question comes from Josseline. Do you expect EBITDA level in fourth quarter to be similar to third quarter? Do we expect to distribute more dividends in fourth quarter? Which is your net leverage expectations for year-end and 2023?

I – Yes. For closing the year, what I can say is that I don't know what's going to be the EBITDA because we don't know where the prices are going, but we are providing guidance on production, costs and capex. So that is something that we control, and I can make sure that this is going to be the case towards the end of the year. Depending on prices, we will have an EBITDA for the rest of the quarter. So, I cannot provide any information. Regarding 2023, we are putting together the budget. We are being conservative on prices because even if we believe that the zinc could be strong in the short-term. This world is going through a lot of noise and different factors and volatility. And we don't know where the price of zinc, copper, and lead, and silver is going to be. So, we are cautious on that, and we are trying to make sure that our operations with a low price perform. And that is something that we are going through right now. We will present to our Board in December, and we will provide the market our outlook for 2023 at the end of December or in January. So that's mainly what I can tell in this question.

R – The next question comes from Orlando Barriga from Credicorp. So, at which net debt-to-EBITDA ratio would you start to feel uncomfortable. In addition, would you try to be more conservative with cash uses given the current risk of global recession and lower metal prices?

I – Yes. We run scenarios. We have a very detailed strategic plan, and we have run scenarios on leverage. And I guess between 2.5x and 3.0x leverage is a limit for us. And the scenario that we have run are lower, yes, but still, we have to be conservative in terms of leverage because you don't know the fluctuations on prices in the cycles, okay? So, 2.5 or 3x is the limit. As you were saying, we have to be conservative. We are working with a tight budget because we believe that 2023 could reflect a very conservative price scenario, and we are working on that. So, we are putting all the measures not only at our mines and our smelters, but our corporate center and our initiatives to make sure that cash preservation is something that is very important. So, that is the case. As I said, we're going to approve that with our board in December, and we will provide the market with more color at the end of December or in January.

R – We have one more question here from Matheus from Bradesco. I'd like to have some more color on your cost outlook for the next quarter.

I – Yes, very similar to what I said, Cerro Lindo influenced the third quarter and in the fourth quarter, given the cost per ton of our mines and the conversion cost of our smelt that we control, we believe that we'll be in line with what we control. And if prices do not change, the byproducts that influenced the C1 cash cost will be very similar. So that's why we are keeping our guidance on the fourth quarter. So, if prices go down, it might vary a little bit, but I mean, it should be in the range of what we believe it could be, and that's why we are providing this guidance for the market. Okay?

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

I – Thank you. Thank you everybody for attending our call and the Q&A session. I can only say that we are very committed to close the year from a production cost and capex perspective in a very disciplined way. And I can tell you that the company is ready and prepared to be committed to a difficult 2023, and we will provide more color towards the end of January. So, thank you very much for attending and we look forward to speaking to you soon.

O - [Operator Closing Remarks]

Participants of the Q&A:

Lawson Winder – *Bank of America*

Carlos de Alba – *Morgan Stanley*

Fiorella Mendonza – *Inteligo Group*

Josseline Jenssen - *Lucror Analytics*

Orlando Barriga – *Credicorp*

Matheus Moreira - *Bradesco*

(Call Duration: 54 Minutes)