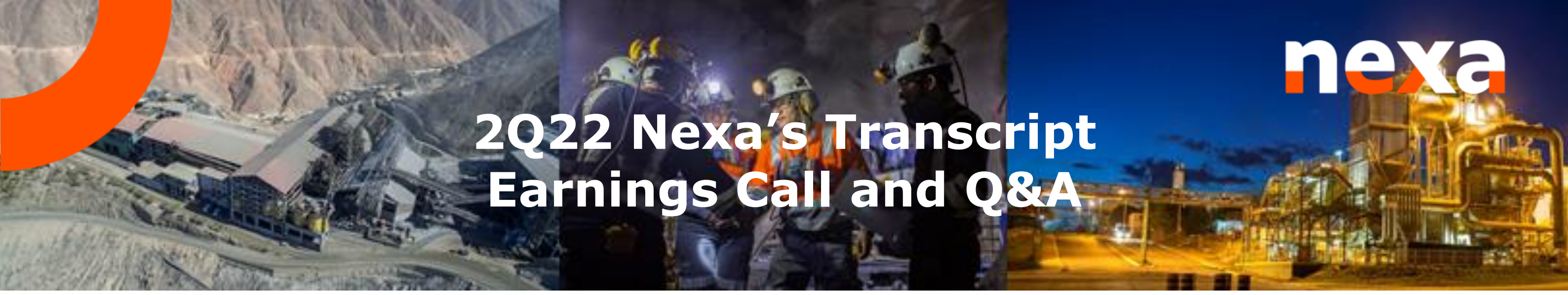

2Q22 Nexa's Transcript Earnings Call and Q&A

Participants:

I - Mr. Ignacio Rosado – CEO of Nexa Resources
R - Ms. Roberta Varella – Head of IR of Nexa Resources
L - Mr. Leonardo Coelho – Senior VP of Mining of Nexa Resources
C - Mrs. Claudia Torres – Interim CFO of Nexa Resources
O - Operator

O - Good morning and welcome to Nexa Resources Second 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' second 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; Leonardo Coelho, our senior vice president of mining; and Mrs. Claudia Torres, our interim CFO.

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

We had a very strong performance in our operations in this quarter. As anticipated, mining production increased from the first quarter of this year mainly due to the resumption of the Vazante mine, to full production. As previously disclosed, Vazante was affected by heavy rainfall. The smelting business also performed as planned and total metal production was up 15% quarter-over-quarter, as a result of the higher supply of zinc in concentrate from Vazante in Brazil, and the improved operational performance of Cajamarquilla in Peru after the temporary decrease in roaster utilization in March. Our solid operational performance, combined with our efforts to mitigate inflationary cost pressures, and with the positive effect on prices, generated a record high adjusted EBITDA and a strong operating cash flow. We are happy to announce we are on track to meet our production, sales, and investment guidance for the year. Our cash cost guidance, however, has been revised, and I will explain this in more detail in the upcoming slides. Aripuanã ramp-up is progressing in accordance with our plan, and the first batch of copper in concentrate was delivered at the beginning of July. The exploration program in Aripuanã also continued to progress and we believe we will be able to increase its mineral resources at the end of the year. Our balance sheet continues to be strong with financial leverage decreasing to 1.3x from 1.5x in the previous one. Regarding ESG, we are close to finalizing our updated strategy and we expect to disclose our new long-term goals during the coming months. Now moving to the next slide.

In slide 4, you can see that zinc production in the second quarter decreased 3% year-over-year, because of lower average head grade and treated ore volume. However, compared to the first quarter of this year, zinc production of 79kt increased by 19% mainly driven by higher treated ore volume and higher zinc grade. Average grade was positively affected by the increase in production from Vazante. And at Cerro Lindo, treated ore volume recovered as expected although volcanic material in some of our ore bodies remains a challenge. Following higher treated ore volume, copper, lead, and silver production in the second quarter increased by 39%, 14%, and 16% from the first quarter of this year. For the upcoming quarters, we expect zinc and lead production to be similar to the second quarter, while copper and silver should be slightly lower. However, we believe we are on track to achieve from the mid to the upper range of the production guidance for all metals. Moving now to the next slide.

In slide number 5, run-of-mine mining cost in the second quarter was US$43/t compared to US$38/t in the second quarter of last year, reflecting inflationary pressures on cost and lower ore throughput. Compared to the first quarter of this year, run-of-mine mining cash cost decreased by 5%, with improved volumes due to the Vazante resumption, return to operational stability at Cerro Lindo, and our costs control initiatives. Mining cash costs in this quarter decreased by 14% compared to the prior quarter, which was mainly explained by: (i) higher zinc volume and by-products credits; and (ii) lower operating costs; which were partially offset by higher TCs, and the Brazilian real appreciation against the U.S. Dollar. Now moving to the smelting segment in slide number 6.

In slide 6, in the second quarter, metal sales totaled 152kt, down 3% year-over-year but up 13% quarter over quarter, following higher production in Peru and in Brazil. In Brazil, smelter production increased quarter-over-quarter because of the improved zinc in concentrate supply from the Vazante mine, in addition to a better performance in the Três Marias smelter after its roaster maintenance. In Peru, production increased because, as mentioned before, at the end of the first quarter, there was a temporary decrease in the roaster utilization in Cajamarquilla due to the maintenance activities. For the upcoming quarters, smelter production is expected to remain stable compared to the second quarter of this year, as all sites are operating at full capacity. Sales are expected to follow higher production volume and our 2022 guidance remains unchanged. Our smelting cash cost in this second quarter increased by 35% compared to the same period of last year, mainly driven by higher zinc prices. Compared to first quarter of this year, smelting cash costs increased by 8% and this factor was due to: higher operating and maintenance costs; lower by-products prices following the market trend; and the Brazilian real appreciation. These factors were partially offset by higher volumes. Conversion cost in the second quarter was US$0.29/lb compared to the US$0.25/lb in the first quarter of this year. This increase is mainly driven by the increase in energy prices and other variable costs. Now moving to slide number 7.

Growing concerns about a global recession have put downward pressure on commodities, and base metals had a significant decrease in prices. We also believe that inflationary costs pressure could persist in the second half of this year. As a result, we have updated our cash costs guidance for both segments. Full-year mining cash costs have increased to US$0.28/lb given year-to-date performance and forecasts for lower by-product metal prices. Full-year smelting cash costs have been revised to US$1.37/lb from US$1.15/lb, primarily driven by higher- zinc prices, higher energy costs, as well as higher fuel and consumable prices. Now moving to the next slide to our Aripuanã project.

As announced in early July, the ramp-up activities at the Aripuanã mine have safely started and we are happy to confirm that the first batch of copper in concentrate was delivered at the beginning of the month. The ramp-up is progressing as planned, and we are focused on steadily increasing the plant throughput rate. The milling capacity utilization rate is expected to reach an average of 30-40% in the third quarter of this year, and 70-80% by December of this year, hence commercial production is expected in fourth quarter. At the end of June there were approximately 670kt of ore available in stockpiles, which is enough to cover six 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 second quarter, we invested US$27 million in Aripuanã, totaling US$54 million in the first half of this year, which includes a negative impact of the Brazilian real appreciation against the U.S. Dollar of US$5 million. The total estimated capex for the project remains unchanged at US$625 million. Now, moving to the next slide where i will give you an update on Aripuanã's exploration program.

In Aripuanã almost 16 thousand meters of infill drilling were completed at Ambrex in the second quarter. No drilling activity was executed at Babaçu, as we decided to anticipate the infill drilling campaign at the Ambrex orebody to potentially increase our resources. The latest drill holes results indicated that the mineralization has been confirmed which should support the conversion of inferred to indicated mineral resources. At the Babaçu target, we have received excellent assay results, which confirmed a high-grade mineralization zone, as shown on the slide. For the third quarter, we expect to complete infill drilling at the Ambrex orebody and resume the exploratory program of the Babaçu target. Now, moving to the next slide to show our financial results.

In slide number 10, I have already mentioned, I am pleased to report positive momentum for the second quarter of 2022, delivering a strong operating performance and sound financial results. Beginning with the chart on your upper left, total consolidated net revenues for the second quarter increased by 21% year-over-year and this was mainly driven by higher LME prices. In the first half of this year, consolidated net revenues reached US$1.6 billion versus US$1.3 billion in the first half of last year, an increase of 20%. In the second quarter of this year consolidated adjusted EBITDA increased by 23% year over year. This performance is mainly explained by higher metal prices; changes in market prices in respect of quotation period adjustments; and higher by-product sales. These positive factors were partially offset by pre-operational expenses of the Aripuanã project; inflationary pressures on operating costs; higher exploration investments; and increase in worker's profit sharing. Compared to 1Q22, adjusted EBITDA in the second quarter increased by 37%, mainly driven by higher volumes. In the first half of this year, consolidated adjusted EBITDA reached US$494 million versus US$413 million in the same period of last year. In the next slide, I will discuss the financial performance by segment.

In the mining segment, net revenue totaled US$370 million in the second quarter, a 19% increase versus the second quarter of last year. This factor was mainly driven by higher average LME prices and the increase in by-products volume. Adjusted EBITDA for the mining segment of US$145 million followed the upward trend and increased 3% year-over-year. Compared to the first quarter of this year, adjusted EBITDA increased 14% mainly driven by higher volumes. Increases in net revenue and adjusted EBITDA during the first half of this year compared to the same period of last year were also driven by higher prices. In the smelting segment, net revenue in the second quarter totaled US$683 million, an increase of 31% versus the second quarter of last year, also supported by higher LME prices, which offset the decrease in volumes. In the same period, adjusted EBITDA totaled US$140 million, an increase of 52% that was explained by: the positive net price effect of US$58 million and higher by-products contribution. Which offset the increase in operating costs, lower volumes, and the Brazilian real appreciation. In the first half of this year, net revenue for the smelting segment totaled US$1.2 billion compared to the US$989 million in the first half of last year, while adjusted EBITDA totaled US$223 million compared to US$176 million. Now, moving to the next slide to show our investments.

In the second quarter, we invested US$98 million dollars in capex, being US$27 million directly associated with the Aripuanã project. In the first half of this year, capex amounted to US$180 million, where US$54 million was related to Aripuanã and the remaining mainly related to sustaining capex. The Brazilian real appreciation against the U.S. Dollar had a negative impact of US$8 million in the quarter and US$13 million in the first six months of this year. We are happy to announce that the 2022 capex guidance remains unchanged at US$385 million. With regards to mineral exploration and project evaluation, we invested a total of US$24 million in the second quarter, being US$13 million related to mineral exploration and mine development. In the first half of this year, we invested a total of US$40 million related to these topics. As part of our long-term strategy, we are maintaining our efforts to replace and increase mineral reserves and resources, supporting our organic growth. Total planned exploration and project evaluation expenditures are expected to be US$82 million in 2022 so guidance remains unchanged. Moving to the next slide, where we will discuss our cash flow generation in the quarter.

On slide 13, the cash flow provided by operations was US$241 million. We had US$49 million from interest paid and taxes, and US$69 million dollars invested in sustaining capex. Therefore, Nexa has generated US$123 million dollars of cash before expansion projects and working capital during the period. Our free cash flow for this second quarter was positive in US$29 million dollars. This free cash flow was also affected by US$27 million invested in Aripuanã; the investment in Tinka resources of US$7 million included in loans and investment; dividend payments to noncontrolling shareholders of US$ 9 million related to Pollarix, our company which manages our energy assets; foreign exchange effects on cash and cash equivalents of US$16 million; increases in working capital of US$23 million. Now moving to the next slide, where we will discuss our cash flow generation in the first half of the year.

In the first half of the year, the cash flow provided by operations was US$465 million. we had US$139 million from interest paid and taxes, and US$115 million dollars invested in sustaining capex as well. Therefore, Nexa has generated US$211 million dollars of cash flow before expansion projects and working capital. Our free cash flow for the period was negative US$139 million also explained by US$54 million invested in Aripuanã; US$60 million, explained by the early redemption of our 2023 notes in the first quarter of this year; dividends of US$59 million which includes Pollarix; and working capital changes of US$179 million. This high amount of working capital has been highly impacted by: (i) a negative variation of US$166 million in inventories in our smelting segment due to higher lead times in logistics; and also (ii) a negative variation of US$63 million in trade payables, partially offset by a positive variation of US$42 million in trade receivables. We expect to reverse most of the increases in inventories during the coming months. Now moving to slide 15.

In slide 15, 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 second quarter, our current available liquidity was approximately US$933 million, which includes our undrawn revolving credit facility of US$300 million. As of June 30th, the average maturity of our total debt was 5.1 years, with a 5% average debt cost. Our leverage, measured by the net debt to adjusted EBITDA ratio was 1.3x compared with 1.5x at the end of the first quarter and 1.2x a year ago. Now moving to the next slide on ESG.

I am now on slide 17. Here I will briefly give you an update on the progress we are making in our ESG program. First, I would like to highlight that we are enhancing our ESG strategy to reflect our commitment to long-term value creation and sustainable development. Since last year, our teams have worked hard to develop a broad study based on different fronts, including climate change; natural capital related to water use; social legacy; health, safety, and well-being; and people. Several strategic discussions were held, and we are in the final process to define our main ESG long-term goals for 2030, which we expect to disclose in the coming months. Now, turning to our last slide.

I would like to close this presentation by briefly reinforcing our priorities for the rest of the year. As I mentioned earlier, Aripuanã is in the ramp-up stage. Our efforts now are on the commercial production, while our exploration strategy focuses on increasing mineral resources and the extension of the life of the mine. We remain focused on efficiency and committed to improving our cash flow generation and productivity in all aspects of our business, in addition to continuing to deliver on guidance. The expansion of the life of mine of our operations continues to be an important goal to drive organic growth. With regard to our exploration project pipeline, we are re-evaluating our project portfolio and in parallel we are very active in the market assessing growth opportunities. Finally, as mentioned before, enhancing our ESG strategy is key to our business so we will be communicating our main goals for 2030 in the coming months.

Thank you all for attending this presentation. With that, I will be happy to take your questions.

Q&A Session:

O – Ladies and gentlemen, at this time we will begin the question-and-answer session. [Operator Instructions] And our first question today comes from Jens Spiess from Morgan Stanley.

Question – Yes. This is Jens. Yes, I just wanted to ask on this last point you mentioned about the project portfolio. Could you provide any update on Magistral? And maybe any color whereas you're still quite negative on Peru or if given the current situation that the President or the current executive power will likely not be able to implement any legislative changes. Has your view changed there?

I – Sure. Thank you for the question. Yes, in the case of Magistral, yes, we're still spending some money here in Magistral because this is a process that we have with the government, and we need to advance in the phases of Magistral to comply with the contract that we have with the government. However, Magistral, we believe, is a very good project. It's a project that is going to give us between 15 to 17 years of life of mine of good copper, yes. But the problem is, and it is related to the second part of your question, the problem is if we want to invest between US$800 million to US$1 billion in Peru, in this context where Peru is facing some noise around the mining sector. So, what we are doing is we're still assessing, Magistral is still a very important project for us, but we are evaluating if we team up in this project with other partners, so we can reduce our risks. And we are also comparing this project with other alternatives in the market outside Peru. So, we evaluated the opportunity because of building Magistral in Peru or acquiring another project that is sort of in the same stage in other countries and decide whether which one is the best one to add value to the company. So that's more or less what we have in Magistral looking for some partners and also assets in other projects with the same size and characteristics in other countries. There are not that many but there are some, and we are very active on that.

Question – Okay. Perfect. And if I may, just you mentioned that you expect to be on the higher end of your production guidance in the Mining division. Any particular mines where you expect to be above your existing guidance? And lastly, on the smelting division, did your cost benefit from provisional pricing from third-party purchases from concentrate this quarter that were made last quarter? And how much was that impact?

I – No problem. Yes. I guess regarding the production guidance of our mines, the main mines are Vazante, Cerro Lindo and El Porvenir. We are very stable in their throughput and in the average grade that we are projecting in the budgets, and that's why what we put in guidance. We had some problems in Atacocha in Peru. This is a small pit because of community issues, but this doesn't affect the, I would say, the outlook on guidance for the rest of the year. So, we expect most of our mines being very stable, yes. And as we were saying in the presentation, should be very similar to the performance of the second quarter. And that's why we can achieve mid to the higher range of production guidance for the rest of the year. So, regarding the second question about the smelting costs. The smelting cash cost is influenced by the conversion cost, yes. And the conversion cost has gone up because of some energy prices increases in Peru. That is linked to oil in any case. Any inflationary increases in all derivatives of that, diesel and some reactives. And in Brazil, we had a problem of the real. So, that's why I would say the conversion costs went up from the first quarter to the second quarter. And from the year, it was much higher, okay? But the part that was much higher was because the prices, when you buy the concentrate, you sort of pay the spot price or the price that is the month before, so prices were up, and so the value of concentrate was higher, and that's why the cash cost was up. Having said that, this effect on hedge or this effect on these hits that we have sometimes are positive, sometimes are negative are based on when we hedge an inventory, this is financial. When we hedge the inventory, has a certain price. So, when you realize that price in the month that the price is lower, you realize a gain, which is what happened this quarter, okay? But this is offset in reality because when you sell, given that you hedge everything at the end of the year, let's say, all these positives, negative should be zero. So that's why we have some negative in the quarter. And this is related to dropping on prices. Prices have dropped, as you know, in the last quarter, very much, the stock that we had was with higher fixed with a higher price when it goes down, you have a gain because it was fixed with a higher price. So that's why we recorded US$19 million in this quarter of gain. I don't know if this was clear. But this is going to reverse, and at the end of the day, you will see that when we produce and we sell towards the end of the year, this negative and positive that we have in the quarter are going to offset each other, and we would have close to zero of these effects.

Question – Perfect. Very clear. So, US$19 million positive effect this quarter, which might or might not be sustainable pending housing prices above. Perfect, thank you so much Ignacio.

I – Exactly. No, no problem.

O – And our next question comes from Lawson Winder from Bank of America. Please go ahead with your question.

Question – Hello Ignacio, good morning. Thank you for the update today. I would like to also ask about the project review. It's quite clear that part of this review is a bit of a hesitancy with exposure to Peru. What jurisdictions at this point are attractive for Nexa?

I – Yes, it's a very good question. We created a new area in February where our VP of exploration enters in charge of it right now. We have been very active in the market. So, I would say that we are focused on the Americas. We have been looking for projects in Brazil, in Peru, in Chile, in Mexico and some projects in the U.S. and Canada. It's not that easy because, as you know, there are not that many projects available, and sometimes you have to be creative enough to find some value on the assessments that we do. But we are, I would say, very active in the Americas. We are looking for opportunities in the Americas. And I would say in the case of Peru, Peru has been a mining country forever, and this situation is not easy today. But within Peru, you can find alternatives that are better than others, meaning that you don't have that much exposure to communities, you don't have that much exposure to towns that are difficult in mining. So, we are also assessing some opportunities. In the case of Magistral, this is still a difficult situation because, I mean, the location of Magistral makes it difficult to build the project because of this community relations problems. But to answer your question, I would say mainly Americas, some opportunities could arise in Europe. We evaluate a project 6 to 8 months ago in Spain that was acquired by another company. So, opportunistically, in Europe, Americas, and that’s mainly where we are trying to focus on.

Question – One thing that stands out from the list is Bonsucesso near Morro Agudo. So, one, it's in Brazil. So, one reason that stands out. The other is that, I mean, Bonsucesso, I kind of thought of being the future of Morro Agudo, the complex. What does that imply for the status of Morro Agudo? I mean is it a key asset for you guys going forward? Or is it non-core?

I – It's a very good question, and this is the strategy that we have been talking about with the group and I guess it happens in all the evolution of companies. So, you look at the assets of Nexa and the big assets for us relative to us are Cerro Lindo, are Vazante, are Aripuanã now that is in ramp-up. So, these are good assets. Cerro Pasco today is a smaller asset, we have a project of integrating El Porvenir and Atacocha, that could have a good return and we are assessing that. But then you go to Bonsucesso and Morro Agudo, Bonsucesso all these drill holes that we have, and all this perspective of this deposit is really good. On the Morro Agudo plant, I mean, it's breakeven right now. All these minerals that being from the Morro Agudo mine is breakeven. So, we see that smaller projects might be something that we will try to get out of our portfolio. So, given the time constraints that we have and given the size that we have, I would say that we are looking for opportunities to match the size and the profitability of Cerro Lindo, of Vazante, of Aripuanã because you allocate the same time, and you have something more transformational for Nexa. So, this is the status that we have. This is what we are assessing now, but we will communicate to the market later in more detail. But going back to your question, Bonsucesso is a very good prospect. It's a small one. It's by 30kt of zinc has a lot of potential in terms of more resources. Can accommodate the mineral of Morro Agudo, and Morro Agudo plant is going to be adapted, but it won't cost that much. So, it could be a good project. But the question is, is this a project of the size that we want? And the answer for today is no. The answer for today is let's focus on projects similar to the ones of Cerro Lindo, Vazante and Aripuanã.

Question – Just a follow-up on that, would that mean there's risk that Morro Agudo is closed in sort of the next few years?

I – It could be, we are always assessing. Morro Agudo has some benefits in terms of the smelters, in terms of Três Marias and Juiz de Fora. But to be honest, the money that we make in Morro Agudo is very little, it's very small now. And we are assessing, and the team of the VP of Operations is assessing how much Capex are we going to allocate in the next 3 to 5 years compared to this Capex putting it in a different project. So, the answer is we are still assessing, and I would say it might be the case that in the coming years, we will decide to close Morro Agudo. But this is something that we will communicate in a proper way and in advance to the market.

Question – That is super helpful, I appreciate, and then just maybe one final question on this project review. Two of the projects on that list, Florida Canyon and Shalipayco have partners. Have there been any preliminary discussions with those partners regarding a potential purchase transaction for Nexa's shares?

I – Yes, we are in this process right now. Shalipayco, we believe, is a very good project, early stage. But it's very near Pasco, and this will need a new plant, new permits. So, the opportunity cost of leaving Shalipayco and put it to a new plant, I would say, is in a lower category than buying other projects more advanced and more straight to our strategy. So, we are assessing what are we doing in Shalipayco and that is also the case in Florida Canyon, early stage. So, we are still assessing, and I can tell you that in the coming months, we will be more specific on these projects as well. We might get back to the partners and try to do something with them and try to make some more concrete actions in these projects that are early stage and that if we want to create Nexa that is, I would say, transformational and again, we have to focus on operations that are similar to Cerro Lindo and Vazante and Aripuanã, okay?

Question – That’s excellent, thank you very much Ignacio.

I –Thank you.

O – Our next question comes from Orest Wowkodaw from Scotiabank. Please go on with your question.

Question – I just wanted to touch on operating costs, inflationary pressures that's been, I guess, the key theme for this reporting season and I guess the last one too. So, your updated cost guidance, does it reflect effectively current spot pricing for energy and input costs? And you've assumed current spot pricing for the rest of the year? Or what exactly does the new cost guidance assume?

I – That’s a very good question, thank you for asking that. I would like to clarify this. The cash cost that we presented, and I'm using the mining example that is going to go from US$0.23/lb to US$0.28/lb has 3 components for it. So, the first one is the cash cost per ton or the run of mine cash cost per ton for the mines, which is how much cash I invest that is in the operating costs in the mine. And we said that we had almost US$43/t this year in the second quarter, that's what was US$45/t in the first quarter and last year it was US$38/t or US$39/t. So, from last year to this year, it increased. The reason in increase was for two reasons, one was throughput, and the second one was inflation. We said in the last quarter call that we incorporated inflation in our estimates for this year. So that's why it went to US$45/t in the first quarter of this year, okay. The second quarter is US$43/t, and we believe that the following quarters is going to be similar to US$43/t. So, the cash cost per ton from our mines is being stable, high inflation at the beginning, and this inflation is mainly related to energy, to diesel to some reactives in the plant to some cement, etc. So, a specific item that are bigger items in the mine. How you mitigate that is with two things. One is volume, so we increased our volume, especially in Vazante and Cerro Lindo as I was saying, and two with initiatives in the mine. So, all this inflation is to mitigate. How we're mitigating in the mines? Again, for example, we have a lot of shotcrete or rock support in the mine because this is underground. We optimize the shotcrete, we renegotiated some conditions with contractors, we changed the process of water disposal to be inside the mine and we don't need to treat, we renegotiate all other targets with contractors. So, there are many activities or actions that we took to offset the inflation and to make sure that our cost per ton is flat. So, this is what we control. On top of that, you have two other items that goes to the cash costs. The first one is the treatment charges. So, treatment charges, I would say, are sort of flat for the rest of the year. We have contracts. I mean if you follow the benchmark, the benchmark for the year has gone up from last year, yes, but it's sort of flat. So, it shouldn’t be the TCs that is going to change the cash cost. What really changes the cash cost is the income on by-products because what happens is that you have your total costs on all the by-products that you are selling have a lower price because prices are going down. So, this discount on the costs of these by-products is now lower, and that's why your cash cost is going up. So, this is the dynamic that we are following in the mines, and that's why we're saying that it comes from US$0.23/lb to US$0.28/lb. I don't know if that was clear to you in this explanation.

Question – It is. Could you remind us just how your energy power contracts work at the smelters? And just given the magnitude of the contribution of energy and power to those operations.

I – Yes. I would say, in Brazil, we are self-sufficient in energy. We have a company called Pollarix that holds some assets, and we sort of generate our own energy. And that's why we are not exposed to the market in Brazil in that regard. I would say that in Brazil, the main factor that influenced the cost or the conversion cost in the smelters was the real, the real depreciation and some inflation as well. In Peru, Cajamarquilla consumes a lot of energy, we have a contract, and this contract is linked to factors that are not in our control. And this energy is going up. So that's why on average the smelters have inflation and inflation related to energy, but especially in Peru.

Question – Sorry, and just on the Cajamarquilla. Is that power contract then, is that updated fairly regularly?

I – Yes. The way it works is that you have like 3- to 5-year contracts, and there is a formula, they will provide you with the energy, and it's good that is renew our energy because it's energy that is a hydroelectric energy that is good for us in terms of the ESG. But you have the contract. So, they have to provide you, but this price is updated by two factors. One is the cost of the grid, so it costs you more, so your price goes up. And the second one is some external factors, let's say, like oil. That goes up for last year to this year, it went up. So, your cost of the charge that they have on the cost goes up. So, this was the case in Cajamarquilla. And it might be the case depending on how this moves in the rest of the year, it might be the case that we would have more inflation in energy in Cajamarquilla as well.

Question – Thank you for that detail.

O – Ladies and gentlemen, at this point, we will proceed for off-line questions

R – So we received a question here from Jose Maria from BTG Pactual. Congrats for the good results. We'd like to know, given the currently updated assumptions, what kind of EBITDA contribution we should expect in 2022 from Aripuanã?

I – Yes. Okay. No, it's going to be a small in Aripuanã, as we are saying is in ramp-up. The ramp-up activities are progressing really well and as I was saying in the call, between 30% to 40% of capacity is going to be reached at the end of September. Then at the end of December, should be between 70% to 80% of the capacity. But the mineral that is going to be produced when you start the ramp-up to make sure that the plant is up and running in a good way, recoveries will adjust and the mineral that you use to feed the plant is mineral with low grades. So, I would say in that regard, the profitability of the minerals that we are getting from this ramp-up is lower. So, the EBITDA is going to be very low in this year. However, 100% of capacity is going to be coming in the first quarter of next year. So Aripuanã EBITDA contribution for next year is going to be much better.

R – The second question comes from Joanna Felicio from Banco Finantia. What's your net leverage through the cycle given investments and weaker economic prospects assuming that you tend to remain investment-grade. Can you please clarify your revised cash cost guidance?

I – Yes. Well, the cash cost guidance, we already clarified as I was explaining. So, it's very important, the leverage question. So, at the end of the day, a mining company with our debt profile and the Capex that we invested in our operations needs to have like a breakeven cash cost of the company. So, you stress the company to make sure that where does your leverage go and then you evaluate if you are investment-grade or not. So, the exercise that we did, and I would say that the appetite that we have is that our leverage shouldn't go above 2.5 to 3x, but this is in a stress way. Bringing Aripuanã today for next year is going to be EBITDA contribution. The rest of the mines are going to be up and running. We might spend some Capex in Cerro Pasco in the next year to integrate in El Porvenir and Atacocha. So, we don't see through the cycle leverage higher than 2 or 2.5x. Having said that, with the cash flow that we generate, and this is a capital allocation strategy, we have to pay dividends. I mean dividend is part of our strategy to give back to the shareholders some money. And with the rest of the money, we will need to find growth. So, in finding growth is that you probably need to leverage more the company, and then you will have to stress more the company in terms of bringing more debt. So, if that is the case, still, I would say, 3x ratio is the limit for us. And it should be a peak. It should be a peak because when prices are low, companies always reduce Capex, find more optimization on costs. Some of the operations won't pay and you have to stop some parts of the operations. But the short answer is 3x.

R – Can you break down your major costs into energy, freight and logistics. Also, can you comment your views in terms of the outlook for both segments?

I – Well, I don't have that detail. I'm very sorry. We can follow up that you have.

I – Yes, so Roberta, you can go on that question.

R – Yes. In terms of energy cost, let's say on a consolidated basis, considering the cost of goods sold is about 8% to 10%. And in terms of logistics, about 5%. Usually, the freight cost is deducted from our gross revenue.

And the next question we have is from Hernán from MetLife. Now that investments in Aripuanã are mostly done, what should we expect for capital allocation?

I – Yes. I already answered that. I would explain again. Part will go to dividends and the part has to go to find projects similar to Aripuanã. As I was saying, Magistral is one of them, and we are assessing Magistral against other projects that we are looking in the market. So capital allocation will go to finance these projects and make sure that we have Cerro Lindo, Vazante, Aripuanã and any other mine of that size. Pasco could be something like a backup. But I would say that we will try to allocate that capital to projects of that similar size.

Okay. So, we don't have any other questions. We thank you all for the time and consideration here. And we would like to close the presentation by announcing that for the first time, we're going to have our Investor Day in October in New York, given that it's 5 years of our IPO and this is a very important milestone for Nexa. This will be an opportunity for a going in-depth discussion on how we are envisioning and developing our business. We will have presentations around exploration and how are we going to extend the life of the mine, you will be able to meet all the team, and we will discuss our ESG strategy, which is something that is very important for any mining company that it's around responsibility with your stakeholders, I would say. And we will put our commitment for 2030. So, we will tell you in advance the date. We are very excited to doing this. So hopefully, some of you could join us in New York. We know that some of you work there. So probably it will be fantastic to give you all of these views of Nexa for the coming years in person, okay? And with that, again, I would like to close this presentation and this Q&A thanking you for the time. And I hope we will see you in three months with the next results that we have, okay? Thank you very much.

O - [Operator Closing Remarks]

Participants of the Q&A:

Jens Spiess – *Morgan Stanley*

Lawson Winder – *Bank of America*

Orest Wowkodaw – *Scotiabank*

Jose Maria – *BTG Pactual*

Joanna Felicio – *Banco Finantia*

Hernán Kisluk - *MetLife*

(Call Duration: 55 Minutes)