

## Y 2019 Earnings Call

### Company Participants

- Alexandre S. D'Ambrosio, General Counsel
- Eduardo de Salles Bartolomeo, Chief Executive Officer
- Luciano Siani Pires, Executive director, Finance and Investor Relations
- Marcello Spinelli, Executive Director for Ferrous Minerals
- Mark Travers, Executive Officer, Base Metals

### Other Participants

- Alex Hacking, Analyst
- Andreas Bokkenheuser, Analyst
- Carlos de Alba, Analyst
- Christian Georges, Analyst
- Edward Stack, Analyst
- John Tumazos, Analyst
- Timna Tanners, Analyst
- Tyler Broda, Analyst

### Presentation

#### Operator

Good morning, ladies and gentlemen. Welcome to Vale's Conference Call to discuss 4Q '19 results. At this time, all participants are in a listen-only mode. Later, we'll conduct a question-and-answer session, and instructions will be given at that time. (Operator Instructions) As a reminder, this conference is being recorded, and the recording will be available on the company's website at vale.com at the investors link. This conference call is accompanied by a slide presentation, also available at the investors link at the company's website, and is transmitted via internet as well. The broadcasting via internet, both the audio and the slide changes, has a few seconds delay in relation to the audio transmitted via phone.

Before proceeding, let me mention that forward-looking statements are being made under the Safe Harbor of the Securities Litigation Reform Act of 1996. Actual performance could differ materially from that anticipated in any forward-looking comments, as a result of macroeconomic conditions, market risks, and other factors.

With us today are Mr. Eduardo de Salles Bartolomeo, Chief Executive Officer; Mr. Luciano Siani Pires, CFO; Mr. Marcello Spinelli, Executive Officer for Ferrous Minerals; Mr. Mark Travers, Executive Officer for Base Metals; Mr. Carlos Medeiros, Safety and Operational

Excellence Executive Officer; Mr. Luiz Eduardo Osorio, Executive Officer for Sustainability and Institutional Relations; Mr. Alexandre Pereira, Executive Officer for Business Support; and Mr. Alexandre D'Ambrosio, General Counsel.

First, Mr. Eduardo Bartolomeo will proceed to the presentation on Vale's 4Q '19 performance, and after that, he will be available for questions and answers. It is now my pleasure to turn the call over to Mr. Eduardo Bartolomeo. Sir, you may now begin.

## **Eduardo de Salles Bartolomeo** {BIO 15365202 <GO>}

Okay, thank you. Good morning, everyone. One year has passed since the dam Q1 rupture. I want to express my respect for the families of the victims and thank all who have dedicated efforts to bring support and comfort to them.

We closed the year firm in our purposes, fully repairing Brumadinho, ensuring the safety of our people and stabilizing our production. Safety, people, and reparation. These words remain our priorities.

I would like to start our call today by talking about the reparation of Brumadinho. Vale is well recognized for its agility and execution capacity, and this is how we have been working on the reparation. To date, in indemnifications to the families and communities, we have already allocated BRL3.2 billion. In civil and labor indemnifications specifically, we have entered into agreements, which include about 6,000 people and over BRL1.9 billion paid. Important to notice, the families of 96% of the deceased workers have signed agreements, which have benefited 1,570 people so far. On the environmental recovery, we launched the Ground Zero Project in January this year, a pilot for the recovery of the Paraopeba River and the Ferro-Carvao stream, which shows how those areas will look like in the future.

And another highlight is that the containment structures that we built last year have withstood the heavy rains of January Minas Gerais which is a good sign of the effectiveness of our actions. Finally, we have opened a dialogue with authorities, and we are looking for a definitive agreement to repair and compensate the environmental damage in collective once. I believe that we will reach a broad understanding soon. In summary, our work of caring for the people and the environmental recovery has evolved as expected. Please, next one.

Talking about safety. Vale is becoming more safe and reliable each day. Our board of directors is intensively overseeing the company with the support of specialized technical committees. The executive directors have also been supported by executive committees of different areas of expertise dedicated to risk management. What means is that our decisions have relied on more robust and conservative risk assessments from now on.

Regarding our dam management systems, we opened the second geotechnical monitory center, which now allows us to cover about 100 structures, 24 hours a day, seven days a week, which is an important redundancy to ensure the safety of our dams. And most importantly, we are revising and improving our daily management systems, with the

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support of renowned international specialists. A good example of improvement is the implementation of the engineering record of our dams in January this year.

Beyond that, we de-characterized the first upstream dam, 8B in December, and the second will be eliminated this year. We also completed the construction of the first redundant containment structure at the Sul Superior dam. Two more will be delivered in the first half of 2020.

Another point to notice is that our safety and operational excellence executive office, created in 2019, is moving forward with the re-launching of the BPS, which is our management model, and the rigorous assessment of other operational risks. But most importantly, we are accelerating the quarter transformation at Vale with the new safety and operational excellence guidance, and mainly with behavioral models that must be followed by entire company. With actions like this, we will transform Vale into one of the safest and most reliable mining companies in the world.

But our new pact with society goes beyond safety. Starting this year, our performance will be measured against ambitious societal and environmental goals. For example, achieving carbon neutrality by 2050, and recovering or protecting 500,000 hectares of forests. As we announced at Vale Day, in our long-term compensation, our board of directors approved a 20% stake linked to ESG metrics. Another key point is the treatment of our main ESG gaps. This is a very bold work to leverage our practice in those areas. One of those gaps has also become a goal to double the female participation in Vale's workforce by 2030.

Finally, with the recent changes announced, the structure of our board of directors already reflects Vale's progress in governance with a greater number of independent directors, an increase in gender diversity, and an extensive experience in corporate governance in mining. Well, I'm confident that our capacity of execution will bring good results in those days mentioned very soon as well.

Well, we are working, as I said, on all these fronts, and at the same time, we remain focused on safely resuming and stabilizing our production. We closed 2019 sales in line with our guidance, thanks to our operational flexibility. In 2020, we will keep seeking the resumption of our operations under safer conditions. However, we are monitoring and assessing the uncertainties related to this resumption, like the approvals by the Brazilian authorities, and also the impacts of the coronavirus in the Chinese and the world economy.

Marcello Spinelli will comment later in detail our plan to resume the high turnover [ph] of the iron ore production in 2020. Talking about base metals, we had a very good performance in the Canadian mines in 2019, especially in Sudbury, and also better results in our refineries in this fourth quarter. In the case of VNC, we have set a short-term solution with the halting of the refinery activities by April, thus starting to reduce the cash consumption of that operation. In parallel, we are in negotiations with interested parties, and I'm confident that we will have a definite solution this year.

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With relation to our financial results, in 2019, our cash flow generation was significant, a strong evidence of Vale's recovery capacity. And we have had discipline in allocating our resources. We have prioritized the disbursement for reparation and actions towards safety, and we have fairly reduced our debt levels, and we have not searched new acquisitions. One good example is the redemption and cancellation of the MBR shares, where a relevant moving to the efficient capital allocation and to the plan cash outflows. Since, we will no longer pay annual dividends of around \$160 million. Finally, we are working to have the necessary conditions to resume our dividend policy. We will inform you as soon as we have any developments in this matters.

I complete my first year leading Vale with the certainty that the company has proved its resilience and its power of execution. I believe that we are building a safer path with operational excellence and that, sustainable results we will soon start to be noticed. 2020 will be a year of continuity and stabilization, as we execute the actions we planned and started last year. We have a present and vigilant senior leadership, committed to the implementation of these plants. And more important, each day, our more than 70,000 employees have shown great strength to overcome the strategy and build a better Vale for everyone.

Thanks for your time today, and I'll now pass Luciano for further comments. Thank you.

### **Luciano Siani Pires** {BIO 15951848 <GO>}

Welcome, everyone. We have a number of hot topics to address, even before the Q&A. I'm going to start by talking about this potential agreement with the authorities and the provision. Marcello Spinelli will lead with our coronavirus and the resumption of production. And finally, our General Counsel will give his thoughts about the independent investigation report that was issued yesterday.

So, you saw that we have included a footnote to the financial statements regarding a possible additional provision of \$1 billion to \$2 billion, connected to a possible agreement with the authorities. Some clarification on this. This provision will only be recognized in our balance sheet if the agreement yields the suspension of the civil lawsuits, and if the agreement assures that there is a framework from a legal standpoint, and to give speed in the reparation. So, that's our goal. Suspension of the civil lawsuits and a stable legal framework for the reparation. If the lawsuits are not suspended, the company would naturally keep on the current path, which is to sign specific agreements for specific demands of the lawsuits, which so far has been producing good results. Our estimates of environmental reparation and compensation numbers are being confirmed when we talk with the authorities. However, the social economic question has a more subjective matter. And the list of projects that were presented to us by the authorities, so mainly the social economic projects as a condition for the suspension of the lawsuits, is more extended than we initially thought.

Important that an agreement has to be good for both parties. If we on the one hand, will get the suspension of the lawsuits, it's natural that the authorities, they want something beyond what would be normally expected in order to grant us this suspension. So, we have a longer list of projects. And you'll remember that on Vale Day in December, we

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presented the new pact with society as a new strategic pillar for Vale. So, our assessment is that to establish this new pact with society in Brazil, and especially in the state of Minas Gerais, to leave a legacy to those people affected, to suspend the lawsuits, and to have a stable legal framework for the reparation, then it's worth closing this agreement, which may then result in additional provisions.

Why do we have this uncertainty between \$1 billion to \$2 billion for additional provisions? We explain in the earnings release that the list of compensation reparation products, mainly the socioeconomic ones, is still being assessed. The estimates for each of the product is still being analyzed, what is the overlap with the provisions and initiatives that we have provision for. And also, the timing of those projects is uncertain. So therefore, the net present value of the of the disbursements is also uncertain. So, there is a lot of uncertainty in the numbers.

Why are we not provisioning now? We're not provisioning because although an agreement is possible, the necessary conditions for us to approve this agreement are not here yet. So therefore, from an accounting perspective, we're treating this potential agreement as we treat other contingencies. So we -- for example, tax contingencies, or labor contingencies, or civil contingencies. So, we are describing it in the footnote. The bottom line is that we, the administration, evaluation is that it is worthwhile to make this additional effort in relation to our initial estimates in order to get the suspension of the civil lawsuits, in order to have legal stability around the reparation, in order to re-establish the pact with the Brazilian society, which is fundamental for our long-term plans in the country.

Now, moving to Marcello Spinelli with the coronavirus impact on the Vale business.

### **Marcello Spinelli** {BIO 16240257 <GO>}

Let's start with the resumption of operations. We have a chart to -- let's follow the numbers, walk through the numbers. It's easy to understand the guidance that we have 340 million tons and 355 million tons. We came from last year 302 million tons. That's the number we close. This year in Northern System, we have the ramp up of S11D. Our number is 210. So we add 21 million tons. The run rate of Alegria and also Pico mine that came back in the end of last year, the run rate is another 12 million tons. So for those two, we'll see that the risk is really low.

From now, in the right, we have operations that we need to have authorizations from the Mining Agency, and also the prosecutors. In other, we need to assess some further information about safety in the dams. So, we start with Timbopeba. Timbopeba, we already have the authorization for maintenance, and we are waiting for the operation authorization in the end of March. So for second quarter, we are counting on Timbopeba.

Fabrica is just for the second half, was due in the beginning of the process test in the impact of the operation, the mine operation, the dams. So, remember that we have a step-by-step test to check the impact of our operations processes in the dams. So, we are waiting for the second half. Vargem Grande, the wet processes we don't add volumes,

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but we add quality. We're waiting to resume operation along the second half as the pellets plant, and we will only have at the end of the test to get the approval. Brucutu mine, the end of last year, remember that we stopped the Laranjeiras dam to have a better view about the safety of the dams, the downstream dam; just to remind you. But the best case is to count on Laranjeiras on second half. So, Brucutu is operating now with 40% of the capacity, and we are considering in this planning Brucutu coming back in the second half.

If we -- during the assessment of Laranjeiras, we do have in the end of March, good news, we can return the second quarter, and add another 3 million tons in this projection. And the other 2 million tons is regarding the possibility to have some gains in the operation other mines. So that's the way you are from the left to the right more uncertainty, less uncertainty with our numbers for the guidance.

Now let's talk about the Coronavirus. Well I'll start with some numbers of all the cases, it's important that we are tracking this every everyday probably you doing the same. Last day, we had about 900 new cases. We are splitting this analysis in Hubei area that's the center of the problem that's Hubei. Hubei represents only 4% of the China GDP and also we don't have many clients in that region. And that's Hubei, in two days ago, we only had 45 case and this is declining. This is a very important information. Yesterday there was a spike based on new information from (inaudible) in Shandong. But the main information here now that the two case now more than 2000 kids a day, better higher than the case that we have the infection. So that's a possibility to have better position for the source of the problem in few weeks.

Both the consequence of the economy is huge. So I want to share some information on primary indicator or lead indicator like the consumption of coal should be at start this moment after the Chinese New Year at the level of 90%, 95%. We only have 60% of the consumption of coal. Another interesting information is about the transit of people based on the daily railway passenger. We already have 100 million people to go back to the houses and the impact in the workforce is it's really clear now. At the same time the government in China is really -- is to achieve the target based on the double the GDP per capital, and they need to grow this year 5.7% and the way they're going to do this help us a lot because it's based on infrastructure and also manufacturing and helps the consumption of iron ore in the end of the chain.

But moving in the chain. The steel demand now it's really under pressure. The construction didn't go back. The automotive is there -- we have news that they are coming but if you can -- if you check the consumption of tires, they are only 20%. And according to MySteel for information for our business for steel and iron ore. They are in a daily survey checking when the downstream industry will go back. And the expectations for early March is in average 75% of the industry will come back some more optimistic like the white goods, some less like the construction white goods is 100% will go back and come back and construction only 53%.

So this is the scenario that we have is a very slow but rather return of the economy and the impact of the steel, high record steel inventory now based on the lack of sales, logistics constraint, a lot of logistics constraint, and a lack of workforce also. Well, the impact on

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iron ore, our clients in the end of the day is the blast furnace. So, the decision to quit to stop the blast furnace is the last one to take. So firstly, they can just shut down the EAF so it was more than 40%, more expensive than the gas furnace they can, reduce the scrap during ventures or fit some rolling output. But we don't see that today if you compare the blast furnace cuts compare with what happened in the the environmental cuts in October last year, October last year, is still less than that period. So that's a good news. From our main clients that is the blast furnace.

Well, at the port side. The stocks now an inventory is about 123 million tons. This is a very low level of inventory and there is a good news. We have our operations in all the parts in China are running very, very good. Some very important information we have the domestic concentrates. We are struggling with the logistics constraint part of the -- out of the market. This is another buffer for our iron ore and this explains another phenomenon that is going on that our premiums for BRBF even Carajas, a really high from the average comparing for with the less water because we have a lack of low alumina product based on the restrictions of the mass concentrate.

So what we have. Our operations are running now. We already have booked for the next 30 days. We have some noise coming from credit, some letter of credit from our clients. There is, it's not a big noise, but we have some concern about the health of our clients. But so far so good we are running, but very period of time that we must take care, on a daily basis to check what will be the consequence and the return of the Coronavirus.

Now, Alexandre D'Ambrosio.

## Alexandre S. D'Ambrosio

Thank you, Marcelo. Thanks, Luciano. This is Alex Ambrosio, I'm the General Counsel of Vale. We will address specifically the reports that the independent committee released yesterday. We received this report and immediately published at CVM sites the summary executive summary. And we've been since reviewing the full report. I think it's very important to stress that the report was based upon the same inventory of information that we made available to the public prosecutors, identical information source and the same facts. For that reason, the report does not really bring anything new to the investigation. But it does have its own interpretation of the facts and of the information it's there the committee, reviewed information and reached its own conclusions and interpretation.

We do not see any reason or any reason to believe, that this report would change or influence prosecutors conclusions because the prosecutors themselves reach their own findings based on their informed views of the evidence that they reviewed. So in that sense, the report brings some conclusions and some recommendations. The recommendations come actually in our view as an endorsement of the many practices and actions that the company has been taking over the past years as recommendations that relate to cultural changes and improvements in governance, things that have been already in the works for the past year. So we see those as an endorsement.

And as far as the conclusions go, they are conclusions reached by the independent committee, and they are in parallel, but not in conflict with any of the conclusions reached by the prosecutors. Thank you.

## Questions And Answers

### Operator

Thank you, ladies and gentlemen we will now begin the question-and-answer session. (Operator Instructions) Our first question comes from Andreas Bokkenheuser, UBS.

### Q - Andreas Bokkenheuser {BIO 7182883 <GO>}

Yes, just two questions from me. One clarification Luciano on the provisioning when you mentioned obviously suspension of any lawsuits, what specifically is that referring to, are we talking about any lawsuits that could be brought forward by the central government or the state government Minas Gerais. So if you could give a little bit of color on that that would be great. Thank you.

And the second question relates to shipments. So you obviously gave us your iron ore production guidance for the year 340 million to 355 million tons, which is unchanged. How should we think about sales or shipments or maybe ask in a different way, what are you targeting in terms of building inventories for blending in China and elsewhere. Those are my two questions. Thank you very much.

### A - Eduardo de Salles Bartolomeo {BIO 15365202 <GO>}

Andreas, thank you. I'll refer to Alex, our General Counsel on the first question.

### A - Alexandre S. D'Ambrosio

Thank you. Thank you, Andreas for the question. The agreement that we are trying to put together is with the state authorities indeed and the federal prosecutors will also participate in the agreement if not as direct beneficiaries of the agreement, they will be involved in the governance of this agreement. What I mean by that is that the lawsuits that we are looking to settle our losses that were brought by the state authorities, a state prosecutors have and the states attorneys have filed one one lawsuit by the state attorneys and two by state. There are no our civil actions by the federal prosecutors at this point.

### A - Eduardo de Salles Bartolomeo {BIO 15365202 <GO>}

And Andreas just as complement, there are yet no provisions recognized because we do not have yet the conditions for such an agreement. But we are indicating as a possibility that we'll do so. And the existing provisions will be complemented by the additional if any provisions in that case of \$1 billion to \$2 billion.

### A - Marcello Spinelli {BIO 16240257 <GO>}

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Andreas, Marcello Spinelli, thank you for your question about the shipments of sales. We expect to have in parallel the sales and the volumes of our production. But you're right, we have some inventories to build in China. We had last year to consume part of our stocks in China for BRBF. So we have to build up again part of the that stock that we lost last year.

## Operator

Our next question comes from Alex Hacking, Citi.

### Q - Alex Hacking {BIO 6599419 <GO>}

Hi, good morning. Good afternoon and thank you for the questions. I have two questions, the first one is maybe you could discuss a little bit the production outlook for the Northern range in Carajas obviously that declined last year which was something that we were not expecting and I guess is 230 million tons still, the long-term target for production out of the whole Carajas system and would you anticipate getting there in 2021?

And then, second question just on VNC. I think if I heard correctly, you mentioned you're still kind of exploring sale options there my question is what happens if none of those sale options workout out? Thank you very much.

### A - Marcello Spinelli {BIO 16240257 <GO>}

Hey, Alex. This is Spinelli, by the Northern System as I mentioned, we forecast for this year is 210. Yes, we have capacity for 230, we rely on not only in the ramp-up of S11D but we had a delay this year -- six month of delay to start a new front the mine that is called Mohu [ph]. We already started, but the volume will come, the full volume, it will come at the beginning of next year. In the mid to long term we have other branch in the North Branch but for next year are waiting for the return of (inaudible) project that are coming. So again 230 is a mutual long-term goal based on new pits in two and three for the North French and (inaudible) project we can reach again the 230.

### A - Eduardo de Salles Bartolomeo {BIO 15365202 <GO>}

Alex, Eduardo. About VNC I think as I mentioned in beginning, we are already redesigning the operation for our flow sheet that we believe is more sort of to the reality of that plant after we learned, but for sure, we have extremely focused on finding the sales solution, that it's a new partner or not -- sorry, not partner, a new operator that can execute it better, new operator that can execute it better, but I would like Mark to elaborate a little bit more.

### A - Mark Travers {BIO 16687422 <GO>}

Thank you, Alex. What I would say is that as Eduardo indicated, we do have interest in the project, which is encouraging and we're hoping that we'll know in relatively short order. How that is proceeding. Of course we announced in Vale Day, that we would have to make a decision by the end of 2020 as to our course of action. And we had indicated a desire to leave New Caledonia, so of course by the end of 2020 if we do not have a solution. We have to find another way to deal with this potentially exit.

## Operator

The next question comes from Carlos de Alba, Morgan Stanley.

### Q - Carlos de Alba {BIO 15072819 <GO>}

Thank you very much. Good afternoon. So the first question is maybe Spinelli, if you can give us a bit more color on the actual situation on the blending that the company is facing, given not only the constraints after the Brumadinho accident, but also with the range that you are experiencing and potential. What we've heard that there is some high impurities in some of the mines that the company is operating right now, that may be affecting the blending. So if you could give us a bit more color as to what the situation is right now and when do you expect any challenges that the company facing to normalize.

And then maybe, Alex. If I could just to pick your brain on the challenges on the new investigation or the report from the investigation of the Board Committee, is this can the federal prosecutors is still present charges against the company, even after you guys reach an agreement with the state prosecutors or it will be independent to the process that you elaborated as the company is trying to conclude with the state prosecutors. And then if I may add to that last point. The potential agreement with the state prosecutors is that mostly focused on civil actions and environmental charges or it would also include criminal and/or potential corruption charges. Thank you.

### A - Marcello Spinelli {BIO 16240257 <GO>}

Carlos its Spinelli, thank you for your question. Regarding the blend, we expect a new record in China this year. Actually, we don't have any problem with direct lending blend. We have our levels of inventory are low. So we are recovering that. But regarding the shipments and the law office is important to say, as I mentioned in the last question. We had a delay in the license of Mohu [ph]; so we decided to have a smoother production in the first quarter anticipating some maintenance to have the sort of volume for the production. The South, as I mentioned, we are recovering the production with the dry processing. So for the part of the blend with the high silica product, we don't have problem actually. There is a lack of high quality problems in the South. But that gradually we are going to recover. As I mentioned to the end of the year, the dry processing step by step. So for blending again, we don't have any problem. And this is a gradual production in the beginning of the year, regarding the north.

### Q - Carlos de Alba {BIO 15072819 <GO>}

Thanks.

### A - Alexandre S. D'Ambrosio

Oh wait, I haven't answered Carlos De Alba, sorry. This is Alex D'Ambrosio. Okay. So, I'd like to answer Carlos de Alba question. Carlos, let me start I think in reverse order. The agreements that we are trying to close with the state prosecutors they will address civil and environmental and social obligations. So it's based -- the idea is to suspend the civil actions and the environmental actions that are brought by the state. And there are now -- as I mentioned before, there are three. Now, it does not address criminal. Criminal's

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completely independent. In fact, in Brazil, you cannot make this type of agreements as you would in the United States to end the criminal prosecution by agreement. So, what we are focusing here is in the civil, and the compensation, and indemnifications, and reparations. And the answer is no new actions would be able to be brought by the state that versed about these topics. So, once we close these, the idea is that we will have a section in the agreement that precludes the state from bringing new actions related to those items that we have addressed in the agreement. Hope I answered your question.

Sorry, that's -- complete the answer to Carlos de Alba's question. I was reminded that there is a question about anti-corruption. Well, first, make clear that Vale has never endorsed any actions that are illegal and unethical, and that's highlighted in our code of ethics. So, we are very confident that if any actions were to be brought on these fronts, we would defend them in the proper channels. So, we do not anticipate at this point that we could be charged with any action in that front. And again, reminding that the report by the special committee, the independent committee, did not bring any new facts and does not point out any new liabilities. None that were not yet already known by the prosecutors. So, that's why we don't anticipate that it would change any of the charges already brought.

## Operator

The next question comes from Christian Georges, Societe Generale.

### Q - Christian Georges {BIO 1557701 <GO>}

Thank you, and good afternoon. I'll go for a -- possibly a simpler a question, and one on the Mozambique. If you could give us perhaps some indication of what you're targeting in terms of productions on thermal and coking coal this year and what kind of running rate in future we are looking at for both types of coal ideally? And the second question on copper. There's some pushback, we understand, in China, for taking some of the copper shipments. Is it something you have experience already, or that's not something which is impacting you? Thank you.

### A - Luciano Siani Pires {BIO 15951848 <GO>}

Okay. For Mozambique, there is a clear distinction about the production rates we expect after the shock that we described in December, which is a three- to four-month stoppage in the operations to change the flow sheet, and to correct all the maintenance issues. So, we expect a run rate -- we continue to expect a run rate of 50 million tons per year after that. But until then, honestly, there is no expectation that we will have any step change or substantial improvement in the current conditions because the many problems that we have identified, they really require the stoppage for correction. So, I'd say we are completely focused on established the 50 million ton run rate after the large stoppage. Whatever happens until then, I don't think it's relevant for the overall case for Mozambique because the operation is not in a good condition.

The calendar year production will depend then on the effectiveness and the speed in which we can fix the situation with that stoppage. So far, we're maintained to stoppage for the beginning of the second quarter. However, we are monitoring very closely the

impacts of coronavirus on the arrival of parts for the changes that need to be made. So, there are initial indications of some delays, but we still expect that by the second quarter, we will be able to initiate the stoppage, and we're still targeting the second half. We're going to get to the 50 million ton run rate.

### **A - Mark Travers** {BIO 16687422 <GO>}

On copper, Christian, I would say that -- two things, first of all, copper -- most of our copper concentrate is contracted for 2020, and secondly, relatively little of it goes to China. So, there is certainly an impact in the sense of shipments that are coming up, but we are monitoring and may be delayed, and we need to look at logistical concerns. But overall, it should be relatively minor in base metals division.

### **Operator**

The next question comes from Tyler Broda, RBC.

### **Q - Tyler Broda** {BIO 16281303 <GO>}

Great, thanks very much for the call. My first question just to the operations report, you mentioned about the 340 million to 355 million ton guidance for the year. You also mentioned the statement there with the achievement of a higher end of the production range, continues to be possible on several upside is being explored. Wonder if you could provide some color on that. And then secondly, just in terms of some of the other costs coming through, the stoppage expenses, some of the research development, some of the other costs within the P&L, but just some of them were up this quarter. How should we look at those going forward into next year? Thank you.

### **A - Marcello Spinelli** {BIO 16240257 <GO>}

Thank you, Tyler, for the questions. This is Marcello Spinelli. Some dimension, we are recovering the production, and we -- actually, we rely on some authorizations. So, I can say that in that figure that you saw the recovery operations, the margins in the left, there is more risky in the right. The left is less. Upsides, I think we have some initiatives in Brucutu to anticipate some idea from using other dam that is (inaudible) dam, using some addition of products that we can use the dam that is almost full. We have other initiatives in Itabira, but I can say that the small initiatives, that you can have some number, like I mentioned, some 2 million tons or 2.5 million tons. But mainly, we are focused on the return of the operations and the assessment of the safety.

### **A - Luciano Siani Pires** {BIO 15951848 <GO>}

As regards the expenses, you noticed probably that R&D expenditures were higher in '19 than in '18. That relates to some of the projects we are developing, engineering studies, and the catch-up in drilling. But it should remain at the same level of '19 throughout 2020. So, no surprises in that. The operating and stoppage expenses were very large in 2019, a total of \$882 million for the entire company, of which, not surprisingly, \$823 million were related to Brumadinho in the iron ore business. The iron ore pre-operating and stoppage expenses should be directly proportional to the amount of production, which has stopped. So, you can do a linear extrapolation if we resume the volumes throughout the

year. The stoppage expenses should reduce proportionately. There were some stoppage expenses recorded in base metals. But we believe they will pretty much vanish this year, as the operations like Sossego, and Onca Puma, and others that were stopped, they're coming back online successfully.

## Operator

The next question comes from Edward Stack, BMO.

### Q - Edward Stack {BIO 3157529 <GO>}

Sorry, I was on mute. Good afternoon. Just a couple of questions from me. The first one on the topic of provisions. If we cast our minds back to the half-year results when the first provisions were announced, I think at the time they were described as being full provisions to the best of management's knowledge at the time. We've seen further increase since then. Now, there's obviously potentially \$1 billion to \$2 billion more. Are there any other actions outstanding against Vale that could result in further provisions? That's my first question. And the second one is -- I'm afraid this is a rather naive one. I'm not familiar with Brazilian law. But on the top, you have criminal charges. Can they be brought against Vale itself as an institution or just against individuals? And I'm sorry for the rather crude nature of that question as well.

### A - Luciano Siani Pires {BIO 15951848 <GO>}

So, Edward, on the provisions, we made it clear throughout the year in the first quarter we mostly provision for our estimates of the individual indemnification social economic liabilities, then on the second quarter, and the decommissioning of dams. In the second quarter, we came out with the environmental provisions. We have complemented some of the indemnification provisions, given the extension, for example, of the emergency monthly stipends for a very large population. And in the fourth quarter, we did the provisions for two new dams to be de-characterized, following a reclassification in September by the National Mining Agency. Those were obviously all to the best extent of our knowledge as management. I can tell you that for the commissioning for example, our knowledge has evolved substantially throughout the year. To de-characterize very large dams and to make an estimate, as we did in the first quarter, was quite a challenge. Actually, that portion was reduced, but across the year, we had -- because of laws that were enacted, we had to decommission also smaller dikes and we added provisions for that. And these two large dams that we are adding, about \$600 million U.S., basically came from a -- as I said, as a reclassification from the agency that happened in September. There is no more such reclassification going forward because the agency already did what it needs to be done, which means that the upstream dams that need to be decommissioned, now they're all accounted for.

When it comes to the environmental liabilities, the conversations that we're having with the authorities, you're confirming our initial estimates. So again in this regard, there is nothing to expect in addition to that. The conversation's ongoing. They relate to sanitation measures, to water supply security for the City of Balangochi [ph], some works in our new water pipelines with the state utility company. So, no surprises on that. When it comes to the socio-economic provisions, that's where what I called an additional effort is

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being requested from us by the state authorities in order to grant us this very large benefit, which would be the suspension of the actions and the shielding against potential new lawsuits regarding social economic and environmental. And right now, what we are doing is we are assessing these requests. We are crossing them with the existing programs that we -- when we made our provisions, we thought they would be the ones necessary to address the socioeconomic issues. But from a conceptual standpoint, we agree that -- we believe that there is value in doing this additional effort in order to suspend the lawsuits. That's a kind of a tit for tat. We are going to receive a very large benefit, and we, on the other hand, will give an additional -- a legacy for the state with all these projects that are being asked for. Very beneficial for the company.

We believe we need to reconnect with the Brazilian society and the society in the state of Minas Gerais. So putting all in context, we're willing to enter into such an agreement, but we haven't provisioned yet because the conditions are not yet here. Very important. So, we're treating this from an accounting perspective as a contingency, rather than as a done deal or something that we will do. So, as a listed company, we need to bring those things forward. So, we're bringing it to you.

### **A - Alexandre S. D'Ambrosio**

This is Alex. While typically, under the Brazilian law, the criminal charges are against natural persons or individuals. There are some few statutes that will present the possibilities of bringing criminal charges against the institution, against the company. But then the prosecutors would have to prove there is an institutional intent to practice certain crime, and that applies specifically to environmental. There is strict liability in environmental prosecutions, yes. There could be antitrust, and in some instances, anti-corruption. As I said, for these last two in particular, you have to prove that there is an institutional intent that ranges from the entire organization. So typically, even in these issues of anti-corruption and antitrust, the individual natural persons have to be the center of some type of indictment or accusation.

### **A - Marcello Spinelli** {BIO 16240257 <GO>}

The next question comes from Timna Tanners, Bank of America Merrill Lynch.

### **Q - Timna Tanners** {BIO 6766897 <GO>}

Yes, hey. Thanks for all the great detail. I just wanted to ask you specific questions, one on the iron ore market, if you could add some perspective. Clearly the weaker demand outlook for steel in China has been matched by less supply, whether it be cyclone or rainy related. I just wanted your perspective on how much of that shortfall in supply was weather related in your view or external related, and how much is intentional to match the lower demand. And if it's just because of the weather is there, do you think willingness to match lower demand if that does manifest? And then the second question is on the dividend. I just want to be really clear on is there a checklist here of steps that need to be met before you consider resumption, or is it really more qualitative? And if you could provide a little more color on that. Thanks very much.

### **A - Marcello Spinelli** {BIO 16240257 <GO>}

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Hi, Timna. I think we have a market before coronavirus and after coronavirus. So, that's the main point now, is many times now difficult to understand the consequence of the coronavirus. But I think I have some colors for you. First, as I mentioned, and I think China will try to reach the growth this year. So, what we think that demand in China that will be around 1 billion tons of production of steel will be addressed in the last month during the year, so we can have a boost in the consumer of iron ore after the coronavirus. So, that's a common sense for the market in China. I think ex-China, we already have some good news. We expect to grow more than 3%. Part of that, some recover from the situations like in Japan that we had a problem last year with the typhoons, or like Europe that you have a technical growth better than last year. But again, all of these numbers now can be adjusted with the impact of coronavirus in all the world with the center coming from China.

From the supply side, I think we are really close to the demand, and Vale's returned operation mainly in the second half. We had some lack of production at beginning of the year, but we see that the supply-demand will be tight for the whole year.

#### **A - Eduardo de Salles Bartolomeo {BIO 15365202 <GO>}**

Timna, it's Eduardo. I think answering very objectively, there is no checklist point. It is a qualitative assessment, for sure but biased on the advancement of the work that we've been doing here on the reparation front that we believe we are advancing very well, as I mentioned before. So, it's a system that we will find the right timing that we need to, as I've always been saying. Focus on the reparation and improving the performance of the company. You didn't ask, but I will ask Luciano to elaborate as well on the return of the policy because this has to be of course done when management thinks timing, and of course, the board thinks of time, and there are some doubts about that, I think, that need to be clarified as well.

#### **A - Luciano Siani Pires {BIO 15951848 <GO>}**

Timna, there was a question on the Portuguese call, and I'm repeating it here about what - how do we think about the framework in terms of the indebtedness and its relation to the dividend? First of all, the intent when the dividend policy is reestablished is to do exactly as we did before. Same formula. EBITDA less 30%. And so, the discussion here is so, how are you going to think to pay dividends above and beyond whatever formula it yields? Because there is no doubt that once the dividend is reestablished, that the minimum dividend, according to the policy, will be met. But what about above and beyond? So, some people found it a little strange, and what was the intent when Vale put in the release a demonstration of expanded debt and then expanded debt in commitments that went up to \$17 billion U.S.? The intent was simply to show that some people start to speculate Vale is going to go towards a net cash position, and this is a narrow view, because we do have, yes, lots of commitments beyond headline debt that need to be considered when looking at the liability side of the balance sheet.

Well, but does that mean that your \$10 billion leverage target is not there anymore? Look, the \$10 billion was established when it was established. Most of these expanded, and other liabilities were already there. So, we already had the Samarco and Renova liabilities, we already had hit fees, we already had the leases. So, in that group, expect nothing

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changed. On the other hand Brumadinho came, and this is a big change. So, although we are now below the headline \$10 billion by \$5 billion, it is also true that we have an additional \$5 billion provision recognized on the balance sheet for Brumadinho expenses. So net-net, we're about where we want it to be, if you think about the framework as before. We're not at \$10 billion. We are at \$5 billion on headline debt. However, we do have five additional more commitments to match.

So, the consequence of this is if the dividend policy was reenacted today, every cash flow that the company generated from now on would potentially be available for discussion with the board of directors for distribution for shareholders. So, that's the consequence. But there is -- as of now, there will not be sort of a catch-up dividend, extraordinary \$5 billion dividend, to come back to the \$10 billion. Having said that, those additional commitments, they tend to decrease over time. So, as we spend the money in order to do the reparation in Brumadinho, the \$5 billion will decrease, and then over time, we will be re-lever the company, the headlines debt, back towards \$10 billion. And in that process also, we will consider this to pay additional dividends above and beyond the minimum dividend policy. So, that's the thinking right now.

## Operator

The next question comes from John Tumazos, John Tumazos Very Independent.

### Q - John Tumazos {BIO 1504406 <GO>}

Thank you very much. Could you explain the large drop in the pellet price realization, almost \$18? Was that due to the German recession and softness in the Atlantic market? And secondly, concerning the dry processing of lower grade southern, southeastern ores, the shipment of the lower grade material to Malaysia or China for blending is a bigger freight expense. The blending takes effort. The high-grade ore that is blended loses its price premium. Then when it gets to China, there is going to be more slag after they make the iron from the material that never went in tailings dam to begin with. Why not just simply shut the lower grade mines where you can't use the tailings dams anymore? Dry processing seems to have a lot of disadvantages.

### A - Marcello Spinelli {BIO 16240257 <GO>}

Well, John, this is Spinelli here. Regarding the pellet premium, I think the number is higher than that. It's about \$30, not \$18. And I think that the market has reduced the production of pellet feed with all the problems in Brucutu, and we see the market today very tight, and we expect some better premium for next quarter. But this is still a very good premium. The good news in the premium side is in China for pellets, we've seen the some premiums now coming in the spot market around 40, just to figure out. We are not in this market, but is now --we are considering to see what will be in this market during this year. And regarding the dry processing, the blending, and the high silica or pure Carajas fine, we've been assessing this decision for some time, and we are still convinced that we have the best solution blended in China.

We are struggling now to recover the production, but in mid- to long-term, the premiums from BRBF is much better than the discount of the high silica. Even shutting down their



production, we still have margins selling BRBF rather than selling Carajas fines or being out of the producer high silica. So again, it's a good business.

#### **A - Luciano Siani Pires** {BIO 15951848 <GO>}

But John, on the other hand, it is also true that we had a plan, an initial plan for this year of going up to 370, 375 by accelerating the dry processing of the operations where now we can do it. However, the silica discounts were so large and the costs were also prohibitive because we're not blasting. We're using mechanical dismantling of the rocks. That we said, okay, we're not going to produce it. So, we are very mindful of those trade-offs. We consciously removed about 20 million tons from the production plan in order to get to this 340 to 355, precisely on the grounds of optimization. So, we have all the information. We have dynamic optimization. We're very mindful. We're on top of things, and we do what's best for the overall profitability of the company.

#### **Operator**

This concludes today's question-and-answer session. Mr. Eduardo Bartolomeo, at this time, you may proceed with your closing statements.

#### **A - Eduardo de Salles Bartolomeo** {BIO 15365202 <GO>}

Okay, thank you. First of all, thanks everyone for your time, and attention, and the questions. Definitely, 2019 was one of the -- it is the hardest year we have ever faced. But I believe that the path that we choose through operational excellence to a safer company, we will bring sustainable results, and we will start to be noticed soon. So, as I mentioned in the beginning, 2020 will be in a year of continuity and stabilization. But for sure, Vale will be out of this strategy in a much better shape and a much better company. Thank you, and see you in the next call.

#### **Operator**

That does conclude Vale's conference call for today. Thank you very much for your participation. You may now disconnect.

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