Y 2021 Earnings Call

Company Participants

- Deshnee Naidoo, Executive Vice President of Base Metals
- Eduardo Bartolomeo, Chief Executive Officer
- Gustavo Duarte Pimenta, Executive Vice President of Finance and Investor Relations
- Marcello Spinelli, Executive Vice President, Iron Ore

Other Participants

- Alex Hacking, Analyst
- Alfonso Salazar, Analyst
- Andreas Bokkenheuser, Analyst
- Carlos De Alba, Analyst
- Christian Georges, Analyst
- John Tumazos, Analyst
- Jonathan Brandt, Analyst
- Timna Tanners, Analyst
- Tyler Broda, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. Welcome to Vale's Conference Call to discuss the Fourth Quarter of 2021 Results. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session and instructions will be given at the 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 Investors' link. This conference call is accompanied by 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 change, 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. Gustavo Duarte Pimenta, Executive Vice President, Finance and Investors Relations; Mr. Marcello Spinelli, Executive Vice President, IR; and Mrs. Deshnee Naidoo, Executive Vice President of Base Metals.

First, Mr. Eduardo Bartolomeo, we will proceed to the presentation on Vale's fourth quarter of 2021 performance, and after that he will be available for questions and answers.

It's now my pleasure to turn the call over to Mr. Eduardo Bartolomeo. Sir, if you may now begin.

Eduardo Bartolomeo {BIO 15365202 <GO>}

Good morning, everyone. I hope you're fine keeping people safety and reparation as per yards we performed well, with 2021 in our business, in safety in the Brumadinho Reparation and in our sustainability agenda. We are glad about the progress and confident in delivering increasingly consistent results. I'd like to start the conversation by reinforcing our roadmap to build a better value.

We are reducing, risks associated with our operations and re-sizing our company focusing on key businesses cost optimization in organic growth. We have updated our roadmap moving our ESG agenda from values de-risking to re-rating as we understand that is an important lever to push our ambitions. We remain committed to making Vale a safer and more reliable company, a benchmark and value creation and sharing supported by a robust cash generation and disciplined capital allocation.

The year of 2021 was very important to increase the stability of our company. Leading to significant operational and financial results. Starting with iron ore, we reached a production capacity of around 340 million tons per year by the end of 2021. With production resumption and stabilization in Serra Leste, Timbopeba, and Fabrica. We increased production of iron ore by 5% and balanced by around 7% compared to the previous years.

We had the highest sales volume of iron ore. For the fourth quarter in our history with 82.5 million tons and as well, we have advanced with the actions to reduce the use of dams starting operations of tailings filtration plants in advising energy Vargem Grande and Itabira. Base metals even with big challenges ahead, we have started 2022 with good prospects with the conclusion of Ontario's operations ramp up after the Sudbury stoppage and with the resumption of the activities at the Totten mine earlier this month.

As you know, we want to make Vale each day safer. To that end, our cultural transformation continues to advance. We have increased the maturity of implementation of our management model, the VPS with a good improvement in our operational stability. That help us to prevent accidents. We ended 2021 with the lowest recordable injury rate in our history.

Finally, we have made significant progress in optimizing our portfolio and a disciplined capital allocation. I will talk a little bit more about this later, but first I would like to update you on the progress of the Brumadinho reparation. We ended 2021 with disbursements of USD1.3 billion including the full payment of the Income Transfer Program. For 2022, we estimate a disbursement of around USD1 billion under the reparation settlement. We have also advanced in the compensation of individual damage with indemnification agreements for around 12,800 people totaling around BRL3 billion. As already said, we will never forget Brumadinho. We are repairing Brumadinho with active listening and in a fair, fast, and agile way.

In the management, we underwent an important test earlier this year, which brings much higher than expected Minas Gerais. About 30% of rain forecast for the year was seen in just 12 days. It is very difficult scenario. Our dams and operations showed resilience and a very good performance. A key measure to reduce Vale's risks is our program to eliminate upstream dams in Brazil. Out of 30 structures, we have already eliminated seven. In 2022, we will eliminate five more. By 2025, we will have eliminate two-thirds of our upstream structures. These projects are complex and in some cases pioneering, so we adjusted our provisions after some technical reviews. Gustavo Pimenta will address this later. In conclusion, I reaffirm our commitment to the implementation of the global industry standard on tailings management, the GISTM.

Speaking now about our ESG agenda. We have made both commitments since 2019 in line with the great challenges of society. We are delivering what we promised and disclosing our results with greater transparency. On the slide, you can see the delivers in each of these dimensions. We have a goal of zero accidents with high potential injuries by 2025. In 2021, we have seen an important reduction in the injury rate as I have already mentioned. I'll draw your attention to our climate agenda towards carbon neutrality by 2050.

In 2021, we announced investments between USD4 billion to USD6 billion for actions in Scope 1 and 2 until 2030. In Scope 3 emissions, we are engaging with customers who already represent 40% of our emissions for partnerships in decarbonization solutions. We also launched the green briquette in 2021, which is essential for reducing CO2 emissions in the steel industry. More importantly, Vale is strategically positioned to face the climate challenge with a differentiated portfolio with high-quality iron ore, which we'll start now calling Class 1 copying the nickel mark concept, and our differentiated reserves of nickel and copper.

Still on the ESG agenda, it's essential to strengthen our social performance. On the last Vale Day, we launched our social ambition with clear targets, which included lifting 500,000 people out of extreme poverty helping to develop resilient communities. We have also performed well in our commitment to double the female share in our workforce from 13% to 26%. To the point that we have anticipate its completion forecast to 2025 from 2030 since we have already increased that share to around 19%. And to expand our ethnic-racial diversity, we had made a commitment to achieve a 40% stake of Black leadership by 2026. As you can see, with that, we are seeking a significant positive long-term impact on society, and building a more diverse and inclusive company.

In portfolio optimization, we have made substantial progress. We have entered into a binding agreement for the sale of the coal business with closing expected for the first half. We also completed the sale of the stake in CSI for over USD400 million this month. Portfolio optimization solved cash drains and monetized non-strategic assets such as, for example, VNC, Mosaic, and the manganese ferroalloys operation. We continue to work on divestments to focus on assets and initiatives that actually create value for the Company and push us towards leadership in sustainable mining.

To conclude, speaking of creating and sharing value, we distributed 95% of our 2021 cash generation to our shareholders between dividends and buyback, and yesterday we announced the distribution of USD3.5 billion in dividends. With our buyback program, we have also increased by 6% the stake of our shareholders in our future earnings. In other words, with good operational performance and capital discipline, we are returning the good results to our shareholders and allowing us to build a value sharing agenda due to society as a whole. 2021 was a year of good deliveries, so I would like to thank our employees, partners, customers and suppliers for their resilience and strong commitment to the various work fronts.

Now, I'd like to turn the floor over to our new Vice President of Base Metals, Deshnee Naidoo, and I wish her much success in her challenge, and thank Mark Travers for his contributions, while at the helm of the business. Thank you.

Deshnee Naidoo {BIO 19953865 <GO>}

Thank you, Eduardo. Good morning, everyone. It is a pleasure to be talking to you today as the Head of the Base Metals Business. This is truly an exciting time for Base Metals nickel, copper and cobalt a starting a renaissance due to the global low carbon energy transition. Increased demand coupled with the lack of supply will attract significant interest across the industry. Nickel demand growth is forecast to double over the next decade, driven by EV demand. Class 1 nickel demand remained strong over the long term. Our copper demand is forecast to increase but a third by 2030 benefiting from both growing EV demand as well as the broader energy transition. As we know, renewable energy generation consumes more copper than the traditional energy supply.

The next slide. We have the right assets and an unmatched resource base in strong jurisdictions technical expertise to unlock the value chain to deliver into this demand growth. But the fundamentals of the Class 1 market remaining strong, our North Atlantic operations are very well positioned to respond and meet the required demand. Our Canadian nickel resources a high quality and polymetallic with well-established downstream facilities that are capable to supply not only premium nickel products but also cobalt and copper, that are so important to the energy transition.

In South Atlantic, we have a platform to growing copper encourage us, an unparalleled mineral province that Vale knows and operates well in. We have an advanced projects pipeline with Alemao which will allow us to grow in copper and the extension of the Sossego plant life to the development of the South hub mines starting with Cristalino. Also, we have advanced in our drilling campaigns on the North hubs deposits and studies to potentially expand the Salobo capacity through a fourth line processing plant. Additionally, we also studying the expansion, capacity in Onca Puma with the construction of the second furnace. In Indonesia, we have a long history of operating of a several decades in our project portfolio Bahodopi is advancing well and we are close to an FID decision that we will take in the first half of the year, our formula development, the partnership discussions are progressing well and we hope to announce something shortly.

And we continue the development of our world-class asset Hu'u this project is a Tier 1 asset with a large resource base of greater than 2 billion tons at a 0.83% copper and a 0.84 gram per ton gold and with a very high production potential possibly around 350,000 tons of copper and 220,000 ounces of gold. This is a game changer. The next slide. So our focus is clear. We need to continue towards zero harm we have decreased our rate by 20%, 0.39 over the last three years. We will continue to focus on our control effectiveness as part of our hero program.

We will look to continue to advance our resource potential and increase our reserves and resources to support the future to replacement and growth plans we have in 2021 alone, we drilled over 450,000 meter more than we've executed over the last 25 years. And we are planning to increase that by another 20% in 2022 to 550,000 meters. We need to deliver the North Atlantic productivity program to arrest the geological inflation. We are seeing our mining depths today span between 1.4 kilometers to over 2.5 kilometers deep and our trailing distances over the last decade of more than doubled in some mines.

We have a disciplined program to improve our mining cycle times across all mines to increase productivity we are pivoting our products into EV supply. We signed last year a long-term contract with a global OEM for 5% of our nickel powders, and we are in discussions with several other EV supply chain participants, leveraging our resource base to further add value to business and to society. Along those lines, we take our commitment to society seriously, starting with the progress on our low-carbon agenda. This has included the third-party verification of our Long Harbour nickel rounds, which supports our commitment to transparency and our ambition to be a leader in low-carbon.

The next slide. Admittedly, however, 2021 was not a good year in terms of our plant compliance. Primarily, as a result of the Sudbury strike, the mine maintenance and the long-distance conveyor belt fire in Salobo. We however closed the fourth quarter on a more positive note and hence are confident that we are better set up to deliver 2022. Sudbury operations largely concluded the ramp-up following the strike. Totten resumed activities earlier this month as we have started to hoist ore. Long Harbor refinery achieved the best-to-date annual production of 38,000 tons. Matsuzaka refinery and Onca Puma had a strong fourth quarter after significant maintenance. In copper, Salobo mine movement had achieved a run rate of 11 to 12 million tons in the fourth quarter and in fact in December, achieving close to 12 million tons. With that, we have increased our nickel production by almost 60% in the fourth quarter and 12% of our copper production.

I now hand over to Marcello to take us through the iron ore performance.

Marcello Spinelli {BIO 16240257 <GO>}

Good morning. Thank you, Deshnee. It's a pleasure to have you here for the first time in our conference call. So you will use it to see our framework to track the resumption plan.

So my last update was in the Vale Day. Let me remind you of some information that we have in this slide.

Firstly, we left with 2021 with 340 million tons of capacity and we expect to add another 30 million tons this year, but mainly by the end of this year with Torto dam and Itabirucu coming online. Second information here. During the year, we expect to bring more quality with the filtration replacing the high silica ores to -- transforming to high-grade ores. The filtration are coming online and so we expect fewer impact in volumes and more in quality.

Finally, some informations about the North System. In S11D, we are dealing better with the ore body knowledge addressing the capacity to crush jaspilite with the installation of the remaining able crushers. We will have a busy year in the North System with all the projects that are under construction. Remember that we have the S11D the plus 10, the plus 20, we have Gelado in North Range, all of them will be really important to bring capacity to 2023.

Well, I want to reinforce our production guidance for 2022. It's a range between 320 and 335 million tons. And despite the heavy rainy season that we faced in this Q1 and the losses that we had in January, we are confident that we can compensate during the year and deliver the guidance.

Now, moving forward. I want to bring your attention to the flight to quality trend. We all know about this strategy that we have in Vale, but now with see some actual examples. We've been talking about the energy transition, the carbonization process, and many times we talk about the transition metals, nickel, and copper that we have in our portfolio, but we should consider two information here to put the steel in this top list of metals that really -- will be really important for the transition in energy.

First information. Steel is fundamental to all the infrastructure that we will need for the energy transition. We have a lot of examples in this slide coming from the energy sector. And second, we have a clear pathway, a clear tech roadmap for this making transition that will support the competitiveness of these two business in a greener world. Well, another information. There is a common sense as we mentioned in the Vale Day that the pathway to decarbonize these two will come from the reduction of the use of the blast furnace and the increase of the direct reduction growth. In the first moment, using more natural gas and later the hydrogen. For all of this growth, we will need more and more high-grade ores.

In the beginning to reduce the use of the coke and in the second moment we will need more pellet for direct reduction or briquettes and just to remind you, there is a limited supply for the high-grade ores. That can make Vale in a very competitive level. So all of this together, I want to summarize showing the last slide that we have a graph with the premiums for the high-grade ores. The lower alumina and the gap, when you compare with the low grade ores. We are decoupling more and more from the traditional competitors for iron ore. We have growth and better price in the market that we are competing. The high grade ore, we are going to talk a lot about this during the year, we are in the market that we can call the Class 1 Iron ore.

Now, I hand over to Gustavo Pimenta.

Gustavo Duarte Pimenta {BIO 20848539 <GO>}

Thanks. Marcelo, I would like to start with a review of the main drivers for our EBITDA performance on slide 23. As you can see our fourth quarter EBITDA was very much in line with our Q3 performance at about USD7 billion the main negative effect was caused by realized prices in iron ore as the 62% reference price drop at USD53 in the quarter. This was mostly offset by record sales volume for fourth quarter of 82 million tons, combined with better pricing and volume at based models as we resumed operations as Sudbury. Now turning to our cash flow generation on the next slide.

Our EBITDA to cash conversion this quarter was impacted by working capital effects payment of Brumadinho obligations and seasonally higher CapEx. On the working capital. The main drivers were first about USD1.5 billion of cash return to clients for volumes collected in Q3. But effectively deliver in Q4 at lower reference prices. So as per the agreement with clients, we are just the final pricing was this cargo is delivered as we have talked about in our previous call. The second effect about USD1 billion is related to higher accrual sales volume in the quarter when compared to the prior quarter, which increases the accounts receivable balance. These invoices will be collected in Q1 this year.

Also in the fourth quarter of last year, we accelerated payments related to the Integral Reparation Agreement of Brumadinho including the implementation of the income transfer program all in line with our expectations. Finally, the USD780 million you see on the right green bar are mainly the proceeds from the sale of our Mosaic shares offset by the use of cash thorough the share buyback program.

Now, turning to net income on the next slide. Here, we bring the main drivers reconciling our EBITDA to net income in the quarter. As you can see, we added about USD1.7 billion in new provisions for the decharacterization of our upstream dams. The adjustment was necessary after we concluded a thorough review of the engineering and geotechnical solutions needed to perform the decharacterization plan. With this revision, we now expect associated cash disbursement to move from about USD300 million to USD450 million per year on average from 2022 until 2026. It is important to highlight that we have not changed any of the decharacterization goals presented in Vale Day and continue to expect to have no dams classified at the Emergency Level 3 by 2025.

Second, our equity results were USD1 billion lower as we complemented additional provision related to Fundacao Renova. This was done after new court decisions on the compensation to resident of impacted series that changed and expanded the concept of damage, categories, indemnifiable amounts, and affected municipalities. Lastly, during the quarter we returned USD3 billion of capital from a few of our subsidiaries. And as a result, recognized the gain for cumulative FX translation on these investments.

Now, turning to our cost efficiency initiatives on the next slide. As we have laid out during Vale Day, this is one of our key strategic priorities, which we see even more relevant today given the continuous acceleration of global inflation, which is affecting everyone including us. Our key objective for 2022 is to keep our total fixed costs and sustaining CapEx flat, implementing initiatives that will offset all the inflation pressure in the year. As you can see on the left hand side of this slide, we have already identified a series of initiatives to deliver on this goal such as the redesign of the organizational structure, improvements in the strategic sourcing, overhead optimization, and implementation of technology to drive field productivity.

These initiatives and our continued focus on increasing the level of efficiency and productivity across Vale without jeopardizing the resilience of our operations, we've set the stage for us to deliver the USD1 billion goal from 2023 onwards. Another important driver is the inflation on variable costs. In our industry, the most direct impact comes from oil prices currently under pressure due to the latest geopolitical developments. As you can see on the right-hand side of the slide, this has an impact on our bunker and diesel costs and we provide some sensitivities related to our C1 and all-in impacts on the other hand, as this explained, we are seeing higher quality premiums in 2022 which we expected to have a positive effect in our all-in cash cost, offsetting the negative impact of oil prices to conclude on costs. We remain focused on delivering a long-term C1 cost ex-third party purchases of USD14 to USD15 per ton in line with what we presented in Vale Day and in our lean cost of USD30 to USD35 per ton.

So in summary, we are very confident about delivering on our strategic and financial objectives. We remain obsessed with safety while working hard to recover our production capacity in iron ore and base metals. We are leading the transformation to a low-carbon emission industry in iron ore annual leverage our well positioned portfolio of assets in nickel and copper to support the energy transition. Finally, and as Eduardo highlighted, we remain committed to delivering superior returns to our shareholders.

With that, I would like to open up the call for questions.

Questions And Answers

Operator

Thank you, ladies and gentlemen we will now begin the question-and-answer session. (Operator Instructions) Please restrict your questions to two at a time. Our first question comes from Carlos De Alba with Morgan Stanley. Carlos...

Q - Carlos De Alba {BIO 15072819 <GO>}

Yeah, good morning.

Operator

Your line is open.

Q - Carlos De Alba {BIO 15072819 <GO>}

Thank you very much everyone. So the first question maybe continue the discussion on cost and cost pressures. So, if I understood correct -- how should I understand the comments on cost for iron ore. So basically you expect to offset the pressure on fixed cost but variable will increase and therefore it is possibly that costs will increase in the coming quarters and then over time get back to that target that was mentioned of USD14 to USD15 per ton. Excluding third party purchases. Is that a right way to understand the progression towards that? That would be my first question. And if I may ask the second question, it has to do with an increase in provisions and then extended net debt now around USD15 billion. What does that mean for future payments of dividends and share buybacks? Thank you.

A - Gustavo Duarte Pimenta {BIO 20848539 <GO>}

Thanks, Carlos. This is Gustavo. So let me walk you through both the two questions that you raised. So in terms of cost, what we've laid out is that we expect to have fixed cost plus sustaining CapEx flattening despite the inflation, right. So we talked about that in Vale Day, we saw this coming, and we've taken a series of actions over the last couple of months to make sure that we can deliver fixed cost plus sustaining flat.

Now, we do realize that both on diesel and bunker, we are having pressure, right. Brent is above USD100, which is going to impact especially the all-in cost, but what we said during the presentation, Spinelli highlighted that premiums are better than last year. So our expectations that premium will offset the impact that we're going to have from fuel cost this year. So at a high level then, fixed cost flat and the impact from fuel being offset by premium.

So in terms of the provision. Yes, we are at the target, the USD15 billion target at the expanded net debt. But what I'd like to clarify here is this is not a quarterly goal, right. What do we want to achieve this by the year end to be within that framework, within the limit of USD15 billion, but we may have some fluctuations throughout the year. So if you model -- given very conservative prices for iron ore if you model our cash projection for the year, you're going to see we have a lot of space within that threshold to perform on the program, execute the buyback, and eventually even do more. So we are feeling very good about it. Again, it's not a quarterly target. I wouldn't be very focused on that. We expect to get within the USD15 billion by year end, but during the quarters, we may fluctuate around that.

Operator

Your next question comes from Jonathan Brandt with HSBC. Mr. Jonathan, your audio is available.

Q - Jonathan Brandt {BIO 5506998 <GO>}

Hi, good morning, good afternoon. Thanks for the opportunity. First, I just wanted to follow up on Carlos' question as it relates to provisions. I understand Samarco has made -- they made a thing to their creditors asking or stating that they would propose a cap of USD2.4 billion in payments for their dam disaster, and that they would ask you for -- you and BHP for an additional USD3.1 billion. I'm just wondering if that's in the provisions, if that is a potential additional liability that you could be facing at some point, and sort of what your views are on that.

And then my second question is on the base metal side I guess given the robust scenario that you laid out for demand. Is there anything you can do to speed up some of these projects and any obstacles that are in your way and sort of you spoke about your quality of base metal assets and certainty, I understand how you can monetize that from Class 1 nickel et cetera. But how do you monetize that given the lower jurisdictional risks that you're assets are in? Is there anything you can do from that side of it? Thanks. Thank you.

A - Gustavo Duarte Pimenta {BIO 20848539 <GO>}

So, Jonathan, I'll get started and then I'll send the second question to Deshnee. So, no impact regarding the conversations and the discussions with the creditors and the reason being form accounting perspective we have provision 100% from the sponsor side. So there is no, whatsoever impact as the conversation evolves with the creditors. So hopefully we'll be able to reach a constructive outcome there. But the result is not necessarily affect in the level of provisions that we have.

A - Deshnee Naidoo {BIO 19953865 <GO>}

Thank you, Jonathan. I have to say in the last couple of weeks. This question has been pre-occupying my mind. There is two ways of creating value, especially in the short to medium term we have to focus on volume and margin. On volume, and turning to nickel, the team and I are looking at how do we increase the mine's productivity and mine's production more reliably because the good news about Canada is that we have downstream capacity, so the Alfredo and the team they are re-looking at that, but it's a -- but like you said, it is about margin and what we are looking at with one steam is how do we prove it some of that the current task one into into EV faster. Currently as we said, we've got 5% directly tied. We are talking to quite a few of the EV supply chain producers right now to look at how we can provide that further.

But on copper, we have a beautiful ore body in Salobo. The job there to try and get some consistency out of Salobo 1 and 2. And also to look at how do we create this dream start for the Salobo 3 plant, which will give us another 30 to 40. So in the short-term focus on the current portfolio look at the on boarding of the projects that we have and then in the medium term try and accelerate some of that study work. So today we were bold enough to show you just how much of R&R we have, but also in the last two years, we've increased our R&D expenditure by over 50% year-on-year and that is to accelerate the study work that's sitting in the pipeline of tier 1 and tier 2. So, Jonathan, I'm hoping in the next few months, we'll have some good news for you in terms of progress on some of that fast-tracking.

A - Eduardo Bartolomeo {BIO 15365202 <GO>}

Just to add, Jonathan, about monetizing because you bring a very important question around the jurisdiction, right. Geopolitically speaking now as we see after COVID and now with the Ukraine issue, I think being placed in Canada, being able to supply Europe and North America on the EV, we are, as I think is -- what's behind your question is the discussion about spinning off, carving out. It's -- as we said, there is no decision taken. There is no action. All actions we will proceed need necessarily what that you just mentioned about doing the homework, but they are on the table obviously. We are always thinking about ways and who knows. But it's an optionality that we want you to take attention to is the most important we're shaping it that Vale will do now after we almost finish our cleaning up of the assets that we're destroying value. Now, we are -- we're now willing to put the assets that has huge values on the best way to the market pricing. Thank you for your question.

Operator

The next question comes from Mr. Andreas Bokkenheuser with UBS. Mr. Andreas, your audio is available.

Q - Andreas Bokkenheuser {BIO 7182883 <GO>}

Well, thank you very much. Hope you are all safe and well. Just two questions from me. Follow-up on Jonathan's question. Can you give us a quick update just on how conversations with creditors are going? In particular, one question investors are asking at the moment is kind of whether that's a viable risk here that the asset would be transferred to Credit Suisse? Is that something we should be worried about in any shape or form? So if you could give us an update there on Samarco that would be great.

And secondly, I wanted to just touch upon something you've been talking about in the past as well. I mean, I think you've been mentioning that you feel that Vale's shares are too inexpensive, too cheap versus some of your peers. So can you talk a little bit around what management strategy and initiatives are to basically re-rate the shares and narrow that discount going forward? Those are my two questions. Thank you very much.

A - Gustavo Duarte Pimenta {BIO 20848539 <GO>}

Thanks, Andrea. I'll take a shot at both and eventually, Eduardo can complement on the second one. So with the creditors, we are in the process, right. So there is -- it's still uncertain in terms of what is the final outcome. What I can tell you is that Samarco has potential, it is generating cash flow, so our expectation and hope is to find a constructive outcome that works for everyone, right, for Samarco, for the creditors, and for the sponsors. So you've seen in the press and some of the releases with ideas that we're presented by Samarco, of course, there is just a process that you have to go through and hopefully, at the end you will find a constructive outcome that it's good for everyone and especially because as I said so Samarco has potential to continue to generate strong cash flow.

In terms of re-rating, I think it's the overall the story of value, right. We clearly understand that there was a perception of a higher risk platform especially post tragedies. We've been working hard on this. The assets performed extremely well early this year, despite all the heavy rains. So the story around the risk in and making sure that the market perceives as we do perceive that value today substantially less riskier than were three years ago is fundamental, there is clearly an element of reshaping the portfolio, which are the words talked about with just to put in perspective, at some point in time.

Those the assets that we've sold were costs in those USD2 billion of cash per year. They are all gone, right? So that is also fundamental and then the third one is our position in terms of ESG. We enable to bring the volume both in iron ore and base metals, as we've said. I think sometimes we feel the market doesn't appreciate all the growth potential we have at value with limited equity need. Right? So just bringing volumes back to where we were.

It is a fundamental opportunity for us to create EBITDA, we are working hard to get there and one of the for you guys to see how we feel about it is our action in terms of buying back our own shares. We've been very active and we expect it to continue to be active given our value or our view that the company is not well reflect in terms of its share price

A - Eduardo Bartolomeo {BIO 15365202 <GO>}

You spoiled my comment, I was going to say exactly that why or don't, we don't get the right price and there is no better investment than by value. So we will continue to do that. Squeak as we can, we already gave 6% back to our shareholders and if the market is still, and I appreciate because there are risk, there are reshape, there are perception from portfolio managers and that's natural we completely understand we're going to buyback Vale. That's the rule of the game and of course, trying to close that gap. But until that the gap. It hasn't been closed. We're going to buy back the shares.

Operator

The next question comes from Tina Turner's with Wolfe Research.

Q - Timna Tanners {BIO 6766897 <GO>}

Yeah, hey good day happy friday everyone. Just wanted to start out by following up on the comments around working capital because it took a big bite out of free cash flow and I just want to make sure I understood how much of that to consider reversing into the first quarter.

And then, for my second question. There's a lot of noise since the last time we spoke to you about upstream dams that were supposed to have been eliminated with I guess a debate about the deadline or a difference of view there and has Vale applied for an extension or is there risk of any action against the company given this delayed in terms of the timing of closures of upstream dams relative to expectations? Thanks a lot.

A - Gustavo Duarte Pimenta {BIO 20848539 <GO>}

Hey, Timna, let me get started with the working capital. So what happened in Q2, the main effect was as we believe we highlighted in the Q3, we've monetized some of the cargoes. And as per the agreement with the clients, once the cargo is effectively delivered, we have to get right to the settlement based on that price, right. So as we had in Q4 some reduction on pricing, we were impacted through net working capital standpoint.

What's going to drive better cash flow in Q2 this year is the fact that we ended up with higher accruals, probably 10 million tons, you can do the math, of higher accruals in Q4, which we'll effectively monetize and we'll get paid in Q2 -- in Q1 this year. So you will see likely a strong Q1 as a result of this higher accruals not yet received. With that, I'll ask Eduardo to cover the second one.

A - Eduardo Bartolomeo {BIO 15365202 <GO>}

Hi, Timna. Good Friday for you too. The upstream dams were supposed to be eliminated by the law that was created just after Brumadinho two years. Obviously, it's not possible and we asked for extension, but fortunately, all the constituencies come together -- they came together since the beginning of the month, the prosecutors, the government agencies, the state agencies, the federal agencies, the national agency of mining, and we came up with to see how to translate an agreement that will allow us to exert the time that is needed to do the works.

There are some rules for that, so it's a more comprehensive agreement, but there will be, how can I say, no penalty. There will be a fund that will be created to help us sustain some environmental actions, but not the material. There's going to be in the timing of the -- more or less following the timing of the decharacterization of each dams. As I mentioned in my speech, around 25, 20 of these dams are going to be eliminated. But there are some that will take more. So I think we found a good solution with all the constituencies and we are good to go.

Operator

The next question comes from Alex Hacking with Citi. Your audio is available.

Q - Alex Hacking {BIO 6599419 <GO>}

Thanks, and thanks for the call. The first question. Any guidance on C1 costs for nickel and copper in 2022? And then secondly on Onca Puma with the second furnace, any estimate on CapEx there? And then what's driving the decision to revisit the second furnace? If I remember correctly, it was originally built with two furnaces that got failed and you rebuilt one but not the other, is this just a function of the higher nickel price that's driving that decision, or is something else changed at Onca Puma that you're revisiting that second furnace? Thank you very much.

A - Deshnee Naidoo {BIO 19953865 <GO>}

Thank you for the questions, Alex. So firstly, on cost guidance. We typically don't give the cost guidance, but let me look at -- let me tell you how I see the margins in the business. If I look at an all-in number for nickel excluding sustaining capital, if I look at the trend over the last two years that number against these values should be in the order of magnitude around USD8,000 per ton. We add back some of the sustaining capital. We're looking at maybe USD7,000 to USD7,400 per ton. I think that's a good enough guidance in terms of current volumes. And if you look at current price, I mean, that's still a pretty healthy situation.

The excitement of course for us is in copper. And if I look at Salobo, last year we were slightly positive, and previous years, of course, our Solobo costs were negative. So the way to look at our copper cost in total when I include Sossego as part of the copper operations, just under USD2,000 per ton before sustaining capital. If I add back that maybe just under USD3,000 per ton. So that's the guidance for cost at an all-in basis for both copper and nickel.

Your question around Onca Puma. Yes, the Onca Puma was originally built for the two furnaces. We have been doing work to study the second furnace. So a lot has changed in terms of the operation, in terms of how we're now matching our kiln capacity to the furnace capacity, et cetera. So the second furnace now, the scope has actually creeped a bit because we've of course learned from operating the first furnace. And the order of magnitude on the Capital Day is just under USD400 million to USD450 million. But of course, we are working on refining that estimate in order to approve the project sooner.

From a capacity point of view as well Onca Puma will not be -- furnace two will not add is as much as furnace one because of how the finances are configured to one should give us as much as 25,000 tonnes, furnace two will add maybe another 12,000 to 15,000 tons I hope that helps, Alex.

Operator

The next question comes from Alfonso Salazar with Scotiabank. Your audio is available.

Q - Alfonso Salazar {BIO 18358082 <GO>}

Yes. Thank you. Good day, everyone. I have one question, and it's regarding the sale market. And in fact, I want to split it in two questions. The first one is on the short, we see a there is some scraps -- some signs of scrap shortages in China. So just wondering, if you can provide some color on what's happening? And what are the implications in the short term for iron ore demand? And then in the long-term, what are your expectations of scrap supply decrease, especially in China and we're talking to about end-of-life in scrap and what is going to change in the dynamics of the scrap market? How do you see -- in time if for example developed markets use more scrap domestically, and then that means there is less to export to other countries. But then you have China increasing domestic supply. What are the implications that you see or how do you see the balance in the iron market nothing iron ore market, but the iron market going forward. If you can provide some color on some thoughts on how do you see this evolving?

A - Marcello Spinelli {BIO 16240257 <GO>}

Thank you, Alfonso, this is Spinelli here or well in short-term what we see the supply-demand balance that we have more demand comparing to supply the -- supply side is we have some disruptions in Brazil. If we all know about the lost that we had relating to the rainy season in the South of Brazil. Is a seasonal moment but as usual, but we had some extra problems with higher rainy season and also some news coming from Australia with lower shipments. On the other hand, the demise -- the demand side, we have China sending strong message that they have -- they want GDP growth rate between 5% to 5.5% that deploying to the steel demand we see production -- CSP production of 1.10 billion, 1.20 billion tons. That is after all the Olympics and the holidays in China is increasing the demand. So that's the scenario for short term. We see an imbalanced market, tight market in this first half, and more balanced in the second half.

Going -- moving forward to the future, what I said in the beginning of the presentation, we are coupling the market. We need to educate ourselves, we need to do this as Vale show you -- show to you that we have a different market when we are talking now about high-grade ores. We need to deploy this demand for direct reduction rounds. There are a lot of announcements coming from every place that we will support an increase for the pellets, direct reduction pellets and also briquettes. That's a new market that is coming now.

Also, we have the necessity during this next decade to increase the efficiency of the blast furnace and bringing more and more high-grade ores to the blast furnace. So we need to educate ourselves to understand that this part of the demand we're going to have growth and higher price compared to the average that you see. Despite the increase of the scrap in China, we see a strong demand for high-grade ores. That's the reason why we are going to educate ourselves during this year.

Operator

The next question comes from Tyler Broda with RBC. Your audio is available.

Q - Tyler Broda {BIO 16281303 <GO>}

Great. Thanks very much for the call today. Deshnee, welcome to Vale. My first question is for you. There has been a few CEOs -- I'll excuse Eduardo for his brief tenure as Head of base metals, but few CEOs who've had been sort of struggling with the same issues and sort of the underperformance of the assets. You mentioned they're older, there's a lot of sort of challenges you went through this year. How are you approaching this job differently than maybe your predecessors have?

And then the second question, Spinelli. I get there's discussions about Anglo American and potential for some form of JV around Ministerio or some form of partnership there. I was just wondering if you could provide any color on that at all if possible? Thanks very much.

A - Deshnee Naidoo {BIO 19953865 <GO>}

Tyler, thank you so much for the easy question. I've been in the business now for over a year, Tyler, and I think we're in my previous hat as a CFO has definitely given me the opportunity to try and understand the value levers bottom-up. In looking at the business that way and in the diagnostics I've done, I don't think my predecessors were wrong with the plans. I think there's something that's gone wrong in terms of the execution of the plans. So one of the first things I've done as CEO is to look at the leadership team and how do I better structure the team to deliver the critical priorities that we have that I've already outlined in the presentation.

But I'm a firm believer, Tyler, that what gets measured gets done. And one of the second things I did in the business for to set up an activist TMO office that actually is just focused on four pillars. Safe mines performance is pillar 1. Pillar 2 to relook at the overhead structure from an operational efficiency and effectiveness point of view. And the third pillar was around reducing the third-party spend that the business had, and the last pillar was all around people and the engagement that we need.

Stakeholders are probably the reason why we've not been as successful because we've not managed to take all or for everyone around. I think last year's strike as Eduardo has mentioned in the previous call was one of the reasons that perhaps have not been as successful. So I've been very hard at work for the last few weeks actively listening to the various stakeholder groups, and setting up workshops to try to understand how we can both collaborate together and try and have a shared vision for the business.

So, Tyler, in no ways underestimating the challenge, but I remain so positive about the quality of the assets we have, the quality of the resources we have in the ground, and how if we bring the rest of these four pillars together, we can really make some magic happen at base metals. Thank you. Over to you, Spinelli.

A - Marcello Spinelli {BIO 16240257 <GO>}

Thank you, Deshnee. So Tyler, we always evaluate opportunities and strategic alternatives for our business. So we have an iron ore resource that is called Serpentina. It's close to Minas-Rio operations from Anglo. And we can leverage from the existing processing and logistics that they have there, this asset that we have. So that was the main idea. And we don't have any news about this. That's very preliminary discussions and we don't have any commitment to this idea.

Operator

The next question comes from Christian Georges with Societe Generale.

Q - Christian Georges {BIO 1557701 <GO>}

Thanks very much for your time. Two questions on the industry. Just to clarify on the pellets. I think you highlighted, you expect positive impact on the premium from the situation in Ukraine and Russia, if both from metal invest and for export, are unable to export. I mean do you actually see there may be a problem of shortage of pellets for some of the European steel mill. Is this something which we should be taking into account over and above the potential impact on prices?

And my second question is on nickel. You're highlighting -- you expect the market to double in the next decade or so. I think, remember, last time you were explaining that, in Canada only like 5% of your production Class 1 goes to batteries and medium term you expect to get 20%. I mean, in general, do you think we are near a shortage of Class 1 nickel, justifying the current elevated prices, or do you think there is sufficient supply in the market for some time?

A - Marcello Spinelli {BIO 16240257 <GO>}

Christian, thank you for your question. Well, we talk about this question in the Portuguese conference call. Well, we -- just to figure out, the pellet market is about 120 million tons, the blast furnace is 80 million tons and, Russia and Ukraine are responsible for 25 million tons, almost 30% of the market. We are -- you all know that we have a shortage in the supply for direct reduction and blast furnace and depends on the -- how long the conflict last we can have some impact coming from the suppliers in this region.

So, my first reaction is that we don't have extra supply to support a shortage in the -- coming from this region. And the first impact will probably will be in the pellet premium. We've been hearing and receiving calls from our clients in Europe and the East Europe to support them, but we are trying to arrange our supply chain to help them but there is a limited action for the short-term.

A - Deshnee Naidoo {BIO 19953865 <GO>}

Thank you, Christian. Maybe just the short answer is that I don't think it's going to be enough. So although we're seeing primary nickel increase will double over the next decade 30% that growth we see is coming from the EV space.

In base metals, 70% of our production is Class I. So what we think is going to be needed is not just pivoting our 70% into more class into more EV growth which should be around 25% to 35% as we've guided previously. But this sector continues to surprise us.

So, as we saw last year on the doubling of EVs year-on-year I think it's -- I know it's not going to be enough. So, this is something that the industry needs to -- the industry needs to think about is how do we accelerate supply to make sure that we do keep up with an evolving growing EV sector demand Christian. Thank you.

Operator

The next question comes from John Tumazos with John Tumazos Independent Research. Your audio is available.

Q - John Tumazos {BIO 1504406 <GO>}

Thank you very much. Concerning the Indonesian copper gold deposit, has the tailings disposal method been determined to be on land where all the other projects in that part of the world dump it deep in the sea? And concerning Vale's Board how could your Board do a project with the ocean dumping? And please describe what the CapEx and design could be with and without the ocean dumping?

A - Deshnee Naidoo {BIO 19953865 <GO>}

Thank you, John. I'll start and maybe Eduardo might want to add something. But very quickly that was the start of the project in FEL1 where like with some of the other producers to look at deep sea tailings dumping that is definitely not the design as part of the FEL2A study work that we are in now. And if you look at -- we've been very conservative in our ramp-up to concluding these FEL2, FEL3 studies over the next four to five years for exactly this reason John to look at how do we balance some of the geothermal work that we're seeing in the ore body as well as the tailings.

Well, the tailings dumping as well as possible tailings treatment. and the team that are basically driving the project on the ground. Are we looking at this? It's still early for me to commit to the exact processing route, but I can categorically tell you that that will not be the route that we will be looking for, and we are looking at -- and in fact across this project given the remoteness and the deepness of the ore body, different ways of using technology to extract it safer and better.

Operator

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

A - Eduardo Bartolomeo {BIO 15365202 <GO>}

Okay, thank you. Thank you all for your presence, attention, interest in Vale. As we mentioned, we had a good year, and I would say -- some people would say an exception but what we say like here, we'd like to say it's good because we think we could do much better. As we always say, this is a marathon, it's not a sprint.

As Gustavo mentioned, the risk is ongoing, we're much safer company today, reshaping we have to extract value from base metals, then the re-rating will come. And more importantly, I think from the robust results that we had just due to have an idea, we're not only talking about our shareholders. As a matter of fact, we contributed to society with BRL40 billion, more exactly BRL42 billion in royalties and taxes. It's our obligation for sure but is a way to contribute to the development in countries like Brazil, Indonesia, and even Canada.

So with that, I believe that we are on the right track, and thanks again a lot for your attention and interest in our company. And I hope to 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 your lines.