

## Q2 2020 Earnings Call

### Company Participants

- Eduardo de Salles Bartolomeo, Chief Executive Officer
- Luciano Siani Pires, Chief Financial Officer and Executive Director of Finance & Investor Relations
- Marcello Spinelli, Executive Officer for Ferrous Minerals
- Mark James Travers, Interim Chief Executive Officer of Base Metals

### Other Participants

- Alex Hacking, Analyst
- Andreas Bokkenheuser, Analyst
- Carlos de Alba, Analyst
- Jon Brandt, Analyst
- Timna Tanners, Analyst

### Presentation

#### Operator

Good morning, ladies and gentlemen. Welcome to Vale's Conference Call to discuss Second Quarter 2020 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](http://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 Officer; Mr. Alexandre Pereira, Executive Officer for Business Support; Mr. Paulo Couto, Director of Coal; Mr. Alexandre D'Ambrosio, General Counsel and Mrs. Marina Quental, Director of People.

First, Mr. Eduardo Bartolomeo will proceed to the presentation on Vale's 2Q '20 performance and after that he will be available for question 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 to everyone. First of all I hope you and your families are doing well in overcoming this unprecedented moment. The first thing I would like to highlight is that Vale continues to face the COVID-19 pandemic with humbleness, discipline and sense of urgency. For almost five months, we have been managing the company in a remote way. The pandemic demand us to make important choices, it puts us our planning to the best. We are learning a lot during this process and adjust the planning based on the new situations that we face.

As I have said in the last quarter, this war will not be a quick one, so we will keep our distance high. Finally, our priorities continue in tact, they are safety, people and the full reparation of the margin. Next slide please. Well, our de-risking plan continues in our response to the pandemic has been incorporated on it. Let me remind you that our risk -- the risk focus has forefronts which prioritize, first the reparation of Brumadinho. Second, the safety of our employees, our dams and to support for our communities. Third, the stability of our operations and last, the discipline in capital allocation. I will detail a little bit each of these four fronts to you in the next slides.

Please next one, start with the reparation. Our commitment to Brumadinho remain steady. In this pandemic we are there helping to ensure resources necessary for the healthcare of the effected communities. The indications continue remotely with more than 7,600 people covered by agreements, which total about BRL3.9 billion with emergency aid. Also, we have already entered into a fair number of agreements with the authorities, focused on reparation projects from protection of farm and floor to water security in the region. So far we have invested BRL11.5 billion in the reparation of Brumadinho in actions with dams. That is to state that we have already done a lot and we will continue to do so aware of our commitment the reparation.

Could you please pass the next slide. Well, I have been saying repeatedly, our top priority is safety. Speaking of our people, in all our operations, we have implemented world-class standards to face pandemic. In Brazil, in Indonesia, we have implemented mass testing in the operational areas and we have already tested our workforce more than once. It's important to say that we have strictly followed the WHO protocol for test, track and treat. We continued with our daily check lists, any screening to our employees that enter our operations.

I was in Carajas recently and it was very important to see how we are applying what we learned when dealing with this absolutely new situation for everyone, as was the case with Itabira, beat for example. On another front, we continue to implement the HIRA, our identification and risk treatment program. In 2020, we have already completed its

implementation at 11 sites, with another 47 planned by the end of the year. We are so implementing HIRA for dam safety, starting now in August. Speaking in dam safety, we continue to make progress on our de-characterization plan. We are advancing with the work for the completion of the Fernandinho dam and the construction of the containment structures. Finally, the Engineer of Record mentioned in the last call continues to support improvements in the safe standards of our dams.

Could you please go for the next one. Safety also involves the care for our communities. We continue to support society aware of the special role we have in the economy. In the city of Parauapebas for example, in a partnership with the City Hall, we have made mass test available to the population (technical difficulty). Parauapebas was the first municipality in Brazil to do mass testing with the PCR exam. By the second quarter, we had already disbursed BRL470 million in actions to fight the pandemic in our operations around the world. I'd like to stress that is not just about financial resources, we are working together with communities and with the authorities as in Parauapebas with the expansion of the capacity of the hospital there and the construction of one huge hospital which we constructed and operated. As you can see, our obsession with safety continues with great discipline [ph] from our teams in collaboration with communities and authorities.

Could you go for the next please. Well, within our new pact with society, we continue to evolve in our ESG agenda. Recently we took important steps with the creation of the Nomination Committee, which aims at the evolution of our governance model in which we work already for the election of the Board in 2021 and the announcement of our Chief Compliance Officer responsible for managing our third line of defense is strengthening our governance.

Also, we remain firm in ESG gaps closure plan. We have a target of closing 10 gaps this year of which we already closed three, the formation of the Audit Committee, the disclosure of management compensation and the release today of our Tax Transplant Report.

On the environmental front, our ambition regarding climate change is even more up to date. We announced last quarter that we work to reduce 32% of our emissions is scope 1 and 2 in line with the Paris Agreement. And very important, we have an ongoing road map to achieve these ambitious goals. Already looking at scope three, we recently announced a non-binding agreement with Kobe Steel and Mitsui to establish a new company targeting on supplying low carbon metals to the steel industry. This new company will use existing and new technologies such as our Tecnored and Midrex Process. And why is prioritizing ESG factor is so important because we believe that the integration of ESG in our routine will be essential for Vale's de-risking.

Please the next slide. As a third point of our de-risking, we continue to stabilize our production, amid the restrictions that were imposed by the authorities due to the pandemic and our own safety measures, this process being very challenging. An example of this is that we operated with forced absenteeism to protect our employees, as a result of what I explained about testing, tracking and treating people, even those who did not test positive but had contact with positive cases were quarantined. Our efficient was impacted so that we could maintain a safe work environment and continue to operate. A

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good news that since June, we have been able to plan our production and maintenance without any restrictions. Also we had important achievements in the resumption of our production in iron ore. We had the restart at Timbopeba and (inaudible) of the production pace in June and July. We have moved onto a very strong second half aiming to meet the guidance for the year.

We still have some steps to follow in the resumption plan and Spineli will give more details about them soon. Base metals, we continue to bear the fruits of the good work carried out in North Atlantic, with robust nickel production since the fourth quarter '19. Voisey Bay mine operation resumed safely one month ahead of schedule after three months in care and maintenance as a prevented measure of -- for COVID-19. In relation to VNC, we continue to negotiate the definitive sale of that asset to new century in a transaction that guarantees the continuity of the VNCs by this new operator. For this, we have negated a commitment of USD500 million in the financing package for that business continuity.

In coal, we faced a challenged quarter, highly impacted by demand, which in turn impacting our production. We continue to be prepared to start the revamping of the asset as soon as possible as we can guarantee -- as soon as we can guarantee the logistics for renting an equipment and materials on the site. Looking a little bit further to conclude with discipline in highest safety standards, we will resume our production capacity of 400 million tonnes of iron ore by 2022.

Can you please pass the next one. Lastly capital discipline is fundamental to the de-risk of Vale, a point that we have reinforced on several occasions. Looking at our capital allocation, it mainly serves three purposes. First, our commitments for example Brumadinho in our own financial debt. As I said, we are making progress on all those fronts. For Brumadinho specifically, we have provisioned USD3.4 billion having already spent USD2.6 billion in the reparation which has been progressing consistently, quickly and with quality. The next is safety and operational continuity and for these aspects, we have annual investments around USD4.5 billion to USD5 billion for the next years of course includes replacement projects and some growth initiatives.

And finally, the remuneration of our shareholders. Therefore, we believe that by refusing the necessary conditions to resume the payments of dividends, our commitments are ongoing, our financial position is robust to meet these commitments. For this reason, Vale's Board of Director, with the support of our executive board restart the the Shareholder Remuneration Policy. Well, to conclude, our commitment is to continue to do everything we can to ensure the safety of our people in our operations. Finally, I would like to thank all of our employees and partners for their efforts in recent months. I now pass the floor to Spinelli, who will give more details on the company's resumption plan and afterwards Luciano will give some details about our results in the second quarter.

Thank you very much for your attention and let's get back to you on the Q&A, please Spinelli.

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

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Thank you, Eduardo. Well, we know that you have some questions about iron ore production, I want to address the answer in three blocks of information. So firstly, it's important to emphasize that, we have a plan to resume capacity to 400 million tons by 2022. We are sticking to the plan and we know what to do -- what we have to do.

Secondly, we have -- obviously we had an additional challenge after COVID. So we had to change many, many things. I want to remind you that four main issues that we face in after COVID. So first one was related to absentees. So now we are in one-third of the peak that happened in April. We are dealing really well in the North, even now in the South -- Southeastern and Southern System there the problem is growing, but we so far so good.

We had the stoppage of Itabirucu, we lost 1 million tons with this and it -- we learned a lot and improved our controls after this case. Those impacts -- those two ones represent 3.5 million tons. Full loss flexibility in our production you know very well, any buffer now we need to deliver, just to give an example, we moved one maintenance from the wet season to the dry season, so we lost more, we are planning to last [ph] more production the second half because of that was already planned.

And just to remind you, we already said that we choose to keep our operations running rather than some constructions to improve capacity. So all those impacts represent 10 million tons, part of that is already done, part of that is our -- in our plan. Well, the third information -- the third block of information, I will drive you on this slide line-by-line. It is important to show that we have a different roadmap for each system that we -- we have in Brazil. So -- but it's important -- you see I want to drag your attention about this. We have some options, re-options not only return or give more efficiency to the system, but have new assets that we can give more confidence to return our operations in this year and next year.

So Southern System, what kind of challenge we have there? We are more exposed to the upstream dams. So we have the sequence that we already told you many times that we need to test impact of the operations in the dam, return to dry operations, the wet operations and the blasting. So in the first half, we improved our operations in Vargem Grande, we are now back in our full capacity in the mine site, but we still have restrictions to deliver this to the pipeline, because we have some on part of the conveyor belt is close to one of the dams.

The second half, we have two main improvements here. The first point is, we need to move -- go back to resume the operation of Fabrica, we didn't do this yet, we have the plan. We need some authorization from (inaudible) and the prosecutors, we already have this plan with them. We are not counting on this production for this year, but we will be back next year.

The second point here is about Maravilhas III and again once you drag your attention about this, this is a new asset that will give the possibility to return to try production for Vargem Grande and we can have the full operation in 2021. Second line is about Southeastern System. It is a little bit different problem that we have here. The challenge is, the problem with upstream dams is now behind, so we already resumed the operations in

Timbopeba. We are running the operations in wet processing. We had some problem with COVID and what is the main points that we need to address in the second half of next year?

I want to remind you that we are moving from a common operation that use dams to an operation that we need to future the tailings and dry stack the tailings after that, but there is the construction for that and implementation that will be ready only '22. So there, we use the dam that we have and will lost capacity when we are -- as we are assessing two main dams in this corridor, one is Itabirucu and the other in Itabira and other is Laranjeiras and Brucutu. We have -- we are really almost done in Itabirucu some in a few weeks we're going to have the full assessment and probably ready to return the operation, in actual return the construction of the improvement of capacity, so we need to plan this when we're going to have the full report of the dam. And Laranjeiras is a little behind, we still have to improve our assessment, we are drilling some tests. And as soon as we have information, we're going to have the plan to resume this operation, but it's important to say, we also have another option for operations in Brucutu.

There is a new dam called Portu [ph], that is under construction. We are not counting on this capacity for this year, remember that we had some delays with the COVID, but are waiting to have and we have a high expectation to have the full operation of Brucutu next year. So there is -- after that we have the breach with a capacity of the dam and in 2022 we move to the dry stacking operations.

The third one is Northern System and this is a total different game. The name of the game here is new pit and ramp up of S11D. We had problem in the first half with a very heavy rainy season. We had some problem with COVID and the delay of (inaudible) that's a new pit in North Range. What we have in the second half, poor operation of North Range, the S11D is running amazingly well. We yesterday -- we had a a daily-record of 370,000 tonnes in one day. It's an amazing record, we are running the run rate of S11D is 110 million tonnes for the last 20 days. And we also have another act that is called Serra Leste, it's east range that is coming again. So we quit this operation in the beginning of 2019. And now we already have the first permit for the resumption and the final permit is expected to August. So we are running to have the 230 million tonnes in the next years.

Just to conclude, the last two -- actually two month and a half, what we are planning -- we are delivering our production. Definitely, we have many challenges after COVID, but from the last 20 days, almost 30 days we are delivering more than 1 million a day. So we are committed to deliver our guidance in the lower level of the guidance. We have many challenge, but we have great assets, will make it happen and the right people.

So, I want to pass to Luciano.

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

Thank you, Marcelo. So a few highlights on the financials, starting by iron ore performance in costs, which was the negative highlight of the quarter. Cost increased from 16.2 to 17.1 and the major corporate here is low production. Low production has

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several consequences. So, it reduces the cost dilution and it -- because of the production below plan, we had many ships awaiting at the port to being loaded and the demurrage costs skyrocketed. We had one of the worst quarters ever in terms of the merge, we paid USD81 million for the waiting of those ships, an increase of USD28 million from the prior quarter, which in itself is an increase of \$0.50 per ton in terms of costs.

So we expect for the second half that this will all revert, so cost dilution will take-off about \$2 per ton from costs and the fall of demurrage towards normalized levels will take another \$0.90 of costs, that's why we're guiding towards 14.5 for the second half, which is slightly above the 14 we said the quarter before. And the reason is because of those delays on resumptions for the fourth quarter which would further dilute costs, now they are into '21, so we will not get that full benefit.

But the FX -- the valuation already had positive effects in some other parts of the iron ore business for example stoppage expenses, I don't know if you noticed, they fell from \$3 per tonne to \$2.2 per tonne, mostly on FX. The pellet margin expanded substantially \$22 per tonne in the quarter. Okay, we had \$5 per tonne in price, we had \$7 per tonne in dividends that only come every other quarter, but half of this margin expansion for example about \$8 per tonne can be attributed to FX and lower cost performance of our pelletizing plants. So once we normalize the iron ore fine situation, we should also see important boost in our competitiveness from FX.

In base metals, the results are self-explanatory, great performance production wise for the assets, but low sales because of low demand. I want to highlight four opportunities for Q3 and after thereafter four improvement of results. First one, sales will be above production. This, obvious, we've been building inventories substantially and now we intend according to market conditions to offload those inventories. Second thing, gold is going up substantially, average price 1700 for the second quarter, now approaching \$2000 per ounce. Every \$100 per ounce means an additional USD11 million in quarterly EBITDA. So it's, it's a boost. Also Puma is coming back after finally we were able to do the comprehensive maintenance in July, it should come back at a rate of 25,000 tons of nickel per year and generate EBITDA because today it's a marginal operation, so this will boost results as well.

And last but not least Voisey Bay ramp up, it was stopped generating expenses. Now we will come back and copper production will increase and expenses are going to come down. So watch out for these factors going forward. Cash flows, they were modest, very leveraged on volumes, the performance only started to improve on volumes by June. As a result, we finalized the quarter with lots of outstanding sales to be collected, these sales were collected in July already and just to give an example in 15 days in July, the cash flow generation of Vale was as large as in the entire first half. So the pace of cash flow generation is very different now in the second half than it was in the first half.

About the revolver, as we're resuming the dividend policy, we also said that we would repay first the revolver. We already gave notice to the banks, but we are discussing a few small amendments to the contract before we repay and that process should be concluded in August.

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Finally, I want to highlight an important accomplishment yesterday towards de-risking of Vale which is the approval by the Brazilian Controllershship Court of the renewal of the concession agreements on our railways, both in the North and in the South. This is very, very important. Those concessions were due to expire in '27. They now have another 30 years beyond '27 extension. It's still not the final milestone, we still have some minor adjustments that will be made by the agency and the Ministry, but this bodes well -- was the final major roadblock towards the approval and now we are very positive that we may sign the agreement this year. There are some associated investments, those investments are known by Vale since the proposal was crafted two years ago, so no surprise here and it's already incorporated in our long-term planning, both the sustaining investments and some capital investments to build assets for the federal government.

That was my summary and now let's move to questions and answers.

## Questions And Answers

### Operator

Thank you. (Operator Instructions) Our first question comes from Timna Tanners, Bank of America Merrill Lynch.

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

Yeah, hi. Great, thanks for the opportunity and good morning. Hope everyone is doing well, good afternoon there. Wanted to just ask a little bit more about the production outlook. Clearly, the 400 million is medium-term goal and you laid out some challenges in the short-term. I was just wondering how the -- if you're concerned about the shortfall having added to the ability of your customers to find alternatives or to produce their own mines or to add to their own mining plans, such as encouraging (inaudible), so if you could just talk about that and your concerns about the high iron ore price or the shortfall in supply. And then I was just wondering if you could lay out a little bit more in terms of timing for when we could expect to see further updates on your divestiture plans in coal and BMC. Thanks.

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

Okay, Timna Thanks for your questions. I think Spinelli can detail the iron ore perspective. Of course, I think prices are in a sense where they shouldn't be so attract of course, investment that wouldn't be. So I believe that the supply demand balances keep, but we see some medium-term losses in supply as well, but Spinelli is most fit to answer that and I come back with the divestitures.

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

Hi, Timna. Thank you for your question. Firstly, Vale is the only company that can bring back almost 100 million tonnes in the next two years. So as I mentioned, if you have some problems I'm talking about delays of some month, but will be back. So this is a very important information, I don't have any restriction to high restriction to come back.



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Secondly, we -- I think we have if you need to supply more, if you have a demand remember that we have very policy that we are really sticky, that is the value. If you need more capacity, definitely we have the best products to put to happen. We are developing the another possibility to some another 20 (technical difficulty) S11D. We are under finalizing the project and we're going to submit this to as soon as possible to our Board. Again, you're right that that the price is is high, we don't see a support for the price in the short to mid-term actually. Remember that we are now bringing more than 50 million tons for the market in the second half. You're right the demand in China is amazing, they have many stimulus for even for second half related to infrastructure, but we see that all those information that there is now support to keep so high the price. Eduardo?

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

Yeah, thank you, Spinelli, I think just to add in Spinelli's point, I think we are the growth option that is the obvious one and the cheapest one. That's why we are going to announce -- we're going to submit by the way to our Board expansion of S11D to use our logistic capacity. Now we and of course we have to remember our mantra value over volume, not to mix up the lease. So we're going to be able to -- it doesn't mean we need to.

On the coal Moatize is the same, there is no updates, there is no -- unfortunately we weren't able to start the event because of COVID. I think, by the way coal was the most impacted by COVID, in all dimensions from the main production, but not for COVID, we have no COVID problem there, but the fact that we were not able to enter the asset to fix it, we will take a while. So our first strategy as we've been saying it's fixed asset, then we're going to decide what to do with it.

By VNC -- we have good news, I think we just added more, a little bit more time to New Century to go over some due diligence and some papers and but we are very confident that we are going to be able to close the transaction, that's why we did the relevant fact yesterday. But I think I -- I would like add Mark to add some color, just to give clarity because it's very important to understand that we want a win-win solution for VNC, but we want to use that.

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

Yes, Timna, so -- Timna, I believe your question was around the timing and as Eduardo was saying, we feel that we're in very good position to sign documentation with New Century, as well as the French state before the expiry of exclusivity in early September, we feel like we're in very good position to do so. And then we will go through a period of primarily the conditions around financing, concluding the financing. And we expect that the closing would occur before well before year-end, so that's the timing. And in terms of its maybe some additional color, the financing package is I would -- I would say is quite well defined in terms of our current discussions.

Luciano has already set out some of the parameters of the financing package of -- set out in our press release, a total of 900 million, EUR200 million from the French state, 200 million from New Century, 500 from us, just a important note about our contribution is

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that it -- it is starting as of July 1, so there are expenditures that were already incurring and will incur until closing which would be deducted from that 500 million.

There is also a deferred compensation component in the discussions where we could earn money back based on price in future years. And other than that I think it's shaping up quite well and New Century is coming to the table with a very robust package to continue to hand off this asset to them, with us handing in off other than the contribution to the financing, we would pass off the obligations and liabilities to the owners going forward after closing.

## Operator

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

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

Hopefully, everyone is doing fine. So my question is maybe, Eduardo, if you can comment on any updates on the potential comprehensive agreement with the authorities in Brazil regarding the Brumadinho particularly the legal exposure and any other provisions or money that the company may need to pay on that front. And then for either Eduardo or maybe Luciano, just wanted to confirm the dividend situation. So the way I understand is the company will pay in August 7, the interest of shareholders equity announced in December plus then in September subject to Board approval, there may be another dividend on the back of the first half performance and then next March another dividend on the back of the second half 2020 performance, you could confirm this, that would be great, plus any comment that you may have on upside or potential special dividends and/or share buybacks. Thank you.

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

Hey, Carlos, thank you. I'll address quickly the first one and then Luciano can give some more color on the dividends, but you're almost there. I think we engaged yes with all the stakeholders at wins. We are actually -- there is a meeting even today, so just to be clear, but it is a convergence right, as the main stakeholders, we're not -- the governmental of Minas is interested, Vale is interested, everybody's interested in getting to a more broader agreement as we mentioned.

The (inaudible) just to get that legal certainty, the governance and the scope correct. And I think we are -- how can I say that, we are advancing on that sense because as I mentioned that there is interest from the government, there is interest from the prosecutor, so it's just a matter of trying to meet those stakeholders' needs because of what each one has its own priorities and we need to converge. So I cannot give you an that -- how can I say timeline for that because it depends on this convergence. But one thing that I want to highlight and maybe get to your point in the end that we are doing the reparation because as we speak it's our obligation and we -- we are progressing well on that front, we are doing the (inaudible), we are doing the reparation that the environment how can I say that reparation that had solution for the hybrid problem that they had there.

So I think things are advancing well and of course it's desirable that we can converge and close this to give like a cap in. And the fact that US, I think it's important to mention that we already put in the footnote in our balance that we expect an arrangement of I think if you send to help me here, it's -- has changed the dollar rate, it's around -- what is in our provision (multiple speaker).

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

730 to 1.5, it's on the footnote.

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

On the footnotes. Yeah, we believe those numbers they talk to the project that we listed with the government. So we don't -- we don't see any other provisions coming from that discussions, okay? So and Luciano can give some more color on that. Specifically about dividend I think it's important that we resumed the policy, because we are confident with our business and I think it's in the press release, so I don't need to go over that. It is that we are going to pay now in August the interest on the one that we announced on December. There is a second -- the first half is September and then follows on the -- the what we call the predictability that we want to have with the policy. We haven't discussed yet any extraordinary dividends because Luciano will give you more clarity on how mindset are, but of course there we need to know what the -- how the world our business is in September, how much we're going to pay March and et cetera. I think you can help me on that, Luciano.

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

Okay. First on the provisions, why do we separate on the footnotes that amount of money and why don't we incorporate in the existing provisions? The list of initiatives and programs and projects being discussed with the government is very adherence to the provisions that we already have in the balance sheet. So no change here. The thing is the icing in the cake like the major gift for example for the people of the Minas Gerais with such an agreement would be some major infrastructural works already and identify that have no relationship to Brumadinho.

And then if and when we get the legal certainty all the conditions that we want, we would be willing to do those extra up and above infrastructure works in order to have closure on all of this. But if you look strictly on the reparation of Brumadinho, the estimates both the ones we have on the balance sheet and the ones that being discussed with the government, they are very, very, very similar. On the dividends, yes the interest on capital that was declared in '19 and it's due to the shareholders back then in December '19 will be paid in a week, let next week. And in addition to that, the minimum dividend related to the first half performance will be paid in September.

And it will be decided in September because the Board has always the prerogative to increase in pay an extraordinary dividend. And again, as you said in March, there will come another dividend related to the second half performance. When September comes, we will look into our cash position, trajectory of the markets. We will have a better idea of the performance on the second half and therefore of how much we will need to pay in

March. Remember that first quarter is usually a weaker quarter in terms of cash flow. So you need to look at your balance sheet already considering probably the commitment to pay another dividend in March. We'll look at the share price, for example, in order to make a decision about buyback. So all those variables will be considered towards a decision, if any on extraordinary dividends or buybacks.

But let's remind -- remember guys as we are seeing today in the headlines, this is a very uncertain world, so a little bit of caution is the name of the game here.

## Operator

Our next question comes from Alex Hacking, Citi.

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

Yeah, good morning everyone. I hope you're doing well. Luciano, just a follow-up on the - on the dividend question. Could you remind us what your balance sheet targets are in terms of net debt. I remember at one point you were kind of targeting net debt of 10 billion, but that feels like a lifetime ago and obviously a lot has changed since then. So I'm just trying to remind myself about how you're kind of thinking about that through the cycle at this point? And then the second question would be I guess to Marcello, on the 400 million iron ore target kind of mid-term, is there any flexibility or latency in Europe, in Vale's ability to achieve that 400 million tonnes or effectively does every single thing have to go correct. So those would be my two questions. Thank you.

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

Okay. Alex. Thanks. We said USD10 billion, we continue to stick to it as the target absolute net debt, perhaps and maybe in a circumstance like the one we're living right now. It could be a little more conservative, but the way to make the correspondence with the situation we are in right now is our net debt is 4.7 today. So it's well below 10 billion. However, we still have 3.4 in Brumadinho related liabilities that we didn't have, when we established that target. So in comparable terms, it would be at 8 for example 4.7 plus 3.4 and that would compare to 10 and that would say, okay, we are where we want to be perhaps even a little better, which means that pretty much all the accident extra cash flow should be returned back to shareholders. And this is it, that's the way we think about it and through the cycle. Again, I would say the only circumstance which is different right now is COVID which may warrant a little bit more caution, but nevertheless we are where we wanted to be.

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

Alex, thank you for your question. Well, talking about flexibility, that's a mid-term plan. But let me remind you some new act and capacities that weren't here before Brumadinho. So we have Gelado that is coming in the North reparation, the plus 10, the expansion of S11D to 100 million tonnes. We also have as I mentioned the two dams that will give flexibility in our operations in the Southeastern system. We also have new pits are coming in the north range, a small pits that can stabilize the operation there. And say how last year is the East range, that wasn't here before Brumadinho. So all those assets and improvement are not - weren't even considering the operations before, but obviously you have challenges. And

if you consider the COVID today, sometimes we have some bumps to make it happen, but for mid-term, we have also this new capacity that can give us some flexibility rather we wait for the return of the common operations that use to have the best.

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

And Marcello and just to reiterate, the 20 million tonnes that we will submit to the Board would add to that package of flexibility as well.

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

And then Luciano, just remind us good old times, logistics used to be a one big bottleneck. So there is nothing more than that, so we can go up on the -- not medium, but a little bit more longer to 260 on the North because and if we needed, right, so there is a knot in the two to three years time horizon, but for sure, we have a huge flexibility on the infrastructure both on the South and then the North. We just -- need to get back the mine and the mine fronts and the dams in the south as explained on the immediate term and on the medium-term. So I think we use to have even more than 400 million tonnes of available capacity, so we need to -- we do have flexibility.

#### **Operator**

Our next question comes from Jon Brandt, HSBC.

#### **Q - Jon Brandt** {BIO 5506998 <GO>}

Hi, good afternoon. Thanks for the opportunity. Luciano, I first wanted to ask you about working capital. I know there is about USD1 billion in working capital increase and I know a big part of that was because of the production in the sales in June, plus a higher percentage going to China. Should we -- it sounds like a lot of that has reversed out in the first 15 days, but I guess I'm wondering should we expect to complete reversion of that USD1 billion in the third quarter, even as production continues to increase into the second half?

And then my second question is just related to the about USD560 million provision that you took for Samarco and Renova. Could you just maybe give me a little bit of clarity as to what was driving that, was it just sort of a broad based increase across a variety of different things. And then if I could just confirm the 400 million tons in production that you're expecting in 2022, is that for the year or do you expect to reach a run rate of 400 million tons by the end of 2022. Thanks.

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

Okay, just color on working capital. So we had sales outstanding of about 5 million tons at the end of the first quarter. And then we have at the end of the second quarter about 11 million tons. So 6 million tons times the current price just that we have over 600 million of buildup in working capital, in terms of accounts receivable. Then you have the provisional price, which is very strong, it adds a little bit to that. So it's basically explained by the better rate of production and sales in June compared to March, which is the close of the prior quarter.

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So these collections are already happening. So as I mentioned most of the sales were already collected in the month of July and the cash flow generation in July is already -- we were approaching the end of the month is already substantially higher than for the full first semester of this year. And when I look at the third quarter end-to-end, it is expected that there will be outstanding sales also at the end of the third quarter.

So therefore, I would say -- what we're seeing here is a kind of a normalization of working capital at a higher level because it's -- in normal times you would have more sales outstanding than what we ended up in the first quarter, right? So this, you will not recover that working capital, but collections will be much higher. The fourth quarter will be the same. So we will start the quarter with a lot of collections, but we will win the quarter also with many collections, maybe only on the first quarter of 2021 and when usually because of seasonality you produce less, then you collect a lot of money in January, however, in March, then you have lesser sales, but hopefully still better than this year. So that's the -- on working capital.

In terms of Renova provisions, the agreement, which was signed with the prosecutors. So in -- after Fundao, the Fundao tragedy, there was an agreement signed with all of the authorities shortly thereafter the dam breach. But the prosecutors only came into the -- to the agreement in June 2018 and there were many changes in the agreement, including a provision for a re-scoping of the agreement two years down the road, which is doing 2020. So a review of the programs of the amounts on everything else. That review, that amendment to the June 2018 agreement was not done because of COVID, so the dynamics, but it's in early stages maybe it's going to be certainly a work stream for the second half -- the entire second half.

But we already have a good color about some of the changes which are coming. So we already have color about the results of some studies, what the programs will look like when we make this amendment, number of affected people and so on. So this is kind of an anticipation of that re-scoping that is already provisioned for -- in the agreement signed in June 2018. And if I could may jump directly here, the 400 million will be run rate at some point in 2022, we'll get the run rate of 400 million but not the full calendar year will be 400.

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

And more importantly, Luciano, you use it if needed, right? So there is another thing. So we need to build up flexibility that was asked bit prior. So we need -- we're not saying that we're going to shift or sell or else 400, we're not giving guidance, we're just saying that we are going to put our assets back to 4 million run rate, we even have higher numbers, but we believe that is a reasonable target to be in a run rate for 2022.

#### **Operator**

Our next question comes from Andreas Bokkenheuser, UBS.

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

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Thank you very much. Just two effectively incoming investor questions, can you provide a little bit more clarity on how the negotiations with the State of Minas Gerais is going about any liabilities relating to Brumadinho. Also in terms of timing and where do you stand versus what the other part is asking for at this point in time. So just giving a little bit clarity around that. And secondly, if you would just in terms of credit buybacks or bond buybacks, any thoughts as to whether you would think about buying back Samarco bonds given where they are trading at this point in time. Those are the two questions. Thank you very much.

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

Okay. Thanks, Andreas. We pointed out that we are on the table with people say the agreement is with the prosecutors, now is with more people. So there is the State of Minas Gerais in the agreement, there is the public defenders, there is prosecutors and there is Vale. So we stand exactly in the discussions of how we create the right governance, how we create gaps and how we create the scope to be executed because most importantly we want to how can I say that to get the responsibility, to execute things that can be executed. So that's the one of most important matters and of course that legal certainty about the civil actions there are under undergoing now.

So those are the key issue that we on the table converging the -- these four main stakeholders are discussing now, actually I have mentioned there is even a meeting today about that. So there is no timeline, because there are of course there are divergences not necessarily on Vale because I think you are really -- more concerned about what we perceive as provisions. And I think Luciano mentioned that before on the last question that we are very comfortable what has been provisioned and in the footnotes that we put in our balance because we discuss that with the government and with everybody on the list of progress and not only those compensatory projects, but on the reparatory as well. So we believe that the numbers that we are working in either in our provisions and in the footnotes are more than comfortable to strike an agreement, that's not what impending our agreement now, is much more on the governance and much more on how we create a legal certainty to be sure that we will be able to execute what is supposed to do.

So I think this is and I think if Luciano can add a little bit more on that part and then go back to the buyback I think is the same as we mentioned before. It will be of course something that we need to assess all the time. Time is not now because of course we just resume a policy, in September, we can take a look again and I think we're of course we can submit to the Board, but I think there are so many variables right, so that that I think Luciano can explain again how we see this, how is our mindset around, right?

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

Eduardo, nothing to worry on the provisions, you were comprehensive. On the credit buybacks that Andreas asked, bond buybacks they will on Vale, they will come back to the table at a moment in time when we -- look many most companies are going through that crisis is a greater cash balance. And even if we're not talking about net debt levels here, the amount of gross debt and the amount of cash that you want to hold, I would say it's higher now than pre-pandemic. So therefore we need to -- we are not in a hurry to continue to buyback bonds or that because of that, we would prefer at least for the next

couple of quarters to have a greater cash balances. On Samarco, I'm sorry but I cannot do any comment on this, because of the ongoing legal arrangements for the -- with the creditors. So I cannot comment on credit buybacks.

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

And sorry, Andreas, I confused the question, I thought we are talking about buybacks from past, sorry for that.

**Operator**

Excuse me, this concludes today's question-and-answer session. Mr. Eduardo Bartolomeo, at this time you may proceed for closing statement.

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

Okay, thank you very much for your attention for the questions. I think we need -- we had a more comprehensive explanation in the beginning, but was necessary I think to give you clarity on how we see. But I want to separate things into length as of time. One is the most immediate what people expect about the second semester and I think we built a very strong basis even after COVID to be ready to deliver in our guidance, in our commitments.

But I would like to stress that we're not in a sprint in volume, we are in a marathon. We are looking to de-risk this company profoundly and we need to see those five -- those four elements that I mentioned in my initial comments as interrelated, they are not separate look like now we pay dividends. So now -- no dividend just show that Vale management has confidence in our business and we see that we can -- we have robust financial position to face our commitments. We need first of all as I want to again emphasize, we need to repair Brumadinho.

We are advancing, we need to do much more and we are doing. We need to improve our safety. We are doing that, we need to effectively turnaround the safety perspective of the company and we are trying and we will do that and we have a name to be one of the safest and maybe even obligation to be one of the safest mining company in the world.

Third is the resumption of capacity, I think the questions were around that, how much can do in second semester, but what is our goal in the medium-term? We need to get there with consistency, we cannot just go and set target, we need to be delivering quarter-by-quarter consistently and we will do that with safety that's what I try to say when I was doing my my initial comments, if we need to postpone, we'll do it, but we are pretty confident that we have the assets, we have the people, we have the logistics for that and we will resume as a safe as possible or ASAP. And finally is the dividend, the dividend is though the capital allocation, I think it's very important to bear in mind that Vale is extremely conservative.

So we are extremely focused of course on regulation of our shareholders, but we need to look at the world more broadly. So in this world just to conclude is a new world, in a new



world that exactly we don't know a lot about that. So we need to keep our balance sheet extremely strong and of course if there is any excess we will get back to the shareholders, but our commitments are as Luciano mentioned are pretty high. In a nutshell again, I would like to thank you for your attention and remember that we have these four elements to de-risk Vale and we are working with our team thoroughly to get it there.

Okay, 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 your lines.

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